

OIL AND GAS DOCKET NO.10-0302720

THE APPLICATION OF CONTINENTAL TREND RESOURCES, INC. FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR THE HOLT STATE LEASE, WELL NO. 183H, HARTLEY WEST (CANYON) FIELD, HARTLEY COUNTY, TEXAS

HEARD BY: Richard Eyster, P.G.– Technical Examiner
Clayton J. Hoover – Administrative Law Judge

HEARING DATE: February 21, 2017

CONFERENCE DATE: March 21, 2017

APPEARANCES:

REPRESENTING:

APPLICANT:

Olga Kobzar
Kerry Pollard

Continental Trend Resources, Inc.

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Continental Trend Resources Inc. (Continental) requests an exception to Statewide Rule 32 to flare gas from its Holt State Lease, Well No. 183H, Hartley West (Canyon) Field, Hartley County, Texas. The 183 H well (subject well) is located approximately six (6) miles west of Channing in Hartley County.

All persons entitled to notice received notice of the hearing. The matter is not protested. The Technical Examiner and the Administrative Law Judge, (collectively the Examiners) recommend the application to flare a maximum of 300 MCFG/D from the lease, from December 28, 2016, to December 28, 2017, be approved as requested by Continental.

DISCUSSION OF THE EVIDENCE

Statewide Rule 32 governs the utilization of gas well gas and casinghead gas produced by oil and gas wells under the jurisdiction of the Railroad Commission. In the subject application, Continental is requesting to flare gas produced on the Holt State lease, as provided in Statewide Rule 32(h).

The Holt State 183 H was completed on June 27, 2014, in Hartley County at a total depth of 9,300 feet. During the 24 hour initial potential test, the well produced 426 bbl oil

per day, 932 MCFG per day and 587 bbl water per day. The gas-oil ratio was 2,187 cf/bbl. Daily production has since declined to approximately 127 bbl oil per day and 365 MCFG/D with gas spikes up to 1,000 MCFG/D. The well is currently producing on a gas lift system.

Gas produced from the subject well contains a fairly high concentration of nitrogen, averaging 4.7 percent. At nitrogen concentrations greater than 3 percent the gas does not meet the quality standards for pipeline transportation. Prior to pipeline sales, the gas would require treatment to remove the nitrogen. Further, pipeline connections are not readily available for the gas. Two pipeline options were identified at the hearing. West Texas Gas operates a pipeline about 10.0 miles north of the lease, Continental estimates that the cost to treat the gas and construct a pipeline connection to be \$2.6 million which exceeds the expected future revenue from the gas stream of approximately \$507,000. Additionally if the well is not allowed to flare, 103,000 barrels will be stranded in the reservoir causing waste.

An operator is considered temporarily compliant with Statewide Rule 32 until final Commission action on the hearing application if it has requested a hearing prior to the expiration of the administratively granted flare permit.

On December 04, 2014, Continental requested an exception to flare hearing to continue their flaring authority for a period of two years, at a maximum volume of 1000 MCFG/D from December 28, 2014, through December 27, 2016. The application was approved on June 9, 2015 in Final Order No. 10-0302720.

On November 30, 2016, Continental requested additional authority to flare a maximum volume of 300 MCFG/D for a period of one year. Continental stated that it does not expect an economical pipeline connection will be completed in the next year and Continental will not be able to produce the oil from this well unless a SWR 32 exception is issued. The Examiners recommended approval of the exception to Statewide Rule 32 to flare a maximum of 300 MCFG/D from the 183 H well from December 28, 2016, through December 27, 2017, as requested by Continental.

FINDINGS OF FACT

1. Proper notice of this hearing was given to all parties entitled to notice. There were no protests to the application.
2. The 183H well is located approximately six miles west of the town of Channing, Hartley County, Texas.
3. Continental received an administrative flare permit (No. 17962) for the subject well effective June 28, 2014, through December 27, 2014, at a maximum volume of 1,000 MCF/D.

4. On December 04, 2014, Continental requested an exception to flare hearing to continue their flaring authority for a period of two years, at a maximum volume of 1000 MCFG/D from December 28, 2014, through December 27, 2016. The application was approved on June 9, 2015 in Final Order No. 10-0294927.
5. Continental requested an additional exception to flare hearing on November 30, 2016 to continue their flaring authority for a period of one year, from December 28, 2016, through December 28, 2017.
6. Gas produced from the Holt State 183H contains 4.7 percent nitrogen
7. At nitrogen concentrations greater than 3.0 percent, the gas does not meet the quality standards for pipeline transportation.
8. Pipeline connections are not readily available for the gas. West Texas Gas operates a pipeline about 10.0 miles north of the lease.
9. Continental estimates that the cost to treat the gas and construct a pipeline connection to be \$2.6 million, which exceeds the expected future revenue from the gas stream from this well.
10. An exception to Statewide Rule 32 to flare a maximum of 300 MCFG/D will allow Continental to continue to develop the well's oil resources while it evaluates options for disposition of the produced gas.

CONCLUSIONS OF LAW

1. Resolution of the subject application is a matter committed to the jurisdiction of the Railroad Commission of Texas. Tex. Nat. Res. Code § 81.051.
2. All notice requirements have been satisfied. 16 Tex. Admin. Code §§ 1.43 and 1.45.
3. The requested exception to flare a maximum of 300 MCFG/D from the Holt State Lease, Well No.183 H, Hartley West (Canyon) Field, Hartley County, Texas for a period of one year meets the requirements of Statewide Rule 32.16 Tex. Admin. Code § 3.32(h).

EXAMINERS' RECOMMENDATION

Based on the above findings of fact and conclusions of law, the Examiners recommend that the Commission grant an exception to Statewide Rule 32 for the subject lease, as requested by Continental.

Respectfully submitted,



Richard Eyster, P.G.
Technical Examiner



Clayton J. Hoover
Administrative Law Judge