



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL & GAS DOCKET NO. 08-0305563

THE APPLICATION OF CAPITAN ENERGY, INCORPORATED FOR EXCEPTIONS TO STATEWIDE RULE 32 FOR VARIOUS LEASES, FORD, WEST (WOLFCAMP) FIELD, CULBERSON COUNTY, TEXAS

HEARD BY: Peggy Laird, P.G. – Technical Examiner
Jennifer Cook – Administrative Law Judge
Kristi M. Reeve – Administrative Law Judge

HEARING DATE: September 28, 2017

CONFERENCE DATE: November 7, 2017

APPEARANCES:

REPRESENTING:

APPLICANT:

George Neale
Donna Chandler
Dan Huber

Capitan Energy, Incorporated

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Capitan Energy, Incorporated ("Capitan") seeks exceptions to Statewide Rule 32 (16 Tex. Admin. Code §3.32) to flare gas produced from eight wells it operates in the Ford, West (Wolfcamp) Field, Culberson and Reeves Counties, Texas. Capitan explained in the hearing that one of the wells is in Reeves County, revising the caption for this docket. Notice was provided to all operators in the Ford, West (Wolfcamp) Field. No objections were filed and no protestants appeared at the hearing. Capitan seeks authority to flare gas from the wells for a period of two years from the previous expiration date of flaring authority for each well. The Technical Examiner and Administrative Law Judge ("Examiners") recommend approval of the requested two year extensions.

DISCUSSION OF THE EVIDENCE

Statewide Rule 32 governs the utilization for legal purposes of natural gas produced under the jurisdiction of the Railroad Commission. More specifically, Statewide Rule 32(j) provides an opportunity for hearing on any application for an exception or exception renewal of flaring authority. All eight wells which are the subject of this hearing have been granted previous administrative flaring authority. The request for hearing on each of the eight wells was made at least 21 days prior to the expiration of each well's existing authority. The following table presents a summary of the eight wells which are the subject of this hearing.

Lease	Well No.	API No.	Lease ID or Drilling Permit	Flare Permit	Expiration Date	Volume Authorized (MCFD)
W A State	1H	109-32357	271821	29480	7/15/2017	50
Ava State 36	1H	389-34168	276169	19760	7/16/2017	3,800
W A State	5H	109-32986	818670 (DP)	29956	7/24/2017	1,000
Pat Fee 4	2H	109-33030	820253 (DP)	30420	7/30/2017	3,100
Cliff Fee 4	2H	109-33021	820292 (DP)	30419	7/30/2017	2,000
JS Blair Fee 2	2H	109-33018	820097 (DP)	30418	8/3/2017	2,300
State Ray 12	1H	109-33045	822254 (DP)	31161	9/17/2017	1,500
State Ray 12	2H	109-33044	822255 (DP)	31160	9/13/2017	1,000

These wells are connected to a gas gathering, sales and transmission system. However, there have been numerous pipeline capacity constraints which have been very unpredictable, requiring Capitan to flare gas from the wells on an intermittent basis. When these events occur due to pipeline pressure issues, the only options available to Capitan are to shut-in the well or flare the gas. The daily production histories of the eight wells demonstrate that flaring can range from 0% of the gas produced to 100% of the gas produced in just two-day time periods. It is noted that each well produces an average of 500-700 barrels of condensate per day and over 2,000 barrels of water per day. These very large volumes of liquids must be unloaded from the well to prevent formation damage.

The development of the Wolfcamp in the immediate area has resulted in an increase in infrastructure including lines, compressors, and cryogenic plants. When any of these components are not available, production into the sales lines must be limited. Pinnacle Midstream is expected to have a new cryogenic plant in place by December 2017, which will be able to strip liquids from up to 60 million cubic feet per day ("MMCFD") from Capitan's wells. Although this plant installation is expected to alleviate the need to flare from these wells in the future, Capitan is requesting flaring authority for two years to allow flaring in the event of potential future system upsets. The requested flare volume for each well is based on the maximum volume of gas produced from each well during the month of July 2017.

Statewide Rule 32(h)(4) states that, "Requests for exceptions for more than 180-days and for volumes greater than 50 mcf of hydrocarbon gas per day shall be granted only in a final order signed by the commission." Because Capitan requests an exception for more than 180 days and to flare more than 50 mcf of hydrocarbon gas per day, the procedure to address Capitan's request for an exception is through a hearing resulting in a final order signed by the Commission. Thus, Capitan is seeking authority to flare from the eight wells as shown below:

Lease	Well No.	API No.	Lease ID or Drilling Permit	Flare Permit	Effective Date	Expiration Date	Volume Authorized (MCFD)
W A State	1H	109-32357	271821	29480	7/15/2017	7/15/2019	900
Ava State 36	1H	389-34168	276169	19760	7/16/2017	7/16/2019	1,972
W A State	5H	109-32986	818670 (DP)	29956	7/24/2017	7/24/2019	2,874
Pat Fee 4	2H	109-33030	820253 (DP)	30420	7/30/2017	7/30/2019	3,948
Cliff Fee 4	2H	109-33021	820292 (DP)	30419	7/30/2017	7/30/2019	4,910
JS Blair Fee 2	2H	109-33018	820097 (DP)	30418	8/3/2017	8/3/2019	4,844
State Ray 12	1H	109-33045	822254 (DP)	31161	9/17/2017	9/17/2019	5,812
State Ray 12	2H	109-33044	822255 (DP)	31160	9/13/2017	9/13/2019	4,527

FINDINGS OF FACT

1. Notice of this hearing was given to all operators in the Ford, West (Wolfcamp) Field at least ten days prior to the date of the hearing. There were no protests to the application.
2. The eight gas wells subject to this docket produce from the Ford, West (Wolfcamp) Field in Culberson and Reeves Counties, Texas.
3. Capitan has applied for and received administrative authority to flare gas from the subject wells. The hearing in this docket was requested at least 21 days prior to the expiration of the existing flare authority for each well.
4. The eight subject wells are connected to a gas gathering, sales, and transmission system. There have been pipeline capacity constraints which have been very unpredictable, requiring Capitan to flare gas from the wells on an intermittent basis.
5. Daily production histories of the eight wells demonstrate that flaring can range from 0% of the gas produced to 100% of the gas produced in just two-day time periods.
6. Development in the immediate area has resulted in an increase in infrastructure including lines, compressors and cryogenic plants. When problems with any of these components occur, production into the sales lines must be limited.

7. Pinnacle Midstream is expected to have a new cryogenic plant in place by December 2017, which should alleviate the need to flare from the subject wells in the future.
8. The requested flaring authority will allow Capitan to continue to produce liquid hydrocarbons from the well and will prevent potential harm to the reservoir.
9. At the hearing, the applicant agreed on the record that the Final Order in this case is to be effective when the Master Order is signed.

CONCLUSIONS OF LAW

1. All things have occurred and been accomplished to give the Commission jurisdiction in this matter. Tex. Nat. Res. Code § 81.051.
2. All notice requirements have been satisfied. 16 Tex. Admin. Code §§ 1.42.
3. The requested exception to flare casinghead gas meets the requirements of Statewide Rule 32. 16 Tex. Admin. Code § 3.32.
4. Pursuant to §2001.144(a)(4)(A) of the Texas Government Code and the agreement of the applicant, the Final Order is effective when a Master Order relating to the Final Order is signed on November 7, 2017.

EXAMINERS' RECOMMENDATION

Based on the above findings of fact and conclusions of law, the Examiners recommend the Commission enter an order approving the application of Capitan Energy, Incorporated for authority to flare gas from the subject eight wells in the Ford, West (Wolfcamp) Field, Culberson and Reeves Counties, Texas.

Respectfully submitted,



Peggy Laird, P.G.
Technical Examiner



Jennifer Cook
Administrative Law Judge

Kristi Reeve
Administrative Law Judge