RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 10-0301646

THE APPLICATION OF CONTINENTAL TREND RESOURCES, INC. FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR THE HOWARD 15 LEASE, WELL NO 1H, HARTLEY WEST (CANYON) FIELD, HARTLEY COUNTY, TEXAS

HEARD BY:

Brian Fancher, P.G. – Technical Examiner
Marshall Enquist – Administrative Law Judge

HEARING DATE:	December 2, 2016
SUBMISSION DATE:	May 4, 2017
CONFERENCE DATE:	May 23, 2017

APPEARANCES:	**REPRESENTING:**
APPLICANT:	
Olga Kobzar Kerry Pollard	Continental Trend Resources, Inc.

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Pursuant to 16 Tex. Admin. Code §3.32, Continental Trend Resources, Inc. (Continental) seeks an exception to flare up to 100,000 cubic feet of casinghead gas per day (100 MCFD) produced from the Hartley West (Canyon) Field (Field) that is handled at its Howard 15 Lease, Well No. 1H (Well) for a period of one year, effective September 23, 2016 (Subject Application). The application is unprotested. The Administrative Law Judge and Technical Examiner (Examiners) recommend that it be approved.

DISCUSSION OF THE EVIDENCE

Applicable Rule

16 Tex. Admin. Code §3.32 (SWR 32) governs flaring of natural gas produced under the jurisdiction of the Railroad Commission. Titled "Exceptions," SWR 32(h) states:

> 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.

Application Background

Kerry Pollard, consulting petroleum engineer, testified on behalf of Continental. He is registered as a Professional Engineer in Texas through the Texas Board of Professional Engineers.

Notice of hearing for the subject application was sent by U.S. mail directed to all operators in the Field that offset the Lease, as well as the Oil & Gas Division, on October 12, 2016.[1]

On June 9, 2015, the Commission entered a Final Order authorizing Continental to flare up to 200 MCF per day of casinghead gas from the Well for eighteen months, effective March 23, 2015.[2] That Final Order expired on September 23, 2016. By letter dated September 1, 2016, Continental timely submitted its hearing request for the Subject Application.[3]

Continental submitted a copy of a surface map commonly used to identify fundamental aspects of oil and gas development features located at or near the surface (*e.g.* surface locations for multiple wells, survey boundary lines, and pipeline infrastructure). Continental included a 10-mile radius study area on that map that primarily focuses on seven wells operated by Continental within that area. The Lease contains a single well, Continental's Howard 15 Lease, Well No. 1H (API No. 42-205-30376).[4] The Well is identified as the second, northern-most well in that area. The nearest Continental well to the Well is within a half-mile, as depicted on that map. The remaining five wells are located further south of the Well, more or less in straight line. The cost to drill those wells is approximately $10 million per well.

Continental provided evidence that gas produced from the Field through the Well contains about 21 percent nitrogen of the total well stream. At nitrogen conentrations beyond 3 percent, the casinghead gas quality does not meet the minimum standards for acceptance by the nearest gas sales pipeline. As a result, that casinghead gas would require some form of treatment to remove or lower its nitrogen content prior to its delivery to market. Continental identified one existing gas market pipeline nearest the Well. That pipelines is operated by WTG Gas Transmission Co, and it is roughly three miles from the Well. Continental estimated that the cost to treat the casinghead gas produced from the Well and to construct a transport pipeline to connect the Well to market to be approximately $952,179. That cost is expected to be greater than the anticipated revenue from the Well.

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[1] *See* Notice of Hearing and Service List dated October 12, 2016 for the Subject Application.
[2] Continental Exh. No. 5. Oil and Gas Final Order 10-0296056.
[3] Continental Exh. No. 10.
[4] Continental Exh. No. 3.

Continental's Argument

Continental argued that its requested relief in the Subject Application is necessary due to the lack of an existing pipeline. The Well began producing as a strong well early on in its life. During the course of its production, however, it has continued to produce a relatively high volume of nitrogen that requires treatment prior to the casinghead gas being sold to market. Continental has not pursued development of the Field with additional wells immediately around the Well, in part, due to recent commodity prices. Continental argued a similar position in O&G Docket No. 10-0296056, as previously mentioned. Again, that case was prior to the Subject Application.

FINDINGS OF FACT

1. Continental Trend Resources, Inc. (Continental) seeks an exception to flare up to 100,000 cubic feet of casinghead gas per day (100 MCFD) produced from the Hartley West (Canyon) Field (Field) that is handled at its Howard 15 Lease, Well No. 1H for a period of one year, effective September 23, 2016 (Subject Application).

2. Notice of hearing for the Subject Application was sent by U.S. mail directed to all operators in the Field that offset the Lease, as well as the Oil & Gas Division, on October 12, 2016.

3. Continental was the only party that attended the hearing held for the Subject Application.

4. The Lease contains a single well, Continental's Howard 15 Lease, Well No. 1H (API No. 42-205-30376) (Well).

5. On June 9, 2015, the Commission entered a Final Order authorizing Continental to flare up to 200 MCF per day of casinghead gas from the Well for eighteen months, effective March 23, 2015.

6. Casinghead gas produced from the Field through the Well contains nitrogen in concentrations of about 21 percent of its total well stream.

7. Continental evidenced that casinghead gas that contains nitrogen in concentrations beyond three percent will not meet the quality standard for acceptance by a gas market pipeline.

8. Continental provided evidence that the cost to treat the casinghead gas produced by the Well, as well as construct a pipeline to transport casinghead gas produced by the Well to market, exceeds the anticipated revenue from the Well.

9. Approval of the subject application is in accordance with 16 Tex. Admin. Code §3.32(h).

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. Legally sufficient notice has been provided to all affected persons.

3. The requested authority to flare casing-head gas as specified in Finding of Fact No. 1 above, effective September 23, 2016, satisfies the requirements of Title 16 TAC §3.32.

EXAMINERS' RECOMMENDATION

The Examiners recommend that the Commission grant Continental Trend Resources, Inc. an exception to flare casing-head gas as specified in Finding of Fact No. 1 above from the Field, effective September 23, 2016.

Respectfully submitted,

Brian Fancher, P.G.
Technical Examiner

Marshall Enquist
Administrative Law Judge