



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 10-0289800

THE APPLICATION OF CONTINENTAL TREND RESOURCES, INC. FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR THE LS RANCH NORTH 1642H LEASE, HARTLEY WEST (CANYON) FIELD, OLDHAM COUNTY, TEXAS

HEARD BY: Paul Dubois – Technical Examiner
Laura Miles-Valdez – Hearings Examiner

HEARING DATE: August 7, 2014

APPEARANCES: **REPRESENTING:**

APPLICANT:

John Soule
Matt Powe

Contentinental 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 LS Ranch North 1642H Lease, Hartley West (Canyon) Field, Oldham County, Texas. All persons entitled to notice received notice of the hearing. The matter is not protested. The examiners recommend approval of the exception to Statewide Rule 32 to flare 7,130 MCF per month casinghead gas (230 MCF per day average) from the lease for two years, from July 3, 2014, through July 2, 2016, as requested by Continental.

The matter was originally noticed and docketed in the Wildcat Field, as Continental had recently drilled its LS Ranch North 1642H Lease Well No. 1H in that field. The well has since been assigned to the Hartley West (Canyon) Field.

DISCUSSION OF THE EVIDENCE

Continental is developing its LS Ranch North and other leases in the Hartley West (Canyon) Field in Hartley and Oldham County. The current field area is a 30-mile long and 5 to 10-mile wide linear development running northwest to southeast. The LS Ranch North 1642H Lease is in Oldham County at the southern end of the current development.

The August 2014, proration schedules carry two (2) oil wells and no (0) gas wells. The only other well carried on the August 2014, proration schedule is the Fortay, Inc. Joann No. 2 well, which is about 26 miles northwest of the LS Ranch North 1642H Lease. A number of other wells have been permitted and/or drilled but have not yet been assigned to the field—bringing the total well count to about nine (9). This development in the Hartley West (Canyon) Field is to the west and south of existing oil and gas infrastructure for new production facilities, in particular gas gathering, processing, and transmission facilities.

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 subject lease, as provided in Statewide Rule 32(h).

The LS Ranch North 1642H Lease Well No. 1H was completed on December 3, 2013, at a total depth of 8,698 feet. On initial potential testing the well produce 265 bbl oil, 674 MCF gas, and 584 bbl water. The gas-oil ratio was 2,543 cf/bbl. Daily production has since declined to about 50 bbl oil and 200 MCF gas. The well is producing on a gas lift system and will likely be switched to a rod pump soon.

Gas produced from the LS Ranch North 1642H Lease contains high concentrations of nitrogen, from 9 to 13.5 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. Linn operates a 10.75-inch pipeline about 10 miles north of the lease, and El Paso operates a 24-inch pipeline about 14 miles to the east of the lease. Continental estimates that the cost to treat the gas and construct a pipeline connection to be in excess of \$6 million, which far exceeds the expected future revenue from both oil and gas streams.

Continental seeks authority to flare an average of 230 MCF per day (7,130 MCF per month) of casinghead gas from the one well on the lease for a period of two years. Continental stated that it has prepared a gas capture plan for the lease to address future production and disposition of produced gas.

FINDINGS OF FACT

1. Proper notice of this hearing was given to all parties entitled to notice at least 10 days prior to the hearing. There were no protests to the application.
2. Continental is developing its LS Ranch North and other leases in the Hartley West (Canyon) Field in Hartley and Oldham County.
3. The August 2014, proration schedules carry two (2) oil wells and no (0) gas wells. A number of other wells have been permitted and/or drilled but have not yet been assigned to the field—bringing the total well count to about nine (9).
4. The LS Ranch North 1642H Lease Well No. 1H was completed on December 3, 2013 at a total depth of 8,698 feet.
 - a. On initial potential testing the well produce 265 bbl oil, 674 MCF gas, and 584 bbl water. The gas-oil ratio was 2,543 cf/bbl.
 - b. Daily production has since declined to about 50 bbl oil and 200 MCF gas.
5. Gas produced from the LS Ranch North 1642H Lease contains high concentrations of nitrogen, from 9 to 13.5 percent.
6. At nitrogen concentrations greater than 3 percent the gas does not meet the quality standards for pipeline transportation.
7. Continental estimates that the cost to treat the gas and construct a pipeline connection to be in excess of \$6 million, which far exceeds the expected future revenue from both oil and gas streams.
8. The requested flaring authority will allow Continental to continue to produce oil from its well on the lease.

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 § 1.45
3. The requested exception to flare 7,130 MCF per month casinghead gas for the subject well for a period of one year meets the requirements of Statewide Rule 32. 16 Tex. Admin. Code § 3.32(h)

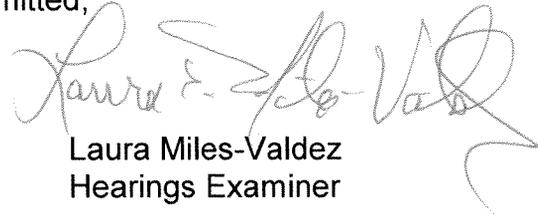
EXAMINERS' RECOMMENDATION

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,



Paul Dubois
Technical Examiner



Laura Miles-Valdez
Hearings Examiner