



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 08-0299257

THE APPLICATION OF CAPITAN ENERGY, INC. FOR AN EXCEPTION TO STATEWIDE RULE 32 PERMIT FOR THE JESS FEE 40 LEASE, WELL NO. 1H, WILLIAM FEE 32 LEASE, WELL NO. 1H, STATE ALEXANDRA 14-11 LEASE, WELL NO. 1H, AND PAT FEE 4 LEASE WELL NO. 1H, FORD, WEST (WOLFCAMP) FIELD, CULBERSON COUNTY, TEXAS

HEARD BY: Paul Dubois – Technical Examiner
Jennifer Cook – Administrative Law Judge

HEARING DATE: March 18, 2016

CONFERENCE DATE: April 12, 2016

APPEARANCES:

George Neale
Donna Chandler
Steve Davis

REPRESENTING:

Capitan Energy, Inc.

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Pursuant to Statewide Rule 32 (16 Tex. Admin. Code §3.32), Capitan Energy, Inc. ("Capitan"), requests an exception to flare gas from four wells completed in the Ford, West (Wolfcamp) Field in Reeves County, Texas. Capitan seeks authority to flare up to 2,500 thousand cubic feet (MCF) gas per day from each of four wells: Jess Fee 40 No. 1H, William Fee 32 No. 1H, State Alexandra 14-11 No. 1H, and Pat Fee 4 No. 1H. The four subject gas wells produce large volumes of condensate, which is the primary revenue stream. Gas gathering and marketing infrastructure in this area is limited. Flaring authority will allow Capitan to continue to produce condensate from the wells until improved pipeline facilities are in place, which is anticipated to be in the summer of 2017. The application was not protested. The Technical Examiner and Administrative Law Judge (collectively, "Examiners") recommend the application be approved.

DISCUSSION OF EVIDENCE

Capitan requests an exception to flare gas from four wells completed in the Ford, West (Wolfcamp) Field in Reeves County, Texas. Generally, Statewide Rule 32 governs the utilization for legal purposes of natural gas produced under the jurisdiction of the Railroad Commission. Capitan seeks relief in the captioned docket pursuant to Statewide Rule 32(f)(2)(D), as follows:

The commission or the commission's delegate may administratively grant or renew an exception to the requirements of limitations of this subsection subject to the requirements of subsection (h)...if the operator of a well or production facility presents information to show the necessity for the release...

Statewide Rule 32(h)(4) 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.

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.

In this case, the subject wells produce large volumes of condensate (liquid hydrocarbons) relative to the volume of gas produced, so that condensate is the primary revenue stream for the wells. On initial potential testing, the four wells (all of which were completed in 2015) combined to produce about 4,275 barrels of condensate and 17,314 MCF of gas per day.

There is limited pipeline infrastructure in the area, which was heavily damaged by a fire at the Ramsey Gas Plant in December 2015. Capitan is working with pipeline operator Pinnacle to construct alternative marketing facilities including pipelines and a 200 million cubic feet per day cryogenic processing plant. These facilities are expected to be online in the summer of 2017.

Until that time, however, Capitan requests authority to flare gas as needed to allow it to continue to produce condensate from the four wells. Capitan provided evidence from two of its other nearby wells to demonstrate that shutting those wells in to reduce flaring caused lost production and harm to the reservoir. Based on the experience with the other two wells,, Capitan asserts that absent an exception to flare gas from the subject wells, the wells would have to be shut-in, which would cause waste and harm its correlative rights. Capitan has obtained administrative permits to flare gas for the subject wells, and now seeks extended authority through a Commission Final Order pursuant to Statewide Rule

32(f)(2)(D) and (h)(4). Capitan requests the authority for the following relief:

- Flare up to 2,500 MCF of gas per day from the Jess Fee 40 No. 1H (Permit No. 24314) from January 6, 2016 through January 5, 2018;
- Flare up to 2,500 MCF of gas per day from the William Fee 32 No. 1H (Permit No. 24313) from January 6, 2016 through January 5, 2018;
- Flare up to 2,500 MCF of gas per day from the State Alexandra 14-11 No. 1H (Permit No. 23345) from February 8, 2016 through February 7, 2018; and
- Flare up to 2,500 MCF of gas per day from the Pat Fee 4 No. 1H (Permit No. 25149) from April 11, 2016 through April 10, 2018.

FINDINGS OF FACT

1. Notice of this hearing was given to all parties entitled to notice at least ten days prior to the date of hearing.
2. The Jess Fee 40 No. 1H, William Fee 32 No. 1H, State Alexandra 14-11 No. 1H, and Pat Fee 4 No. 1H, are completed wells in the Ford, West (Wolfcamp) Field in Culberson County, Texas.
 - a. The four wells were completed in 2015.
 - b. The four wells produced a combined 4,275 barrels of condensate and 17,314 MCF of gas per day on initial potential testing.
 - c. Condensate is the dominant revenue stream.
 - d. Capitan has obtained administrative flare authority for gas produced from the four wells.
3. A fire at the Ramsey Gas Plant in December 2015 has significantly reduced the marketing capacity for gas produced in the Ford, West (Wolfcamp) Field.
4. Replacement gas marketing infrastructure is estimated to be on-line in the Summer of 2017.
5. Absent authority to flare produced gas, the wells must be shut-in.
6. Shutting-in the wells may harm the reservoir, causing waste and harming correlative rights.

7. Authority to flare gas from the four subject wells will enable Capitan to continue to produce condensate from the Jess Fee 40 No. 1H, William Fee 32 No. 1H, State Alexandra 14-11 No. 1H, and Pat Fee 4 No. 1H wells.

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. Capitan has met the requirements in 16 Tex. Admin. Code § 3.32 for an exception to the limitations in that section regarding Capitan's requested authority to flare gas produced from the subject wells.

RECOMMENDATION

Based on the above findings of fact and conclusions of law, the Examiners recommend the Commission enter an order granting the application of Capitan for exceptions to Statewide Rule 32 for the Jess Fee 40 No. 1H, William Fee 32 No. 1H, State Alexandra 14-11 No. 1H, and Pat Fee 4 No. 1H wells in the Ford, West (Wolfcamp) Field, Culberson County, Texas.

Respectfully submitted,



Paul Dubois
Technical Examiner



Jennifer Cook
Administrative Law Judge