



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 08-0284511

THE APPLICATION OF CAPSTONE NATURAL RESOURCES, LLC FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR THE FISHER CONSOLIDATED BATTERY, SHAFTER LAKE, N (SAN ANDRES) FIELD, ANDREWS COUNTY, TEXAS

HEARD BY: Richard D. Atkins, P.E. - Technical Examiner
Terry Johnson - Legal Examiner

DATE OF HEARING: October 3, 2013

APPEARANCES: **REPRESENTING:**

APPLICANT:

Bill Spencer
James M. Clark

Capstone Natural Resources, LLC

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Capstone Natural Resources, LLC ("Capstone") requests an exception to Statewide Rule 32 to flare casinghead gas from the Fisher Consolidated Battery, Shafter Lake, N (San Andres) Field, Andrews County, Texas. Notice was provided to offset operators surrounding the above referenced lease.

The application is unopposed and the examiners recommend approval of the exception to Statewide Rule 32 to flare casinghead gas from the subject tank battery from the date the administratively granted flare permit expires through June 30, 2014.

DISCUSSION OF THE EVIDENCE

Statewide Rule 32 governs the utilization for legal purposes of natural gas produced under the jurisdiction of the Railroad Commission. Specifically, Statewide Rule 32(h) provides that an exception to flare natural gas in volumes greater than 50 MCFGPD per well may be granted administratively for a period up to 180 days. Beyond that, Statewide Rule 32(h) provides that exceptions shall be granted only in a final order signed by the Commission. In the context of the subject application, Capstone is requesting an exception

to flare casinghead gas produced from the subject tank battery, as provided by Statewide Rule 32(h).

The Fisher Consolidated Battery gathers production from five leases containing 13 wells that are completed in the Shafter Lake, N (San Andres) Field, in central Andrews County. The tank battery operates under Commingling Permit No. 08-6595 and is located approximately 10 miles northwest of the town of Andrews, Texas. The H₂S content of the produced casinghead gas is 40,000 ppm. This area of the Shafter Lake, N (San Andres) Field lacks existing oil and gas infra-structure for new gas production.

Capstone received administrative Permit No. 13680 to flare 150 MCFPD of casinghead gas from the Fisher Consolidated Battery. The permit was effective June 12, 2013, and expires on December 10, 2013, after one extension, which totals the maximum 180 days allowed by an administrative permit. 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. Capstone has requested a hearing for the subject tank battery before the administratively granted flare permit expired.

The closest gas gathering pipeline in this area of Andrews County is owned by DCP Midstream, LP. Capstone estimated that a gas gathering pipeline with associated compression would be 6,086 feet in length and cost \$75,000. Based on a monthly operating expense of \$1,700 per month and a gas sales price of \$3.00 per MCF, Capstone calculated a one year payout for the gas gathering pipeline. To allow time for the installation of the gas gathering pipeline, Capstone requests an exception to flare a maximum of 150 MCFPD of casinghead gas from the subject tank battery from the expiration of the administratively granted flare permit through June 30, 2014.

FINDINGS OF FACT

1. Proper notice of this hearing was given at least ten (10) days prior to the date of hearing and no protests to the application were received.
2. The Fisher Consolidated Battery gathers production from five leases containing 13 wells that are completed in the Shafter Lake, N (San Andres) Field, in central Andrews County.
 - a. The tank battery operates under Commingling Permit No. 08-6595 and is located approximately 10 miles northwest of the town of Andrews, Texas.
 - b. The H₂S content of the produced casinghead gas is 40,000 ppm.
 - c. This area of the Shafter Lake, N (San Andres) Field lacks existing oil and gas infra-structure for new gas production.

3. Statewide Rule 32(h) stipulates that the Commission may administratively grant an exception to Statewide Rule 32 for a period no greater than 180 days.
4. Capstone Natural Resources, LLC ("Capstone") received administrative Permit No. 13680 to flare 150 MCFPD of casinghead gas from the Fisher Consolidated Battery. The permit was effective June 12, 2013, and expires on December 10, 2013, after one extension, which totals the maximum 180 days allowed by an administrative permit.
5. 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.
6. Capstone has requested a hearing for the subject tank battery before the administratively granted flare permit expired.
7. The closest gas gathering pipeline in this area of Andrews County is owned by DCP Midstream, LP.
 - a. Capstone estimated that a gas gathering pipeline with associated compression would be 6,086 feet in length and cost \$75,000.
 - b. Based on a monthly operating expense of \$1,700 per month and a gas sales price of \$3.00 per MCF, Capstone calculated a one year payout for the gas gathering pipeline.
 - c. The gas gathering pipeline is economic.
8. An exception to Statewide Rule 32 from the date the administratively granted flare permit expires through June 30, 2014, for the subject tank battery to flare casinghead gas is appropriate.
9. For the Fisher Consolidated Battery, Capstone requests to flare a maximum of 150 MCFPD of casinghead gas.

CONCLUSIONS OF LAW

1. Proper notice was issued as required by all applicable statutes and regulatory codes.
2. All things have occurred and been accomplished to give the Commission jurisdiction in this matter.

3. Approval of the requested authority pursuant to Statewide Rule 32 will prevent waste, will not harm correlative rights and will promote development of the field.

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 from the date the administratively granted flare permit expires through June 30, 2014, for the subject tank battery, as requested by Capstone Natural Resources, LLC.

Respectfully submitted,



Richard D. Atkins, P.E.
Technical Examiner



Terry Johnson
Legal Examiner