



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 01-0287200

THE APPLICATION OF CABOT OIL & GAS CORPORATION FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR THE CHILIPITIN LEASE, WELL NO. 4H BRISCOE RANCH (EAGLE FORD) FIELD, FRIO COUNTY, TEXAS

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HEARD BY: Karl Caldwell - Technical Examiner
Laura Miles-Valdez - Legal Examiner

HEARING DATE: March 7, 2014

APPEARANCES: **REPRESENTING:**

APPLICANT:

Dale Miller

Cabot Oil & Gas Corporation

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Cabot Oil & Gas Corporation ("Cabot") requests an exception to Statewide Rule 32 to flare casinghead gas from the Chilipitin Lease, Well No. 4H and Well No. 5H Briscoe Ranch (Eagle Ford) Field, Frio County, Texas. Notice was provided to offset operators surrounding the above referenced wells and no protests were received. The application is unopposed and the examiners recommend approval of the exception to Statewide Rule 32 to flare casinghead gas from the subject wells from the date the administratively-granted flare permits expire through February 28, 2016.

DISCUSSION OF THE EVIDENCE

The Chilipitin Lease is 6725.35 acres in size and to date, 5 wells have been drilled and completed on the lease (Well Nos. 1H, 2H, 4H, 5H and 10H). Well Nos. 1H, 2H and 10H have been granted permanent exceptions to Statewide Rule 32 to flare a maximum of 50 MCFD of casinghead gas. Cabot is requesting exceptions to flare casinghead gas produced from Well No. 4H and Well No. 5H, as provided by Statewide Rule 32(h).

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 MCFD 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.

The gas produced from the both the 4H and 5H wells is sour gas, containing H₂S in concentrations of approximately 9,407 ppm from each well. As a result, the gas must be connected to a sour gas line or treated before connected to a sweet gas line. Texstar Midstream Utility, LP pipeline ("Texstar"), a sour gas system, runs north of the Chilipitin Lease. Commission records show the Texstar pipeline as active, however Texstar will not accept any gas due to concerns regarding the integrity of the pipeline. As a result, this pipeline is not an option for gas produced from the Chilipitin Lease at this time. There is another Texstar pipeline location to the south of the Chilipitin Lease which has recently been extended to the boundary of the Chilipitin Lease. Other pipelines in the area include the Enterprise Products Operating Ltd pipeline, which does not accept sour gas.

Cumulative production for the Chilipitin Lease through the end of Dec. 2013, is 148 MBO and 41 MMCF gas. Estimated remaining recoverable reserves are 11,000 bbl NGL, and 47 MMCF gas. Cabot determined net revenue from the remaining reserves, assuming \$4.20 per MCF gas and \$31.50 per bbl NGL is \$407,925. Operating expenses and tax would reduce the net revenue to \$295,746. The estimated cost to connect the Chilipitin lease wells to the Texstar 10" gas pipeline south of the lease is estimated at \$2,494,800. The cost per foot of pipeline was estimated at \$105 per foot and the length of pipeline required is approximately 23,760 feet. Cabot estimates the total gas revenue after connecting to the pipeline as a net loss of \$2,199,054. Cabot concluded that it is not economic at this time to connect to the nearest pipeline and requests authority to flare gas from the Chilipitin Lease, Well No. 4H and Well No. 5H.

Cabot received administrative Permit No. 14125 to flare casinghead gas from the Chilipitin 4H. The permit was effective August 19, 2013, and expired on February 18, 2014, after three extensions, which totaled the maximum 180 days allowed by an administrative permit.

Cabot received administrative Permit No. 14124 to flare casinghead gas from the Chilipitin Lease Well No. 5H. The permit was effective August 19, 2013, and expired on February 18, 2014, after three extensions, which totaled 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. Cabot requested hearings for both the Chilipitin Lease Well No. 4H and Well No. 5H on January 14, 2014, prior to the expiration of the administratively-granted flare permits. Cabot requests an exception to Statewide Rule 32 to flare a maximum of 250 MCF per day of casinghead gas from the Chilipitin Lease Well No. 4H and 250 MCF per day of casinghead gas from the Chilipitin Lease Well No. 5H from the expiration of the administratively granted flare permits through February 28, 2016.

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. 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.
3. Permit No. 14125 granted flaring authority of casinghead gas from the Chilipitin Lease Well No. 4H for 180 days, the maximum length of time allowed by an administrative permit.
4. Permit No. 14124 granted flaring authority of casinghead gas from the Chilipitin Lease Well No. 5H for 180 days, the maximum length of time 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. Cabot has requested a hearing for Chilipitin Lease Well Nos. 4H and 5H before the administratively granted flare permit expired.
7. Cabot performed an economic analysis and determined the total gas revenue of the remaining reserves is less than the cost to connect the Chilipitin Lease wells to a pipeline.
8. An exception to Statewide Rule 32 from the date the administratively granted flare permit expires through February 28, 2016 for the subject wells to flare casinghead gas is appropriate to protect correlative rights and promote

development of the field.

9. Cabot requests to flare a maximum of 250 MCF per day of casinghead gas from the Chilipitin Lease Well No. 4H.
10. Cabot requests to flare a maximum of 250 MCF per day of casinghead gas from the Chilipitin Lease Well No. 5H.

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 approve an exception to Statewide Rule 32 from the date the administratively granted flare permit expired through February 28, 2016, for the Chilipitin Lease Well No. 4H and Chilipitin Lease Well No. 5H, as requested by Cabot Oil & Gas Corporation.

Respectfully submitted,



Karl Caldwell
Technical Examiner



Laura Miles-Valdez
Legal Examiner