



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL & GAS DOCKET NOS. 08-0300641, 08-0300642, AND 08-0300708

THE APPLICATIONS OF WILLIAMS, CLAYTON ENERGY, INC. FOR EXCEPTIONS TO STATEWIDE RULE 32 FOR VARIOUS FACILITIES IN THE WOLFBONE (TREND AREA) AND HOEFS T-K (WOLFCAMP) FIELDS, REEVES COUNTY, TEXAS

HEARD BY: Paul Dubois – Technical Examiner
Ryan Lammert – Administrative Law Judge

HEARING DATE: July 21, 2016

CONFERENCE DATE: August 24, 2016

APPEARANCES:

Doug Dashiell
Betsy Luna

Williams, Clayton Energy, Inc.

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Williams, Clayton Energy, Inc. ("Williams") seeks exceptions to 16 TAC §3.32 to flare gas for the subject facilities. The subject facilities currently have administrative permits to flare gas. The gas produced and flared through these facilities contains hydrogen sulfide, which must be treated to reach specification before it can be placed into the gas gathering, sales and transmission system. Cost to treat the gas are economically prohibitive. Williams seeks a one-year exception, as an extension to the existing administrative authority to flare gas as follows: (1) 140 mcf/day from the Mary Ralph Lowe Lease Well No. 3 under Docket No. 01-0300641; (2) 500 mcf/day from the Thurman 143-13 Lease, Well No. 1 under Docket No. 01-0300642; and (3) 350 mcf/day from the Longoria 11 Lease, Well No. 1H under Docket No. 01-0300708. The applications were not protested. The Examiners recommend the applications be granted.

DISCUSSION OF THE EVIDENCE

Williams requests exceptions to flare gas from a number of leases that produce from the Wolfbone (Trend Area) and Hoefs T-K (Wolfcamp) Fields 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. Williams seeks relief in the captioned dockets 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 Williams requests exceptions for more than 180 days and to flare more than 50 mcf of hydrocarbon gas per day, the procedure to address Williams' request for an exception is through a hearing resulting in a final order signed by the Commission.

Docket No. 08-0300641 – The Mary Ralph Lowe Lease Well No. 3

The Mary Ralph Lowe Lease (08-42758) Well No. 3 (API No. 42-389-33940) was completed in January 2014. On initial potential testing the well produced 406 barrels of oil and 552 thousand cubic feet (mcf) of gas. A test in March 2014 indicated the produced gas contained 550 parts per million (ppm) hydrogen sulfide (H₂S). Since that time, the H₂S concentration of the produced gas has increased to 20,000 ppm, requiring treatment before sales. There are no sour gas pipelines in the area. The two other wells on the lease produce less than 8 ppm H₂S, and the gas from those two wells is sold into a sweet gas gathering system.

Williams received administrative authority (Permit No. 25681) to flare up to 175 mcf gas from the Mary Ralph Lowe Lease, Well No. 3, from December 1, 2015 through May 30, 2016, for a period of 180 days. On May 13, 2016 Williams requested a hearing to obtain a Commission Final Order to extend the flaring authority. Williams seeks to extend its authority to flare up to 140 mcf gas per day for a period of one year.

Docket No. 08-0300642 – The Thurman 143-13 Lease, Well No. 1

The The Thurman 143-13 Lease (No. 08-46415), Well No. 1 (API No. 42-389-34505) was completed in June 2015. On initial potential testing the well produced 679 barrels of oil and 775 mcf gas. A test in June 2015 indicated the produced gas contained 40 ppm H₂S, which could be economically treated on lease with a scavenger and sold. Since that time, the H₂S concentration of the produced gas has increased to 6,000 ppm, requiring further treatment before sales. There are no sour gas pipelines in the area.

Williams received administrative authority (Permit No. 23621) to flare up to 800 mcf gas from the Thurman 143-13 Lease, Well No. 1, from August 15, 2015 through May 17, 2016, for a period of 180 days. On May 13, 2016 Williams requested a hearing to obtain a Commission

Final Order to extend the flaring authority. Williams seeks to extend its authority to flare up to 500 mcf gas per day for a period of one year.

Docket No. 08-0300708 – The Longoria 11 Lease, Well No. 1H

The The Longoria 11 Lease (No. 08-47189), Well No. 1 (API No. 42-389-34916) was completed in October 2015. On initial potential testing the well produced 426 barrels of oil and 663 mcf gas. A test in November 2015 indicated the produced gas contained 2.5 ppm H₂S, which could be sold while the system specifications were not exceeded. Since that time, the H₂S concentration of the produced gas has increased to 1,450 ppm, requiring further treatment before sales. There are no sour gas pipelines in the area.

Williams received administrative authority (Permit No. 25679) to flare up to 575 mcf gas from the Longoria 11 Lease, Well No. 1, from February 13, 2016 through August 12, 2016, for a period of 180 days. On May 24, 2016 Williams requested a hearing to obtain a Commission Final Order to extend the flaring authority. Williams seeks to extend its authority to flare up to 350 mcf gas per day for a period of one year.

Treatment Options

Williams identified three possible options to avoid flaring the produced gas from the subject leases. The first option is to blend the sour gas with sweet gas produced on the subject leases. However, this would likely cause the sweet gas to fail to meet the pipeline specifications. Second, Williams explored the possibility of installing an amine plant. However, this is logistically not feasible because the three wells producing sour gas are far apart and the cost to treat the small volume of gas (990 mcf per day) would not be economically feasible. Thirdly, Williams explored the possibility of using a scavenger to treat the gas. However, the cost of the scavenging media is estimated to be about \$3.50 per mcf for the Thurman Lease, which significantly exceeds the current price of gas. Therefore, Williams asserts that flaring the H₂S gas is the only safe and economically viable method of disposition.

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 the hearing.
2. Williams operates the wells, leases and flare facilities subject to this application.
3. Sour gas is produced from the subject units, and the gas does not meet the pipeline specifications for sweet gas facilities.
4. Williams has conducted an economic analysis of the cost to either (1) obtain right-of-way and build a pipeline to the nearest sour gas sales point, or (2) install adequate treatment facilities at the existing sweet gas sales points.

5. In all cases Williams's analysis indicated the pipeline and/or treatment options were not economically viable. Therefore, Williams requests authority to flare gas produced from the subject leases.
6. Exceptions to Statewide Rule 32 will enable Williams to continue to produce hydrocarbon liquids, preventing the waste of those liquids and protecting their correlative rights.

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 authority to collectively flare up to 990 mcf gas per day produced from the Wolfbone (Trend Area) and Hoefs T-K (Wolfcamp) Fields in Reeves County, Texas for up to one year satisfies the requirements of 16 Tex. Admin. Code §3.32.

EXAMINERS' RECOMMENDATION

Based on the above findings of fact and conclusions of law, the Examiners recommend the Commission enter an order granting the applications of Williams, Clayton Energy, Inc. for exceptions to Statewide Rule 32 for time periods and the flare rates requested.

Respectfully submitted,


Paul Dubois
Technical Examiner


Ryan Lammert
Administrative Law Judge