

**STATE OF ALASKA**  
**ALASKA OIL AND GAS CONSERVATION COMMISSION**  
**333 West 7th Avenue, Suite 100**  
**Anchorage, Alaska 99501**

Re: Aurora Gas LLC, as Operator of the ) Other Order 38  
Lone Creek Gas Field; )  
Waste Determination ) January 20, 2006

**DECISION AND ORDER**

On March 31, 2005 the Alaska Oil and Gas Conservation Commission ("Commission") issued written notice to Aurora Gas, LLC ("Aurora") informing it that the Commission proposed making a waste determination and requiring payment of a penalty as a result of gas consumed during the January 22, 2004 Lone Creek compression facility fire. The Commission proposed civil penalties under AS 31.05.150(e) in the total amount of \$1,621.11 for the wasted gas.

Aurora requested informal review under 20 AAC 25.535(d). A May 27, 2005 letter provided discussion points and supporting information for a June 2, 2005 informal meeting. Aurora provided the Commission with additional information dated August 5 and September 8, 2005 addressing the information orally presented during the informal meeting, including an incident report and details about safety system upgrades that have been completed in the Lone Creek gas production handling facility.

A Proposed Decision and Order was sent to Aurora on December 15, 2005. Aurora did not request a hearing.

A. Background

The gas compression facility at Lone Creek experienced a fire on January 22, 2004 resulting in the uncontrolled release of gas from fuel gas system components that were melted by the fire. Aurora states in its May 27, 2005 letter "the volume of gas lost was estimated at a

‘maximum of 650 Mcf’ but the actual amount is unknown.” Investigations by Aurora and its insurance provider have been unable to determine a cause for the fire. Two unopened drums of lube oil stored inside the compressor building ruptured and fed a pool fire inside the building that appear to be a contributing factor in the event. Aurora’s investigation also notes that the reason for compressor shutdown remains unknown since the control panel was destroyed. A no flow condition at the Lone Creek #1 facility triggered an alarm received at the facility’s monitoring station (Kenai Gas Field), causing Aurora personnel to respond. Emergency shutdown was likely caused by either gas detection or high temperature in the compressor building.

B. Waste

Alaska Statute 31.05.170, paragraph (14)(H) defines waste as “the release, burning or escape into the open air of gas, from a well producing oil or gas, except insofar as and to the extent authorized by the commission.” Gas disposition regulations (20 AAC 25.235(d)) establish what constitutes Commission-authorized flaring and venting (i.e., releases that are not subject to a determination of waste). Authorized flaring or venting is generally grouped into safety, lease use, and conservation categories. Gas released because of equipment failure related to a fire in a compression facility does not meet the criteria set forth in AOGCC regulations as authorized flaring. It is clear that the gas released and subsequently consumed during the January 2004 Lone Creek fire meets the statutory definition of waste.

C. The Penalty Amount

The prevailing value of gas produced at Lone Creek during January 2004, according to the Alaska Department of Revenue was \$2.494 per Mcf. Based on this figure, the fair market value of the released gas was calculated to be \$1,621.11 (650 Mcf gas), and thus the proposed civil penalty amount. During the June 2, 2005 informal meeting, Aurora requested the

Commission reconsider the proposed civil penalty. Aurora's request was based on its response to the incident, which included prompt investigation, and repairs and upgrades to the affected Lone Creek gas production and processing facility equipment. Included are the following safety system enhancements:

- a. Fuel gas shutdown valves that provide protection from continuously feeding a fire; these are fail-closed valves;
- b. Shutdown valve on the compressor inlet; this is a fail-closed valve;
- c. Automated blow down of the compressor skid;
- d. Automated ventilation system that is activated on gas detection in the compressor building;
- e. Fire detection loop with heat sensitive fusible links that will initiate an emergency shutdown signal, resulting in the simultaneous operation of items a. through d. (compressor shut down, wellhead surface safety valve closure, compressor inlet valve closure, compressor skid process piping blow down, and closure of fuel gas valves).

Aurora reported the cost of completed upgrades to be approximately \$5,000.

Aurora further noted in the informal meeting and in written correspondence dated May 27, August 5, and September 8, 2005 that all subsequent compressor skids placed in service by Aurora will be configured similar to the replacement compressor skid at Lone Creek.

## **FINDINGS AND CONCLUSIONS**

1. Aurora's uncontrolled release of 650 Mcf of gas on January 22, 2004 constituted waste.
2. No information has been provided by Aurora that warrants a change in the reported volume of gas lost during the fire.
3. For purposes of AS 31.05.150(e), the fair market value of the wasted gas was \$1,621.11.
4. Under AS 31.05.150(e), Aurora is liable to pay to the Commission a penalty of \$1,621.11.
5. The overall cost of safety system repairs and upgrades within the Lone Creek gas compression facility, as described in Aurora's August 5 and September 8, 2005 submittals are realistic.

After careful consideration of all relevant facts and the arguments presented by Aurora at the June 2, 2005 informal review conference and in its associated written submissions, the Commission cannot conclude that the waste of gas in this case was caused by Aurora's negligence or failure to follow good oil field engineering practices. Furthermore, the Commission is persuaded that Aurora's actions after the event were responsive and timely, addressing the root problem exposed by the Lone Creek fire. In addition, improvements to the safety systems associated with gas compression facilities are of equivalent or greater value compared to the proposed penalty, particularly in preventing waste and improving personnel safety. It is appropriate to exercise the Commission's discretion not to assess a civil penalty in this case, subject to Aurora's election as set out in the below order.

**NOW THEREFORE IT IS ORDERED:**

1. Except as provided under paragraph 2 of this order, Aurora shall pay to the Commission a civil penalty of \$1,621.11 no later than 30 days after the date this Decision and Order becomes final.
2. In lieu of paying the civil penalty under paragraph 1 of this order, Aurora may prepare and distribute to all Alaska operators and the Alaska Oil and Gas Association a safety alert outlining safety system improvements for gas production and processing facilities. If Aurora chooses this alternative, it shall provide the Commission, no later than 30 days after the date this Decision and Order becomes final, a draft safety alert for the Commission's review and approval before distribution.
3. This Decision and Order becomes final on the 11<sup>th</sup> day after the date of its issuance shown below, unless within 10 days after the date of issuance Aurora files a written request for a hearing under 20 AAC 25.535(d). If Aurora timely files a written request for a hearing this Decision and Order will be of no effect.

**DONE at Anchorage, Alaska and dated January 20, 2006.**



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Daniel T. Seamount, Jr.  
Commissioner

A handwritten signature in black ink, appearing to read "Cathy P. Foerster", written over a horizontal line.

Cathy P. Foerster  
Commissioner