

STATE OF ALASKA
ALASKA OIL AND GAS CONSERVATION COMMISSION
333 West Seventh Avenue, Suite 100
Anchorage Alaska 99501-3539

Re: Failure to Notify of Changes to an)
Approved Permit; and Failure to Test) Other Order No. 80
Blowout Prevention Equipment) April 10, 2013
Soldotna Creek Unit 44-33)
Hilcorp Alaska LLC.)

DECISION AND ORDER

On October 23, 2012, the Alaska Oil and Gas Conservation Commission (AOGCC) issued a Notice of Proposed Enforcement Action (Notice) stating that Hilcorp Alaska, LLC (Hilcorp) failed to notify AOGCC of changes to an approved permit to drill (PTD) and failed to test blowout prevention equipment (BOPE) in its operation of Soldotna Creek Unit 44-33 (SCU 44-33). The Notice proposed specific corrective actions and a \$115,500 civil penalty under AS 31.05.150(a). On November 2, 2012, Hilcorp requested informal review with the AOGCC to discuss the proposed enforcement.

Summary of Proposed Enforcement Action

Hilcorp was granted approval to drill well SCU 44-33 in PTD 2121430 dated October 3, 2012¹. Drilling commenced October 11, 2012 using *Doyon Rig 1* (also known as the *Doyon Arctic Fox*). The Notice identified violations of the provisions of 20 AAC 25.015 (“Changes to a program in a permit to drill”) and 20 AAC 25.035 (“Secondary well control for primary drilling and completion”). The violations occurred when (1) Hilcorp commenced sidetrack drilling of SCU 44-33 at a depth shallower than approved; (2) drilling encountered an over-pressured zone that caused the well to flow which required closure of BOPE; and (3) Hilcorp tripped its drilling assembly to surface to change out equipment and returned to continued drilling operations without testing the BOPE used for well control. The Notice proposed the following corrective actions by Hilcorp:

- (1) Within 2 weeks following the date of receipt of AOGCC’s final decision, Hilcorp shall provide a detailed description of its regulatory compliance program and a copy of its written management-of-change procedures;
- (2) Within 2 weeks following the date of receipt of AOGCC’s final decision, Hilcorp shall complete and provide AOGCC with the results of a root cause analysis addressing the violations.
- (3) Within 4 weeks following the date of receipt of AOGCC final decision, Hilcorp shall provide evidence that personnel responsible for drilling and workover rig management, and staff involved with permitting well operations (drilling and workovers) have been

¹ SCU 44-33 is an approved sidetrack from suspended well SCU 24-33. The Application for Sundry Approvals, Form 10-403, was approved by AOGCC allowing the well to be configured for sidetrack drilling of SCU 44-33.

- trained in AOGCC drilling and workover regulatory requirements, including the process for making changes to approved activities, testing, and reporting requirements;
- (4) Beginning immediately upon receipt of AOGCC's final decision, BOPE testing on all drilling and workover operations must be performed when installed, repaired, or changed and at intervals not to exceed seven (7) days between tests unless otherwise approved by AOGCC. When used for well control or other equivalent purposes, or routine use may have compromised equipment effectiveness, BOPE used must be tested before the next wellbore entry.

The Notice also proposed a civil penalty under AS 31.05.150(a) in the amount of \$115,500 as follows:

- \$75,000 for the initial violation – failure to maintain the wellbore in an overbalanced condition by increasing the drilling fluid weight prior to milling the casing window as required in the PTD;
- \$7,500 for failure to notify AOGCC of change in well plans; specifically, using a lighter weight drilling fluid for milling and initial drilling operations than approved in the PTD;
- \$3,000 for failure to notify AOGCC of a change in well plans; specifically, milling the casing window at a shallower depth than approved in the PTD;
- \$7,500 for each day October 14 through October 17, 2012 for failure to test BOPE used in well control operations.

Requirement to Notify of Changes; Requirement to Test BOPE after Use

Regulation 20 AAC 25.015(b) establishes requirements to change an approved PTD and states in relevant part:

“To change a program approved in a Permit to Drill or to change information under 20 AAC 25.005(c) after drilling operations start, the operator shall... (2) submit and obtain the commission's approval of an Application for Sundry Approvals (Form 10-403)...; must set out the approved program, the current conditions of the well, and the proposed changes.” (emphasis added)

Regulation 20 AAC 25.035(e)(10)(C) establishes requirements when BOPE use is required for well control or other equivalent purposes and states in relevant part:

“if any BOP equipment components have been used for well control...the components used must be function pressure-tested before the next wellbore entry, to the required working pressure specified in the approve Permit to Drill...” (emphasis added)

Violations

Hilcorp provided a Notice of BOPE Use to AOGCC on October 12, 2012 after closing the upper pipe rams to control the flow of formation fluids. Receipt of Hilcorp's notice initiated a review of the approved drilling permit and a request for additional information, including daily drilling reports. In response, Hilcorp revealed that the SCU 44-33 sidetrack was started at a depth approximately 500 feet shallower than approved and the drilling mud weight was not increased

prior to commencing sidetrack drilling operations as required. Hilcorp drilling reports also indicate that the drilling assembly was tripped to surface on October 13, 2012 after BOPE was used to control SCU 44-33 and re-run in the well on October 14, 2012 without testing the used BOPE components.

Hilcorp's failure to comply was the result of either a lack of attention paid to the regulations or a lack of understanding regarding AOGCC expectations; in this particular case regulations with clearly worded expectations. The evidence shows that Hilcorp violated AOGCC regulations governing changes to an approved PTD and required BOPE testing.

Mitigating Circumstances

Mitigating factors considered by the AOGCC included (1) Hilcorp did not act in a willful or knowing manner; (2) the lack of injury to the public; (3) the absence of tangible benefits derived from the violations; and (4) Hilcorp's stated commitment to correct regulatory deficiencies.

During the informal review, Hilcorp's explanation for why no notice was given regarding the changes to the approved permit was that the changes were not deemed by Hilcorp to be significant enough to warrant notification to AOGCC. No explanation was offered for failure to test BOPE as required. Hilcorp accepted responsibility for the violations and has initiated corrective actions, including

- updating its management of change procedures (Facility Change Request) to incorporate AOGCC regulatory requirements;
- developing and implementing a regulatory compliance tracking spreadsheet;
- training and orientation;
- improving communications from Hilcorp including more detailed permit applications, timely notification of changes to approved permits by phone with proper written follow-up, and inquiries regarding regulatory requirements.

Findings and Conclusions

The aggressiveness with which Hilcorp is moving forward with operations appears to be contributing to regulatory compliance issues. Since Hilcorp commenced rig work in Alaska in April 2012, AOGCC Inspectors have observed rig crews unable to perform required BOPE component tests, rig crews not trained in use of well control equipment, and rigs with missing required equipment. Hilcorp's compliance history from April through December 2012 – including this enforcement action – shows 13 separate enforcement actions of varying severity since April 2012. Many of these actions were due to a failure to understand regulatory requirements. Strong evidence indicates that Hilcorp has not adequately prepared its personnel for operations in compliance with AOGCC regulatory requirements. Left unaddressed and uncorrected these and similar violations will be repeated.

For the reasons stated above, the AOGCC finds that Hilcorp violated regulations governing changes to an approved PTD and required BOPE testing. The seriousness of these violations, the number of prior violations, the need to deter similar behavior, and the need to trigger a

substantial change in Hilcorp's approach toward regulatory compliance warrant proceeding with these enforcement actions as proposed. However, BOPE installed on rigs engaged in development drilling will be allowed to continue testing at intervals not to exceed 14 days as currently authorized in 20 AAC 25.035 and 25.036 unless otherwise required by AOGCC in a PTD or based on BOPE performance. Since AOGCC issued the Notice, Hilcorp has provided the proper notification for required bi-weekly BOPE tests on rigs involved in development drilling, performed those tests in an acceptable manner, and provided test results to AOGCC as required. Imposing a more frequent BOPE test interval is unnecessary.

NOW THEREFORE IT IS ORDERED THAT:

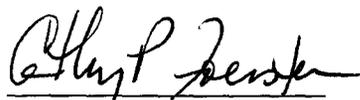
Hilcorp shall comply with the following corrective actions:

- 1) Within 2 weeks following the date of receipt of this final decision, Hilcorp shall provide a detailed written description of its regulatory compliance program and a copy of its written management-of-change procedures, including but not limited to examples of regulatory compliance tracking sheets and similar evidence that supports Hilcorp's compliance efforts specific to AOGCC regulations;
- 2) Within 2 weeks following the date of receipt of AOGCC's final decision, Hilcorp shall provide AOGCC with its complete root cause analysis and results addressing the violations outlined in this order.
- 3) By May 3, 2013, Hilcorp shall provide evidence that personnel responsible for drilling and workover rig management, and staff involved with permitting well operations (drilling, workovers, and well operational oversight) have been trained in AOGCC regulatory requirements, including the process for making changes to approved activities, notification procedures, testing, reporting, and record-keeping requirements. Records shall be maintained to substantiate completed training for Hilcorp and Hilcorp-contracted personnel.

In addition, Hilcorp shall pay a civil penalty under AS 31.05.150(a) in the amount of \$115,500 as follows:

- \$75,000 for the initial violation – failure to increase the drilling fluid weight prior to milling the casing window as required in the PTD;
- \$7,500 for failing to notify AOGCC of change in well plans; specifically, using a lighter weight drilling fluid for milling and initial drilling operations than approved in the PTD;
- \$3,000 for failing to notify AOGCC of a change in well plans; specifically, milling the casing window at a shallower depth than approved in the PTD;
- \$7,500 for each day October 14 through October 17, 2012 for failing to test BOPE used in well control operations.

Done at Anchorage, Alaska and dated April 10, 2013.



Cathy E. Foerster
Chair, Commissioner



Daniel T. Seamount, Jr.
Commissioner



Andrew K. Norman
Commissioner

RECONSIDERATION AND APPEAL NOTICE

As provided in AS 31.05.080(a), within 20 days after written notice of the entry of this order or decision, or such further time as the AOGCC grants for good cause shown, a person affected by it may file with the AOGCC an application for reconsideration of the matter determined by it. If the notice was mailed, then the period of time shall be 23 days. An application for reconsideration must set out the respect in which the order or decision is believed to be erroneous.

The AOGCC shall grant or refuse the application for reconsideration in whole or in part within 10 days after it is filed. Failure to act on it within 10-days is a denial of reconsideration. If the AOGCC denies reconsideration, upon denial, this order or decision and the denial of reconsideration are FINAL and may be appealed to superior court. The appeal MUST be filed within 33 days after the date on which the AOGCC mails, OR 30 days if the AOGCC otherwise distributes, the order or decision denying reconsideration, UNLESS the denial is by inaction, in which case the appeal MUST be filed within 40 days after the date on which the application for reconsideration was filed.

If the AOGCC grants an application for reconsideration, this order or decision does not become final. Rather, the order or decision on reconsideration will be the FINAL order or decision of the AOGCC, and it may be appealed to superior court. That appeal MUST be filed within 33 days after the date on which the AOGCC mails, OR 30 days if the AOGCC otherwise distributes, the order or decision on reconsideration. As provided in AS 31.05.080(b), "[t]he questions reviewed on appeal are limited to the questions presented to the AOGCC by the application for reconsideration."

In computing a period of time above, the date of the event or default after which the designated period begins to run is not included in the period; the last day of the period is included, unless it falls on a weekend or state holiday, in which event the period runs until 5:00 p.m. on the next day that does not fall on a weekend or state holiday.

I certify that on 4/10/13 copies of the above was faxed/mailed to each of the following at their addresses of record.

Samuel John

Paul Mazzolini, Hil corp

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Sent To
 Street, Apt. No., or PO Box No.

Mr. Paul Mazzolini
 Drilling Manager
 Hilcorp Alaska LLC
 Post Office Box 244027
 Anchorage, AK 99524-4027

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 If YES, enter delivery address below: No

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1. Article Addressed to:

Mr. Paul Mazzolini
 Drilling Manager
 Hilcorp Alaska LLC
 Post Office Box 244027
 Anchorage, AK 99524-4027

2. Article Number

(Transfer from service label)

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