

**STATE OF ALASKA
ALASKA OIL AND GAS CONSERVATION COMMISSION
333 West Seventh Avenue
Anchorage, Alaska 99501**

Re: Failure to report to AOGCC a pressure communication	Other Order No. 101
Failure to complete required monthly reports	Docket No. OTH-14-016
Failure to complete required Mechanical Integrity Test	February 4, 2015
Oooguruk Unit ODSN-27 (PTD 2120230)	
Area Injection Order (AIO) 034.000	
Area Injection Order (AIO) 034.006	
Oooguruk Unit (OU), Oooguruk Field, Nuiqsut Oil Pool	

DECISION AND ORDER

On January 12, 2015, the Alaska Oil and Gas Conservation Commission (AOGCC) issued a Notice of Proposed Enforcement Action (Notice) to Caelus Energy Alaska, Inc. (Caelus) regarding the ODSN-27 well of the Oooguruk Unit (OU). Caelus failed to report to AOGCC a pressure communication, failed to complete required monthly reports, and failed to complete required Mechanical Integrity Test (MIT) in well ODSN-27. The Notice proposed specific corrective actions and a \$115,000 civil penalty under AS 31.05.150(a).

Caelus did not contest the allegations, the corrective actions or the civil penalty. On January 27, 2015, Caelus paid the civil fine. Caelus also agreed to comply with the AOGCC's corrective actions and has already completed a number of the proposed actions.

Summary of Proposed Enforcement Action

The Notice identified violations by Caelus of:

- 1) 20 AAC 25.402 (f) and the provisions of Rule 7 of Area Injection Order 34 (AIO 34) requiring Caelus to notify AOGCC and submit a plan of corrective action when pressure communication, leakage or lack of injection zone isolation is indicated in the ODSN-27 well;

- 2) Rule 7 of AIO 34 and provisions of Condition 3 of Administrative Approval Area Injection Order 34.006 (AIO 34.006) by failing to submit required monthly reports on the ODSN-27 well; and
- 3) Condition 12 of AIO 34.006 when it failed to perform an AOGCC witnessed MIT once the well was returned to water only injection and stabilization was achieved in the ODSN-27 well.

The Notice proposed civil penalties of \$115,000¹ as follows:

- \$25,000 for the initial violation – failure to notify AOGCC of indication of pressure communication or leakage in ODSN-27;
- \$10,000 for each of the seven significant pressure bleed events that were completed without notification to AOGCC of the indication of pressure communication or leakage in ODSN-27, for a total of \$70,000;
- \$10,000 for failure to provide the monthly pressure reports to AOGCC as required by Rule 7 of AIO 34 and Condition 3 of AIO 34.006; and
- \$10,000 for failure to complete the AOGCC witnessed MITIA once the well was returned to water only injection and stabilization was achieved as required by Condition 12 of AIO 34.006.

Well Integrity Failure

Under AOGCC regulations 20 AAC 25.402 (f), *“If an injection rate, operating pressure observation, or pressure test indicates pressure communication or leakage in any casing, tubing, or packer, the operator shall notify the commission by the next working day...”*

Rule 7 of AIO 34 states *“Whenever any pressure communication, leakage or lack of injection zone isolation is indicated by injection rate, operating pressure observation, test, survey, log, or other evidence, the Operator shall notify the Commission by the next business day and submit a plan of corrective action on a Form 10-403 for Commission approval. The Operator shall immediately shut in the well if continued operation would be unsafe or would threaten contamination of freshwater, or if so directed by the Commission. A monthly report of daily*

¹ AS 31.05.150(a) provides for not more than \$100,000 for the initial violation and not more than \$10,000 for each day thereafter on which the violation continues.

tubing and casing annuli pressures and injection rates must be provided to the Commission for all injection wells indicating well integrity failure or lack of injection zone isolation.”

AOGCC records demonstrate Caelus’ only notice of potential pressure communication occurred on July 16, 2014. Review of the information provided by Caelus demonstrates significant pressure anomalies which were not communicated to the AOGCC. Significant inner annulus (IA) pressure increases occurred from the restart of gas injection on April 6, 2014 and resulted in the first significant IA bleed on May 3, 2014, when the IA was reduced from 1815 psi to 911 psi. Incremental increases in IA pressures were exhibited from April 6, 2014 through well shut in for a facility turn around on June 10, 2014. Seven significant bleed events were performed by Caelus on or about May 3, 11, 19, 21, 26, 29, and June 8, 2014. Potential pressure communication occurring after April 6 demonstrates non-compliance with reporting guidelines from April 6 to June 10, 2014.

Caelus failed to report to AOGCC a pressure communication indicating a potential loss of mechanical integrity on ODSN-27 by the next working day, a violation of State regulations and AIO 34.

Compliance with monthly reporting requirements

Rule 7 of AIO 34 states “...*A monthly report of daily tubing and casing annuli pressures and injection rates must be provided to the Commission for all injection wells indicating well integrity failure or lack of injection zone isolation.*”

Condition 3 of AIO34.006 states “*Caelus shall submit to the AOGCC a monthly report of well pressures, injection rates, and pressure bleeds for all annuli. Bleeds to be identified on the report.*”

AOGCC contacted Caelus on December 1, 2014 enquiring why the monthly report had not been received. Caelus notified AOGCC verbally and then by email that the monthly report would be compiled and sent. The report was received on December 2, 2014.

Caelus failed to provide the monthly pressure report to AOGCC for a well exhibiting a pressure communication indicating a potential loss of mechanical integrity on ODSN-27 as required by Rule 7 of AIO 34.000 and Condition 3 of AIO 34.006, a violation of State regulations.

Demonstration of Tubing/Casing Annulus Mechanical Integrity

Condition 12 of AIO 34.006 states *“The MIT anniversary date will be set as the date of the AOGCC witnessed MITIA that is to be completed once the well is returned to water only injection and stabilization is achieved.”*

AOGCC contacted Caelus on December 1, 2014 and determined that the required MITIA had not been completed when the well was brought back online. Pressure recordings indicate September 12, 2014 was the start of water injection and stabilization was achieved by approximately September 20, 2014. The passing AOGCC witnessed MITIA was completed on December 9, 2014, leaving approximately 80 days of noncompliance.

Caelus failed to perform the AOGCC witnessed MITIA once the well was returned to water only injection and stabilization was achieved as required by Condition 12 of AIO 34.006, a violation of State regulations.

Mitigating Circumstances

The AOGCC considered the factors in AS 31.05.150(g) in determining the appropriate penalty. Caelus’ decision to wait two months before notifying the AOGCC of possible serious and substantial issues with the integrity of the ODSN-27 wellbore cannot be characterized as a good faith attempt to comply with the AOGCC’s orders and regulations. Although no injury to the public occurred, the seriousness of a potential wellbore failure, and the obvious threat it poses to both public health and the environment cannot be denied. Caelus’ failure to comply with the fundamental wellbore mechanical integrity identification and reporting requirements raise the potential for similar behavior with more serious consequences making the need to deter similar behavior substantial. Violations relating to Underground Injection Control Class II well integrity and notification practices warrant the imposition of the civil penalties.

Findings and Conclusions

The AOGCC finds, and Caelus agrees, that Caelus violated the regulations 20 AAC 25.402 (f) and the Rules in AIO 34 governing the Demonstration of Tubing/Casing Annulus Mechanical Integrity and Well Integrity Failure. The circumstances outlined above were considered in the AOGCC's Notice of Enforcement Action and its assessment of the \$115,000 civil penalty, which was decreased from the maximums provided by statute. Caelus did not contest the AOGCC proposed enforcement action, responded to this notice on January 27, 2015, paid the civil fine, and agreed to complete the proposed actions. The AOGCC finds Caelus' implementation of the proposed actions to be satisfactory effort to help prevent further occurrence of these violations.

NOW THEREFORE IT IS ORDERED THAT:

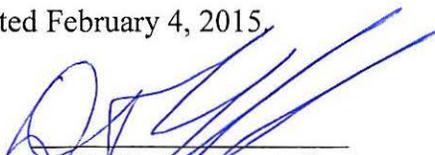
- 1) A civil penalty of \$115,000 is imposed. Caelus has paid the AOGCC \$115,000²:
- 2) By March 31, 2015, Caelus shall meet with AOGCC to:
 - 1) provide an update to the table "Solutions - Corrected actions to be implemented" that was initially provided to AOGCC as part of Caelus' submission of September 29, 2014 of #5 root cause analysis addressing the violations, which was updated by Caelus in its January 27, 2015 submission;
 - 2) provide an update to the root cause analysis addressing the failure to provide a monthly report to AOGCC of daily tubing and annuli pressure and injection rates (Rule 7 of AIO 34 and Condition 3 of AIO 34.006) which was updated by Caelus in its January 27, 2015 submission; and
 - 3) provide an update to the root cause analysis addressing the failure to complete an AOGCC witnessed MITIA once the well was returned to water only injection and stabilization was achieved (Condition 12 of AIO 34.006) which was updated by Caelus in its January 27, 2015 submission.

As an Operator involved in an enforcement action, you are required to preserve documents concerning the above action until after resolution of the proceeding.

² AS 31.05.150(a) provides for not more than \$100,000 for the initial violation and not more than \$10,000 for each day thereafter on which the violation continues.

Done at Anchorage, Alaska and dated February 4, 2015.

for 
Cathy P. Foerster
Chair, Commissioner


Daniel T. Seamount, Jr.
Commissioner



cc: Thor Cutler, EPA Region 10
AOGCC Inspectors

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.

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.