

of ALASKA

MEMORANDUM

TO: Fred Boness
Assistant Attorney General

DATE: April 29, 1977

FROM: Jack R. Roderick
Deputy Commissioner

SUBJECT: Penalty Payments to be
Assessed Against ARCO
and Shell for Loss of
Hydrocarbons

DIR	
C. GEOL	
C. ENG	
1 ENG	
2 ENG	
3 ENG	
4 ENG	
5 ENG	
1 GEOL	
2 GEOL	
3 GEOL	
REV	
DRAFT	
SEC	
CONFER:	
FILE:	<input checked="" type="checkbox"/>

The attached materials from Hoyle Hamilton indicate that ARCO's NGI No. 7 well blew out on June 17, 1976, in the Prudhoe Bay area with the loss of approximately 19.8 MMCF volume of gas and 204 barrels of condensate. The Conservation Commission places a total value of \$1,127.00, and recommends \$15,000 as a fine.

Shell Oil Company, during a nine-day period in the fourth quarter of 1976 and for 16 days in the first quarter of 1977, flared from approximately 50 MMCF from Platform "A", Middle Ground Shoal, in violation of CO 105-C of the Oil and Gas Conservation regulations. The Conservation Commission recommends that they be fined \$5,000.

Please see Hoyle Hamilton's memo to me of April 22, giving the reasons for the difference in the value of the lost hydrocarbons. Having reviewed the material, Commissioner Le Resche thinks that these two penalties should be imposed against the operators. Please prepare the appropriate notifications to the companies.

- cc: Robert E. LeResche
Commissioner
- Hoyle Hamilton
Director, Division of Oil & Gas Conservation
- O. K. "Easy" Gilbreth
Division of Minerals & Energy Management

attachments

RECEIVED

MAY - 2 1977

Division of Oil and Gas Conservation
Anchorage

02-001B

STATE
of ALASKA

MEMORANDUM
DEPARTMENT OF NATURAL RESOURCES
Division of Oil and Gas Conservation

CONFIDENTIAL

TO: Jack Roderick
Acting Commissioner

CONFIDENTIAL under AS 31 until 8/17/78

DATE: March 11, 1977

FROM: Hoyle H. Hamilton
Director

SUBJECT: Hydrocarbons Vented During Arco
NGI No. 7 Blowout

Easy Gilbreth, Director of the Division of Minerals and Energy Management, has advised us that Commissioner Martin intends to require payment for hydrocarbons vented because of the blowout of Arco's NGI No. 7 well and has asked us to provide back-up data from our "Confidential" records.

On June 17, 1976, the Arco NGI No. 7 blew out during completion operations and flowed with only partial control until June 20, 1976. I flew to Prudhoe Bay on June 17, 1976 and monitored kill and control efforts until June 20. A copy of my "Confidential" report is attached.

Table I estimates volumes of gas and condensate lost based on our "Confidential" reports and an Arco news release. Rates and volumes are very speculative as it was not possible to take measurements and the primary concern was controlling the flow. Based on these estimated volumes, the total value, State production tax and State royalty are estimated in Table II. A value of \$5/Bbl for condensate was used as a mid-value between current compensation for net crude through Arco's Prudhoe Bay topping plant and estimated FY 78 Prudhoe crude wellhead value. A gas value of 30¢/Mcf was used based on an interim agreement between the State and BP Alaska for gas currently being utilized off of a lease on the North Slope.

Some of the information included with this memo is confidential under AS 31 until August 17, 1978, and should be revealed only with Arco's permission.

Attachments

HHH/JCM:bjm

CONFIDENTIAL

Table I
Arco - NGI No. 7
Estimated Volumes of Gas and Condensate Vented
During June 1976 Blowout

<u>Date</u>	<u>Duration (Hrs.) (1)</u>	<u>Est. Gas Rate (MMcf/D)</u>	<u>Est. Gas Volume (MMcf)</u>	<u>Explanation (1)</u>
6/17/76	21.25	17.5 (1)	15.5	Initial uncontrolled flow
6/18/76 to 6/19/76	16.25	4.4	3.0	Killing and gas bleeding phase
6/19/76 to 6/20/76	14	2.2	1.3	Final killing to zero surface pressure
			<u>19.8</u>	

$$\text{Est. Volume of Condensate (Bbls)} = \frac{180 \text{ Bbls}^*}{17.5 \text{ MMcf}} \times 19.8 \text{ MMcf} = 204 \text{ Bbls}$$

(1) Hoyle Hamilton's Memo to File dated 11/10/76

* Arco News Release dated 6/17/76

Table II
 Arco - NGI No. 7
 Estimated Value of State Royalty and Production Tax
 For Hydrocarbons Vented During June 1976 Blowout

	<u>Est. Volume (MMcf or Bbls)</u>	<u>Total Value 30¢/Mcf & \$5/Bbl</u>	<u>Value of Prod. Tax(1)</u>	<u>Value of State Royalty</u>	<u>Value of Roy. & Prod. Tax</u>
Gas	19.8	\$5,940	\$208	\$743	\$951
Condensate	204	1,020	48	128	176
TOTALS		\$6,960	\$256	\$871	\$1,127

(1) WPI Factor = 1.59

STATE
of ALASKA

MEMORANDUM

DEPARTMENT OF NATURAL RESOURCES
Division of Oil and Gas Conservation

TO: [Bob LeResche
Commissioner

DATE : June 17, 1977

FROM: O. K. Gilbreth, Jr. *OKG*
Director, DOGC

SUBJECT: ARCO NEI No. 7 Blowout ✓

I have received a copy of Fred Boness's memo to you regarding legal ramifications of the subject blowout. I agree with Fred and believe that we should not attempt to pursue this particular case to establish the precedent of collecting for hydrocarbons lost. Unfortunately not enough documentation was attempted at the time of the blowout to legally pinpoint the cause and responsibility. We have talked about this in the department and it would appear that the only way we could prevail in this case would be to prove that they were not carrying out their lease responsibilities in a workmanlike manner. Locally our division has discussed the documentation and in the event any future blowouts occur we will start documentation immediately and completely document throughout so that we can have a legal trail if needed.

In the meantime we recommend that efforts be dropped to institute legal action because of the uncertainty and tenuous grounds that we could sue on. We think we should wait until we have a better case in order to try to establish this precedent. Moneywise, the value is negligible in this case.

OKG:bjm

cc: Joe Green, Director, DMEM