

# STATE OF ALASKA

## ALASKA OIL AND GAS CONSERVATION COMMISSION

*M P U Flaring*  
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December 31, 1991

Mr. David Bowler  
Division Manager  
Conoco Inc.  
3201 C Street, Suite 200  
Anchorage, AK 99503-2689

Re: Unauthorized Flaring - Milne Point Unit - Kuparuk River Field

Dear Mr. Bowler:

In review of the circumstances, reports and regulations pertaining to gas disposition for the Milne Point Unit in late 1990 and early 1991, the Commission finds the following:

1. Rule 6 of Conservation Order 173 (CO 173) provides for administrative approval of safety flare volumes for production facilities in the Kuparuk River Field;
2. Finding No. 17 of CO 173 erroneously references 20 AAC 25.035 instead of 20 AAC 25.235 as the guiding statewide regulation for gas utilization in this field; 20 AAC 25.235(a)(3) requires Commission approval for any gas escapement for more than 5 days within any 30 day period;
3. Administrative Approval No. 173.6 issued by the Commission on August 12, 1985 allowed a maximum of 250 MCF/D of produced gas for fueling of the safety flare at the Central Facilities Pad in the Milne Point Unit of the Kuparuk River Field.
4. The operator's Report of Gas Disposition (Form 10-422) for September, 1990 and January, February and March, 1991, together with tabulations showing gas flared each day reveals:
  - A. All four 10-422 reports were incomplete in required detail.
  - B. Each 10-422 report should have shown the calculated "Allowed Safety Pilot" volume for the reporting month and the volume of gas flared "in excess of allowed vented or flared safety pilot."

5. The Commission requested Conoco to submit revisions and explanations for reports described above on July 18, 1991. Revised reports with additional explanation data were forwarded to the Commission on July 23, 1991
6. The Commission notified Conoco by letter dated August 20, 1991 that it had reason to believe that unauthorized flaring had occurred and directed Conoco to appear before the Commission on September 14, 1991 to further explain why the unauthorized flaring occurred.
7. Conoco representatives appeared before the Commission as directed and provided the following additional information:
  - A. That until contacted by the Commission on July 18, 1991, Conoco had reason to believe that its operation was in full compliance with regulations, but had made some incorrect assumptions.
  - B. That there are several reasons why Conoco exceeded the set safety flare volume of 250 MCF/D; these reasons were:
    1. the original design of production and injection facilities at Milne Point were based upon expected gas-oil ratios (GOR's) of 290 CF/B from the Kuparuk pool and 200 CF/B from the Schrader Bluff pool, but actual producing GOR's have averaged 490 CF/B and 400 CF/B, respectively.
    2. the original design for gas injection equipment (compressors) allowed for 100% backup in injection capacity but the increased gas volumes have eliminated all of the planned excess injection margin;
    3. the Milne Point gas injection well (E-3) completed in a lower Kuparuk fault block, has proved not to be isolated as previously presumed resulting in recycling of gas to a nearby producing well.
8. To alleviate the current gas handling problems, Conoco has:
  - A. Shut-in production (1500-2000 BOPD) from high GOR wells;

- B. Delayed completion of nine wells with production capacity of approximately 5000 BOPD;
  - C. Altered the design of the gas injection compressors to a "parallel" operation to increase gas injection capacity;
  - D. Drilled a second gas injection well, expected to be ready for injection in the first quarter, 1992;
  - E. Commenced evaluation of converting more wells from "gas lift" operation to electric submersible pump operation;
  - F. Commenced a feasibility study of a retrofit conversion of existing gas compressors to mechanically increase their design capacity, but recognizing that operational constraints would preclude this option until at least the first quarter, 1992.
  - G. Developed plans to initiate a pipeline/production surging study to determine ways to minimize short-term peak gas flow rates.
9. Conoco did not request Commission approval to flare gas in excess of authorized volumes either in the total excess or when exceeding five days within a 30-day period as required under 20 AAC 25.235(a)(3).
10. Conoco's Gas Disposition Reports (Form 10-422) filed for September, 1990 and January, February, March, June, July and August of 1991 show that 2661 MCF, 7747 MCF, 10,866 MCF, 9959 MCF, 2725 MCF, 9642 MCF and 21,969 MCF, totaling 65,569 MCF were flared in excess of authorized volumes. Flaring in excess of the five-day allowable per month occurred for a total of 90 days during this same period.
11. The total volume of unauthorized gas flared during this period was 65,569 MCF. Based on the relevant average wellhead gas prices reported by taxpayers to the Department of Revenue for this period, the Commission will use the figure of \$0.8181 per MCF to compute the penalty under AS 31.05.150(e). (The Commission notes that the reported prices have not been audited by the Department of Revenue and that the Commission has not independently determined the value of any such gas.)

12. AS 31.05.150(a) and(e) provides for assessing a penalty of no more than \$5,000.00 per day for each day in violation, plus the fair market value of the volume of gas flared in excess of the approved amount.

After deliberation on the evidence, the Commission concludes that from September 1990 through August 1991, Conoco Inc.:

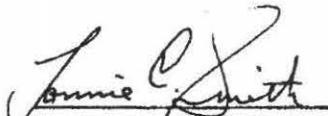
1. Violated Conservation Order No. 173 as amended by Administrative Approval No. 173.6 of August 12, 1985 by flaring 65,569 MCF of natural gas at Milne Point Unit facilities in excess of the volume approved by the Commission, and;
2. Violated 20 AAC 25.235(a)(3) for a cumulative period of 90 days.

Accordingly, the Commission cites Conoco Inc., operator of the Milne Point Unit, for waste of natural gas at the production facilities. For this violation, the Commission imposes a penalty of \$1,000.00 for each day of the 90 days of violation plus a sum of \$53,643.55 as penalty for the wasted gas for a total imposed penalty of \$143,643.55.

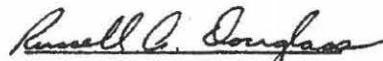
The Commission, however, understands that mitigative circumstances existed at the time of the violations: that Conoco believed it was in compliance and that operational necessity required excess flaring. It is also likely that had Conoco requested excess flaring that the Commission would consider such a request favorably in the light of its operational necessity. In recognition of these mitigative reasons, the Commission requires immediate payment of five per cent of the total penalty, or \$7,182.00, with the imposition of the remainder of the penalty suspended for a two-year probationary period commencing January 1, 1992 and ending December 31, 1993. The remaining penalty will be abated at the end of the two-year period of probation if no additional incidents of gas waste occur other than for emergencies.



David W. Johnston  
Commissioner/Chairman



Lonnie C. Smith  
Commissioner



Russell A. Douglass  
Commissioner

BY ORDER OF THE COMMISSION

cc: Mr. Rob Mintz, Attorneys General Office