

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

Re: Failure to Provide Required Well Data)	Other Order No. 104
Wells Tyex-01, Tyex-01X, Keex-02)	Docket No. OTH 15-013
Permit Nos. 211-137, 211-150, 212-112)	November 30, 2015

FINAL DECISION AND ORDER

On April 3, 2015, the Alaska Oil and Gas Conservation Commission (AOGCC) issued a Notice of Proposed Enforcement Action (Notice) to Linc Energy Operations, Inc. (Linc) regarding the Tyex-01, Tyex-01X and Keex-02 wells. The Notice advised that Linc violated the provisions of 20 AAC 25.050 and 20 AAC 25.071 by failure to submit well inclination surveys, core analysis reports, and digital log data; and failure to provide information requested on January 22, 2015 and February 18, 2015 (20 AAC 25.300). The Notice provided specific corrective actions and imposed a \$20,000 civil penalty under AS 31.05.150(a).

On April 21, 2015, Linc requested an informal review. That review was held via teleconference on May 6, 2015. In response to the Notice, Linc submitted the following log and well data for Keex-02:

1. Digital log data was received on May 4, 2015; and
2. Core chips were received on June 17, 2015.

Other Order No. 104 issued July 1, 2015. On July 20, 2015, Linc requested reconsideration. The AOGCC granted the request July 21, 2015. A public hearing was held October 6, 2015. At the end of the hearing, the record was left open until October 21, 2015 to allow Linc to provide additional information. The deadline was extended until October 22, 2015.

Summary of Proposed Enforcement Action:

Other Order No. 104 (Order) identified Linc's multiple violations of 20 AAC 25.050(d) and 20 AAC 25.071 following drilling and abandonment operations for wells Tyex-01, Tyex-01X, and Keex-02. Specifically, Linc failed to submit well inclination surveys, core analysis reports, and digital log data. Linc also violated 20 AAC 25.300 when it failed to respond to AOGCC requests for the required information.

The Order imposed a civil penalty in the amount of \$20,000. The total included:

- \$10,000 for the initial violations: failure to provide well data and digital logs; and
- \$10,000 for the additional violations: failure to provide the information requested on January 22, 2015 and February 18, 2015.

The Order imposed the following corrective actions:

1. Linc must provide the AOGCC with all requested information by August 1, 2015, or prove to the satisfaction of the AOGCC the information does not exist; and
2. Linc must provide in writing its plan to ensure that all future operation in Alaska will be conducted in full compliance with governing regulations and orders.

Reconsideration Hearing and Linc Support Documents

Evidence at the October 6, 2015 hearing established the following:

1. No inclination surveys were run in Tyex-01 and Tyex-01X; and
2. No core analyses were performed on the Tyex-01, Tyex-01X and Keex-2 cores.

After the hearing, in a letter dated October 22, 2015, Linc stated the following:

1. Cores recovered from Tyex-01 and Tyex-01X were buried in the well cellars at the time of abandonment; and
2. Linc did not recover any chip samples from the cores recovered from Tyex-01 and Tyex-01X.

Mitigating Circumstances

Linc claims the following conduct should mitigate the amount of the penalty:

1. Linc kept in constant communication with the AOGCC about the difficulties it was encountering at each of the wells and then timely provided all information it believed was required.
2. Linc's conduct did not harm the public, Linc operations were conducted in a safe and responsible manner, and Linc's drilling operations did not result in an increased risk to health, safety, or the environment.
3. Linc believes that the AOGCC failed to address the fact that (1) during drilling operations Linc consistently communicated with the AOGCC, (2) Linc received variances and waivers to provide required data to the AOGCC, and (3) Linc could not gather data due to the poor well conditions, the failure of the wells, and the risk of losing expensive equipment.

Linc's claims are not supported in the record. No variance was ever granted by the AOGCC regarding the need for core chips for either Tyex-01 or Tyex-01X. Linc produced nothing to document its claim that it received a variance. Nor was Linc unaware of the core chip requirements. The core chip requirements of 20 AAC 25.071(b)(4) were specifically addressed in an email dated August 30, 2011 from AOGCC to Kleven Bartly, former Environmental Permitting Manager (Alaska) for Linc. (See Crowell and Moring letter dated September 30, 2015, Exhibit B, Page 1 of 1.) For Tyex-01, 223 feet of core were recovered and described. For Tyex-01X, 603.7 feet of core were recovered and described.

On January 16, 2014, the AOGCC requested Linc provide core chips from Tyex-01. On February 10, 2014, former Linc coal geologist Bob Schlosser replied by email that referenced an attached letter dated October 8, 2011 from Corri Feige that stated core samples would be consumed during "bench test" gasifier analyses. Mr. Schlosser's email also stated that "no remaining core is available for sampling". Assuming the cores were consumed in a "bench test" gasifier, AOGCC on February 10, 2014 requested copies of the analytical reports for the Tyex-01 core analyses.

At the October 6, 2015, hearing, Linc admitted that all cores recovered from Tyex-01 and Tyex-01X were buried in the well cellars at the time the wells were abandoned. No "bench test" analyses were conducted on the Tyex-01 cores as Linc had previously represented to the AOGCC.

The AOGCC did not grant a variance to the requirement of 20 AAC 050(a)(2), wellbore survey for either Tyex-01 or Tyex-01X. The approved Permit to Drill forms (Form 10-401) for both Tyex-01 and Tyex-01X were clearly marked "directional survey required". A handwritten

comment by an AOGCC senior staff reviewer on the form for each well stated: "inclination surveys acceptable, 20 AAC 25.050(a)". Operations reports for both Tyex-01 and Tyex-01X show Linc had sufficient opportunities to acquire inclination surveys in both wells. Linc simply ignored the requirement.

AOGCC on November 8, 2012 approved Linc's November 5, 2012 request for a variance under 20 AAC 25.071(b)(4) for Keex-02 for the requirement to provide core chips from each foot of recovered conventional core. The approval was obtained based on Linc's representation that the "core must be preserved whole and intact, and shipped to a rock properties laboratory in Australia where it would be consumed in a "bench test gasifier".

Within 90 days after completion, suspension, or abandonment of a well, the operator is required to file reports, well logs, drilling logs, electric logs, lithologic logs, directional surveys, and all other subsurface information on a well for which a permit to drill has been issued. Keex-02 well was plugged and abandoned on December 7, 2012. Linc failed to submit required digital log data. The AOGCC requested the information on January 22, 2015 and February 18, 2015. Linc did not submit the required information. After AOGCC filed its Notice, Linc submitted the outstanding digital log data on May 4, 2015. As the Keex-02 conventional cores (approximately 34 feet recovered) were not, as Linc had represented, consumed in a "bench test" gasifier, Linc submitted core chips to the AOGCC on June 17, 2015.

Linc admitted that it failed to provide information to the AOGCC regarding its changes in management. In accepting responsibility for failing to keep the AOGCC updated with current contact information for the company, Linc has implemented appropriate Management of Change procedures to ensure that any future changes in points of contact for the company are timely communicated to all relevant regulatory agencies.

Findings:

1. Linc failed to comply with all conditions of approval specified in connection with the issuance of the permits to drill.
2. Conventional cores recovered from Tyex-01 were not consumed in a "bench test" gasifier as represented in a Linc email dated February 10, 2014.
3. Linc failed to collect required core chips in Tyex-01 and Tyex-01X.
4. Linc failed to collect required inclination survey information for Tyex-01 and Tyex-01X. Operations reports for Tyex-01 and Tyex-01X show that the operator had ample opportunity to acquire inclination surveys in the wells.
5. Linc admitted that it failed to respond to request for information (AOGCC emails dated January 22, 2015 and February 18, 2015).
6. Linc submitted none of the required digital log data for Keex-02 until the AOGCC filed its Notice. Linc submitted core chips to the AOGCC on June 17, 2015.

Conclusions:

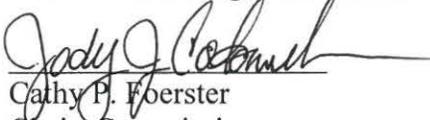
1. The AOGCC finds that Linc violated the provisions of 20 AAC 25.050 and 20 AAC 25.071 by failure to acquire or to submit well inclination surveys and core chips for Tyex-01 and Tyex-01X.
2. Linc violated the provisions of AS 31.05.030 and 20 AAC 25.071 by failure to submit digital log data within 90 days after the abandonment of Keex-02.
3. Linc violated request for information by failure to provide the information requested on January 22, 2015 and February 18, 2015 (20 AAC 25.300).

- Both the statutory criteria and the mitigating circumstances claimed by Linc were considered by the AOGCC, including Linc's effort to correct some violations and prevent future violations.

Now Therefore It Is Ordered That:

Linc's request to reduce the financial penalties for its violations is **DENIED**. Within 30 days after this Decision and Order becomes final, Linc shall pay the AOGCC a civil penalty of \$20,000.¹

Done at Anchorage, Alaska and dated November 30, 2015.

for

Cathy P. Foerster
Chair, Commissioner


Daniel T. Seamount, Jr.
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.

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.

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.