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STATE OF ALASKA

WALTER J. HICKEL, GOVERNOR

**ALASKA OIL AND GAS
CONSERVATION COMMISSION**

January 27, 1994

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W.R. Stewart
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2550 Denali Street, Suite 1300
Anchorage, AK 99503-2737

CERTIFIED
P-494 005 677

RE: West McArthur River Unit Violations and Penalties

13-017
RS

Dear Mr. Stewart:

The Alaska Oil and Gas Conservation Commission has investigated your exploratory operations at the West McArthur River site. Its investigation included reviewing permit applications and documents available, meetings and telephone conversations with your representatives, and on-site inspections. In a letter dated November 2, 1993, the Commission outlined potential findings, violations and conclusions, and provided Stewart Petroleum Co. an opportunity to comment. The Commission asked for additional information on November 22, 1993, and subpoenaed records of Great Land Drilling (now owned by Schlumberger Technology Corporation) and Nabors Alaska Drilling. As a result of its investigation, the Commission finds the following:

1. Stewart Petroleum Co. is the operator of the West McArthur River Unit No. 2 and No. 2 redrill wells.
2. On January 27, 1993, in Section 5.2 (page 7) of the application for a permit to drill the West McArthur River Unit No. 2 well, Stewart Petroleum Co. stated that (a) it would submit weekly reports on the status of operations of the West McArthur River Unit No. 2 well and that (b) Mr. R.C. Gardner, ENSR Consulting, was responsible for filing the weekly reports.
3. In a letter dated February 1, 1993, Stewart Petroleum Co. identified Robert C. Gardner and ENSR Consulting and Engineering as its agents.
4. On February 3, 1993, the Commission issued a permit to drill to Stewart Petroleum Co. for the West McArthur River Unit No. 2 well to a bottom hole location 500 feet from the north line, 500 feet from the east line, Section 15, T8N, R14W, Seward Meridian.
5. On June 7, 1993, Stewart Petroleum Co. plugged and abandoned the West McArthur River Unit No. 2 well back to 6429' MD. This action requires written approval by the Commission. Stewart Petroleum Co. did not request written approval until September 30, 1993. While the Commission may grant verbal approval, within ten days following verbal approval a written application for sundry approval (Form 10-403) must be submitted (20 AAC 25.105(e)).
6. On June 9, 1993, Stewart Petroleum Co. spud a redrill from the West McArthur River Unit No. 2 hole to a new bottom hole location 2067' from the south line, 2616' from the east line, Section 10,

T8N, R14W Seward Meridian, without a permit to drill (Form 10-401) required by 20 AAC 25.005(e).

7. The West McArthur River Unit No. 2 redrill has a bottom hole location within 500 feet of a government quarter section line. Before drilling to such a location, the well must have a spacing exception authorized by the Commission pursuant to 20 AAC 25.055. No spacing exception was applied for nor obtained prior to drilling the well.

8. On September 1, 1993, Stewart Petroleum Co. submitted an application for a permit to drill West McArthur River Unit No. 2 to a new bottom hole location. The application was improper because the Commission requires a unique well name for each well pursuant to 20 AAC 25.005(f).

9. On September 2, 1993, representatives of the Commission met with Stewart Petroleum Co., represented by Mr. R.C. Gardner, to discuss regulatory requirements for the West McArthur River Unit No. 2 and No. 2 redrill wells. The Commission instructed Mr. Gardner to submit all required permits and information to bring these wells into compliance with the law. He was also informed that the application for a permit to drill received by the Commission on September 1, 1993, was improper and needed to be resubmitted. The Commission sent three additional letters to Stewart Petroleum Co., dated September 7, 10 and 28, 1993, before receiving the required information and permit applications.

10. On September 30, 1993, Stewart Petroleum Co. submitted a complete application for a permit to drill the West McArthur River Unit No. 2A well (previously identified in this document as the West McArthur River Unit No. 2 redrill) to a bottom hole location 2099' from the south line, 2740' from the east line, Section 10, T8N, R14W, Seward Meridian. [The final bottom hole location of the well is 2067' from the south line, 2616' from the east line, Section 10, T8N, R14W, Seward Meridian per November 24, 1993 well completion report.]

11. On September 30, 1993, Stewart Petroleum Co. submitted an application for sundry approval (Form 10-403) to plug and abandon West McArthur River Unit No. 2 on or about June 5, 1993.

12. On September 30, 1993, Stewart Petroleum Co. submitted a request for a spacing exception for the West McArthur River Unit No. 2A well.

13. On October 5, 1993, the Commission published notice of the spacing exception allowing 15 days for protest as required by 20 ACC 25.540(a). On October 19, 1993, an objection and request for public hearing were received from Paul L. Craig, President of Z-Energy, Inc. The Commission scheduled a public hearing on the spacing exception for November 4, 1993.

14. On October 8, 1993, Stewart Petroleum Co. submitted a completion report for the West McArthur River Unit No. 2 well. According to the report, the operator abandoned the West McArthur River Unit No. 2 well on June 7, 1993. This report is required within 30 days after completion, abandonment or suspension of a well by 20 AAC 25.070(a)(2).

15. On October 12, 1993, Stewart Petroleum Co., represented by Mr. R.C. Gardner, told the Commission that approximately 800 barrels of oil had been produced from that well, that all oil produced from the West McArthur River Unit No. 2 redrill remained stored on site, and that an estimated 330 mcf of natural gas had been flared from the West McArthur River Unit No. 2A well.

16. Stewart Petroleum Co. produced 838.2 barrels of oil from the West McArthur River Unit No. 2A well.
17. Stewart Petroleum Co. did not submit weekly reports for the West McArthur River Unit No. 2 well.
18. On September 30, 1993, Stewart Petroleum Co. submitted a complete well history for West McArthur River Unit No. 2 well.
19. In a December 2, 1993, letter to the Commission, Stewart Petroleum Co. states that all instructions given to Great Land Directional Drilling, Inc. and Nabors Alaska Drilling, Inc. were entirely verbal [re: work in connection with any wells in the West McArthur River Unit since February 1993].
20. In letters dated November 15 and December 2, 1993, Stewart Petroleum Co. claimed to have completely relied upon, assumed and believed that all necessary filings and applications were being handled by its agents in compliance with Commission regulations.
21. On November 4, 1993, a public hearing on the proposed spacing exception for West McArthur River Unit No. 2A was held and no objections were heard. The Commission granted the exception on November 4, 1993.
22. In a letter dated December 2, 1993, Stewart Petroleum Co. claims that its non-operating participants were kept informed of the change in bottom hole location of the West McArthur River Unit No. 2A well.
23. Stewart Petroleum Co. provided copies of a letter and map dated June 11, 1993, that it claims were distributed to its non-operating participants. The letter and map do not describe the final bottom hole location of the West McArthur River Unit No. 2A well. They describe instead a bottom hole location approximately 750 feet almost due west from the permitted West McArthur River Unit No. 2 bottom hole location.
24. In a December 2, 1993, letter Stewart Petroleum Co. claims that after its June 11, 1993 letter only verbal updates were provided to inform non-operating participants that the actual bottom hole location was approximately 3,330 feet to the northwest from the permitted West McArthur River Unit No. 2 bottom hole location and approximately 1,100 feet southwest of the West McArthur River Unit No. 1 well.

On the basis of these findings the Commission concludes that Stewart Petroleum Co. committed the following violations:

VIOLATION A

Failed to submit the weekly operations reports it committed to provide in its February 2, 1993, application for permit to drill the West McArthur River Unit No. 2 well. Weekly well reports are additional information that may be required under the authority of 20 AAC 25.300. The West McArthur River Unit No. 2 was spud April 3, 1993, and was abandoned on June 7, 1993.

VIOLATION B

Proceeded to drill the West McArthur River Unit No. 2A well without a permit to drill required by 20 AAC 25.005. This violation began on June 8, 1993, and ended no earlier than September 30, 1993, for a total of 115 days.

VIOLATION C

Proceeded to drill the West McArthur River Unit No. 2A well to a bottom hole location within 500 feet of a drilling unit boundary, 2067' from the south line and 2616' from the east line, Section 10, T8N, R14W, SM. This violated spacing setbacks required by 20 AAC 25.055(a)(1). This violation began on June 8, 1993, and ended no earlier than November 4, 1993, for a total of 119 days.

VIOLATION D

Proceeded to plug and abandon a well without written authorization required by 20 AAC 25.105(e). This violation may have begun on June 14, 1993, and ended no earlier than September 30, 1993, for a total of 109 days.

VIOLATION E

Failed to file a well completion report (Form 10-407) within 30 days after abandoning the West McArthur River Unit No. 2 well as required by 20 AAC 25.070(a)(2). The well completion report was due on July 5, 1993, and was received on October 8, 1993. This violation occurred for 96 days.

VIOLATION F

Produced 838.2 barrels of oil and flared approximately 330 mcf of natural gas from an illegal well in violation of 20 AAC 25.260. This violation began on September 21, 1993, and ended no earlier than October 13, 1993, for a total of 23 days.

For each day of each violation, the Commission may apply a maximum penalty of \$5,000.00. AS 31.05.150(a). The same penalty may be applied to any other person who knowingly aids or abets another person in committing a violation. AS 31.05.150(c).

CONCLUSION

As far as the Commission can determine, Stewart Petroleum Co. drilled the first unpermitted well in the State of Alaska since enactment of the Oil and Gas Conservation Act. The illegal well was accompanied by numerous other failures to secure permits and file reports. Neither Stewart Petroleum Co. nor its agent, Robert C. Gardner, deny these violations occurred.

Neither Stewart Petroleum Co., nor its agent, Mr. Robert C. Gardner, dispute that it did in fact: (1) fail to file for a permit to drill a well before drilling a well, (2) fail to file a timely plug and abandonment request; (3) fail to file a timely well completion report; (4) fail to file for spacing exception before drilling a well requiring a spacing exception; and (5) fail to file weekly reports with the Commission.

Both in letters and personal communication to the Commission, Mr. Gardner claims liability for these violations. He insists it was his failure to submit or apply for required permits and reports that allowed them to occur. Although the Commission believes Mr. Gardner's performance incompetent, Stewart Petroleum Co., as operator, is not relieved of its responsibility or duty for ensuring compliance with Commission statutes and regulations.

Despite clear violations, there are mitigating factors. The Commission received no complaint from any party regarding these violations nor any complaint that these violations harmed the resource. Commission investigation has not exposed any long-term harm to a reservoir or long-term waste of petroleum resources. As far as we can determine, no correlative rights are in jeopardy. Stewart Petroleum Co. has now ensured that necessary permits are in place for the West McArthur River Unit No.2A well.

The citizens of Alaska, however, depend on the Commission to enforce the Oil and Gas Conservation Act and protect health, safety and the environment. Commission oversight is eliminated when an operator drills a well for which there is no public record. The failure to seek proper permits and submit required information also subverts the public review process. Non-operating participants cannot independently confirm drilling location to assess the soundness of their investment decisions. State agencies and other interested persons cannot verify if state resources are properly managed.

In assessing an appropriate penalty, the Commission has considered: (1) the good or bad faith of the operator in violating the law; (2) the injury to the public resulting from the violations; (3) the benefits derived by the operator from its violations; (4) the operators' ability to pay a penalty; (5) the need to deter similar behavior by the operator and others and to protect the integrity of orders and records of the Commission.

In the opinion of the Commission these violations occurred because of negligence or were knowingly committed for reasons unknown.

The Commission does not conclude that Stewart Petroleum Co. willfully violated the Oil and Gas Conservation Act. Rather the Commission concludes these violations were due to negligence on the part of Stewart Petroleum Co. and its agents. Should further evidence show the contrary, the Commission may revisit this decision. The Commission also concludes that no long-term harm should result from the violations of Stewart Petroleum Co.

The Commission issues the following order to deter both Stewart Petroleum Co. and any other operator from drilling any more illegal wells.

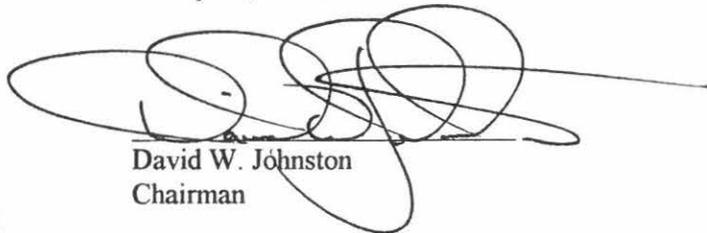
THEREFORE, IT IS ORDERED that for drilling an illegal well, Stewart Petroleum Co. is assessed a civil penalty \$1000.00 a day for 115 days totaling \$115,000.00. In arriving at this penalty, the Commission combines violations B, C, D and E. Furthermore, all oil and gas produced at the West McArthur River Unit No. 2A well before it was permitted is declared illegal

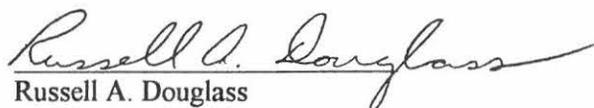
produced at the West McArthur River Unit No. 2A well before it was permitted is declared illegal production and therefore waste. For violation F, Stewart Petroleum Co. is assessed a penalty of \$1000.00 for each day of illegal production and \$1.40 per MCF of natural gas illegally flared, totaling \$23,462.00. Finally, because the Commission did not specifically require weekly reports, no penalty is assessed for violation A. Total civil penalty assessed against Stewart Petroleum Co. is \$138,462.00.

IT IS FURTHER ORDERED that payment of the penalty is suspended for a two year period, beginning January 1, 1994 and ending December 31, 1995. This suspension may be revoked and payment demanded, if Stewart Petroleum Co., or any of its officers or successors, fail to follow Commission statutes, regulations or orders during the probationary period.

DONE at Anchorage, Alaska and dated January 27, 1994.




 David W. Johnston
 Chairman


 Russell A. Douglass
 Commissioner

I concur in part and dissent in part. I concur with the majority on all points with the single exception of the amount of assessed penalty for violations B, C, D, and E. It is my judgment that these violations demand a more severe penalty of \$5000.00 per day, for a total penalty of \$598,462.00.


 Tuckerman Babcock
 Commissioner

AS 31.05.080 provides that within 20 days after receipt of written notice of the entry of an order, a person affected by it may file with the Commission an application for rehearing. A request for rehearing must be received by 4:30 pm on the 23rd day following the date of the order, or next working day if a holiday or weekend, to be timely filed. The Commission shall grant or refuse the application in whole or in part within 10 days. The Commission can refuse an application by not acting on it within the 10-day period. An affected person has 30 days from the date the Commission refuses the application or mails (or otherwise distributes) an order upon rehearing, both being the final order of the Commission, to appeal the decision to Superior Court. Where a request for rehearing is denied by nonaction of the Commission, the 30 day period for appeal to Superior Court runs from the date on which the request is deemed denied (i.e., 10th day after the application for rehearing was filed).