

STATE OF ALASKA
ALASKA OIL AND GAS CONSERVATION COMMISSION
333 West Seventh Avenue, Suite 100
Anchorage Alaska 99501-3539

Re: ConocoPhillips Alaska, Inc., as Operator of the)
Kuparuk River Unit; Kuparuk River Field;)
Well KRU 1D-39 Enforcement Action)
_____)

AOGCC Order No. 33
May 20, 2005

DECISION AND ORDER

On March 31, 2005, the Alaska Oil and Gas Conservation Commission issued a Notice of Proposed Enforcement Action under 20 AAC 25.535(b), stating that it considered that ConocoPhillips Alaska, Inc. (“CPAI”) may have violated provisions of regulation 20 AAC 25.402 and Area Injection Order No. 2B in connection with operating well Kuparuk River Unit (“KRU”) 1D-39. The Commission proposed civil penalties under AS 31.05.150(a) in the total amount of \$53,250, as well as specified corrective actions.

Pursuant to CPAI’s request for informal review under 20 AAC 25.535(c), CPAI met with the Commission on May 11, 2005. CPAI also provided by electronic mail written material referred to as “key points” for discussion at the May 11, 2005 meeting.

A. Summary of Proposed Enforcement Action

In its Notice of Proposed Enforcement Action, the Commission identified an apparent violation by CPAI of Rule 7 of Area Injection Order No. 2B (“AIO 2B”) and regulation 20 AAC 25.402 by failing to timely report a well integrity failure that occurred on August 24, 2004, by failing to obtain Commission approval of a plan of corrective action, and by failing to obtain Commission approval to continue injection.

The Commission proposed to order the following corrective actions by CPAI:

- (1) that within 30 days after the effective date of the enforcement order, CPAI correct deficiencies in its surveillance program; and
- (2) that within 30 days after the effective date of the enforcement order, CPAI provide the Commission with new protocols established to insure the timely identification and reporting of injection well mechanical integrity failures.

In addition, the Commission proposed the following civil penalties under AS 31.05.150(a): (i) \$5,000 for violating reporting requirements in AIO 2B, Rule 7 and 20 AAC 25.402(f); (ii) \$5,000 for violating corrective action plan requirements in AIO 2B, Rule 7; and (iii) \$250 per day for each 173 days for violating requirements for obtaining approval to continue injecting in AIO 2B, Rule 7 from August 25, 2005 through February 13, 2005, inclusive. The total of the proposed civil penalties was \$53,250.

B. Surveillance and Reporting Requirements for Injectors

Commission requirements for demonstrating and monitoring mechanical integrity of injection wells are documented in regulation 20 AAC 25.402, and specifically for KRU in Area Injection Order 2B. CPAI does not dispute the facts of the case and acknowledges that KRU ID-39 did point out the existence of a gap in their annular pressure monitoring and surveillance program. However, CPAI raised several concerns about the proposed enforcement action:

- (1) the Notice of Proposed Enforcement Action references 173 days that had passed between leak initiation and observation; CPAI believes only 171 days passed;

- (2) the Notice of Proposed Enforcement Action does not accurately reflect that CPAI reported tubing/annulus communication in KRU 1D-39 to the Commission within 1 day following leak observation, and voluntarily self-disclosed that 171 days had passed between leak initiation and observation; and
- (3) the circumstances surrounding KRU 1D-39 are not the same as previous well integrity enforcements, warranting a different response than the Commission applied in this case.

The Commission agrees that language in the notice does not accurately reflect the fact that CPAI self-reported the tubing/annulus communication in this injection well. We also agree that the correct interval between leak observation and reporting was 171 days, not 173 days, as determined from the pressure trends and data provided with CPAI's initial notice of well integrity failure.

The circumstances CPAI alludes to were clarified in the May 11, 2005, informal meeting. CPAI stated that the significant differences were in the self-reporting of the well integrity failure and in the risk represented by the well integrity failure. The Commission does agree that, based on the evidence presented subsequent to the commencement of this review, KRU 1D-39 was not ever in danger of annulus overpressure or misinjection of fluids (fluids remained confined to the wellbore and the injection zone). However, the fact remains that the clear regulatory requirements for well integrity were violated, and CPAI does not dispute that fact. As acknowledged by CPAI, reliance on the allowable thresholds for development well annular pressures as provided by Conservation Order 494 ("CO 494") is not appropriate for injection wells, since the Commission has clearly established different and more stringent regulatory requirements for injectors.

C. Working Relationship

CPAI expressed concerns that this enforcement action does little to improve well integrity, that it simply “adds strain” to the close and open working relationship that CPAI has endeavored to create with the Commission, particularly in the area of complex well integrity issues. The Commission recognizes CPAI’s efforts to work well integrity issues collaboratively with the Commission. However, that collaborative work relationship between the regulatory agency (Commission) and the regulated community (CPAI) does not negate the Commission’s clear mandate for enforcement when rules are violated. Of particular concern to the Commission is the fact that the Commission had questioned CPAI personnel about their internal well operating guidelines, and more specifically, the treatment of injection wells as if they were governed by production well integrity rules several times prior to this incident [beginning with the publication of Conservation Order 494 for public comment on June 30, 2003 effective date of CO 494 was September 4, 2003.]

D. Corrective Actions

In previous enforcement actions, the Commission has identified five factors that should be considered in determining appropriate penalties. These include: (1) the good or bad faith of the operator in violating the law; (2) the injury to the public resulting from the violation; (3) the benefits derived by the operator from its violation; (4) the operator’s ability to pay any penalty; and (5) the need to deter similar behavior by the operator and others in the future. In addition, the Commission has considered the operator’s voluntary remedial responses subsequent to the occurrence of a violation.

Several mitigating factors appear applicable in the present situation. First, the Commission acknowledges the good faith of CPAI throughout this investigation. Particularly noteworthy was the voluntary self-disclosure that 171 days passed between leak initiation and observation. In considering the injury to the public or environment resulting from the violation, the Commission is convinced that the risks during the 171 days of operation were minimal. Because of the low injection pressures, fluids being injected (water), and well design (multiple casing strings with pressure ratings exceeding injection pressure available to contain pressure communication or leakage), there was never any danger of annulus overpressure and no misinjection of fluids. The Commission also recognizes that CPAI has instituted corrective actions to improve compliance with applicable regulations and orders. These actions were instituted on CPAI's own initiative immediately following the identification of a gap in the annular pressure monitoring and surveillance program.

F. Findings and Conclusions

For the reasons stated above, the Commission finds that CPAI violated Area Injection Order 2B, Rule 7, and regulation 20 AAC 25.402(f). To deter future violations by any operator, the Commission concludes that civil penalties are called for and that the corrective actions set out below should be ordered. The Commission further concludes that because of CPAI's self-reporting and self-disclosure, cooperation throughout the investigation, and absence of substantial risk associated with the violations, the penalty amount originally proposed should be significantly reduced.

NOW THEREFORE IT IS ORDERED THAT:

1. CPAI shall pay to the Commission a civil penalty in the amount of \$25,000 within 30 days after the date this Decision and Order becomes final;

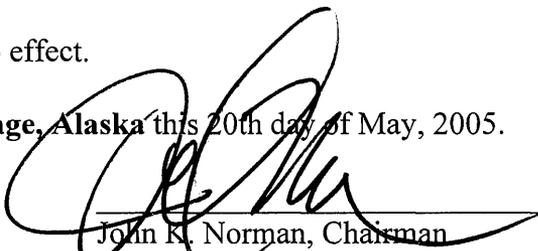
2. CPAI shall comply with the following corrective actions within 30 days from the date this Decision and Order becomes final:

a. CPAI shall provide the Commission with a detailed description of actions completed to correct deficiencies in the annular pressure monitoring and surveillance program. CPAI shall also identify any remaining actions and the timeframe for completion.

b. CPAI shall provide the Commission with a description of its new protocols established to ensure the timely identification and reporting of injection well mechanical integrity failures.

3. This Decision and Order becomes final on the 11th day after the date of its issuance shown below, unless within 10 days after the date of issuance CPAI files a written request for a hearing under 20 AAC 25.535(d). If CPAI timely files a written request for a hearing this Decision and Order will be of no effect.

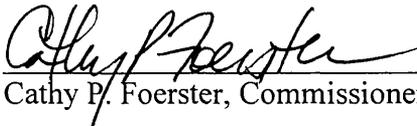
Done at Anchorage, Alaska this 20th day of May, 2005.



John K. Norman, Chairman



Daniel T. Seamount, Jr., Commissioner



Cathy P. Foerster, Commissioner

