

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

Re: Unocal Oil Company of California, as Operator of)
Trading Bay Unit; Steelhead Platform; Automatic)
Shut-in Equipment Enforcement Action)

AOGCC Order No. 39
April 6, 2006

DECISION AND ORDER

The Alaska Oil and Gas Conservation Commission ("Commission") issued a Notice of Proposed Enforcement Action under 20 AAC 25.535(b) on December 12, 2005 stating that it considered that Union Oil Company of California ("Unocal") may have violated provisions of 20 AAC 25.265(d) in connection with operating the wells on the Trading Bay Unit Steelhead platform. The Commission proposed specific corrective actions and, a \$400,000 civil penalty under AS 31.05.150(a).

A Proposed Decision and Order was sent to Unocal on March 21, 2006 following informal review and extensive consideration of factors that might impact the enforcement decision. The Proposed Decision and Order was substantially the same as in the notice of proposed enforcement. Unocal did not file a written request for hearing within the time allowed by 20 AAC 25.535(d) and therefore the Commission now issues this Final Decision and Order.

A. Summary of Proposed Enforcement Action

In its Notice of Proposed Enforcement Action, the Commission identified an apparent violation by Unocal of 20 AAC 25.265 by failing to test the safety valve systems ("SVS") for all Steelhead wells between December 17, 2003 and March 22, 2005, and after testing in March 2005 by continuing to

operate Well M-19RD¹ with a failed subsurface safety valve (“SSSV”) beyond the time allowed by the Commission to make repairs.

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

- (1) that the testing frequency of SVS’s on the Steelhead platform shall remain every 6 months;
- (2) that SVS test results, regardless of Commission witness, shall be required to be submitted to the Commission within 1 week of completion;
- (3) that within 30 days after the effective date of the enforcement order, Unocal shall be required to provide the Commission with documentation of the company’s SVS failure response procedures that are consistent with Commission requirements;
- (4) that Unocal shall adopt the corrective actions identified by its root cause analysis investigation, which are consistent with Commission expectations for compliance with SVS requirements; and
- (5) that written progress reviews shall be required detailing corrective actions completed, and updating the status and timing for the completion of unfinished corrective actions. The report would be due on or before the 15th of each month following the effective date of the enforcement order, and until all corrective actions have been completed.

B. Safety Valve System Testing Requirements

Under 20 AAC 25.265, a completed well with an offshore surface location and that is capable of unassisted flow of hydrocarbons to the surface must be equipped with a commission-approved fail-safe automatic SSV and fail-safe automatic surface-controlled SSSV (unless another type of SSSV is approved by the Commission). Performance testing of SVS witnessed by a Commission representative must be carried out “at intervals and times as prescribed by the Commission.” The Commission has prescribed the following requirements addressing test interval and response to test failures in the document “AOGCC Policy – SVS Failures” dated March 30, 1994:

¹ TBU M-19RD: PTD 1931170; API # 50-733-20421-01

- 1. Wells must be tested by platform, pad or drill site every 6 months unless a shorter period is designated by the Commission.*
- 2. Wells that have neither produced nor injected during the preceding 6 months need not be tested, but must be tested within 48 hours after being returned to production or injection.*
- 3. If a SSV or a SSSV fails, production/injection may continue, but the valve must be repaired and ready for a witnessed re-test within 2 weeks. If the valve fails the re-test, the well must be shut in until the valve has been repaired or replaced and passes a test.*
- 4. If both the SSV and the SSSV fail, the well must be shut in until at least one of the valves is repaired or replaced and passes a test. The other valve must be repaired and ready for re-test within two weeks as in #3 above.*

The maintenance of test records by an operator is required by 20 AAC 25.310. The Commission maintains detailed records of any SVS tests it witnesses; there were no SVS tests witnessed on the Steelhead platform during 2004. Unocal was orally notified on April 27, 2005 about missing SVS test reports for 2004. Further investigation and information gathering by the Commission confirmed that Unocal could not produce 2004 SVS testing records for Steelhead platform. Unocal provided updated information about their internal root cause investigation in response to the Commission's August 25, 2005 notice of investigation and request for information. Evidence gathered during independent investigations by the Commission and Unocal confirmed that SVS testing had not been performed between December 7, 2003 and March 22, 2005. Commission-required tests should have been performed in June and December of 2004.

C. Informal Review

Unocal requested an informal review as provided in 20 AAC 25.535(c) in response to the Commission's Notice of Proposed Enforcement Action. An informal review conference was commenced January 13, 2006 with a recess granted until February 15, 2006 to provide Unocal time to compile additional information and considerations that might impact the Commission's enforcement decision. During that time, Unocal was specifically offered an opportunity to identify possible projects that might

offset civil penalties, with the burden of demonstrating the benefits to the State of Alaska clearly residing with Unocal.

The Notice of Proposed Enforcement Action specified several factors which had been applied to mitigate the proposed civil penalty amount, including Unocal's good faith effort to determine the root cause for Steelhead platform's lack of SVS testing, Unocal's voluntary extension of its comprehensive internal compliance review to all Unocal-operated facilities in Cook Inlet, the lack of injury, the infrequent historical SVS failures, and the robust SVS design.

In a February 9, 2006 letter (and during the February 15 conclusion of the informal review), Unocal identified the following mitigating factors for the Commission to consider "when assessing the appropriate level of penalties for this event":

- (1) No bad faith was involved in the violation;
- (2) No injuries were involved in the noncompliance event;
- (3) Failure occurred as a result of personnel not understanding regulatory obligations;
- (4) No need to deter similar behavior; Unocal moved immediately to determine and correct the causes;
- (5) Long history of regulatory compliance;
- (6) Event was an anomaly; a single failure in judgment at a single location;
- (7) Robust SVS exists for Steelhead wells; and
- (8) Noncompliance is similar to the situation addressed in Commission Order 33 dated May 20, 2005 and should be used as comparison for similar enforcement.²

Unocal did not follow up on the opportunity offered to identify beneficial offset projects.

In the course of the informal review process, Unocal provided no new information to warrant a change to the proposed enforcement actions. The Commission's efforts to gather relevant information and to review the investigative record thoroughly, while time consuming, were able to account for

² Commission Order 33 involved an enforcement action against ConocoPhillips Alaska Inc. for violations surrounding a waste injection well integrity failure.

reasonable mitigation, and propose enforcement actions that are appropriate to the violations. Some of the mitigating factors identified by Unocal were merely restatements of what the Commission had already considered in the proposed penalty. The following mitigating factors identified by Unocal require additional comment from the Commission: (1) reliance on the robust design of the SVS as mitigation for the seriousness of the event (and offset of the penalty amount), (2) personnel not understanding regulatory obligations, (3) Unocal's assertion that the Steelhead violations are analogous to those summarized in Commission Order 33, and (4) the need to deter similar behavior.

Robust Design: The Commission's statements in the Notice of Proposed Enforcement Action referencing a robust SVS system on the Steelhead platform were a reflection of Unocal's own assertions about the system validated by past performance testing witnessed by the Commission and the levels of redundancy in the systems. Those comments have no relevance to requirements to test as outlined in Commission regulations. In fact, Unocal is referred to the February 2006 SVS test results from the Monopod platform as an example of why it is important to test. Despite having a robust SVS, Monopod testing showed a significant deterioration in SVS reliability with multiple component failures (22% failure rate) compared to previous tests.³ Good oilfield engineering practices dictate that the reliability of safety systems must be periodically assessed through testing, regardless of how robust the system design appears.

Lack of Understanding by Personnel: Unocal's assertion that Steelhead personnel did not understand the regulatory obligations is not supported by the following facts:

- (1) A Commission inspector witnessed SVS testing in March 2005 and advised Unocal personnel of their obligations to test the SVS and maintain testing records.

³ Historic failure rate is 7%; Monopod platform was placed on a 90-day test cycle effective February 17, 2006 until an acceptable level of performance is achieved.

- (2) The Commission sent Unocal a letter dated June 18, 2004 reiterating SVS testing requirements (although it is not the Commission's responsibility to remind an operator of its obligation to comply with clearly stated regulatory requirements).
- (3) Unocal personnel failed to follow Unocal's own internal SVS testing guidelines, which require more frequent testing⁴ than does the Commission.
- (4) Unocal's Steelhead platform "Safety/Obligations Inspection Report" for the months of July 2004 through February 2005 clearly show platform personnel were aware of and chose to neglect SVS testing obligations.

Comparison to Commission Order No. 33: Unocal's comparison to Commission Order 33 is not valid. Unocal incorrectly asserts that the primary difference between the noncompliance outlined in Commission Order 33 and the Steelhead noncompliance is that Unocal did not self-report. Rather, there are several other, more serious differences between the two incidents, as follow:

- (1) Unocal states that they "were simply not aware of the violation" and when informed of the problem "addressed it swiftly and completely." The previous paragraph clearly shows that Unocal was aware of the requirements and simply chose to ignore them.
- (2) Unocal has been unable to demonstrate through alternative documentation provided to the Commission that the system maintained an acceptable level of integrity during the time in violation.
- (3) Although no actual harm or waste occurred, in the Unocal violation there was significant potential for catastrophic harm to people, property, and the environment, as well as potential waste of the hydrocarbon resource.

The Need to Deter Similar Behavior: Unocal's assertion that there is no need to deter similar behavior assumes that Unocal is the only operator whose behavior needs to be influenced. In the

⁴ Unocal policy is to test the SVS every 3 months; Commission requirements are to test every 6 months

Commission's judgment, there is a need not only to deter Unocal from repeating this violation but also to demonstrate to other Operators in Cook Inlet and throughout the State of Alaska the seriousness with which the Commission views such a violation. Therefore, the Commission sees a strong need to deter similar behavior.

D. Penalty Amount

Failure to comply with SVS regulatory requirements is a serious category of violation that has the potential to result in significant public harm. A loss of well control in Cook Inlet could result in human injury or death, environmental damage, physical waste of valuable hydrocarbon resources, destruction of property, and significant loss of confidence by the public in the industry's ability to operate in a prudent and responsible manner. In past enforcement matters the Commission has identified five factors as among those that should be considered in determining the appropriate amount of a civil penalty. These are: (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 the penalty; and (5) the need to deter similar behavior by the operator and others in the future.

The civil penalty totaling \$400,000 was calculated by multiplying a daily penalty amount as provided under AS 31.05.150 by the number of days each violation occurred as follows:

- (1) \$123,000 for violating 20 AAC 25.265 by continuing to produce TBU M-19RD following the identified failure of the SSSV (\$1,000 per day for 123 days⁵);
- (2) \$277,000 for violating 20 AAC 25.265 by failing to test automatic shut-in equipment on the Steelhead Platform wells during 2004 (\$1,000 per day for 277 days⁶).

The Commission has accounted for all appropriate mitigating factors in establishing the proposed enforcement action by not calculating penalties based on each possible violation (There were in excess of

⁵ 123 days from April 6, 2005 through August 9, 2005; April 6 is the 15th day following the SSSV failure witnessed by a Commission inspector – there were no subsequent tests; August 9 represents the date the Commission was requested to witness a re-test of the failed SSSV in TBU M-19RD.

⁶ 277 days from June 18, 2004 through March 21, 2004; June 18 is the day following the 6-month anniversary of SVS testing completed December 17, 2003; March 21 is the day prior to first SVS testing on Steelhead platform following the December 17, 2003 test.

40 possible violations each day.)⁷ and by reducing the daily penalty amount from the maximum of \$5,000 per day down to \$1,000 per day as provided for in AS 31.05.150. A substantially larger financial penalty would have been included in the notice of proposed enforcement had the Commission not already accounted for mitigating circumstances.

Unocal has argued that the proposed penalty amount is excessive because a single failure in judgment at a single location should not be treated as multiple days in violation. The Commission disagrees with Unocal's argument. Except as provided by regulation or specific Commission approval, each day beyond the required test date that the SVS is not tested represents a violation.

E. Findings and Conclusions

Unocal acknowledged that it failed to perform SVS tests at the required frequency during 2004, and failed to repair safety valves within the required timeframe during 2005 in Well TBU M-19RD. Where appropriate, the Commission has taken into account mitigating circumstances in establishing the enforcement action to be taken in response. Unocal was provided opportunities during the enforcement phase of this investigation to identify additional factors but no additional mitigating factors were identified.

The Commission does note Unocal management's acceptance of responsibility for the violations and the Commission acknowledges the excellent work subsequently done at all Unocal Cook Inlet facilities to address the issues exposed by the SVS violations at the Steelhead Platform. The Commission has seen immediate and positive results from Unocal's post-violation efforts to comply with testing obligations as well as improved communications. The Commission also notes Unocal's high level of cooperation and outstanding proactive efforts to investigate the root causes of testing noncompliance. Detailed presentations of Unocal's findings have helped the Commission fully understand the background

⁷ Unocal pointed out in its February 9, 2006 letter an apparent discrepancies in the number of wells (13 versus 17) requiring dedicated SVS on Steelhead in an attempt to show the violation was a single failure in judgment; if Unocal is correct, then the failure rate for SVS testing during March 2005 would have resulted in a failure rate triggering 90 day SVS testing; since Unocal did not test the Steelhead SVS again until August 26, 2005 there would have been additional testing violations; the Commission chose not to include this in the penalty calculation.

information about the Steelhead Platform operations and the factors that led to the testing violations. The root cause investigation and the company's post-violation response do not, however, alter the basic facts related to this violation as discovered by the Commission; i.e.: that no SVS testing was performed on Steelhead Platform wells between December 17, 2003 and March 22, 2005 and that TBU M-19RD was produced with a failed subsurface safety valve from April 6, 2005 through August 9, 2005, both clear violations of Commission requirements. The company's post-violations actions have, however, clearly demonstrated the seriousness with which Unocal management views such violations.

For the reasons stated above, the Commission finds that Unocal violated 20 AAC 25.265 in connection with operating the wells on the Trading Bay Unit Steelhead Platform during 2004 and 2005, and concludes that significant sanctions including a civil penalty are appropriate.

NOW THEREFORE IT IS ORDERED THAT:

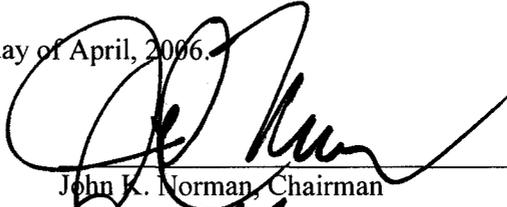
1. Within 30 days after this Decision and Order becomes final, Unocal shall pay the Commission a civil penalty of \$400,000.⁸
2. Unocal shall comply with the following corrective actions:
 - (a) Testing frequency of SVS's on the Steelhead Platform shall remain every 6 months unless a more frequent testing is ordered by the Commission based on SVS performance;
 - (b) SVS test results, regardless of Commission witness, shall be submitted to the Commission within 1 week of completion;
 - (c) Within 30 days after the date of this final Decision and Order, Unocal shall provide the Commission with documentation of the company's SVS failure response procedures that are consistent with Commission requirements;
 - (d) Within 30 days after the date of this final Decision and Order, Unocal shall adopt the corrective actions identified by its root cause analysis investigation regarding: (1)

⁸ On March 30, 2006 Unocal paid the penalty of \$400,000, receipt of which is hereby acknowledged, fully satisfying the civil penalty imposed in this Decision and Order.

Training; (2) Single Point of Contact; (3) DataStream Assessment; (4) Management Discussion; (5) Orientation; (6) Reassessment of No Flow Wells; (7) SVS Status Displays; (8) Policies and Procedures; (9) Steelhead Survey; (10) Alternative System; and (11) Compliance Survey; and

(e) Unocal shall provide written progress reviews detailing actions completed, and updating the status and timing for the completion of unfinished corrective actions. Such reports shall be due on or before the 15th day of each month following the date of this final Decision and Order, and shall continue to be submitted until all required corrective actions have been completed.

Done at Anchorage, Alaska this 6th day of April, 2006.



John K. Norman, Chairman



Daniel T. Seamount, Commissioner



Cathy P. Foerster, Commissioner

I hereby certify that a true and correct
Copy of the attached decision was mailed
To the following on April 6, 2006:

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Ceresa Tolley

Subscribed and sworn to before me this 6th of April, 2006


Notary Public

My Commission Expires 11/11/06