

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

Re: BY ITS OWN MOTION the Alaska Oil and Gas Conservation Commission, in accordance with 20 AAC 25.539 issues a Temporary Emergency Order authorizing the storage of McArthur River oil and Trading Bay oil at Cook Inlet Energy's Kustatan Production Facility. ) Docket 12-04  
) Other Order No. 72  
) McArthur River Field  
) Trading Bay Field  
) Trading Bay Unit  
)  
) January 25, 2012

**TEMPORARY EMERGENCY ORDER**

The inability to offload stored oil to tanker for transport to the refinery has been a recurring problem in Cook Inlet this winter due to persistent and unexpected ice conditions. On January 20, 2012, Hilcorp Alaska LLC (Hilcorp) contacted the Alaska Oil and Gas Conservation Commission (AOGCC) to advise that storage of produced oil at their Trading Bay Production Facility was nearing capacity. Hilcorp indicates that without the ability to drawdown oil stored at Trading Bay Production Facility it will be forced to begin shutting in Cook Inlet platform oil producing wells, possibly as early as January 24, 2012. A solution to alleviate the need to shut down Cook Inlet offshore oil production would be to allow diverting stored oil at Trading Bay Production Facility to Cook Inlet Energy's Kustatan Production Facility. This process was previously approved in Conservation Order 646 dated May 6, 2011, which provided for the temporary storage of oil at Kustatan Production Facility during 2011 while maintenance was performed on Trading Bay Production Facility storage tanks. Conservation Order 646 was issued to Union Oil Company of California (Union) and expired December 31, 2011. Agreements between Cook Inlet Energy and Union assured the AOGCC that there would be no custody transfer concerns, that the Union produced oil would be isolated and regulatory-compliant hydrocarbon measurement would be performed before any custody transfer occurred.

The AOGCC previously determined the following in support of Conservation Order 646:

- 1) The unavailability of Drift River Facility storage tanks significantly reduces the storage capacity for oil produced from Hilcorp (formerly Union) oil wells located on Cook Inlet platforms. The Drift River Facility, the only tanker offloading terminal located on the west side of Cook Inlet, supports the Trading Bay, Granite Point, and Kustatan Production Facilities.
- 2) At least eleven wells on Hilcorp-operated Cook Inlet platforms within the McArthur River and Trading Bay fields are completed with an electrical submersible pump (ESP) for artificial lift of produced oil to surface. The ESP wells account for 25 percent of the oil well count and 60 percent of Hilcorp's oil production from those fields.
- 3) Shutting in ESP wells creates a significant risk of ESP failure requiring rig workover.

- 4) Temporary utilization of excess storage at Cook Inlet Energy's Kustatan Production Facility will eliminate the need to shut in ESP wells.
- 5) Kustatan Production Facility tanks to be used by Hilcorp can be separated from the rest of the facility by block valves and security seals. Only oil and basic sediment and water (BS&W) from McArthur River and Trading Bay fields – currently stored at Trading Bay Production Facility - will flow into the Kustatan Production Facility tanks set aside for Hilcorp.

In addition, the winter conditions in Cook Inlet create the following challenges:

- 1) Active producing wells and surface production handling equipment must be protected from freeze-back affects when extended shut-ins are expected. Oil producing wells from McArthur River and Trading Bay fields have a high water cut which creates additional time constraints for completion of freeze protecting the wells and production handling equipment.
- 2) Cook Inlet ice conditions have restricted tankers from accessing the offloading terminal at Drift River as needed to draw down oil stored at Trading Bay Production Facility and other west side Cook Inlet onshore production facilities.

Temporary storage of oil from McArthur River and Trading Bay fields at Cook Inlet Energy's Kustatan Production Facility will not promote waste, affect correlative rights, or result in harm to human health or the environment.

**NOW, THEREFORE, IT IS ORDERED:**

1. In accordance with 20 AAC 25.539, the AOGCC authorizes the storage of oil and BS&W from Hilcorp's McArthur River and Trading Bay fields (Trading Bay Unit) at Cook Inlet Energy's Kustatan Production Facility. Verbal approval was granted to Hilcorp on January 20, 2012, subject to the same conditions included in Conservation Order 646.
2. Hilcorp must provide AOGCC evidence that the Kustatan Production Facility tanks and the pipelines from Trading Bay Production Facility to be used by Hilcorp are isolated. AOGCC may request an opportunity to confirm by inspection.
3. This temporary emergency order remains in effect through March 31, 2012 unless a different expiration date is determined as provided in 20 AAC 25.539(c).

**ENTERED at Anchorage, Alaska,** and dated January 25, 2012.



Daniel T. Seamont, Jr., Chair, Commissioner  
Alaska Oil and Gas Conservation Commission

John K. Norman, Commissioner  
Alaska Oil and Gas Conservation Commission