

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

Re: Failure to complete a Mechanical Integrity Test (MIT)
Failure to report to AOGCC a pressure communication
Kuparuk River Unit 3Q-16
(KRU 3Q-16) (PTD 1861790)

Other Order No. 81
October 3, 2013

FINAL DECISION AND ORDER

On December 21, 2012, the Alaska Oil and Gas Conservation Commission (AOGCC or Commission) issued a Notice of Proposed Enforcement Action (Notice) to ConocoPhillips Alaska, Inc. (CPAI) regarding the 3Q-16 well of the Kuparuk River Unit (KRU). The Notice advised that CPAI failed to complete a Mechanical Integrity Test (MIT) and failed to report to AOGCC a pressure communication in well KRU 3Q-16. The Notice proposed specific corrective actions and a \$45,000 civil penalty under AS 31.05.150(a).

CPAI requested an informal review. That review was held January 30, 2013. Order 81 was issued April 16, 2013. On May 9, 2013, CPAI submitted an application for reconsideration which was granted by AOGCC on May 16, 2013. The reconsideration hearing was scheduled and held August 20, 2013 at which time it was continued and held September 11, 2013.

A. Summary of Proposed Enforcement Action

The Notice identified violations by CPAI of Rule 6 of Area Injection Order 2B (AIO 2B) (“Demonstration of Tubing/Casing Annulus Mechanical Integrity”), the provisions of Rule 7 of AIO 2B (“Well Integrity Failure”) and 20 AAC 25.402(f). A violation occurred

every day after September 25, 2012 that CPAI injected into KRU 3Q-16 without completing an MIT. A violation also occurred when CPAI failed to report to AOGCC a pressure communication indicating a potential loss of mechanical integrity on KRU 3Q-16 by the next working day. The Notice proposed the following corrective actions be completed by CPAI:

- (1) within 2 weeks from the effective date of the AOGCC's final decision, CPAI shall provide a detailed description of its Underground Injection Control (UIC) regulatory compliance program;
- (2) within 2 weeks from the effective date of the AOGCC's final decision, CPAI shall provide details of its tracking system for determining when MIT's are required, including the details of contingencies for wells shut in at the time an MIT is due and its procedures for notification to the AOGCC, as well as its processes for determining the MIT due date and identification of past due wells; and
- (3) within 2 weeks from the effective date of the AOGCC's final decision, CPAI shall complete and provide the results of a root cause analysis addressing the violations.

The Notice proposed civil penalties of \$45,000 (\$10,000 for the initial violation – failure to perform the required MIT of the injection well in compliance with the testing protocols specified in Rule 6 of AIO 2B, \$500 for each day September 26, 2012 to November 1, 2012 (37 days) for injecting in a well out of compliance with MIT regulations, and \$500 for each day from October 11 through November 12, 2012 inclusive (33 days) for failing to notify AOGCC of indications of pressure communication or leakage in KRU 3Q-16).

B. Demonstration of Tubing/Casing Annulus Mechanical Integrity

Rule 6 of AIO 2B states “*A schedule must be developed and coordinated with the Commission, which ensures that the tubing/casing annulus for each injection well is pressure tested prior to initiating injection and at least once every four years thereafter.*”

The last AOGCC-witnessed MIT occurred September 25, 2008. Therefore an MIT was required on or before September 25, 2012. No MIT was timely performed. The well was out of compliance, but continued injection for 37 days, from September 26, 2012 to November 1, 2012 inclusive.

CPAI failed to demonstrate the mechanical integrity of injection well KRU 3Q-16 within the required four year cycle, a violation of State regulations and AIO 2B.

C. Well Integrity Failure

Under AOGCC regulations, “*If an injection rate, operating pressure observation, or pressure test indicates pressure communication or leakage in any casing, tubing, or packer, the operator shall notify the commission by the next working day...*”

Rule 7 of AIO 2B states “*Whenever operating pressure observances or pressure tests indicate pressure communication or leakage of any casing, tubing or packer, the operator must notify the Commission on the first working day following the observation, obtain Commission approval of a plan for corrective action, and when an USDW is not endangered, obtain Commission approval to continue injection.*”

The only notice of potential pressure communication is an email from CPAI sent November 13, 2012. Review of the TIO plots (pressure data from May 28, 2012 to November 12, 2012) indicate significant pressure anomalies which were not communicated to the AOGCC. Significant inner annulus (IA) pressure decreases occurred from September 8, 2012 to October 2, 2012. On October 3, 2012 the IA pressure increased 650 psi to 2300 psi from the October 2, 2012 reading of 1650 psi. Incremental increases and sustained IA pressure were exhibited from October 10, 2012 until the well was shut in November 13, 2012. Potential pressure communication after October 10, 2012 demonstrates ongoing non-compliance with reporting requirements from October 11, 2012 to November 12, 2012 inclusive.

CPAI failed to report to AOGCC a pressure communication indicating a potential loss of mechanical integrity on KRU 3Q-16 by the next working day, a violation of State regulations and AIO 2B.

D. Violations.

An MIT on KRU 3Q-16 was required no later than September 25, 2012. As of September 25, 2012 no MIT had been performed on KRU 3Q-16. By email dated November 13, 2012 CPAI notified the AOGCC that KRU 3Q-16 was returned to injection on August 22, 2012 and ceased taking injection November 1, 2012, and was shut in November 13, 2012. Although CPAI indicated a root cause analysis was performed and outlined the changes made in order to avoid similar violations in the future, CPAI did not provide the Commission with its root cause analysis.

CPAI's November 13, 2012 email notification also states "the TIO plot¹ suggests TxIA² communication based on the slowly building IA pressure". The November 13 email was the first communication AOGCC received from CPAI regarding pressure anomalies. However, TIO plots (pressure data from May 28, 2012 to November 12, 2012) indicate significant pressure anomalies which were not communicated to the AOGCC. Although CPAI was aware of this information, it determined that the anomalies did not indicate pressure communication.

E. Mitigating Circumstances

The commission considered the factors in AS 31.05.150(g) in determining the appropriate penalty. The penalty was reduced due to CPAI's general history of satisfactory compliance and practices, an aquifer exemption for the KRU, the lack of actual threat to public health or the environment, CPAI's eventual notification to AOGCC, and CPAI's shut-in of the KRU 3Q-16 once CPAI determined the well was out of compliance. However, as to the missed MIT, the commission reviewed Order 36 from 2005 for CPAI's missed MIT on CD1-19A and a Notice of Violation to CPAI for a missed MIT on 3H-12A in April 2012. As to the pressure anomalies, CPAI's internal "determination" that those anomalies did not constitute communication effectively prevented the Commission's review of the issue.

¹ TIO plot is a graphical representation of the well's tubing, inner annulus, and outer annulus pressures over a specified time period.

² TxIA = tubing by inner annulus

F. Findings and Conclusions

The Commission finds that CPAI violated the regulations and the Rules in AIO 2B governing the Demonstration of Tubing/Casing Annulus Mechanical Integrity and Well Integrity Failure. Mitigating circumstances outlined above were considered in the Commission's Notice of Enforcement Action and its assessment as to the appropriate civil penalty, which was decreased from the maximums provided by statute. CPAI presented nothing during the hearing which would warrant a change in the proposed order.

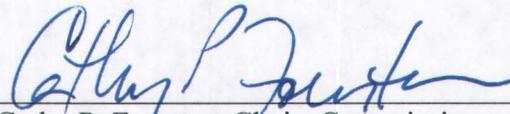
NOW THEREFORE IT IS ORDERED THAT:

1. Within 30 days after this Decision and Order becomes final, CPAI shall pay the Commission a civil penalty of \$45,000³:
2. Within 2 weeks after this Decision and Order becomes final, CPAI shall:
 - (1) provide a detailed description of its Underground Injection Control (UIC) regulatory compliance program;
 - (2) provide details of its tracking system for determining when MIT's are required, including the details of contingencies for wells shut in at the time an MIT is due and its procedures for notification to the AOGCC, as well as its processes for determining the MIT due date and identification of past due wells;

³ 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.

(3) provide CPAI's root cause analysis addressing the violations.

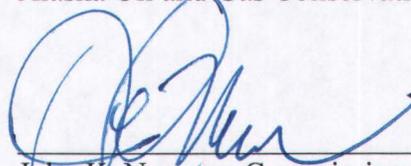
Done at Anchorage, Alaska and dated October 3, 2013.



Cathy P. Foerster, Chair, Commissioner
Alaska Oil and Gas Conservation Commission



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



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

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 Commission grants for good cause shown, a person affected by it may file with the Commission 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 Commission 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 Commission 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 Commission mails, **OR 30** days if the Commission 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 Commission 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 Commission, and it may be appealed to superior court. That appeal **MUST** be filed within **33** days after the date on which the Commission mails, **OR 30** days if the Commission otherwise distributes, the order or decision on reconsideration. As provided in AS 31.05.080(b), "[t]he questions reviewed on appeal are limited to the questions presented to the Commission by the application for 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.