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

Re: Failure to minimize or prevent gas flaring
Redoubt Unit #3
PTD 2010640

Other Order No. 100
Docket No. OTH-14-024
January 7, 2015

DECISION AND ORDER

On October 23, 2014 the Alaska Oil and Gas Conservation Commission (AOGCC) issued a Notice of Proposed Enforcement Action (Notice) to Cook Inlet Energy, LLC (CIE) regarding the Redoubt Unit #3 (RU-3). The Notice advised that CIE failed to shut-in RU-3 when the Kustatan Production Facility (KPF) was undergoing a major overhaul and flared 24,668 MCF of gas from November 26, 2013 through February 28, 2014. The Notice proposed specific corrective actions and a $294,834 civil penalty under AS 31.05.150(a).

CIE requested an informal review. That review was held December 1, 2014.

Summary of Proposed Enforcement Action:

The Notice identified violations by CIE of 20 AAC25.235(c). Violations occurred on November 26, 2013 when CIE failed to shut-in RU-3 when the KPF was undergoing a major overhaul and when CIE flared from RU-3 from November 26, 2013 through February 28, 2014. The Notice proposed the following corrective actions be completed by CIE:

1) within two (2) weeks following the date of receipt of AOGCC's final decision, CIE shall provide AOGCC a detailed description and an example of its regulatory compliance tracking program and a copy of its written management-of-change procedures;
2) within two (2) weeks following the date of receipt of AOGCC's final decision, CIE shall provide AOGCC with a root cause analysis addressing the violations, and timeline for implementing identified corrective actions.
3) within two (2) weeks following the date of receipt of AOGCC final decision, CIE shall provide AOGCC evidence that personnel responsible for gas disposition management

and staff involved with facility and well operations have been trained in AOGCC regulatory requirements, including the process for requesting approval for flaring activities from the AOGCC. A copy of the training program syllabus is to be included with other appropriate documentation.

The notice proposed the penalties for violating 20 AAC 25.235(c) as follows:

- $25,000 for the initial violation – failure to shut-in RU-3 when the KPF was undergoing a major overhaul.
- $269,834 for flaring 24,668 MCF of gas from November 26, 2013 through February 28, 2014.

Gas Disposition:

Under AOGCC regulations, *"The operator shall take action in accordance with good oil field engineering practices and conservation purposes to minimize the volume of gas released, burned, or permitted to escape into the air."*

Beginning November 25, 2014 intermittent flaring occurred at the KPF as a result of gas production from RU-3 during a planned compressor overhaul. No approval was sought from the AOGCC for this flaring which continued through February 28, 2014. CIE had previously requested authorization to flare from RU-3 at start up after a rig workover in February 2013. This approval was granted and extended for 72 hours as indicated in correspondence dated August 18, 2013. CIE claims that AOGCC's flaring authorization was "unclear." CIE also claims that the AOGCC approval granted in February 2013 [flaring from RU-3 during workover operations] was valid nine to twelve months later for flaring during the planned extended compressor overhaul. These assertions find no support in the record. CIE's previous request for extended gas flaring as part of the February 2013 workover operations demonstrates CIE's knowledge that extended flaring warrants authorization from AOGCC. Approval for flaring from RU-3 should have been requested from the AOGCC prior to the commencement of the planned work on the compressor in November 2013.

Further under AOGCC regulations, the AOGCC will authorize the flaring *"if the flaring or venting is necessary to prevent loss of ultimate recovery"*

In its correspondence and during the informal meeting, CIE outlined the difficulty with choking back RU-3 to achieve lower flowrates because of water influx and low wellhead pressures. Also, CIE outlined the difficulty with restarting RU-3 once the well was shut in. Since the well is an extended reach deviated well, a rig or coiled tubing unit is usually necessary to restore the well's production. These difficulties are evident in a review of the well file. CIE's initial request for authorization to flare and its subsequent efforts to mitigate its flaring from RU-3 demonstrate that CIE understood the potential for a finding of waste due to flaring during the compressor overhaul. AOGCC has given CIE's mitigation efforts, as well as the condition of RU-3, due consideration in adjusting the final penalty imposed.

Findings and Conclusions:

The AOGCC finds that CIE violated 20 AAC 25.235(c) of the regulations. Consideration of the mitigating circumstances outlined above, however, results in the elimination of the monetary penalty that was proposed. The proposed corrective actions are deemed appropriate in this circumstance to address and prevent recurrence of the regulatory violation and are retained in the AOGCC's Final Decision.

Now Therefore It Is Ordered That:

Within 2 weeks after this Decision and Order becomes final, CIE shall provide AOGCC:

1) a detailed description and an example of its regulatory compliance tracking program and a copy of its written management-of-change procedures;
2) the full report of a root cause analysis addressing the violations, and timeline for implementing identified corrective actions.
3) evidence that CIE (and contract) personnel responsible for gas disposition oversight and field staff involved with facility and well operations have been trained in AOGCC regulatory requirements, including the process for requesting approval for flaring activities from the AOGCC. A copy of the training program syllabus is to be included with other appropriate documentation.

As an Operator involved in an enforcement action, you are required to preserve documents concerning the above action until after resolution of the proceeding.

Done at Anchorage, Alaska and dated January 7, 2015.

Cathy P. Foerster
Chair, Commissioner

David J. Mayberry
Commissioner

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 AOGCC grants for good cause shown, a person affected by it may file with the AOGCC 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 AOGCC 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 AOGCC 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 AOGCC mails, **OR 30** days if the AOGCC 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 AOGCC 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 AOGCC, and it may be appealed to superior court. That appeal **MUST** be filed within **33** days after the date on which the AOGCC mails, **OR 30** days if the AOGCC otherwise distributes, the order or decision on 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.