

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

Re: Failure to Test BOPE After Use
Milne Point Unit I-03
PTD 1900920

Other Order 109
Docket Number: OTH-15-029
May 3, 2016

DECISION AND ORDER

On November 16, 2015 the Alaska Oil and Gas Conservation Commission (AOGCC) issued a Notice of Proposed Enforcement Action (Notice) to Hilcorp Alaska, LLC (Hilcorp) regarding the Milne Point Unit well I-03 (MPU I-03). The Notice was based upon Hilcorp's failure to notify AOGCC of the use of blowout prevention equipment (BOPE) and the failure to test the BOPE after its use prior to reentering MPU I-03 to run the well completion. The Notice proposed specific corrective actions and a \$40,000 civil penalty under AS 31.05.150(a).

Hilcorp requested an informal review. That review was held February 18, 2016.

Summary of Proposed Enforcement Action:

The Notice identified violations by Hilcorp of 20 AAC 25.285. Hilcorp shut in MPU I-03 with BOPE to stop the flow of fluids from the well. After use of the BOPE, Hilcorp was required to test the used BOPE components before the next wellbore entry. Hilcorp failed to test the BOPE components used during well control operations. The Notice proposed the following corrective actions be completed by Hilcorp:

- 1) provide AOGCC a detailed description and an example of its regulatory compliance tracking program;
- 2) provide AOGCC a copy of the written management of change procedures that correct the violations; and
- 3) provide AOGCC a detailed written explanation that describes how recurrence of the violations will be prevented.

For violating 20 AAC 25.285 the AOGCC proposed civil penalties under AS 31.05.150(a) as follows:

- \$20,000 for failing to notify AOGCC of the use of BOPE to prevent the flow of fluids from MPU I-03.
- \$20,000 for failing to test BOPE used to prevent the flow of fluids from MPU I-03.

Blowout Prevention Equipment:

Secondary well control equipment (known as BOPE) includes the casinghead assembly of valves, rams and other pack-off devices installed on a rig during drilling, completion, and workover operations. The BOPE – designed to close around the drill pipe, work string, tubing, casing or tools – is able to completely close the top of the casing to control well pressure. The rated working pressure of the BOPE must exceed the maximum potential surface pressure. BOPE must be maintained in good operating condition at all times and must be regularly tested.

If any BOPE is used for well control or equivalent purpose, the components used must be function pressure-tested before the next wellbore entry.

Informal Review:

On January 29, 2016 Hilcorp submitted a consolidated brief (“brief”) in advance of an informal review covering four Notices of Proposed Enforcement Actions, including this action.¹ On February 18, 2016 Hilcorp was provided an opportunity to present the information it claimed AOGCC should have considered in its proposed enforcement action. Hilcorp argued that the rig’s Well Site Manager provided proper notice to AOGCC by electronic mail regarding the use of BOPE at MPU I-03. Hilcorp also argued that the well flowing was an “expected possible consequence of the operation” and that actions taken in response were consistent with its work plan. Hilcorp included copies of email messages – both internal to Hilcorp and between Hilcorp’s Well Site Manager and AOGCC.

Hilcorp asserts that AOGCC’s proposed penalties are based on an “incomplete understanding of the factual record”, and claims AOGCC has “overlooked” communications between Hilcorp and AOGCC personnel. Hilcorp also contends that the BOPE was not used for well control purposes at MPU I-03, therefore no re-test was required.²

Discussion:

Workover operations on MPU I-03 were approved by AOGCC on April 23, 2015 (Sundry Approval 315-233), authorizing Hilcorp to replace a failed electric submersible pump (ESP) with a new ESP completion. Operations reports indicate Hilcorp commenced the workover with Nordic Rig 3 on April 30, 2015. MPU I-03 began to flow during workover operations on May 1, 2015. The well was shut in with the annular preventer and with a floor safety valve installed in the work string. Kill weight fluid was also ordered as there was an insufficient volume available at the location to displace and kill the well.

The AOGCC has considered the factors in AS 31.05.150(g) in its determination of penalties for the MPU I-03 violations. Hilcorp neither offers mitigating factors nor demonstrates AOGCC missed information in reviewing the enforcement action. Relying on emails between Hilcorp and AOGCC, Hilcorp argued proper notice had been provided and that AOGCC approved Hilcorp’s failure to report use of BOPE. However, review of internal Hilcorp emails establishes that critical factual information known to Hilcorp was not provided to AOGCC when Hilcorp asked if it was required to report use of the BOPE. Specifically, Hilcorp failed to provide information regarding well pressures, failed to advise AOGCC there were insufficient materials on hand for weighting up the well fluid, and failed to advise AOGCC that a floor safety valve was installed to stop the flow of fluids to surface from the work string. All of the information Hilcorp failed to provide was critical to AOGCC’s determination of whether a report was required. Because that information points to a well control event instead of a planned activity,

¹ Other 15-025 (*Unauthorized Changes to Approved Permit*; MPU J-08A); Other 15-029 (*Failure to Test BOPE After Use*, MPU I-03); Other 15-030 (*Failure to Notify of Changes to an Approved Permit*; MPU J-01A); Other 15-031 (*Failure to Notify of Changes to an Approved Permit*; MPU J-09A)

² Hilcorp Submission to AOGCC for Informal Review (Dockets OTH-15-25, OTH-15-29, OTH-15-30, and OTH-15-31), pages 1 and 15.

Hilcorp would have been required to report its use of the BOPE had it provided the missing information. Hilcorp has provided no evidence to support its claim this well control event was a planned event. In fact, its failure to maintain sufficient materials at the locations to weight up the well fluid undermines its claim that the use of the BOPE was planned.

AOGCC's proposed enforcement noted the violation here was not isolated and is emblematic of ongoing compliance problems with Hilcorp rig workover operations. AOGCC also noted the disregard for regulatory compliance is endemic to Hilcorp's approach to its Alaska operations. Hilcorp objects to these statements, characterizes AOGCC's observations as "inflammatory" and "harsh", and claims "virtually all" of its operations are performed in full compliance. Table 1 attached to this Decision lists numerous incidents of noncompliance, some of which are recurring events. Specific to this incident, in 2013 the AOGCC fined Hilcorp a total of \$115,000 for violations relating to failure to test BOPE after use for well control.³ Previous versions of Table 1 have been provided to Hilcorp's Alaska managers during meetings about compliance concerns. The noncompliance history even triggered at least one unprecedented meeting with Hilcorp field operations staff at their Kenai field office to emphasize AOGCC's concerns and elaborate on AOGCC expectations for regulatory compliance.⁴

Findings and Conclusions:

Hilcorp violated 20 AAC 25.285. Hilcorp was clearly aware of the requirement to notify the AOGCC that the BOPE was used to control flow from the well based on the internal Hilcorp email correspondence. While Hilcorp did initiate contact with AOGCC staff regarding the use of BOPE, the email from Hilcorp to the AOGCC failed to advise AOGCC that MPU I-03 was flowing and had been shut in with the annular preventer and a floor safety valve, did not mention that the well started flowing with oil to surface almost immediately upon releasing off the packer, nor were the shut in tubing and shut in casing pressures provided to the AOGCC. Hilcorp communicated to AOGCC that only the annular preventer was used to shut in while waiting to increase the workover fluid density.⁵ If the details included in the internal Hilcorp emails (May 2, 2015, 5:43 am) had been provided in the email to AOGCC questioning the need to report a BOPE use (May 2, 2015 12:31 pm), the AOGCC would have required a BOPE use report and instructed Hilcorp that the used BOPE components must be tested before reentering the well.

Hilcorp's suggestion that the use of BOPE at MPU I-03 was not for well control is unconvincing. The MPU I-03 event was clearly well control related, clearly warranted closure of the BOPE to prevent the flow of well fluids at surface, and required proper notice and testing of all used components of the BOPE prior to running the replacement ESP completion.

AOGCC does acknowledge that notice of BOPE use did occur despite Hilcorp's communication being misleading and incomplete. As a result, the proposed penalty will be mitigated.

³ AOGCC Other Order 80, "Failure to Notify of Changes to an Approved Permit; and Failure to Test Blowout Prevention Equipment"

⁴ Meeting requested and arranged by Hilcorp management; held November 11, 2013

⁵ Hilcorp Submission to AOGCC for Informal Review (Dockets OTH-15-25, OTH-15-29, OTH-15-30, OTH 15-31), Exhibits 21 and 22

Now Therefore It Is Ordered That:

A civil penalty in the amount of **\$20,000** is imposed for the initial event of failing to test BOPE after being used for well control purposes and prior to the next wellbore entry (in this case prior to running the replacement ESP completion). AOGCC is eliminating the penalty for failure to notify of the use of BOPE. In addition, Hilcorp is instructed to provide AOGCC with a detailed explanation of how recurrence of this violation will be prevented in the future. Included in the corrective actions must be how Hilcorp has acted or will act to ensure accurate information is provided to AOGCC for decisions.

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 May 3, 2016.

//signature on file//
Cathy P. Foerster
Chair, Commissioner

//signature on file//
Daniel T. Seamount, Jr.
Commissioner



Attachment

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.

Table 1 – Hilcorp Noncompliance History

| Date | Non-Compliance | Location | AOGCC Action⁶ | Comments |
|-------------|-------------------------------------------------------------|-------------------------------------|----------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| April 2012 | Missing SVS tests; Failure to notify AOGCC for test witness | Westside CI | No action taken | Numerous efforts by AOGCC to obtain SVS test results for IRU, PCU, LRU, Stump Lake; some missing SVS tests between 5/2011 and 2/2012; some failure to notify AOGCC for opportunity to witness (previous operator responsible for some tests) |
| 5/8/2012 | Missing Kill Line Valve | Swanson River 21-22 (Aurora Rig 1) | NOV | BOPE test; Inspector observed missing kill line valve at inlet to stack (1 installed; 2 required) |
| 9/17/2012 | Choke Manifold Valves cheated closed during BOPE test | Swanson River 21-25 (Aurora Rig 1) | Corrective actions | Rig crew performing choke manifold test greased and had to cheat choke manifold valves closed to pass pressure test |
| 10/2/2012 | Notice of Meter Calibrations | Happy Valley | Corrective actions | AOGCC has not received notice of meter calibration for Happy Valley custody transfer meter for at least as long as Hilcorp has been responsible for the meter; schedule provided 10/9/12 |
| 10/18/2012 | Incorrect BOPE Test Pressure | Soldotna Ck 44-33 (Doyon Rig 1) | See 10/23/12 enforcement | When finally tested BOPE after use (10/18/12), tested to wrong pressure (4000psi instead of 5000psi) |
| 10/23/2012 | Failure to notify of changes to approved permit | Soldotna Ck 44-33 (Doyon Rig 1) | Civil Penalty; Corrective Actions (Other Order 80) | Hilcorp failed to follow well drilling procedures approved in PTD by AOGCC; failed to notify AOGCC of changes to well plan; failed to maintain well in overbalanced condition; lack mgt of change |
| | Well control; Failure to test BOPE after use | | | Hilcorp failed to test BOPE used in well control operations prior to first wellbore entry following use |
| 10/26/2012 | Failure to Test BOPE within 7 days | Granite Pt 32-13RD (crane workover) | Denied request for delaying BOPE test | Test due 10/26/12, started running completion 1500hrs on 10/26 without making any attempt to get test extension (working daylight hours only); landed pipe high, had to trip pipe; request extension 10/27/12 |
| 10/31/2012 | Improper gauge on IA | Trading Bay Unit D-45 | none | Hilcorp self-reported that gauge was pegged out; 2000psi alarm set, 1000psi gauge; well SI by Hilcorp |

⁶ NOV – Notice of Violation; no financial penalty; corrective actions only

| Date | Non-Compliance | Location | AOGCC Action ⁶ | Comments |
|------------|---------------------------------------------|--------------------------------------------------------|-----------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 11/29/2012 | Missing well control equipment | Happy Valley B-16 (Aurora Rig 1) | NOV | Missing top drive valve(s) on 10/10/12 and again 11/18/12; reviewing Hilcorp response rec'd 12/11/12 |
| 11/29/2012 | Incorrect BOPE test pressure | Granite Point #50 (Schlumberger CT 2) | NOV | Sundry 312-439 required BOPE rams, valves to test to 4500psi; Hilcorp tested to 3500psi |
| 12/6/2012 | Conduct of operations | Trading Bay Unit G-32 (Williams Rig 404) | NOV | Violation found 11/7/12 as part of rig inspection/ and BOPE test witness; hazardous conditions; wellbore fluids on deck; equipment placement; lack of winterization; reviewing Hilcorp response rec'd 12/21/12 |
| 12/16/2012 | Winterization; Conduct of Operations | Trading Bay Unit G-32 (Williams Rig 404) | Ordered ops shut down on Rig 404 until corrective actions implemented | Inspector arrived 12/15/12 for BOPE test; unable to test due to fluids covering stack well cellar (similar to issued noted in 12/6/12 NOV); returned 12/16/12 to test BOPE – unable to test BOPE (frozen choke manifold, top drive valves, floor safety valves, choke and kill lines along with everything else not in heated enclosure. Rig ops allowed to restart 12/31/12 after corrective actions, inspection and passing BOPE test |
| 12/16/2012 | Commence production w/o approved LACT meter | Nikolaevsk Unit (Red pad) | Corrective actions | 12/18/12 – Hilcorp contacts AOGCC with notice of SVS testing; AOGCC determined by questioning status that well commenced production 12/16/12; application for LACT meter rec'd 1/9/12 |
| 4/11/2013 | Defeated SVS | Sterling 43-09X | NOV | SVS found defeated 3/15/13 during AOGCC inspection; well was SI without testing |
| 9/30/2013 | Defeated SVS | Swanson River Field KGSF #1 | NOV | SVS found defeated 9/2/13 during AOGCC inspection; needle valve on actuator blocked |
| 1/14/2014 | Defeated SVS Missing Annulus Gauges | Swanson River Field SCU 12A-04; SCU 24A-09; SCU 41A-08 | NOV | SVS on 3 rod pump wells found defeated during 12/9/13 AOGCC inspection; found SCU 24A-09 w/o the req'd pressure gauge to monitor outer annulus |
| 4/22/2014 | Defeated SVS | Ninilchik Unit SD-3; Ninilchik Unit FC-5 | Corrective actions | SSSV found by AOGCC Inspectors 4/15/14 and 4/16/14; Hilcorp reported on 4/21/14; Inspector required SSSV back in service before departing |
| 8/29/2014 | Failure to Test BOPE | Trading Bay Unit G-11 (Moncla Rig 301) | NOV | Rig exceeded allowed 7days between BOPE tests without AOGCC approval |

| Date | Non-Compliance | Location | AOGCC Action ⁶ | Comments |
|------------|---------------------------------------------------------------|------------------------------------------------------|------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10/31/2014 | Failure to Test Required Well Control Equipment | Ninilchik Unit Paxton 7 & Paxton 8 | Corrective actions | No enforcement; reported by Hilcorp; approved sundry required testing despite wells being isolated from the formation |
| 1/5/2015 | Workover Safety Concerns | Hilcorp Cook Inlet and Kenai Peninsula Rig Workovers | Meeting 1/9/15; Corrective actions | List of concerns provided to Hilcorp addressing suitability of equipment and procedures; unsafe working conditions associated with rig workovers; onshore and offshore Cook Inlet |
| 1/7/2015 | Casing Valves Inaccessible | Ninilchik Unit Paxton 8 | Meeting 1/9/15; Corrective actions | Frozen well cellar found by Inspector 1/7/15; operator instructed to thaw cellar; no action taken per Hilcorp (1/9/15 mtg - "operator unclear about req'd action"); AOGCC Deficiency Report created to track corrective actions identified during inspections |
| 2/4/2015 | Defeated SVS | Northstar Unit NS-15 | NOV | SSV found defeated during 1/23/15 AOGCC inspection |
| 4/22/2015 | Failure to Obtain Approval for Continued Production | Kenai Gas Field KDU 1 | NOV | Operating without required competent tubing and packer; no AOGCC approval (20 AAC 25.200); discovered as part of well review; well shut in |
| 9/4/2015 | Rig Operations with Failed Gas Detection System | Milne Pt Unit F-96 | Notice of Proposed Enforcement (Civil Penalty) | AOGCC Docket OTH 15-024; Notice sent 11/25/15; informal review held 2/18/16; Final Decision pending |
| 10/1/2015 | Failure to follow approved procedures/good oilfield practices | All Hilcorp-operated rigs performing workovers | Shut down well workover operations | AOGCC-ordered suspension of all rig workover operations; corrective actions required; conditional approval for restart 10/21/15 |