

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

Re: Rig Operations with Failed Gas Detection System) Other Order No. 111
Milne Point Unit F-96) Docket No. OTH-15-024
PTD 2081860) September 30, 2016

DECISION AND ORDER

On November 25, 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 F-96 (MPU F-96). The Notice was based upon Hilcorp's performance of well operations on MPU F-96 with failed gas detection equipment. The Notice proposed specific corrective actions and a \$50,000 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 25.066. Hilcorp reported a gas detection system failure on Automated Services Rig 1 (ASR1) during workover operations. After notifying AOGCC that it would cease well operations until a replacement gas detection system was "in place and tested," Hilcorp continued well operations without AOGCC authorization, a violation of 20 AAC 25.066. The Notice proposed Hilcorp provide AOGCC a detailed written explanation that described how recurrence of the violations would be prevented. Civil penalties were proposed under AS 31.05.150(a) as follows:

- \$30,000 for the initial violation of failing to maintain an operational gas detection system while pulling the tubing hanger off seat and attempting to lift the completion string from MPU F-96.
- \$20,000 for failing to obtain a waiver or variance approval for the gas detection equipment required for MPU F-96 workover operations.

Gas Detection Equipment:

Minimum gas detection equipment requirements for workover rigs include the location of sensing points for both lighter-than-air gas and heavier-than-air gas and a minimum sampling interval. Other requirements include automatic, independent acting sensors tied to distinct visual and audible alarms; and the ability to sense and alert when specific concentrations are detected. A failure in a gas detection system must be reported to AOGCC within 24 hours after the failure. The decision whether to authorize continued operations with a failed gas detection system, to require the gas detection system be repaired or replaced, or to allow use of a different gas detection system resides solely with AOGCC.

Informal Review:

On February 5, 2016 Hilcorp submitted a letter in advance of the informal review. Hilcorp's letter provided a timeline of activities associated with the workover of MPU F-96, suggested that it did not continue with "normal oil and gas" well operations after reporting the failure of the gas detection system, argued that the AOGCC misinterpreted communications from Hilcorp, and stated the imposition of two penalties was inconsistent with due process. On February 18, 2016 Hilcorp was provided an opportunity to present the information it claimed AOGCC should have considered in its proposed enforcement action. During the informal review, Hilcorp claimed AOGCC had misinterpreted Hilcorp's notification of the failure of the fire and gas systems, argued against AOGCC's choice of language in the proposed enforcement and asserted AOGCC was imposing separate penalties for one course of conduct, as well as punishing Hilcorp for subsequent unresolved allegations.

Discussion:

Workover operations on MPU F-96, approved on May 21, 2015 (Sundry Approval 315-302), authorized Hilcorp to replace a failed through-tubing electric submersible pump (ESP). Operations reports indicate Hilcorp commenced the workover with the Hilcorp ASR1 rig on August 4, 2015. After the initial rig up of equipment on location on August 4, 2015, the gas detection system was tested by Hilcorp and reported to be in working operation. Later that day at 1726 hours, a Hilcorp electrician found that the gas detection system was in fault. The gas

detection system fault was reported internally within Hilcorp. About 4 hours later, Hilcorp reported the failure to AOGCC:

“We have just finished the testing @ 2100 hrs., all is Ok we have had a failure of our gas monitoring system this afternoon, and have ordered replacement rental from Total safety. We will not be pulling this completion until that system is in place and tested. Estimate Thursday sometime the equipment cannot ship until morning.”

At 2220 hours on August 4, 2015, Hilcorp submitted the BOPE test report form to the AOGCC via email with the following comments:

“BOP test is complete, VBR rams repaired. New gas detector equipment ordered. Hope for Thursday install. We will be doing rig maintenance until then”

The BOPE test report included the following note:

“Well operations suspended until gas system in place and tested.”

Contrary to this representation, Hilcorp’s internal emails show that less than two hours after representing to AOGCC that all well operations had been suspended, Hilcorp engaged in well operations. Specifically, Hilcorp removed the wellhead lock down pins from the tubing hanger and pulled the tubing hanger off seat +/-4.5 feet before determining that the ASR1 rig did not have the capacity to pull the completion from the well. The prohibition in 20 AAC 25.066 against well operations means what it says: well operations. Pulling the tubing hanger off seat is a well operation.

The AOGCC has considered the factors in AS 31.05.150(g) in its determination of penalties for the MPU F-96 violations. At the informal review Hilcorp demonstrated neither mitigating factors nor that AOGCC missed information in reviewing the enforcement action.

The violations here are not isolated and further demonstrate Hilcorp’s ongoing compliance problems. Table 1 attached to this Decision lists numerous prior incidences of regulatory violations by Hilcorp. This is not the first Hilcorp violation to result in a fine. For example, in 2013 AOGCC fined Hilcorp a total of \$115,000 for violations relating to failure to test BOPE

after use for well control.¹ Violations continue to occur despite the fact that AOGCC staff have met repeatedly with Hilcorp Alaska managers regarding AOGCC's ongoing concerns about Hilcorp's regulatory compliance, including at least one unprecedented meeting with Hilcorp field operations staff at Hilcorp's Kenai field office to emphasize AOGCC's concerns and elaborate regarding the importance of regulatory compliance.²

Findings and Conclusions:

Hilcorp violated 20 AAC 25.066. While Hilcorp notified the AOGCC of the failure of the gas detection system as required under 20 AAC 25.066 (c), compliance with the notification requirement cannot mitigate the violations here. More problematically, the notification represented Hilcorp had suspended well operations until the gas detection system was operational. Less than two hours later, Hilcorp proceeded with well operations by lifting the tubing hanger off seat. Doing so removed a barrier to wellbore flow, without the necessary gas detection in place to ensure a safe operation. Although Hilcorp rig crews did use personal LEL/H2S gas detection monitors when the tubing hanger was lifted off seat, this change in gas detection was not known to nor approved by the AOGCC as required under 20 AAC 25.066 (d). Hilcorp provided an incomplete and inaccurate assessment of its plan forward steps to the AOGCC. The facts do not warrant a determination that Hilcorp acted in good faith regarding regulatory compliance during the August 2015 workover of MPU F-96.

AOGCC acknowledges that Hilcorp gave prompt notice of the gas detection system failure. However, compliance with one regulatory mandate does not mitigate another regulatory violation. AOGCC agrees there was no harm to the public. However, Hilcorp continued to perform well operations without AOGCC approval, and utilized personal gas detection monitors without AOGCC approval. Hilcorp's history of non-compliance and the need to deter similar behavior weigh strongly in setting the penalty amount.

¹ AOGCC Other Order 80, "Failure to Notify of Changes to an Approved Permit; and Failure to Test Blowout Prevention Equipment".

² Meeting requested and arranged by Hilcorp management; held November 11, 2013.

Now Therefore It Is Ordered That:

A civil penalty in the amount of **\$30,000** is imposed for the initial event of failing to maintain an operational gas detection system while pulling the tubing hanger off seat and attempting to lift the completion string from MPU F-96 without having obtained a waiver, variance or approval for the gas detection equipment requirements of 20 AAC 25.066 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 September 30, 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 Action³	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	Hilcorp failed to follow well drilling procedures approved in PTD by AOGCC; failed to notify AOGCC of changes to well plan; failed to maintain

³ NOV – Notice of Violation; no financial penalty; corrective actions only

Date	Non-Compliance	Location	AOGCC Action ³	Comments
	Well control; Failure to test BOPE after use		Order 80)	well in overbalanced condition; lack mgt of change
	Hilcorp failed to test BOPE used in well control operations prior to first wellbore entry following use; penalties totaling \$115,000 imposed			
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
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	Inspector arrived 12/15/12 for BOPE test; unable to test due to fluids covering stack well cellar (similar to

Date	Non-Compliance	Location	AOGCC Action ³	Comments
			Rig 404 until corrective actions implemented	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-	NOV	Rig exceeded allowed 7days between BOPE tests

Date	Non-Compliance	Location	AOGCC Action ³	Comments
		11 (Moncla Rig 301)		without AOGCC approval
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