

STATE OF ALASKA
ALASKA OIL AND GAS CONSERVATION COMMISSION
333 West 7th Avenue
Anchorage, Alaska 99501

Re: THE APPLICATION OF) Docket No. OTH 16-005
ConocoPhillips Alaska, Inc. for a waiver of) Other Order No. 112
the requirements of 20 AAC 25.228(a) to) Greater Moose's Tooth Unit
provide custody transfer measurement of) Greater Moose's Tooth 1Pad
hydrocarbons prior to severance from the) North Slope Borough, Alaska
lease or unit.)
) October 12, 2016

IT APPEARING THAT:

1. By a letter received February 26, 2016, ConocoPhillips Alaska, Inc. (CPAI) requests the following waivers to the requirements of 20 AAC 25.228(a) to provide custody transfer measurement of hydrocarbons associated with the planned development of the Greater Moose's Tooth (GMT) Unit;
 - a. Utilize a coriolis-based metering system at GMT Pad 1 (GMT1) to allocate GMT Unit production to GMT1; production would be commingled with Colville River Unit (CRU) production and shipped to the Alpine Central Facilities (ACF) for processing to pipeline quality requirements and final sales measurement;
 - b. Utilize a gas measurement system installed at GMT1 instead of within CRU for gas transferred from the Colville River Unit (CRU) to GMT1.
2. Pursuant to 20 AAC 25.540, the Alaska Oil and Gas Conservation Commission (AOGCC) tentatively scheduled a public hearing for May 3, 2016. On March 31, 2016, the AOGCC published notice of the opportunity for that hearing on the State of Alaska's Online Public Notice website and on the AOGCC's website, and electronically transmitted the notice to all persons on the AOGCC's email distribution list. On April 6, 2016, the AOGCC mailed printed copies of the notice to all persons on the AOGCC's mailing distribution list.
3. The hearing was held as scheduled on May 3, 2016. Testimony was received from CPAI. At the conclusion of the hearing the record was held open until June 3, 2016 so that CPAI could respond to questions and data requests made during the hearing. On June 1, 2016 the hearing deadline for CPAI to submit the additional information was extended to June 10, 2016.
4. On June 3, 2016, CPAI submitted written responses to the questions raised during the May 3, 2016 hearing.
5. On June 3, 2016, the Arctic Slope Regional Corporation (ASRC) submitted comments in support of CPAI's application.
6. On June 9, 2016, CPAI provided the AOGCC with access to a data room so that project economic data could be reviewed.

FINDINGS:

1. CPAI is the operator of the GMTU and CRU located within the North Slope Borough, Alaska. Working interest owners (WIOs) of the GMTU are CPAI and Anadarko Petroleum Corp. (Anadarko). WIOs of the CRU are CPAI, Anadarko and Petro-Hunt, LLC.
2. The GMTU landowners are the United States Bureau of Land Management (BLM) and ASRC. The CRU landowners are Department of Natural Resources, BLM, and ASRC.
3. CPAI proposes to install a single stage three phase separator to support measurement of production leaving the GMT1 development. The oil leg coming off the three phase separator will be metered with a coriolis meter and water cut analyzer; the gas leg will be metered by a pair of orifice meters sized to measure the full range of expected flow. After metering the oil and gas flow streams will be recombined before being shipped to Colville Delta Pad 5 (CD5) and commingled with the CRU production gathering system.
4. The commingled GMTU and CRU production will be processed to pipeline sales quality specifications at the ACF and then metered at the CRU lease automatic custody transfer (LACT) sales meter before shipping to market.
5. CPAI proposes that the production allocation factor for GMT1 be fixed at 1.0. Thus the oil production allocated to the CRU would be the volume measured by the CRU LACT meter minus the volume measured through the Coriolis meter coming off the three phase separator at GMT1.
6. The dual orifice meters coming off the three phase separator at GMT1 will serve as the gas sales meter for gas shipped from GMT1 to the CRU.
7. CPAI testifies that gas will need to be shipped to GMT1 from CRU for fuel and rich miscible gas injection. CPAI proposes to install orifice gas meters at GMT1 instead of within the CRU, stating operational and space constraints at CD5 are the basis of their request for the waiver of requirements to measure before severance of production from the property or unit where produced.
8. CPAI maintains that stand alone production facilities at GMT1 would be necessary to process the production to pipeline sales quality before custody transfer quality metering could occur as required 20 AAC 25.228(a).
9. CPAI testified that a standalone processing facility at GMT1 would cost in the neighborhood of \$500 million. Using a 10 percent rate of return and the Alaska Department of Revenue's price forecasts, CPAI states this would make the project uneconomic.
10. CPAI provided the AOGCC access to a data room to review confidential project specific economics. The information made available to the AOGCC included a cost estimate prepared for CPAI by Turner & Townsend Larkspur (TTL), a company with extensive experience preparing conceptual project cost estimates for CPAI and other operators on the North Slope. TTL bases its estimates other costs estimates they've prepared and recently completed projects as bench marks when they prepare new cost estimates.
11. CPAI stated the recently commissioned CD5 drillsite was not designed to house a sales gas metering system for gas sales to GMT1 and would require modifications to incorporate one.
12. On April 21, 2016, CPAI announced it would fund additional wells and install additional on- pad infrastructure at CD5 to allow for expanded production from the pad¹.

¹ <http://alaska.conocophillips.com/newsroom/Documents/NR-AK-CD5%20Expansion-Apr%202016.FINAL.pdf>

CONCLUSIONS:

1. An exception to 20 AAC 25.228 is necessary to allow for final custody transfer quality metering of oil production from GMT1 to occur after the production has been severed from the unit and commingled with production from the CRU before being processed at ACF and metered for sale at the CRU LACT meter.
2. An exception to 20 AAC 25.228(a) is necessary to allow the custody transfer measurement point for gas transferred from CRU to GMT1 to be at a location after the gas has been severed from the CRU.
3. CPAI's cost estimate was very thorough, including items such as timing of expenditures and contingencies for various components of the project. The estimate is sufficiently detailed to provide a valid basis upon which to assess the basis for CPAI's request.
4. The evidence presented demonstrates that a stand-alone production facility at GMT1 in the current economic environment would not be pursued by CPAI. The reserves at GMT1 would not be produced for the foreseeable future.
5. Failure to develop GMT1 would likely lead to a failure to develop the four GMTU other participating areas for the foreseeable future.
6. A waiver of the requirements of 20 AAC 25.228 that requires custody quality metering to occur before oil or gas is severed from a lease or unit is necessary in order to allow the maximization of recovery from GMT1.
7. Referring to the location of the CRU-to-GMT1 gas custody transfer meters, CPAI testified that a variance to the requirement to measure before severance from the property or unit where produced (i.e., CRU) would be simpler and cheaper. CPAI has not provided factual evidence in support of its assertions.
8. Assigning an allocation factor of 1.0 to the three phase separator and metering system at GMT1 makes the assumption that the GMT1 metering system is 100% accurate. Any error in that system would be applied to CRU production. This would result in one-unit over-reporting production while the other unit under-reports. Since the landownership of the two units is different this would result in landowners being over or under paid for royalties for production from their lands. Of the landowners only the ASRC has commented on the record in support of or opposing the proposed meter allocation factor for GMT1.
9. There is insufficient information available at this time to demonstrate that the mineral rights owners of the two units fully understand the implications of assigning a fixed allocation factor to one unit while the other unit has a floating allocation factor and thus the AOGCC needs to gather more information before a decision on the GMT1 allocation factor can be made.
10. Additional information on the specifics of the meter system design is necessary before those components can be approved.

NOW THEREFORE IT IS ORDERED:

1. CPAI's request for a waiver of the requirements of 20 AAC 25.228 to allow for fiscal allocation of production from the GMT1 to be based on a metering system that does not meet custody transfer quality standards is hereby APPROVED.

2. CPAI's request for a waiver of the requirements of 20 AAC 25.228(a) to allow for the custody transfer metering of gas sold from CRU to GMT1 at a point after the gas is severed from the CRU is hereby DENIED without prejudice to CPAI renewing the request when it can provide additional evidence in support of the request.
3. The specific design of the fiscal allocation metering system must be approved by the AOGCC before being installed and operated. The specific design for the gas measurement system to measure gas sold from the CRU to GMT1 must be approved by the AOGCC before being installed. Refer to AOGCC Industry Guidance Bulletin 13-002 for details regarding the measurement application(s).

DONE at Anchorage, Alaska and dated October 12, 2016.

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Cathy P. Foerster
Chair, Commissioner

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Daniel T. Seamount, Jr.
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. As provided in AS 31.05.080(b), "[t]he questions reviewed on appeal are limited to the questions presented to the AOGCC 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.