

**ALASKA OIL AND GAS
CONSERVATION COMMISSION**

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May 18, 1998

Frank Brown
Senior Vice President
Kuparuk Operations
ARCO Alaska, Inc.
P.O. Box 196105
Anchorage, AK 99519-6105

Re: CPF3 Flaring Incident, July 23, 1997

Dear Mr. Brown:

The Commission has reviewed the CPF3 flaring event of July 23, 1997, for a determination of whether waste occurred and whether penalties under AS 31.05.150 should be imposed. ARCO Alaska, Inc. ("AAI") reported approximately 13,753 Mscf of gas flared between 7:11 a.m. and 4:12 p.m. This nine hour flaring event was unplanned. AAI reports the flaring was due to a rapid rise in ambient temperatures, along with other operational factors at the facility including turbines in need of water washes and a worn out compressor. In its September 30, 1998 correspondence to the Commission, AAI explains the "primary reason that the flaring lasted as long as it did was that lift gas rates were not reduced quickly enough. This is a judgment call which must be made continuously based on changing conditions."

Under the Commission's regulations, an operator is required to 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. 20 AAC 25.235(c). The flaring of gas is deemed to be waste unless authorized under 20 AAC 25.235. In this case, the only apparent basis for the Commission to consider authorizing the flaring would be that provided by 20 AAC 25.235(d)(5)(A), "if the flaring or venting [was] necessary for facility operations, repairs, upgrades, or testing procedures.

Reducing the volume of oil and gas coming into the facility is an acceptable method for eliminating or minimizing a flaring incident. By 8:30 am on July 23, 1998, AAI had lowered the lift gas on wells with automatic chokes to minimum lift gas rates, lowered the lift gas rates on all wells at drill site 3C to zero, and lowered the manual chokes from 3000 IGOR to 2000 IGOR. At 10:30 a.m., with temperatures continuing to rise and flaring unabated, AAI shut down the 'A' gas lift compressor for a cold water wash to improve performance. AAI then waited until 2:00 p.m. before lowering the manual chokes from 2000 IGOR to minimum lift gas rates.

The Commission's determination of waste is made under authority of AS 31.05.030, AS 31.05.150, AS 31.05.170(14)(A) and (H), and 20 AAC 25.235. Under AS 31.05.150(e), the Commission may impose a penalty equal to the fair market value of the gas at the point of waste for all gas determined to be waste. In addition, under AS 31.05.150(a), the Commission may impose a civil penalty of up to \$5,000 per day for each violation. Among the criteria the Commission considers in determining appropriate penalties under AS 31.05.150(a) are the following: 1) the good or bad faith of the operator in violating the statutes, regulations and orders

of the Commission. 2) the injury to the public resulting from the violation, 3) the benefits derived by the operator from its violative activities, 4) the operator's ability to pay a penalty, and 5) the need to deter similar behavior by the violator and others and vindicate the authority of the Commission and the integrity of the statutes, regulations and Commission orders.

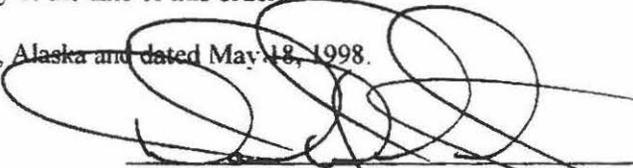
Although the Commission has no reason to believe that bad faith was exercised on the part of AAI on July 23, 1997, it appears that the flaring event was not controlled as quickly as it could have been. The Commission believes the action taken by AAI prior to 10:30 a.m. was appropriate given the conditions up until that time. However, when AAI decided to water wash the 'A' compressor at 10:30 a.m., it should have taken additional steps to reduce the volume of oil and gas coming into the facility. With one compressor shut down (and the other recycling), AAI should have ordered the manual chokes lowered from 2000 IGOR to minimum lift gas rates at that time. The lack of a proper decision tree may also have contributed to AAI's slow response.

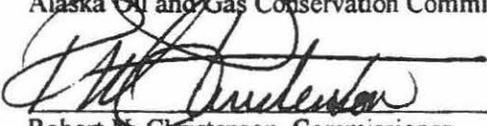
The Commission therefore concludes that AAI failed to take reasonable steps in accordance with good oil field engineering practices to minimize the amount of gas flared in this incident. For this reason, the Commission has decided to classify as waste all gas flared after 10:30 a.m.

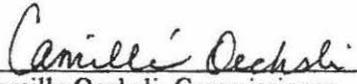
THEREFORE IT IS ORDERED that the excess gas flared (after 10:30 a.m.) as a result of this incident constitutes waste and the total volume so classified is 11,000 Mscf. This volume was derived from graph #3, submitted by AAI on January 9, 1998. A penalty of \$0.81/Mscf is assessed against ARCO Alaska, Inc. for the wasted gas under the authority of AS 31.05.150(e). This value is derived from the July 1997 weighted average for AAI's Kuparuk River gas as determined by the producer's unaudited royalty reports for that month. The Commission's use of the unaudited royalty report data for the purpose of assessing this penalty does not constitute a determination of the value of gas for any other purpose. This penalty of \$8910.00 is due and payable within 30 day of the date of this order.

DONE at Anchorage, Alaska and dated May 18, 1998.




David W. Johnston, Chairman
Alaska Oil and Gas Conservation Commission


Robert N. Christenson, Commissioner
Alaska Oil and Gas Conservation Commission


Camille Oechsli, Commissioner
Alaska Oil and Gas Conservation Commission

AS 31.05.080 provides that within 20 days after receipt of written notice of the entry of an order, a person affected by it may file with the Commission an application for rehearing. A request for rehearing must be received by 4:30 PM on the 23rd day following the date of the order, or next working day if a holiday or weekend, to be timely filed. The Commission shall grant or refuse the application in whole or in part within 10 days. The Commission can refuse an application by not acting on it within the 10-day period. An affected person has 30 days from the date the Commission refuses the application or mails (or otherwise distributes) an order upon rehearing, both being the final order of the Commission, to appeal the decision to Superior Court. Where a request for rehearing is denied by nonaction of the Commission, the 30-day period for appeal to Superior Court runs from the date on which the request is deemed denied (i.e., 10th day after the application for rehearing was filed).