



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

**Alaska Oil and Gas
Conservation Commission**

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Anchorage, Alaska 99501-3572
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November 25, 2015

**CERTIFIED MAIL –
RETURN RECEIPT REQUESTED
7015 0640 0006 0779 5920**

Mr. David Wilkins
Senior Vice President
Hilcorp Alaska, LLC
3800 Centerpoint Drive, Suite 1400
Anchorage, AK 99503

Re: Docket No. OTH-15-024
Rig Operations with Failed Gas Detection System
Hilcorp ASR-1
MPU F-96 (PTD 2081860)

Dear Mr. Wilkins:

Pursuant to 20 AAC 25.535, the Alaska Oil and Gas Conservation Commission (AOGCC) hereby notifies Hilcorp Alaska, LLC (Hilcorp) of a proposed enforcement action.

Nature of the Apparent Violation or Noncompliance (20 AAC 25.535(b)(1)).

Hilcorp has violated the provisions of 20 AAC 25.066 (“Gas detection”) while performing workover operations with Hilcorp Automated Service Rig 1 (ASR1) at Milne Point Unit (MPU) well F-96.

Basis for Finding the Violation or Noncompliance (20 AAC 25.535(b)(2)).

Hilcorp conducted workover operations at MPU F-96 from August 4 through August 6, 2015 with Hilcorp ASR1. Production records show the well was shut in on May 7, 2015 in response to a failed electric submersible pump (ESP). Sundry approval 315-302 dated May 21, 2015 authorized Hilcorp to pull the failed 4-1/2-inch through-tubing ESP completion and re-run a new 2-7/8-inch ESP completion. Hilcorp reported a gas detection system failure to AOGCC on August 4 as required by 20 AAC 25.066(c). In the email notification, Hilcorp stated it has “ordered replacement rental [gas detection equipment] from Total Safety” and the rig “will not be pulling this completion until that system is in place and tested”.¹ A follow-up email from Hilcorp forwarding the blowout prevention equipment test report indicated the rig would be

¹ Email from Hilcorp ASR1 Wellsite Manager, August 4, 2015 at 9:23 pm

“doing rig maintenance” until the new gas detection equipment was installed.² Less than one hour after making this representation to AOGCC, Hilcorp unilaterally decided to test if it was possible for ASR1 to pull the completion. Hilcorp ASR1 lifted the tubing hanger off seat sometime between 10:00 pm and 11:30 pm on August 4, 2015 in an attempt to determine if the rig could pull the completion.

Activities leading up to the attempt were marked by operational problems and system faults in the gas detection equipment, culminating in the system failing to operate properly during performance testing of the blowout prevention equipment on August 4, 2015. Email records indicate that the Wellsite Manager contacted Hilcorp’s engineer and management overseeing the project before completing the blowout prevention test and before notifying AOGCC about the failed gas detection equipment to discuss the plan to “verify if we can pull the well by pulling the tubing hanger off seat.” AOGCC contacted Hilcorp on August 6, 2015 after reviewing the Weekly Operations Report for ASR1 requesting additional elaboration on the gas detection status while the rig pulled the tubing hanger off seat and attempted to lift the completion string. Hilcorp’s reply states the gas and fire detection “initially worked” and that the failure was listed on the blowout prevention test report since they “were not planning to repair the system to keep working on F-96”.

On September 4, 2015 AOGCC sent a notice of investigation to Hilcorp questioning the decision to pull the tubing hanger off its seat in MPU F-96. A chronology provided by Hilcorp on September 17, 2015 states: “the ASR1 pulled the tubing hanger off seat and attempt[ed] to lift the completion string. At this time, personal LEL/H2S monitors were being used on the rig floor.” Hilcorp did not identify what, if any, compliant gas detection equipment was being used in the blowout preventer stack enclosure over the well cellar and over/near the shale shaker located in the enclosed mud trailer. Hilcorp explained the failures were related to fire detection equipment integral to the gas detection system but not required by AOGCC regulation. The records contradict Hilcorp’s representations and indicate failures occurred in both gas detection and fire detection equipment within the system. Hilcorp’s use of “personal LEL/H2S monitors” on the rig floor while attempting to pull the tubing hanger off seat contradicts claims that failures were limited to the fire detection equipment, as does listing the failures of the gas detection system components on the blowout prevention equipment test report dated August 4, 2015.

Gas detection regulations for workover rigs establish minimum requirements for methane and hydrogen sulfide gas detection on workover rigs including sensor locations, operating mode (automatic, independent acting), sampling intervals, alarms, and reporting a failure in a gas detection system. Hilcorp’s unapproved experiment successfully lifted the tubing hanger off seat and confirmed the rig’s inability to pull the completion to surface in violation of AOGCC regulations. Hilcorp failed to maintain the required gas detection equipment and failed to obtain

² Email from Hilcorp ASR1 Wellsite Manager, August 4, 2015 at 10:20 pm

approval to continue operations (operating without approval; compromising a barrier that is in place to prevent the release of wellbore fluids from the well).^{3,4}

The MPU F-96 violation and Hilcorp's lack of candor regarding what happened are neither isolated nor innocent and are emblematic of ongoing compliance problems with Hilcorp rig workover operations. Hilcorp's compliance history in conducting hydrocarbon development activities in Alaska includes ongoing failures to obtain necessary approvals; failures to install, maintain, and test required well control safety systems; failures to perform required tests; and use of equipment that is unsuitable for the operating environment. Recent examples of noncompliant activities include:

- 1) Hilcorp Rig Workovers Employing Nitrogen Well Cleanouts – A review of well workovers performed at MPU by Hilcorp-operated rigs reveal three wells that have performed fill cleanout operations using nitrogen without AOGCC approval.
- 2) Failure to Report Use of Blowout Prevention Equipment – A rig workover performed with Nordic 3 in early May 2015 encountered the well flowing after running a packer in MPU I-03. The Weekly Operations Summary reports that the well was shut in and well pressures were monitored while waiting on additional fluid to kill the well. No report was filed with AOGCC describing the use of blowout prevention equipment to prevent the flow of fluids from the well. No record exists of Hilcorp testing the blowout prevention equipment that was used.⁵

The disregard for regulatory compliance is endemic to Hilcorp's approach to its Alaska operations and virtually assured the occurrence of this violation. Hilcorp's conduct is inexcusable.⁶

Proposed Action (20 AAC 25.535(b)(3)).

For violating 20 AAC 25.066 the AOGCC intends to impose a civil penalty on Hilcorp under AS 31.05.150(a) in the amount of **\$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, and **\$20,000** for the initial violation of failing to obtain waiver or variance approval for the gas detection equipment required for MPU F-96 workover operations. In determining the amount of the penalty, AOGCC has considered the extent to which Hilcorp was acting in good faith in attempting to comply, the extent to which Hilcorp acted in a willful or knowing manner, the need to deter similar behavior by Hilcorp and others

³ API RP 17G, *Recommended Practice for Completion/Workover Risers*, Second Edition, July 2006 (Reaffirmed April 2011) defines as tubing hanger as: "Component used to support the downhole completion tubing string. Note - it is also typically used to seal and contain the completion annulus from the environment."

⁴ Schlumberger Oilfield Glossary defines tubing hanger as follows: "A device attached to the topmost tubing joint in the wellhead to support the tubing string. The tubing hanger typically is located in the tubing head with both components incorporating a sealing system to ensure that the tubing conduit and annulus are hydraulically isolated."; <http://www.glossary.oilfield.slb.com>

⁵ 20 AAC 25.285(f)(2) and (f)(8)

⁶ Other Order 80

similarly situated at the time of the violation or in the future, and Hilcorp's history of compliance issues.⁷

In addition to the imposed civil penalty, AOGCC intends to require Hilcorp to provide a detailed written explanation that describes how it intends to prevent recurrence of this violation.

The total proposed civil penalty is **\$50,000**.

Rights and Liabilities (20 AAC 25.535(b)(4))

Within 15 days after receipt of this notification – unless the AOGCC, in its discretion, grants an extension for good cause shown – Hilcorp may file with the AOGCC a written response that concurs in whole or in part with the proposed action described herein, requests informal review, or requests a hearing under 20 AAC 25.540. If a timely response is not filed, the proposed action will be deemed accepted by default. If informal review is requested, the AOGCC will provide Hilcorp an opportunity to submit documentary material and make a written or oral statement. If Hilcorp disagrees with the AOGCC's proposed decision or order after that review, it may file a written request for a hearing within 10 days after the proposed decision or order is issued. If such a request is not filed within that 10-day period, the proposed decision or order will become final on the 11th day after it was issued. If such a request is timely filed, the AOGCC will hold its decision in abeyance and schedule a hearing.

If Hilcorp does not concur in the proposed action described herein, and the AOGCC finds that Hilcorp violated a provision of AS 31.05, 20 AAC 25, or an AOGCC order, permit or other approval, then the AOGCC may take any action authorized by the applicable law including ordering one or more of the following: (i) corrective action; (ii) suspension or revocation of a permit or other approval; and (iii) imposition of penalties under AS 31.05.150. In taking action after an informal review or hearing, the AOGCC is not limited to ordering the proposed action described herein, as long as Hilcorp received reasonable notice and opportunity to be heard with respect to the AOGCC's action. Any action described herein or taken after an informal review or hearing does not limit the action the AOGCC may take under AS 31.05.160.

Sincerely,



Cathy P. Foerster
Chair, Commissioner

⁷ AS 31.05.150(g) requires AOGCC to consider nine criteria in setting the amount of a civil penalty.

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Mr. David Wilkins
Senior Vice President
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Hilcorp Alaska, LLC
3800 Centerpoint Dr., Ste. 1400
Anchorage, AK 99503



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