On December 1, 2023, the Alaska Oil and Gas Conservation Commission (AOGCC) issued a Notice of Proposed Enforcement Action (Notice) to Hilcorp North Slope, LLC (Hilcorp) regarding the S-33A well. The Notice proposed a $303,500 civil penalty under AS 31.05.150(a). Hilcorp timely requested an informal review. That review was held December 11, 2023, and January 16, 2024. Hilcorp also submitted information on January 4, 2024, and a written response dated January 18, 2024, which AOGCC has considered as part of its informal review process. This decision and order now follow.

SUMMARY OF PROPOSED ENFORCEMENT ACTION:
The Notice identified that Hilcorp violated the provisions of Rule 4 of Area Injection Order 10B (AIO 10B) (“Demonstration of Tubing/Casing Annulus Mechanical Integrity”) for the S-33A well.

AIO 10B was approved April 23, 2002. The order authorizes the underground injection of fluids for enhanced oil recovery in the Milne Point Field, Schrader Bluff Oil Pool. The rules require MITs on MPU injection wells.

Rule 4 of AIO 10B states “A schedule must be developed and coordinated with the Commission that ensures that the tubing-casing annulus for each injection well is pressure tested prior to initiating initial injection, following well workovers affecting mechanical integrity, and at least once every four years thereafter.”

AOGCC Industry Guidance Bulletin 10-02B dated August 9, 2017, allowed for efficiencies in testing and witnessing by allowing an MIT to be performed anytime during the anniversary month to satisfy the MIT due date.

On September 16, 2023, Hilcorp contacted the AOGCC by email to report that S-33A was injecting after Hilcorp discovered it had failed to perform the required four-year MIT that was due on or before March 2023. Hilcorp ceased injection and shut in the well.
The last AOGCC-witnessed MIT occurred March 16, 2019. Therefore, the MIT was required on or before March 2023. Though out of compliance, the S-33A well continued to inject for 169 days (April 1, 2023, to September 16, 2023).

Hilcorp’s failure to demonstrate the mechanical integrity of the S-33A injection well within the required four-year cycle violated AIO 10B. Violating an AOGCC order, like AIO 10B, makes Hilcorp liable for civil penalties pursuant to AS 31.05.150(a).

The Notice proposed civil penalties of $303,500 as follows.¹
- $50,000 - initial violation failure to perform the required MIT in compliance with testing protocols specified in Rule 4 of AIO 10B;
- $253,500 - $1,500 for each day of the 169 days the well was operable/injecting with an overdue MIT.

In addition to the imposed civil penalty, the AOGCC has historically required Hilcorp to provide a detailed written explanation as to how it intends to prevent recurrence of this violation. The AOGCC has also historically required Hilcorp to demonstrate to the AOGCC’s satisfaction a more robust regulatory compliance tracking system that addresses all AOGCC-mandated obligations. For this S-33A violation, Hilcorp has completed an internal investigation (emailed to AOGCC dated September 20, 2023, and updated September 28, 2023) that included a root cause analysis and actions to prevent recurrence. Thus, the AOGCC will not require an additional written explanation from Hilcorp.

It is the expectation with every enforcement action that Hilcorp identify, implement, and continue to assess the effectiveness of compliance improvement initiatives.

INFORMAL REVIEW:
Hilcorp met with AOGCC staff on December 11, 2023, and January 16, 2024, to review and discuss the Notice and have opportunity to update the status and results of its internal investigation. Hilcorp also provided information to AOGCC on January 4, 2024, and a written statement dated January 18, 2024. Hilcorp did not dispute the violations alleged in the Notice. Hilcorp questioned the penalty amount, suggesting the penalty amount be reduced. Hilcorp also specified that its number of non-compliance events measured against proxy data for Hilcorp activity levels shows a downward trend of incidents since 2012. While it is always AOGCC’s goal to have zero violations, and consequently zero repeat violations, AOGCC does acknowledge the overall downward trend in Hilcorp’s violations as Hilcorp noted during the informal review. It is encouraging to see that Hilcorp is monitoring its compliance history and seeing improving performance in this area. Hilcorp has initiated continued engagement with AOGCC through a data request for historical enforcement and violation records and AOGCC is providing the requested information, where available.

¹ AS 31.05.150(a) provides for not more than $100,000 for the initial violation and not more than $10,000 for each day thereafter on which the violation continues.
The factors in AS 31.05.150(g)² have been considered in the determination of penalties for the violation. The penalty does reflect amounts based on per-day assessments. Violations relating to Underground Injection Control Class II well integrity practices warrant the imposition of civil penalties. The AOGCC issues injection orders, drilling and sundry permits for enhanced oil recovery projects with specific rules and conditions of approval to ensure injection activities are done safely, in a manner that protects the environment, and won’t cause waste. Hilcorp’s failure to comply with the AOGCC Order raises the potential for similar behavior with more serious consequences. Consideration of the civil penalty includes Hilcorp’s history of compliance/noncompliance and the need to deter similar behavior(s). Other considerations include the existing MPU aquifer exemption, no injury to the public or the environment, and Hilcorp’s notification to the AOGCC once Hilcorp determined the well was out of compliance. The effort made by Hilcorp to correct the violation and prevent future violations and Hilcorp’s cooperation with the investigation were also considered in the setting of the penalty amount. AOGCC tracks and periodically audits for compliance. Nothing above should imply that AOGCC is partially responsible for Hilcorp’s violation, or infer that the penalty amount assessed for days in non-compliance should be reduced for action/inaction on AOGCC’s part.

Hilcorp provided expenses of materials and labor implementing measures designed to prevent re-occurrence of this violation in the amount of $43,023. AOGCC accepts these expenses and reduces the civil penalty by $43,023.

**FINDINGS AND CONCLUSIONS:**

Hilcorp did not dispute the alleged violation in the Notice.

The AOGCC finds that Hilcorp committed the violation as initially alleged in the Notice and restated in the “Summary of Proposed Enforcement Action” above. Hilcorp has provided information that warrants reducing the proposed penalty amount by $43,023.

**NOW THEREFORE IT IS ORDERED THAT:**

Hilcorp is assessed a civil penalty in the amount of **$260,477** for the violation detailed within this Order. If this Order is not appealed, the fine must be paid within 30 days of issuance. If appealed, the fine will be held in abeyance until the appeal process is complete.

In addition to the civil penalty, Hilcorp is required to improve its regulatory compliance by implementing the corrective actions as detailed in the Hilcorp internal investigation reports as emailed to the AOGCC dated September 20, 2023, and updated September 28, 2023, that included a root cause analysis and actions to prevent recurrence.

As an Operator involved in an enforcement action, Hilcorp is required to preserve documents concerning the above action until after resolution of the proceeding.

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² AS 31.05.150(g) requires AOGCC to consider nine criteria in setting the amount of a civil penalty.
DONE at Anchorage, Alaska and Dated February 8, 2024.

Brett W. Huber, Sr.  Jessie L. Chmielowski
Chair, Commissioner  Commissioner

cc:  James Robinson, US Environmental Protection Agency, Region 10
     Jim Regg, AOGCC Supervisor, Inspections
     AOGCC Inspectors

RECONSIDERATION AND APPEAL NOTICE

Pursuant to 20 AAC 25.535(d), this order becomes final 11 days after it is issued unless within 10 days after it is issued the person files a written request for a hearing, in which case the proposed decision or order is of no effect. If the person requests a hearing, the commission will schedule a hearing under 20 AAC 25.540.

As provided in AS 31.05.080(a), within 20 days after this order becomes final as discussed above, 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.