

April 12, 2017

**VIA CERTIFIED MAIL AND FAX TO: (907) 777-8301**

Mr. Greg Lalicker  
President  
Hilcorp Alaska, LLC  
1111 Travis Street  
Houston, Texas 77002

**CPF No. 5-2017-0004S**

Dear Mr. Lalicker:

Enclosed please find an Order incorporating the terms of the Consent Agreement between the Pipeline and Hazardous Materials Safety Administration (PHMSA) and Hilcorp Alaska, LLC (Hilcorp) which was executed on April 11, 2017. Service of the Order and Consent Agreement by certified mail is deemed effective upon the date of mailing, or as otherwise provided under 49 C.F.R. § 190.5.

Thank you for your cooperation in this matter.

Sincerely,

for Alan K. Mayberry  
Associate Administrator  
for Pipeline Safety

Enclosure: Order and Consent Agreement

cc: Ms. Linda Daugherty, Deputy Associate Administrator for Field Operations, OPS  
Mr. Chris Hoidal, Senior Technical Advisor, Program Development, OPS  
Mr. Dustin Hubbard, Acting Region Director, Western Region, OPS  
Ms. Erin McKay, Regulatory Compliance Manager, Alaska Integrity Group, Hilcorp  
Alaska, LLC, at [emckay@hilcorp.com](mailto:emckay@hilcorp.com)

**U.S. DEPARTMENT OF TRANSPORTATION  
PIPELINE AND HAZARDOUS MATERIALS SAFETY ADMINISTRATION  
OFFICE OF PIPELINE SAFETY  
WASHINGTON, D.C. 20590**

**In the Matter of**

**Hilcorp Alaska, LLC,  
a subsidiary of Hilcorp Energy Company,**

**Respondent.**

**CPF No. 5-2017-0004S**

**ORDER**

By letter dated March 3, 2017, the Pipeline and Hazardous Materials Safety Administration (PHMSA), Office of Pipeline Safety (OPS or Agency), issued a Notice of Proposed Safety Order (Notice) to Hilcorp Alaska, LLC (Hilcorp or Respondent), a subsidiary of Hilcorp Energy Company.

In accordance with 49 C.F.R. § 190.239, the Notice alleged that conditions exist on Respondent's Middle Ground Shoal (MGS) Fuel Gas System that pose a pipeline integrity risk to public safety, property, or the environment. The Notice also proposed that Respondent take certain corrective measures to remedy the alleged conditions and ensure that the public, property, and the environment are protected from the potential risk.

In response to the Notice, Respondent requested an informal consultation, whereupon the parties engaged in good-faith settlement discussions that have resulted in the Consent Agreement attached to this Order, of even date herewith, and that settles all of the allegations in the Notice.

Accordingly, the Consent Agreement is hereby approved and incorporated by reference into this Order. The Respondent is hereby ordered to comply with the terms of the Consent Agreement, effective immediately.

Pursuant to 49 U.S.C. 60101, *et seq.*, failure to comply with this Consent Order may result in the assessment of civil penalties of up to \$205,638 per day.

The terms and conditions of this Consent Order are effective upon service in accordance with 49 C.F.R. § 190.5.

for Alan K. Mayberry  
Associate Administrator  
for Pipeline Safety

April 12, 2017

Date

**U.S. DEPARTMENT OF TRANSPORTATION  
PIPELINE AND HAZARDOUS MATERIALS SAFETY ADMINISTRATION  
OFFICE OF PIPELINE SAFETY  
WASHINGTON, D.C. 20590**

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**In the Matter of** )

**Hilcorp Alaska, LLC,** )  
**a subsidiary of Hilcorp Energy Company,** )

**Respondent.** )  
\_\_\_\_\_ )

**CPF No. 5-2017-0004S**

**CONSENT AGREEMENT**

On March 3, 2017, the Regional Director for the Western Region (the Region) of the Pipeline and Hazardous Materials Safety Administration (PHMSA), Office of Pipeline Safety (OPS or the Agency), issued a Notice of Proposed Safety Order (Notice) to Hilcorp Alaska, LLC (Hilcorp or Respondent), a subsidiary of Hilcorp Energy Company. The Notice alleged that conditions exist on Respondent's Middle Ground Shoal (MGS) Fuel Gas System that pose a pipeline integrity risk to public safety, property, or the environment. The Notice also proposed that Respondent take certain corrective measures to remedy the alleged conditions and ensure that the public, property, and the environment are protected from the potential risk.

Hilcorp responded to the Notice by timely submitting a written response and a request for an informal consultation. An informal consultation was held on March 22, 2017.

As a result of the informal consultation process, PHMSA and Hilcorp (collectively, Parties) reached agreement that settlement of this proceeding will avoid further administrative proceedings or litigation of the Notice and that entry into this Consent Agreement (Agreement) is the most appropriate means of resolving the issues raised in the Notice and is generally in the public interest. Therefore, pursuant to 49 C.F.R. Part 190, without adjudication of any issue of fact or law, and upon consent and agreement of Hilcorp and PHMSA, the Parties agree as follows:

**I. General Provisions**

1. Respondent acknowledges that as the operator of the MGS Fuel Gas System, Respondent and its MGS Fuel Gas System are subject to the jurisdiction of the Federal pipeline safety laws, 49 U.S.C. § 60101, *et seq.*, and the regulations and administrative orders issued thereunder. While this Agreement refers to other Hilcorp facilities, this acknowledgement is limited solely to the MGS Fuel Gas System. For purposes of this Agreement, Respondent acknowledges that it received proper notice of PHMSA's action in this proceeding and that the Notice states claims upon which relief may be granted pursuant to 49 U.S.C. 60101, *et seq.*, and

the regulations and orders issued thereunder. The MGS Fuel Gas System MGS consists of four sections of pipe and is defined more specifically as the *Affected Pipeline Facility* in Paragraph 12(a) of this Agreement.

2. Respondent agrees, for purposes of this Agreement, to address the integrity risks identified in the Notice by completing the actions specified in Section II of this agreement (Corrective Measures) and to abide by the terms of this Agreement. This Agreement does not constitute a finding of violation of any Federal law or regulation and may not be used in any civil or administrative proceeding of any kind as evidence or proof of any fact, fault or liability, or as evidence of the violation of any law, rule, regulation or requirement, except in a proceeding to enforce the provisions of this Agreement.

3. After Respondent returns this signed Agreement to PHMSA, the Agency's representative will present it to the Associate Administrator for Pipeline Safety, recommending that the Associate Administrator adopt the terms of this Agreement by issuing an administrative order (Consent Order) incorporating the terms of this Agreement. The terms of this Agreement constitute an offer of settlement until accepted by the Associate Administrator. Once accepted, the Associate Administrator will issue a Consent Order incorporating the terms of this Agreement.

4. Respondent consents to the issuance of the Consent Order, and hereby waives any further procedural requirements with respect to its issuance. Respondent waives all rights to contest the adequacy of notice, or the validity of the Consent Order or this Agreement, including all rights to administrative or judicial hearings or appeals, except as set forth herein.

5. This Agreement shall apply to and be binding upon PHMSA, and upon Hilcorp, its officers, directors, and employees, and its successors, assigns, or other entities or persons otherwise bound by law. Respondent agrees to provide a copy of this Agreement and any incorporated work plans and schedules to all of Hilcorp's officers, employees, and agents whose duties might reasonably include compliance with this Agreement.

6. For all transfers of ownership or operating responsibility of Hilcorp's MGS Fuel Gas System, Respondent will provide a copy of this Agreement to the prospective transferee at least 30 days prior to such transfer and simultaneously provide written notice of the prospective transfer to the PHMSA Region Director (Director) who issued the Notice.

7. This Agreement constitutes the final, complete and exclusive agreement and understanding between the Parties with respect to the settlement embodied in this Agreement. The Parties acknowledge that there are no representations, agreements or understandings relating to settlement other than those expressly contained in this Agreement, except that the terms of this Agreement may be construed by reference to the Notice.

8. Nothing in this Agreement affects or relieves Respondent of its responsibility to comply with all applicable requirements of the Federal pipeline safety laws, 49 U.S.C. § 60101, *et seq.*, and the regulations and orders issued thereunder. Nothing in this Agreement alters PHMSA's right of access, entry, inspection, and information gathering or PHMSA's authority to

bring enforcement actions against Hilcorp pursuant to the Federal pipeline safety laws, the regulations and orders issued thereunder, or any other provision of Federal or State law.

9. This Agreement does not waive or modify any Federal, State, or local laws or regulations that are applicable to Respondent's pipeline systems. This Agreement is not a permit, or a modification of any permit, under any Federal, State, or local laws or regulations. Hilcorp remains responsible for achieving and maintaining compliance with all applicable Federal, State, and local laws, regulations and permits.

10. This Agreement does not create rights in, or grant any cause of action to, any third party not party to this Agreement. The U.S. Department of Transportation is not liable for any injuries or damages to persons or property arising from acts or omissions of Respondent or its officers, employees, or agents carrying out the work required by this Agreement. Hilcorp agrees to hold harmless the U.S. Department of Transportation, its officers, employees, agents, and representatives from any and all causes of action arising from any acts or omissions of Respondent or its contractors in carrying out any work required by this Agreement.

11. Upon issuance of the Consent Order, Hilcorp agrees to perform the Corrective Measures set forth below.

12. Definitions:

- a. The *Affected Pipeline Facility* means the 8-inch-diameter "A Pipeline" shown on the map attached as Exhibit A to the Notice and consists of the following four sections: 1) MGS onshore facility to "A Platform;" 2) "A Platform" to "Baker Platform;" 3) "A Platform" to "C Platform;" and 4) "C Platform" to "Dillon Platform."
- b. The *Affected Segment* means the section from the MGS onshore facility to the "A Platform," on which the leak is physically occurring. The leak is located approximately 2.6 miles from the "A Platform" and approximately 4.6 miles from the MGS onshore facility (as measured along the pipeline alignment).

## **II. Corrective Measures**

13. ***Repairs.*** The Parties understand that a repair of the leak is a two-phase process, consisting of an initial, temporary repair followed by a permanent repair. Hilcorp must mobilize divers and temporarily repair the leak on the failed *Affected Segment* as soon as Cook Inlet conditions allow divers to safely access the leak, but no later than by May 1, 2017. If the "A Pipeline" is not permanently repaired by May 15, 2017, Hilcorp must shut down the "A Pipeline" and keep it shut down until authorized to resume operation by the Director.

14. ***Notification of Pressure Fluctuations.*** Hilcorp must notify the Director by telephone within one hour of a confirmed discovery of any unplanned pressure fluctuation in excess of 25% of the target operating pressure, as determined by Hilcorp but not to exceed 165 psi, on the *Affected Pipeline Facility*. Hilcorp must make any such notifications whenever

required, 24 hours a day/7 days a week. In the event the Director is unavailable, Hilcorp must notify the Alaska Operations Supervisor, PHMSA, by telephone within the time requirement set forth in this paragraph. In the event that neither the Director nor the Alaska Operations Supervisor, PHMSA, is available, Hilcorp must leave voicemail messages for both individuals on their office and mobile telephone numbers.

15. **Temporary Pressure Restriction.** Prior to making any permanent repair, Hilcorp must use its best efforts to reduce and maintain the pressure of the *Affected Segment* as low as practical to ensure that water does not intrude the oil-contaminated line or otherwise jeopardize safety or the environment. In no event, however, may Hilcorp increase the pressure above 165 psi without prior written approval from the Director.

16. **Leak Inspection and Repair Plan.** Hilcorp must develop and implement a "Pipeline Leak Inspection and Repair Plan" for the *Affected Segment*. Hilcorp must submit this plan for approval to the Director prior to making any temporary repair(s) and no later than two weeks from the issuance of a Consent Order.

17. **Shutdown Plan.** Hilcorp must develop and submit a plan to safely shut down the *Affected Pipeline Facility* in the event operations must cease, either as a result of a PHMSA mandate or of a Hilcorp business decision. Hilcorp must submit to the Director such plan for approval no later than 14 days from the issuance of a Consent Order. At a minimum, the plan must address the following:

- a. The potential effects on people, environment, wildlife, platforms, and the "B Pipeline" system of terminating fuel gas delivery;
- b. Purging of the "A Pipeline" of natural gas and maintaining pipeline pressure to prevent water intrusion with a product that is non-hazardous to life, environment, and wildlife;
- c. The maintenance of minimum flow in the "B Pipeline" to prevent damage to the pipeline; such as, freezing of water within the pipeline, or in the alternative, providing for the purging of the "B Pipeline."

18. **Environmental Sampling and Monitoring Obligations.** If Hilcorp's environmental sampling and monitoring obligations ordered by the Alaska Department of Environmental Conservation (ADEC) cannot be met, or if Hilcorp or ADEC learn of significant changes in the results of environmental sampling and monitoring efforts that suggest harm to the environment or wildlife, Hilcorp must notify the Director in writing within 12 hours of confirmed discovery of such qualifying changes. Hilcorp must also inform PHMSA, in writing, of all requirements and requests made by ADEC to Hilcorp in connection with the *Affected Pipeline Facility* within 24 hours of any such requirement or request.

19. **Modification and Inspection Plan.** Hilcorp must develop and implement a "Modification and Inspection Plan" for the *Affected Pipeline Facility*. Hilcorp must submit

the plan to the Director for approval no later than 45 days from the issuance of a Consent Order. At a minimum, the plan must include the following:

- a. *ILI Assessment:* Hilcorp must modify the *Affected Pipeline Facility* to accommodate the use of ILI methods ("smart pigs") or alternative technologies approved by the Director. The selected ILI method or alternative technology must be capable of detecting, locating, identifying, and sizing dents, gouges, metal loss, excessive bending and other reasonably-identifiable anomalies.

Hilcorp must conduct an ILI or alternative technology referenced above on the *Affected Segment* and make all necessary repairs by September 30, 2018. Hilcorp must conduct an ILI or alternative technology referenced above on the balance of the *Affected Pipeline Facility* not included above and make all necessary repairs by September 30, 2019.

The ILI results (draft and final reports), and documentation of all subsequent associated repairs, must be sent to the Director within 30 days of receipt of each ILI vendor's report by Hilcorp and 30 days following completion of each repair.

- b. *Sonar Inspection:* Hilcorp must conduct high-resolution sonar inspection, or equivalent technology, with the prior written approval of the Director, of the *Affected Pipeline Facility* to identify pipeline sections that are not adequately supported physically and thus susceptible to excessive bending or current-induced vibrations that may damage the relevant pipeline section, no later than 90 days after the ice freeze has subsided in the spring of 2017 and the *Affected Pipeline Facility* becomes accessible by divers. The results of such inspections must be sent to the Director no later than 30 days after inspection is complete.
- c. *Diver Inspections for Vibration and Excessive Bending Threats:* For areas where the *Affected Pipeline Facility* is not continuously supported by the seabed (i.e., an unsupported span greater than 20 feet with a gap between the pipeline and the seafloor of greater than one pipeline diameter), Hilcorp must inspect those areas by diver, or equivalent, and determine those areas that require mitigation to address the threats of excessive bending and vibration induced failure. During the inspections divers will collect basic information about the pipe, including the existence of weight coat in the areas inspected. The external inspections required by this paragraph must be performed no later than October 31, 2017. To further assess for excessive bending on the *Affected Pipeline Facility*, Hilcorp will conduct the ILI assessments described in sub-paragraph 19(a), above.
- d. *Diver and ILI Inspections for Mechanical Damage:* To address the threat of external damage, Hilcorp must inspect any areas where the pipeline crosses rocky outcroppings. Hilcorp shall have divers inspect all unsupported spans where the pipe is resting on rocky outcroppings and determine those areas that require mitigation to address the threat of external damage. The diver inspections required by this paragraph must be performed no later than October 31, 2017, on

the *Affected Segment*, and no later than October 31, 2018, on the remainder of the *Affected Pipeline Facility*. To further assess for mechanical damage in those locations, and on the remainder of the *Affected Pipeline Facility*, Hilcorp will conduct the ILI assessments described in sub-paragraph 19(a), above. If Hilcorp can collect and integrate ILI and sonar data in advance of the diver inspection deadlines in this paragraph, it may request that diver inspections be limited to areas where integrated data demonstrates that a mechanical damage threat exists.

- e. The intervention criteria Hilcorp will use to determine if pipeline repairs or other mitigation requirements are needed.

20. **Documentation.** Hilcorp must provide the Director with documentation of compliance and supporting data, to all Items above.

21. **Revisions of Plans.** Hilcorp must revise all plans identified in Items 16, 17, and 19 above, as necessary to incorporate new information obtained during the evaluations and associated remedial activities. Hilcorp must submit any such plan revisions to the Director for prior approval. The Director may approve plan elements incrementally. The plans identified in Items 16, 17, and 19 above, once approved by the Director, will be incorporated by reference into any Consent Order issued by PHMSA.

22. **Written Approvals Required.** Hilcorp may only implement the plans identified in Items 16, 17, and 19 above after they have been approved, in writing, by the Director, including any revisions to the plan(s).

23. **Quarterly Reports.** Hilcorp must submit quarterly reports to the Director that: (1) include analysis of all available data and results of the testing and evaluations required by this Agreement; and (2) describe the progress of the repairs and other remedial actions being undertaken. The first report will be due 45 days from issuance of a final Consent Order.

24. **Extensions of Time.** The Director may grant an extension of time for compliance with any of the terms of the Agreement upon a written request timely submitted demonstrating good cause for an extension.

25. **Appeals.** Respondent may appeal any decision of the Director to the Associate Administrator for Pipeline Safety. Decisions of the Associate Administrator will be final.

### **III. Review and Approval Process**

26. With respect to any submission under Section II (Corrective Measures) of this Agreement that requires the approval of the Director, the Director may: (a) approve, in whole or in part, the submission, (b) approve the submission on specified, reasonable conditions, (c) disapprove, in whole or in part, the submission, or (d) any combination of the foregoing. If the Director approves, approves in part, or approves with conditions, Hilcorp will take all action as approved by the Director, subject to Respondent's right to invoke the dispute resolution procedures in Section IV with respect to any conditions the Director identifies. If the Director disapproves all or any portion of the submission, the Director will provide Hilcorp with a written

notice of the deficiencies. Respondent will correct all deficiencies within the time specified by the Director and resubmit it for approval.

#### **IV. Dispute Resolution**

27. The Director and Hilcorp will informally attempt to resolve any disputes arising under this Agreement. If Respondent and the Director are unable to informally resolve the dispute within 15 days of submittal of Respondent's invoking dispute resolution, Hilcorp may request in writing, within 10 days thereafter, a written determination resolving the dispute from the Associate Administrator for Pipeline Safety providing all information that Respondent believes is relevant to the dispute. If the request is submitted as provided herein, the Associate Administrator will issue a final determination in writing. The existence of a dispute and the PHMSA's consideration of matters placed in dispute will not excuse, toll, or suspend any term or timeframe for completion of any work to be performed under this Agreement during the pendency of the dispute resolution process except as agreed by the Director or the Associate Administrator in writing.

#### **V. Enforcement**

28. This Agreement, as adopted by the Consent Order, is subject to all enforcement authorities available to the PHMSA under 49 U.S.C. § 60101, *et seq.*, and 49 C.F.R. Part 190. All work plans and associated schedules set forth or referenced in Section II will be automatically incorporated into this Agreement and are enforceable in the same manner.

#### **VI. Recordkeeping and Information Disclosure**

29. Unless otherwise required in this Agreement, Hilcorp agrees to maintain records demonstrating compliance with all requirements of this Agreement for a period of at least five years following completion of all work to be performed. For any reports, plans, or other deliverables required to be submitted to PHMSA pursuant to this Agreement, Respondent may assert a claim of business confidentiality or other protections applicable to the release of information by PHMSA, covering part or all of the information required to be submitted to PHMSA pursuant to this Agreement in accordance with 49 C.F.R. Part 7. Respondent must mark the claim of confidentiality in writing on each page, and include a statement specifying the grounds for each claim of confidentiality. PHMSA determines release of any information submitted pursuant to this Agreement in accordance with 49 C.F.R. Part 7, the Freedom of Information Act, 5 U.S.C. § 552, DOT and PHMSA policies, and other applicable regulations and Executive Orders.

#### **VII. Effective Date**

30. The term "Effective Date," as used herein, is the date on which the Order is issued by the Associate Administrator incorporating the terms of this Agreement. Unless specified to the contrary, all deadlines for actions required by this Agreement run from the Effective Date of this Order.

**VIII. Modification**

31. The terms of this Agreement may be modified by mutual agreement of the Parties. Such modifications must be in writing and signed by both parties.

**IX. Termination**

32. This Agreement terminates upon completion of all terms set forth in Section II (Corrective Measures) as determined by the Director. Hilcorp may request written confirmation from PHMSA when this Agreement is terminated and the Director will provide such confirmation. Nothing in this Agreement prevents Respondent from completing any of the obligations earlier than the deadlines provided for in this Agreement.

**X. Ratification**

33. The Parties' undersigned representatives certify that they are fully authorized to enter into the terms and conditions of this Agreement and to execute and legally bind such party to this document.

34. The Parties hereby agree to all conditions and terms of this Agreement.

**For Hilcorp Alaska, LLC (Respondent):**

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Date

**For PHMSA:**

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Dustin Hubbard  
Acting Director, Office of Pipeline Safety  
PHMSA Western Region  
U.S. Department of Transportation

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Date