

**NOTICE OF PROBABLE VIOLATION
PROPOSED CIVIL PENALTY
and
PROPOSED COMPLIANCE ORDER**

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

January 24, 2019

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

CPF 5-2019-2001

Dear Mr. Lalicker:

On July 11 through 15, 2016 and October 26, 2016, representatives of the Pipeline and Hazardous Materials Safety Administration (PHMSA), Office of Pipeline Safety (OPS), pursuant to Chapter 601 of 49 United States Code (U.S.C.), inspected your Middle Ground Shoal natural gas transmission pipeline system near Nikiski, Alaska. We also reviewed your operation, maintenance and emergency response procedures and supporting records at your Nikiski and Anchorage offices.

As a result of the inspection, it is alleged that you have committed a probable violation of the Pipeline Safety Regulations, Title 49, Code of Federal Regulations (CFR). The item inspected and the probable violation is:

1. § 191.17 Transmission systems; gathering systems; and liquefied natural gas facilities: Annual report.

(a) *Transmission or Gathering.* Each operator of a transmission or a gathering pipeline system must submit an annual report for that system on DOT Form PHMSA 7100.2.1. This report must be submitted each year, not later than March 15, for the preceding calendar year, except that for the 2010 reporting year the report must be submitted by June 15, 2011.

Hilcorp Alaska, LLC (Hilcorp) failed to properly report the Middle Ground Shoal (MGS) natural gas transmission pipe located within the waters of the upper Cook Inlet as offshore transmission mileage in its 2015 Annual Report. During the on-site records inspection at Hilcorp's Nikiski office, Hilcorp produced an internal document that identified 16.6 miles of 8-inch gas transmission lines associated with their MGS natural gas pipeline system as offshore; however, that same pipeline mileage recorded in the 2015 annual report as submitted by Hilcorp on March 15, 2016 was listed as an onshore pipeline, in direct contradiction of their own internal analysis.

Prior to September 1, 2015 the previous owner, XTO Energy Inc., had correctly reported and categorized their 8-inch diameter transmission pipe as lying in offshore waters. Hilcorp purchased the XTO oil and gas facilities on September 1, 2015.

The mileage associated with the purchase of the XTO facilities is required to be reported on Hilcorp's 2015 Annual Report. Hilcorp calculated that 16.6 miles of 8-inch diameter pipe was associated with the natural gas transmission facilities located within the waters of the Upper Cook Inlet. The waters of the upper Cook Inlet are "offshore" under 49 C.F.R. Part 192 and 49 C.F.R. Part 195, and are required to be reported as such pursuant to § 191.17(a). Hilcorp's 2015 Annual Report does not report any offshore mileage for 8-inch diameter transmission pipe (Part H of the Annual Report). Hilcorp's 2015 Annual Report does report 16.6 miles of 8-inch diameter pipe as onshore transmission pipe. Therefore, Hilcorp failed to properly report the 16.6 miles of 8-inch diameter transmission pipe located within the waters of the upper Cook Inlet as offshore transmission mileage in its 2015 Annual Report. Hilcorp's Regulatory Compliance Manager verified that Hilcorp had reported the mileage as "onshore".

Proposed Civil Penalty

Under 49 U.S.C. § 60122 and 49 CFR § 190.223, you are subject to a civil penalty not to exceed \$209,002 per violation per day the violation persists, up to a maximum of \$2,090,022 for a related series of violations. For violations occurring prior to November 2, 2015, the maximum penalty may not exceed \$200,000 per violation per day, with a maximum penalty not to exceed \$2,000,000 for a related series of violations. The Compliance Officer has reviewed the circumstances and supporting documentation involved in the above probable violation and has recommended that you be preliminarily assessed a civil penalty of \$198,700 as follows:

<u>Item number</u>	<u>PENALTY</u>
1	\$198,700

Proposed Compliance Order

With respect to item 1, pursuant to 49 U.S.C. § 60118, the Pipeline and Hazardous Materials Safety Administration (PHMSA) proposes to issue a Compliance Order to Hilcorp Alaska, LLC. Please refer to the *Proposed Compliance Order*, which is enclosed and made a part of this Notice.

Response to this Notice

Enclosed as part of this Notice is a document entitled *Response Options for Pipeline Operators in Compliance Proceedings*. Please refer to this document and note the response options. All material you submit in response to this enforcement action may be made publicly available. If you believe that any portion of your responsive material qualifies for confidential treatment under 5 U.S.C. 552(b), along with the complete original document you must provide a second copy of the document with the portions you believe qualify for confidential treatment redacted and an explanation of why you believe the redacted information qualifies for confidential treatment under 5 U.S.C. 552(b).

Following the receipt of this Notice, you have 30 days to submit written comments, or request a hearing under 49 CFR § 190.211. If you do not respond within 30 days of receipt of this Notice, this constitutes a waiver of your right to contest the allegations in this Notice and authorizes the Associate Administrator for Pipeline Safety to find facts as alleged in this Notice without further notice to you and to issue a Final Order. If you are responding to this Notice, we propose that you submit your correspondence to my office within 30 days from receipt of this Notice. This period may be extended by written request for good cause.

In your correspondence on this matter, please refer to **CPF 5-2019-0001** and, for each document you submit, please provide a copy in electronic format whenever possible.

Sincerely,

Chris Hoidal
Acting Director, Western Region
Pipeline and Hazardous Materials Safety Administration

Enclosures: *Proposed Compliance Order*
Response Options for Pipeline Operators in Compliance Proceedings

cc: PHP-60 Compliance Registry
PHP-500 M. Chard, T. Johnson (#152927)

PROPOSED COMPLIANCE ORDER

Pursuant to 49 United States Code § 60118, the Pipeline and Hazardous Materials Safety Administration (PHMSA) proposes to issue to Hilcorp Alaska, LLC (Hilcorp) a Compliance Order incorporating the following remedial requirements to ensure the compliance of Hilcorp Alaska, LLC with the pipeline safety regulations:

1. In regard to Item Number 1 of the Notice pertaining to Hilcorp's failure to properly report the 16.6 miles of 8-inch diameter transmission pipe located within the waters of the upper Cook Inlet as offshore transmission mileage in its 2015 Annual Report. Hilcorp must amend its 2015 Annual report and any subsequent reports to properly reflect the 16.6 miles of 8-inch diameter transmission pipe located within the waters of the upper Cook Inlet as offshore transmission mileage.
2. Hilcorp shall evaluate all of its Alaska facilities to determine if this error has been propagated elsewhere. Hilcorp shall re-submit all annual reports which incorrectly reported offshore and onshore pipeline mileages.
3. Within thirty (30) calendar days after receipt of the Final Order, Hilcorp must complete the re-submission of its 2015 Annual Report and any other reports found to be in error as discussed above. Once these actions are complete, Hilcorp shall notify the PHMSA Western Region Director of such actions.
4. It is requested (not mandated) that Hilcorp maintain documentation of the safety improvement costs associated with fulfilling this Compliance Order and submit the total to Chris Hoidal, Acting Director, Western Region, Pipeline and Hazardous Materials Safety Administration. It is further requested that these costs be reported in two categories: 1) total cost associated with preparation/revision of plans, procedures, studies and analyses, and 2) total cost associated with replacements, additions and other changes to pipeline infrastructure.