

WARNING LETTER

OVERNIGHT EXPRESS DELIVERY

March 22, 2022

Mr. Luke Saugier
Senior Vice President
Hilcorp Alaska, LLC
3800 Centerpoint Drive, Suite 1400
Anchorage, Alaska 99503

CPF 1-2022-040-WL

Dear Mr. Saugier:

From July 13 through July 16 and August 10 through August 11, 2021, representatives of the Pipeline and Hazardous Materials Safety Administration (PHMSA) pursuant to Chapter 601 of 49 United States Code (U.S.C.) inspected Hilcorp Alaska, LLC's (Hilcorp) Kenai Gas Field Storage, Swanson River Gas Storage and Pretty Creek Gas Storage fields in Kenai Peninsula and Matanuska Susitna Counties, Alaska.

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

1. **§ 191.17 Transmission systems; gathering systems; liquefied natural gas facilities; and underground natural gas storage facilities: Annual report.**
 - (a) ...
 - (c) *Underground natural gas storage facility.* Each operator of a UNGSF must submit an annual report through DOT Form PHMSA 7100.4-1. This report must be submitted each year, no later than March 15, for the preceding calendar year.

Hilcorp failed to include required information on its Underground Natural Gas Storage Facilities (UNGSF) annual reports submitted in 2019 and 2021 pursuant to § 191.17(c).

During the inspection, PHMSA reviewed Hilcorp's submitted UNGSF annual reports and found that the Kenai Gas Field information was omitted from the 2018 annual report submitted on 3/12/2019. Additionally, one new well drilled at the Swanson River Field was not included in the 2020 annual report submitted on 3/15/2021.

Therefore, Hilcorp failed to submit accurate annual reports pursuant to § 191.17(c).

2. § 192.12 Underground natural gas storage facilities.

(a) ...

(b) *Depleted hydrocarbon and aquifer reservoir UNGSFs.*

(1) ...

(2) **Each UNGSF that uses a depleted hydrocarbon reservoir or an aquifer reservoir for natural gas storage and was constructed on or before July 18, 2017, must meet the provisions of API RP 1171 (incorporated by reference, see § 192.7), sections 8, 9, 10, and 11, and paragraph (c) of this section, by January 18, 2018, and must meet all provisions of paragraph (d) of this section by March 13, 2021.**

Hilcorp failed to meet the provisions of API RP 1171, Section 8. Specifically, Hilcorp failed to fully develop, implement, and document a program to manage risk in accordance with API RP 1171, Section 8.2 (Section 8.2).

Section 8.2 states in part:

The operator shall develop, implement, and document a program to manage risk that includes data collection, identification of potential threats and hazards to the storage operation, risk analysis including estimation of the likelihood of occurrence of events related to each threat, the likelihood of occurrence and potential severity of the consequences of such events, and the preventive, mitigative, and monitoring processes to reduce the likelihood of occurrence and/or the likelihood and severity of consequences, and a periodic review and reassessment of the processes.

During the inspection, PHMSA reviewed Hilcorp's Operation, Maintenance & Emergency Response (OMER) manual, and risk model. PHMSA found that a risk management program had not been fully developed, implemented, and documented according to Section 8.2. Hilcorp had not identified the threats and hazards to the storage operation that would be used for risk analysis. Also, Hilcorp had not estimated the likelihood of occurrence of events related to threats nor the likelihood of potential severity of the consequences of such events in the form of a developed risk model.

Therefore, Hilcorp failed to meet the provisions of Section 8.2.

3. § 192.12 Underground natural gas storage facilities.

(a) ...

(b) *Depleted hydrocarbon and aquifer reservoir UNGSFs.*

(1) ...

(2) Each UNGSF that uses a depleted hydrocarbon reservoir or an aquifer reservoir for natural gas storage and was constructed on or before July 18, 2017, must meet the provisions of API RP 1171 (incorporated by reference, see § 192.7), sections 8, 9, 10, and 11, and paragraph (c) of this section, by January 18, 2018, and must meet all provisions of paragraph (d) of this section by March 13, 2021.

Hilcorp failed to meet the provisions of API RP 1171, Section 9. Specifically, Hilcorp failed to perform annual visual inspection of each wellhead assembly for leaks during 2018 and 2019 in accordance with API RP 1171, Section 9.3.2 (Section 9.3.2).

Section 9.3.2 states in part, “The operator will visually inspect each wellhead assembly at least annually for leaks.”

During the inspection, Hilcorp was not able to provide records of visual inspection of each wellhead assembly for leaks for 2018 and 2019.

Therefore, Hilcorp failed to meet the provisions of Section 9.3.2.

4. § 192.12 Underground natural gas storage facilities.

(a) ...

(b) *Depleted hydrocarbon and aquifer reservoir UNGSFs.*

(1) ...

(2) Each UNGSF that uses a depleted hydrocarbon reservoir or an aquifer reservoir for natural gas storage and was constructed on or before July 18, 2017, must meet the provisions of API RP 1171 (incorporated by reference, see § 192.7), sections 8, 9, 10, and 11, and paragraph (c) of this section, by January 18, 2018, and must meet all provisions of paragraph (d) of this section by March 13, 2021.

Hilcorp failed to meet the provisions of API RP 1171, Section 9. Specifically, Hilcorp failed to test the operation of the master valve and wellhead pipeline isolation valve at least annually for proper function and ability to isolate the well during 2018 and 2019 in accordance with API RP 1171, Section 9.3.2 (Section 9.3.2).

Section 9.3.2 states in part, “The operator shall test the operation of the master valve and wellhead pipeline isolation valve at least annually for proper function and ability to isolate the well.”

During the inspection, Hilcorp was not able to provide records of master valve and wellhead pipeline isolation valve tests for 2018 and 2019.

Therefore, Hilcorp failed to meet the provisions of Section 9.3.2.

5. § 192.12 Underground natural gas storage facilities.

(a) ...

(b) *Depleted hydrocarbon and aquifer reservoir UNGSFs.*

(1) ...

(2) **Each UNGSF that uses a depleted hydrocarbon reservoir or an aquifer reservoir for natural gas storage and was constructed on or before July 18, 2017, must meet the provisions of API RP 1171 (incorporated by reference, see § 192.7), sections 8, 9, 10, and 11, and paragraph (c) of this section, by January 18, 2018, and must meet all provisions of paragraph (d) of this section by March 13, 2021.**

Hilcorp failed to meet the provisions of API RP 1171, Section 8. Specifically, Hilcorp did not review the results of the risk assessment to determine whether the risk assessment, resulting prioritization, or ranking represents its facilities and characterizes the risks in accordance with API RP 1171, Section 8.5.2 (Section 8.5.2).

Section 8.5.2 states in part, “The operator shall review the results of the risk assessment to determine whether the risk assessment, resulting prioritization, or ranking represents its facilities and characterizes the risks.”

During the inspection, Hilcorp did not provide any records of the reviews of its risk assessment results for 2019 and 2020.

Therefore, Hilcorp failed to meet the provisions of Section 8.5.2.

6. § 192.12 Underground natural gas storage facilities.

(a) ...

(c) ***Procedural manuals.* Each operator of a UNGSF must prepare and follow for each facility one or more manuals of written procedures for conducting operations, maintenance, and emergency preparedness and response activities under paragraphs (a) and (b) of this section. Each operator must keep records necessary to administer such procedures and review and update these manuals at intervals not exceeding 15 months, but at least once each calendar year. Each operator must keep the appropriate parts of these manuals accessible at locations where UNGSF work is being performed. Each operator must have written procedures in place before commencing operations or beginning an activity not yet implemented.**

Hilcorp failed to follow its manual of written procedures for conducting operations, maintenance and emergency preparedness and response activities. Specifically, Hilcorp failed to follow its OMER, Section 7.3 regarding documenting the well annulus pressure each day for all storage wells.

During the inspection, Hilcorp’s OMER was reviewed. The OMER, Section 7.3 stated in part, “To confirm continued mechanical integrity, Hilcorp shall record the pressure in the well and annulus during storage operations each day for all storage wells.”

When requested, Hilcorp presented annulus pressure records that showed that annulus pressures

were not recorded daily in the Kenai Storage Field for the following wells: Well 005L (March to October in 2020), Well 44030 (2018), Well 43-006RD (2018 to 2020).

Therefore, Hilcorp failed to follow its OMER, Section 7.3.

7. **§ 192.12 Underground natural gas storage facilities.**

(a) ...

(c) *Procedural manuals.* Each operator of a UNGSF must prepare and follow for each facility one or more manuals of written procedures for conducting operations, maintenance, and emergency preparedness and response activities under paragraphs (a) and (b) of this section. Each operator must keep records necessary to administer such procedures and review and update these manuals at intervals not exceeding 15 months, but at least once each calendar year. Each operator must keep the appropriate parts of these manuals accessible at locations where UNGSF work is being performed. Each operator must have written procedures in place before commencing operations or beginning an activity not yet implemented.

Hilcorp failed to review and update its Emergency Action Plan (EAP) manual at intervals not to exceed 15 months, but at least once each calendar year.

During the inspection, PHMSA requested Hilcorp's EAP documentation and the reviews for Swanson River and Pretty Creek emergency plans. Records of a review of the EAP were not available for 2020.

Therefore, Hilcorp failed to review its EAP manual at least once each calendar year.

Under 49 U.S.C. § 60122 and 49 CFR § 190.223, you are subject to a civil penalty not to exceed \$225,134 per violation per day the violation persists, up to a maximum of \$2,251,334 for a related series of violations. For violation occurring on or after January 11, 2021 and before May 3, 2021, the maximum penalty may not exceed \$222,504 per violation per day the violation persists, up to a maximum of \$2,225,034 for a related series of violations. For violation occurring on or after July 31, 2019 and before January 11, 2021, the maximum penalty may not exceed \$218,647 per violation per day the violation persists, up to a maximum of \$2,186,465 for a related series of violations. For violation occurring on or after November 27, 2018 and before July 31, 2019, the maximum penalty may not exceed \$213,268 per violation per day, with a maximum penalty not to exceed \$2,132,679. For violation occurring on or after November 2, 2015 and before November 27, 2018, the maximum penalty may not exceed \$209,002 per violation per day, with a maximum penalty not to exceed \$2,090,022.

We have reviewed the circumstances and supporting documents involved in this case and have decided not to conduct additional enforcement action or penalty assessment proceedings at this time. We advise you to correct the items identified in this letter. Failure to do so will result in Hilcorp Alaska, LLC being subject to additional enforcement action.

No reply to this letter is required. If you choose to reply, in your correspondence please refer to **CPF 1-2022-040-WL**. Be advised that all material you submit in response to this enforcement action is subject to being 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).

Sincerely,

Robert Burrough
Director, Eastern Region, Office of Pipeline Safety
Pipeline and Hazardous Materials Safety Administration