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Alaska State Legislature

3111 C Street, Suite 150
Anchorage, Alaska 99503
(907) 561-2038



During Session:
P.O. Box V
Juneau, Alaska 99811
(907) 465-4993

Senator Drue Pearce
District G

MEMORANDUM

TO: Senator Lloyd Jones, Chair
Senate Resources Committee

FROM: Senator Drue Pearce *Drue Pearce*

DATE: May 1, 1991

RE: CSSSSB 46 (O&G), Relating to the AOGCC

Please consider scheduling CSSSSB 46 (O&G), An Act relating to the Alaska Oil and Gas Conservation Commission, for a hearing as soon as possible.

I introduced this bill after I read the Ombudsman Investigative Report of the AOGCC date November 6, 1990. The report suggested mandatory rotation of the chairmanship in the absence of limited terms for the commissioners. This would not allow the commission chairman to have broad influence or potential power that was experienced by the past chairman.

The committee substitute made two changes to the bill. One, it changed the term of the chair back to four years (line 5) as is in present law. The two year proposal was not warranted. The second change tightened the title.

If you have any questions, please call me or Tally Johnson of my staff.

Thank you.

DP:tej

Attachment

Alaska State Legislature

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(907) 561-2038



During Session:
P.O. Box V
Juneau, Alaska 99811
(907) 465-4993

Senator Drue Pearce
District G

MEMORANDUM

TO: Senator Sam Cotten, Chair
Senate Oil & Gas Committee

FROM: Senator Drue Pearce *Drue Pearce*

DATE: April 25, 1991

RE: SSSB 46, Relating to the AOGCC

SSSB 46, An Act relating to the Alaska Oil and Gas Conservation Commission, was introduced after I read the Ombudsman's Investigative Report of the AOGCC dated November 6, 1990.

The report suggested mandatory rotation of the chairmanship in the absence of limited terms for the commissioners (Page 27). The proposed committee substitute makes two changes to the bill. First, it changes the term of the chair back to four years (line 5) as is in present law. The two year proposal was not warranted.

The second change tightens the title. The title of the proposed committee substitute reads, "An Act relating to the chair of the AOGCC."

I urge your support.

Thank you.

DP:tej

FISCAL NOTE

STATE OF ALASKA
1991 LEGISLATIVE SESSION

BILL NO. CSSSSB 46 (O&G)

Revision Date: April 17, 1991 Department Affected: Commerce
 Title: An act relating to the Chair BRU, Oil and Gas Conservation Commission
 of the AOGCC Component: _____
 Sponsor: Senator Pearce
 Requestor: Senator Pearce COMPONENT SERIAL NO.

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Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & SIMULATED						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -

CAPITAL	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
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REVENUE	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
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FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year impact: NONE

ANALYSIS: (Attach a separate page if necessary.)
 No fiscal impact is anticipated should the proposed amendments be enacted.

Prepared By: Lonnie C. Smith/Commissioner Phone: 279-1433

Division: Alaska Oil & Gas Conservation Commission Date: April 22, 1991

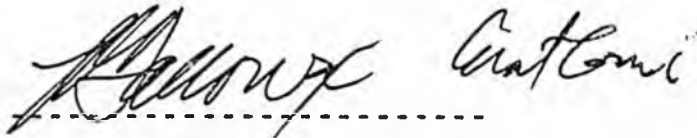
Approved by Commissioner: Alexander G. Elvik W. M. Max Ant. Corn

Agency: Department of Commerce & Economic Dev. Date: 4-24-91

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB, & Impaired Agency(ies).

CSSSSB 46: An act relating to the Alaska Oil and Gas Conservation Commission.

The Department of Commerce and the Alaska Oil and Gas Commission has no objection to amendment of AS 31.05.005 (b) as proposed by the Senate Special Committee on Oil and Gas in CSSSSB 46 (O&G).



Glenn A. Olds, Commissioner

Date: 4-24-91

ALASKA OIL AND GAS CONSERVATION COMMISSION

PRESENTATION TO THE WORKING GROUP

FEBRUARY 19, 1991

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ALASKA OIL AND GAS CONSERVATION COMMISSION

Overview of Statutory Responsibilities and Functions

The Alaska Oil & Gas Conservation Commission is an independent, quasi-judicial agency of the State of Alaska. It is established under the Alaska Oil and Gas Conservation Act, Title 31 of the Alaska Statutes; its regulatory authority is outlined in Title 20, Chapter 25 of the Administrative Code.

The Commission acts to prohibit the physical waste of crude oil and natural gas, ensure the maximum ultimate recovery, and protect the correlative rights of persons owning oil and gas interest in lands subject to Alaska's police powers. It also administers the Underground Injection Control (UIC) program for oil and gas wells in Alaska, and oversees metering operations to determine the quality and quantity of oil and gas produced in the state. The Commission holds hearings and/or adjudicates decisions, which require the combined expertise of geology and reservoir and petroleum engineering.

Physical waste can occur at the surface from the failure of surface and subsurface equipment or below ground from inappropriate reservoir management practices. Surface waste is prevented by reviewing each drilling proposal to ensure proper well design (i.e., casing/tubing program, cement program, casing setting depth, etc.), well control equipment (i.e., mud system, diverter, blow out prevention equipment, etc.) hydrogen sulfide detection equipment, well logging program, production practices, plugging and abandonment procedures, and to check for shallow geohazards and over-pressure zones. The Commission's field inspection staff then verify that operations are conducted in accordance with approved procedures and regulations.

Waste below ground has the potential for even greater impact to the state's economy as it directly determines the amount of oil and natural gas that will be recovered. It is prevented by ensuring proper reservoir management practices, and hinges on Commission decisions about well spacing, completion techniques, production rates, injection fluid type and rates, injection well pattern, gas/oil/water ratios, and pressure maintenance efforts. Findings and conclusions of the Commission are rendered in pooling rules and conservation orders.

Maximizing ultimate recovery goes hand-in-hand with preventing waste, but also requires detailed understanding of the physical parameters of the reservoir (i.e., porosity, permeability, stratigraphy, faulting,

reservoir pressure and drive mechanism, etc.), and its production performance over time (i.e., production decline curve analysis).

Protecting correlative rights (or the right of opportunity) is generally accomplished by establishing drilling units and by requiring the unitized operations of pools and plans of development.

The UIC program requires the Commission to verify the mechanical integrity of injection wells, determine appropriate injection zones and overlying confining strata, determine the presence or absence of freshwater aquifers and ensure their protection, and prepare quarterly reports of both in-house and field monitoring for the U. S. Environmental Protection Agency.

The Commission's metering functions verify the accuracy of crude oil sales meters used for royalty and severance tax determinations. In the field, Commission engineers and inspectors monitor water drawing and calibration of volumetric provers, and witness proving operations. In the office, meter factor calculations and fluid volume calculation are verified to ensure that correct temperature and pressure factors have been used.

In addition, the Commission also acts as Alaska's jurisdictional agency for the Natural Gas Policy Act as administered by the Federal Energy Regulatory Commission (FERC) and for qualifying enhanced recovery operations under the Windfall Profits Tax Act for the U. S. Treasury.

The Commission requires reports, data and material from operators ranging from drilling, testing and completion reports, production and injection volumes, well logs, cuttings, cores, maps, cross-sections, pressure and material balance reports, GOR reports, ownership and unitization agreements and development plans. Certain of these data are held confidential for a minimum of two years.

ALASKA OIL AND GAS CONSERVATION COMMISSION

History

The Alaska Oil and Gas Conservation Act (1955) created the Alaska Oil and Gas Conservation Commission. It was composed of the Governor of the Territory of Alaska, the Territorial Commissioner of Mines, and the Territorial Highway Engineer. Rules and regulations governing Commission activities became effective on October 1, 1958.

Under the State Organization Act of 1959, the Oil and Gas Conservation Commission was abolished, its function and authority transferred to the Department of Natural Resources, Division of Mines and Minerals. A group within the department was designated to hold hearings and issue decisions on oil and gas matters. This group was the Alaska Oil and Gas Conservation Committee which consisted of the Director of the Division of Mines and Minerals (Chairman), the State Petroleum Geologist, the State Petroleum Engineer, and the Deputy Commissioner of the Department of Natural Resources.

In 1968 the Division of Oil and Gas was created within the Department of Natural Resources. The new division arose from the Petroleum Branch of the Division of Mines and Minerals. The Alaska Oil and Gas Conservation Committee was placed within the new division, and consisted of the Director, Chief Petroleum Geologist and Chief Petroleum Engineer.

In 1976 the word "conservation" was added to the division's title, and it became the Division of Oil and Gas Conservation.

With the advent of production from Prudhoe Bay in 1977, the Legislature became concerned that there was the appearance of potential for a conflict of interest with the Department of Natural Resources, an owner of oil and gas rights, also acting as the regulator of other owners of oil and gas rights. To obviate its concern, the Legislature amended AS 31.05 by Chapter 158, SLA 1978 to restore the Commission, effective January 1, 1979, as an independent quasi-judicial agency within the executive branch of the state. Initially, the new Commission was housed within the Department of Natural Resources, but in 1980 it was transferred to the Department of Commerce and Economic Development.

The Commission continues to function as the regulatory agency overseeing the underground operation of the Alaska oil industry on private and public lands and waters. Its responsibilities include

regulation drilling and production of oil and gas to ensure that physical waste does not occur, protecting the correlative rights of mineral interest owners, and managing the Class II Underground Injection Control (UIC) program for oil and gas wells in Alaska as authorized by the U. S. Environmental Protection Agency on June 19, 1986.

The Commission compiles and maintains a data bank of drilling, production and reservoir statistics, including information on oil production, associated gas production, non-associated gas production, and injection volumes on an individual well, pool and field basis. Other data includes drilling permits, well histories, well logs, and public hearings testimony. Recently, the Commission acquired a new computer system which will be used to monitor oil and gas reservoir depletion in Alaska. The reservoir surveillance computer system will also allow the Commission to provide other state agencies with detailed reservoir information, including production decline estimates.

ALASKA OIL AND GAS CONSERVATION COMMISSION

Key Issues and Points of Information

Short Range:

As a preliminary matter, the Commission must stress that its role is regulatory, not policy setting. Issues facing the Commission, for the most part, are in response to events related to the exploration and development of the state's oil and gas resources.

1. New Commission Management: On August 1, 1990, the Commission's chairman since 1982 retired. Commissioner David W. Johnston was appointed the new chairman and Russell A. Douglass, formerly senior petroleum engineer was appointed commissioner on November 26, 1990. Governor Hickel reappointed Lonnie C. Smith to his third term as commissioner on January 23, 1991. The Commission will work closely with the new administration and legislature to ensure the best interests of the state are protected.
2. Field inspection program: Last year the Commission was investigated by the Office of the Ombudsman, who issued a report critical of the state's petroleum inspection program. The report concluded that the Commission had acted unreasonably in progressively reducing the oil and gas well inspection program to a level which compromises the investigative and regulatory functions of the Commission. Based upon our commitment to strengthen the inspection program and improve personnel management, the Ombudsman found the disposition of the case to be partially rectified.

Subsequent to the Ombudsman's investigation, Representative Cliff Davidson requested the Division of Legislative Audit to do a performance audit of the Commission. That audit is currently ongoing.

3. Underground Injection Control (UIC) Program: The Commission is currently involved in discussions with the U.S. Environmental Protection Agency (EPA) concerning the types of fluids that can be injected in a Class II well for either disposal or enhanced oil recovery purposes. Disagreement centers on the need for and extent of fluid sampling requirements, and interpretation of the Safe Drinking Water Act (SDWA) and the Resource Conservation

and Reclamation Act (RCRA). Resolution of the matter is anticipated during 1991.

4. Litigation: Litigation has arisen over Conservation Order #254. The order established a 640-acre drilling unit for the Mike Pelch #1 well (formerly Cannery Loop #2). The owner of the Mike Pelch well objects to CO #254 because it did not force pool the interests of the mineral owners within the drilling unit. The Commission concluded that forced pooling was not yet appropriate because no evidence was presented at the hearing to show that voluntary efforts to reach an equitable agreement had failed. Production from the well may not occur until a voluntary agreement is reached or, if voluntary efforts fail, until the Commission holds a public hearing and issues an order involuntarily integrating the interests of the mineral owners.

Long Range:

1. Surface Commingling of Production: As new, marginal fields on the North Slope are brought closer to development additional attention will be drawn to issues surrounding the surface commingling of production from separate reservoirs. The advantage of commingling is the sharing and full utilization of production facilities, the downside is the possibility of less certainty for the state in determining if the separate reservoirs are being managed properly. The departments of Revenue and Natural Resources will also be concerned because of royalty and revenue implications. Determining suitable well testing and allocation methods will be a key in resolving commingling issues.
2. Pooling Rules: The Commission will be holding pooling rules for the Walakpa gas accumulation and the Sag Delta North oil accumulation in March. We anticipate establishing pooling rules for Pt. McIntyre, Niakuk, and W. Sak reservoirs during the next two to three years. Revisions to existing pooling orders also will likely occur for certain Cook Inlet fields.
3. Bonding: Currently, the Commission requires a bond (\$100.0/\$200.0) of each operator to offset some of the liability for lack of performance, proper abandonment, or repair of wells causing waste. These bond amounts may no longer be sufficient to cover costs of remedial work.

Bonding problems may also arise from bankruptcy proceeding of several small Alaska operators. The Commission will attempt to protect the bonds (certificates of deposit) from creditor distribution under the proceedings. It is likely that the Commission will be forced to use the bonds, along with additional funds, to plug and abandon wells drilled by these persons.

Legislative Issues:

Aside from confirmation proceedings and the move to DNR, the Commission does not foresee the need for any near term legislative action nor does it anticipate any legislative issues arising during the immediate future that would directly involve it.

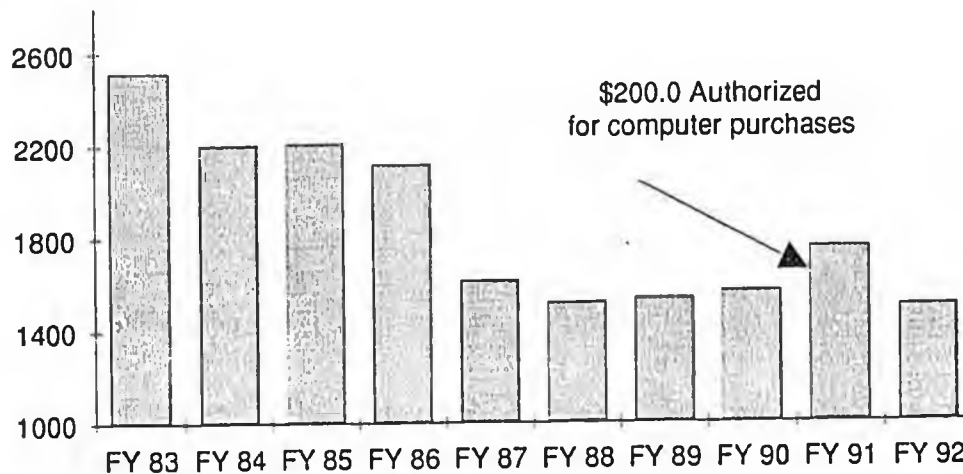
ALASKA OIL AND GAS CONSERVATION COMMISSION

Budget History

The following table and chart summarizes the Commission past budgets, which have been reduced 40 percent since 1983. The increase in equipment money in FY'90 and FY'91 was for the purchase of a reservoir surveillance computer system.

APPROPRIATED MONIES

<u>FY</u>	<u>100</u>	<u>200</u>	<u>300</u>	<u>400</u>	<u>500</u>	<u>TOTAL</u>	<u>Staff</u>
'83	1518.8	120.2	847.6	23.6	4.0	2514.2	27
'84	1411.6	102.1	665.1	21.7	3.0	2203.5	25
'85	1508.5	194.2	477.7	20.5	6.4	2207.3	26
'86	1548.1	193.0	348.9	21.7	5.4	2117.1	26
'87	1362.4	98.0	135.4	18.1	0.0	1613.9	25
'88	1280.2	98.0	127.4	13.0	0.0	1518.6	23
'89	1307.7	88.0	127.4	13.1	0.0	1536.2	23
'90	1271.3	72.5	161.8	13.1	50.0	1568.7	22
'91	1310.0	72.5	161.8	13.1	200.0	1757.4	21
'92	1314.2	49.6	126.7	13.1	0.0	1503.6	20



ALASKA OIL AND GAS CONSERVATION COMMISSION

Statistics

Application for Sundry Approvals (Form 10-403)

1987	731	approved
1988	991	approved
1989	1,017	approved
1990	907	approved
1991	45	approved

Permits to Drill (Form 10-401)

1987	137	approved
1988	158	approved
1989	133	approved
1990	173	approved
1991	18	approved

Conservation Orders Approved

1987	1	Area Injection Order
1987	5	Disposal Injection Orders
1987	1	Aquifer Exemption Order
1987	13	Conservation Orders
1987	1	Conservation File
1988	4	Conservation Orders
1988	1	Conservation File
1989	1	Disposal Injection Order
1989	1	Aquifer Exemption Order
1989	9	Conservation Orders
1990	16	Conservation Orders
1991	6	Conservation Orders
1991	1	Storage Injection Order

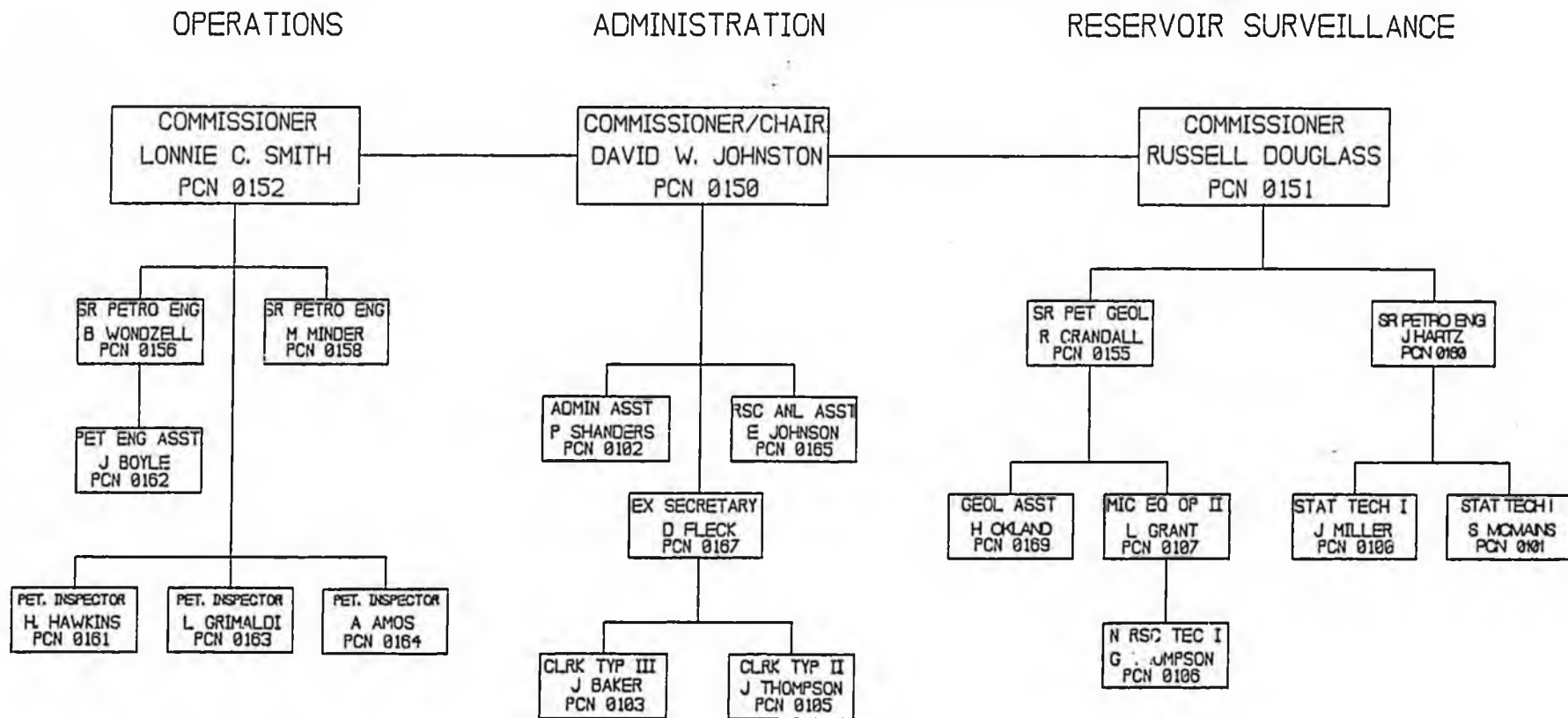
Public Hearings Held

1987	4 plus 1 pre-hearing
1988	0
1989	2
1990	4

ALASKA OIL AND GAS CONSERVATION COMMISSION

ORGANIZATIONAL CHART

FEBRUARY 1991





**STATE OF ALASKA
OFFICE OF THE OMBUDSMAN**

INVESTIGATIVE REPORT

**Alaska Oil and Gas Conservation Commission
Ombudsman Complaint A90-0317**

November 6, 1990

**DUNCAN C. FOWLER
OMBUDSMAN**

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INVESTIGATIVE REPORT
Ombudsman Complaint A90-0317

November 6, 1990

SUMMARY OF THE COMPLAINT

On February 20, 1990, a complaint was filed with the Anchorage Office of the Ombudsman against the Alaska Oil and Gas Conservation Commission. The complaint consisted of two allegations:

(1) The commission has acted unreasonably in progressively reducing the oil and gas well inspection program to a level which compromises the investigative and regulatory function of the commission; and

(2) The commission has acted unfairly in its reprimand of the inspection staff supervisor, Michael Minder, for writing an annual report critical of the current level of well inspections.

Mr. Minder originally submitted the report in longhand to his supervisor, Commissioner Lonnie Smith:

Subject: 1989 Annual Report BOP (blowout preventer) and Diverter Inspections.

The Commission witnessed 69 (31%) of the 222 operations (10 diverter and 212 BOP tests) reported during 1989. There were one or more failures on 72 (32%) tests conducted. All failures were replaced or repaired and subsequently passed testing.

A lack of manpower together with budgetary constraints have reduced our exposure both on the North Slope and, particularly, in the Cook Inlet fields. Drilling and workover activities are increasing in these fields with many of the platforms activating equipment that hasn't been used for years. We have only been able to witness eight (18%) of the 45 operations reported from the inlet. If the volcanic activity does not change the trend, we may expect to see far more demand from the inlet in 1990.

We did better on the slope with about 27% of the BOP tests witnessed; yet this is minimal when compared to 85% coverage achieved when there were five inspectors in the field as opposed to the current three.

Certainly the industry oversees and protects its interests; but as to our effectiveness, the inspectors have

found many unsafe and deficient conditions, procedures, and equipment which were corrected due to their presence and diligence. Even when they are unable to witness the equipment, the prospect that they might come has some protective value.

Many tests, even those on exploratory wells have had to be waived in 1989. It is hoped this will be changed in 1990.

Mr. Minder gave copies of the draft to the inspectors. He was told not to finalize the memo in typed form and to retrieve the draft. When Mr. Minder proceeded to have the memo typed, Mr. Smith wrote the reprimand:

... Mr. Minder was directly insubordinate to his supervisor (Mr. Smith) and subsequently to the chairman, Chat Chatterton concerning an unapproved memorandum which he had drafted longhand containing unsolicited opinions and misleading statements about the effectiveness of the commission's field inspection program. Specifically, he refused to alter the memorandum verbiage as directed, insisted on having the memo typed as presented and then distributed the memorandum without regard to following the established line of authority approvals and procedures.

In the above matter Mike expressed a serious lack of judgement, willingness, and ability to carry out a direct order, and his defiant attitude and actions following counseling by myself and each of the two other commissioners can only be categorized as insubordination.

... The commission provided lengthy explanations concerning the authority, administration and operation of the commission. As a result of this meeting it was evident that he does not respect the commission's authority and intent as to policy directions and regulation enforcement.

... As a disciplinary action, Mike's job assignment is hereby abridged to delete any supervisory authority ... To return to good standing with the commission, he must strive to demonstrate his allegiance to the authority of the commission and the fulfillment of goals and policies as interpreted by the commission so that he can more properly assist the commission and reestablish his individual progress.

Assistant Ombudsman Diane Shriner investigated this complaint. In addition to the commissioners and staff, personnel from Canada, California, Texas, Wyoming and other Alaska state and federal agencies having an active involvement in oil and gas issues were interviewed. Material obtained from those agencies will be forwarded to the commission for consideration.

The preliminary report and recommendations were forwarded to the commission for consideration. The commission's comments were carefully considered and suggestions were incorporated into the final report. The commission's response to each recommendation is quoted in its entirety.

Mr. Minder provided a confidential release of information to the ombudsman's office for access and use of all personnel material referenced in this report.

LEGISLATIVE HISTORY AND AUTHORITY OF THE COMMISSION

The Alaska Oil and Gas Conservation Act in 1955 created the first Alaska Oil and Gas Conservation Commission during territorial times.

After statehood, the commission's functions and authority were placed under the newly created Department of Natural Resources (DNR), Division of Mines and Minerals. In 1964, the Oil and Gas Conservation Act became Title 31 of the Alaska Statutes.

In 1968, the Division of Oil and Gas was created within DNR from the petroleum branch of the Division of Mines and Minerals. In 1976, the word "conservation" was added to the division's title, and it became the Division of Oil and Gas Conservation. In addition to other duties, this division regulated the development of oil and gas reserves in the state.

By 1978, the Prudhoe Bay oil field was developing and the legislature was aware that if Alaska's proprietary interest in oil and gas exploration and development continued to be combined with its regulation of those activities, the appearance of a conflict would be created.

In 1979, the legislature abolished the Division of Oil and Gas Conservation within DNR. It then established the independent, quasi-judicial Alaska Oil and Gas Conservation Commission, within the executive branch, to ensure that oil and gas drilling, production, reservoir depletion and metering operations were in compliance with applicable statutes.

The commission presently regulates 1,551 producing oil wells and 133 producing gas wells in the state, and processes approximately 200 drilling permits and 1,000 well repair and other permits per year. Commissioner Chat Chatterton anticipated approximately five new exploratory wells: three in the inlet and two on the arctic slope, will be drilled in the coming year.

In January 1986, the commission assumed responsibility from the Environmental Protection Agency (EPA) for the Underground Injection Control (UIC) program. This program is designed to protect underground sources of drinking water from potential contamination by injection wells. The EPA requires each well to be inspected prior to injection and again every four years. Alaska has agreed to follow the minimum requirements. An annual evaluation of Alaska's program is performed by the EPA.

The commission's responsibility presently covers 569 injection wells. The commission receives \$100,000 annually from the federal government to administer the program.

The Alaska Oil And Gas Conservation Act (AS 31.05) describes the commission; its powers and duties, and its ability to set regulations and enforce its orders.

THE COMMISSION

Each of the three commissioners is appointed by the governor and confirmed by the legislature to a six-year term. From the commissioners, a chairman is appointed for four years. Appointments, including that of chairman, may be successive without limit.

By statute, one commissioner must be a licensed petroleum engineer, one a petroleum geologist and the third need not be either. The commission may employ, "Such staff as it considers necessary to carry out its responsibilities," and "Contract for and engage the services of consultants and experts the commission considers necessary."

STATUTORY AUTHORITY

Authority is given to the commission to regulate the development and production of oil and gas in order to prohibit the physical waste of crude oil and natural gas, protect the correlative rights of owners and provide for the maximum recovery of oil and gas.

The commission has authority over all persons necessary to carry out the statute, and broad investigative powers. The commission may require gas and oil companies to file a wide range of reports and subsurface information subject to verification by the commission.

The commission may require the drilling, casing and plugging of wells in a manner that will prevent the escape of oil or gas, or the pollution of fresh water supplies, as well as prevent blowouts, cavings, seepages and fires.

The commission may also regulate the injection and chemical treatment of wells, well spacing, disposal of water and oil field wastes, and prevent the contamination or waste of underground water.

The statute provides penalties of up to \$1,000 per day for each willful violation of the statute, regulation or commission order. Falsifying records or documents is a misdemeanor, punishable upon conviction by fine or imprisonment.

COMMISSION REGULATIONS

Alaska Administrative Code, Chapter 25, was written by the commission and revised in 1986. The regulations address the investigative role of the commission and its inspectors. The tone is set by the permissive "may" rather than the mandatory "shall" but was chosen to establish the commission's authority rather than limit its obligation. The regulations describe the types of tests which the operators must do and which tests are subject to witness by the commission.

The companies are required to identify all safety equipment, testing requirements and test frequencies to the commission. The majority of tests are designed to measure pressure, stability and control of the oil and gas being taken. Sufficient notice is required to allow a representative of the commission to witness the tests.

The commission must approve the equipment and operating procedure used to prevent a "blowout": A sudden, violent expulsion of oil, gas, mud and sometimes water from a drilling well, followed by an uncontrolled flow from the well. It occurs when high pressure gas is encountered in the well and precautions have not been taken or are insufficient.

A "Blow Out Preventer" (BOP) is a control designed to prevent a blowout by closing around the drill pipe or completely sealing the hole. BOPs must be function tested and sufficient notice given so that a representative of the commission may witness the tests. A flow diverter system is also required to provide safety for personnel and equipment.

The underground disposal of oil field waste fluids and the storage of liquid hydrocarbons must meet mechanical integrity test (MIT) requirements to assure environmentally safe storage.

When injection is allowed, caution must be exercised to prevent the movement of injected fluid into sources of fresh water. The well must be pressure tested prior to operation and notice given so a commission representative may witness the test.

Offshore wells which are capable of unassisted flow require an automatic surface and subsurface safety valve system to prevent uncontrolled flow. An inspector will witness operation and performance tests of all safety valve equipment to confirm that it is in proper working condition.

Well operators must keep detailed daily records of drilling, completion, suspension and abandonment, and the tests required. These records must be available for inspection at the well.

If the commission allows an oil company to abandon or suspend operation, notice must be given so that a commission representative may witness the work. A bond of between \$100,000 and \$200,000, posted by the oil company, is not released until final clearance of the well site is approved by the commission.

Oil and gas revenues contribute up to 85% of the state's total revenues. The commission representative may monitor, witness and collect metering data designed to accurately measure the quantity and quality of the oil.

When wells are given complete workover or repair operations, the commission must be notified and a complete report submitted within 30 days of completion. Notice must be given so the commission may again witness the initial BOP pressure tests required before start up.

The commission's regulations conclude:

The commission will in its discretion, exercise its statutory power to enter and conduct on-site investigations and inspections at reasonable times of facilities, equipment, practices, records, or operations for the purpose of ensuring compliance with the requirements of this chapter.

If it is determined that the requirements of this chapter are not being met, the commission will order remedial work or take other action it considers necessary.

THE COMMISSION'S CURRENT POSITION ON REGULATION

COMMISSIONER CHATTERTON

Chairman Chat Chatterton resigned from the commission during the course of this investigation because of poor health. Mr. Chatterton subsequently died on

October 14, 1990. A third commission member has not yet been appointed. Many of the investigative interviews were conducted prior to Mr. Chatterton's unexpected resignation.

In 1982, Mr. Chatterton replaced Hoyle Hamilton, the commission's first chairman. Mr. Chatterton was a former Alaska legislator, a former employee of Standard Oil of California and a former vice president of Rowan Drilling Company.

When interviewed, Mr. Chatterton stated the oil and gas statute "prohibiting physical waste," was written to address economic, rather than environmental, issues. The commission is to prevent the oil companies from taking only the small percentage of the resource which is economically easiest to extract. Speaking before the House Special Committee on Oil and Gas, January 30, 1985, Mr. Chatterton cautioned:

What makes the industry go is cash flow. Industry sometimes does not care whether they get only 5% of the oil, 10% or all of it. They want to get it fast. This is called high-grading the reserves. We are here to see that as long as they can make a profit, that they take all the oil and gas from the reservoir.

In a letter dated April 30, 1990, to Senator Jay Kerttula, Mr. Chatterton wrote the following over Commerce Commissioner Mercurieff's signature:

The Oil and Gas Conservation Act, AS 31.05, provides the commission with neither the specific authority for nor does it set forth as a duty the inspection of blowout prevention equipment installed on drilling rigs in Alaska.

AS 31.05, does give the commission the responsibility of prohibiting the waste of crude oil and natural gas and does obligate the Commission to 'investigate to determine whether or not waste exists or is imminent.'

Based on this rather tenuous authority, the commission felt comfortable in promulgating regulation 20 AAC 25.035 (7)(c) which obligates the well operator: 'Sufficient notice of certain BOP tests must be given so that a representative may witness the tests. These tests will be specified in the drilling permit or by notice to the operator.'

In the same letter Mr. Chatterton discussed the discretion allowed the commission to determine the number and frequency of inspections:

Inspections are conducted in accordance with API (American Petroleum Institute) Recommended Practice #53. The level of inspections is a discretionary determination by the commission as to the appropriate level of inspection required to provide reasonable assurance that operations are in compliance with the commission's regulations.

The commission is currently reviewing in detail the current inspection program to determine if changes are

in order with respect to revision of inspection priorities. In the commission's judgement, the current staff of three inspectors is appropriate, although (commission) review may disclose otherwise.

One should always keep in mind that worldwide industry experience finds that the vast majority of blowouts are the result of human failure and not equipment failure. With this background, it is reasonable to question the level of equipment inspection that is appropriate.

When interviewed, Mr. Chatterton pointed to Alaska's record. Alaska has only experienced blowouts from shallow gas horizons and not from oil wells.

Following receipt of the preliminary report, the commission requested the ombudsman investigation give greater weight to the effect of budget reductions on the commission. Between 1983 and 1990 the commission budget has been reduced from \$2514.2 to the present \$1757.4.

On April 21, 1987, Mr. Chatterton requested support for the commission's budget from the Department of Commerce. In a memo to Commissioner J. Anthony Smith, Mr. Chatterton had stated:

Further reduction in funding would result in reduced field operation monitoring which could contribute to blowouts . . . Oil and gas blowouts could waste large quantities of oil and gas which could damage the environment and lose royalty and production income to the state.

. . . Without adequate regulation enforcement, operators could drill for and produce oil and gas under minimum standards, which could quickly lead to imprudent practices and greatly increase the risks of blowouts or uncontrolled flows of oil or gas to the surface lands and waters of the state.

Following budget cuts in 1987, the commission did reduce the inspection staff from five to three: The commission encouraged one inspector, Harold Hawkins, and one petroleum engineer to participate in the early retirement plan (RIP). When they declined, the commission terminated their employment.

In seeking reinstatement both men were represented by the Alaska Office of Equal Employment. After almost one year, a settlement was reached in both cases. Mr. Hawkins was reinstated and paid lost wages in partial settlement. Mr. Chatterton noted the monetary settlement for both men was significant and was paid from the personnel services section of the commission's operating budget.

The number of inspectors remained at three and the commission did not request additional positions. As Mr. Hawkins returned, Inspector Ed Sipple was transferred at his request because of poor health. Mr. Sipple's position was not filled and the position was dropped in 1990.

In responding to the preliminary report, the commissioners stated:

Mr. Chatterton was somewhat reluctant to request additional funding for the commission. This is understandable given the position of certain legislators who wanted to abolish the commission because it 'costs too much.' It was Mr. Chatterton's idea to counter such arguments by living within the budget limits imposed by the legislature as much as possible, and not fight too aggressively for additional funding. As it would appear, other legislators may now take the commission to task for not asking for more money to do additional work.

In discussing the present allegations, Mr. Chatterton agreed that the reduced number of inspectors resulted in fewer field tests being witnessed. He did not dispute the figures in Mr. Minder's memo, but states the commission maintains public files and did not want a memo or other document in which the commission "condemns ourselves" available to the press or the public.

Mr. Chatterton blamed Mr. Minder for being too personally invested in the inspector program and increasing the demands and the inspectors' hours. Mr. Chatterton stated he had no idea the inspectors were putting in so many hours on the slope and took immediate steps to reduce the workload.

Following media criticism, Mr. Chatterton wrote a memo on April 6, 1990, to the Department of Commerce. He acknowledged that the grounding of the Exxon Valdez tanker caused increased public concern:

Rightfully so, the public now questions the level of inspection activity performed by governmental agencies as to whether or not in-place inspection programs are appropriate and adequate to provide the confidence that 'all goes well' in Alaska in operations that could be the source of another catastrophic crude oil spill.

A well being drilled for crude oil or a producing well that is being re-entered for workover purposes offers a potential source for an oil spill resulting from a well blowout.

Expressing confidence in the companies' ability to regulate themselves, Mr. Chatterton cites commission regulations requiring the rig crews to conduct periodic tests and keep records of the results. Mr. Chatterton stated:

Are operating procedures being conducted in accordance with regulation? The probability is that the required tests and procedures are being performed, followed and accurately reported.

Mr. Chatterton stated that with the exception of one or two company representatives, drilling operators owe no allegiance to the 'oil company':

A periodic review of the tour sheets will immediately disclose whether a required blowout prevention equipment test has failed to be conducted or reported. Further, the independent drilling contractor and its employees lack a monetary incentive for cutting corners on regulations. The oil company is picking up the tab

for the well . . . These people owe no allegiance to the oil company.

Mr. Chatterton concludes:

. . . we do have a field inspection program to provide a further degree of assurance that drilling operations are being conducted in compliance with regulations.

. . . In the commission's judgement, our inspection program provides a highly visible regulatory presence in the field, and we find the authority of the inspector is respected and accepted.

Mr. Chatterton did not address the continued reduction in that presence, nor set a minimum level of acceptable field work. Mr. Chatterton stated other agencies, such as the Department of Environmental Conservation and the Department of Labor, also have a presence on the slope and questions whether they are carrying their share of the inspection load.

COMMISSIONER SMITH

Lonnie Smith, formerly chief petroleum engineer with the Alaska Division of Oil and Gas, was one of the original commissioners.

Mr. Smith agreed with Mr. Chatterton that Mr. Minder broadened and increased the inspection responsibility in the field beyond the scope of the commission's responsibility and beyond its budget. Mr. Smith states Mr. Minder did discuss upcoming tests with him, and he may have been vague in his response, "cautioning" the inspectors to cut back.

According to Mr. Smith, "The commission has not been much for putting things in writing." Directions are often given in the form of suggestions and informally changed or modified. The only definitive written directive for field inspections was a memo Mike Minder wrote in 1987 and posted on the commission bulletin board:

Commissioner Smith's prioritized list of work to be witnessed by inspectors is as follows:

1. Exploratory wells, BOP installation and operations.
2. Wellbore plugging
3. Oil metering and BS&W + gravity tests
4. Mechanical integrity tests and retests
5. Equal weight on both:
 - a) safety valve testing
 - b) installation and operation BOP equipment on production wells
6. Location abandonments
7. Gas metering
8. Well tests

There are no written directives for the percentage of tests to be witnessed, the frequency of inspections or the division of the workload. Program evaluations by the commissioners do not exist in written form. Even staff evaluations were not done for many years.

The commission replied to the preliminary report:

Mr. Smith did not provide such specific instructions because that level of detail was expected to be developed by Mr. Minder. Mr. Smith recognized that establishing fixed numbers was not realistic given declining funding, and he frequently appraised Mr. Minder of such. He relied on Mr. Minder to establish appropriate targets, and to respond to the changing activities and requirements of the field.

Commissioner Smith states he does support a strong field presence and that such a stance is welcomed by the oil industry:

Management likes us to witness the tests. The oil companies goal is to 'keep the drill turning to the right', so the inspectors help keep things tighter and in better working condition.

Mr. Smith noted that Alaskan wells operate under enormous pressure. Wells on virgin reservoirs are operating at 4,200 to 4,500 lb. pressure, greatly increasing the risk of blowout. Severe structural considerations exist due to extreme climatic conditions. Ice loading on the rigs is common and many of the derricks and structures must be completely enclosed. This increases the confinement of potentially dangerous gasses.

COMMISSIONER JOHNSTON

Dave Johnston was appointed to the commission in January of 1989. A geologist, he was previously employed as a manager with the Department of Natural Resources, Division of Gas and Oil. He served as the head of environmental studies, and also provided staff support to Governor Cowper, then chairman of the Interstate Oil Compact Commission (IOCC).

Mr. Johnston explains it requires two commissioners to start any course of action. Each commissioner's vote is equal but the chairman holds persuasive power. He described Chairman Chatterton as "an extremely strong personality," who often resisted suggestions for abrupt change. In the past, Mr. Johnston found the more pragmatic approach to be that of introducing recommendations or suggesting changes gradually over a substantial time period.

Mr. Johnston suggested change is needed in many areas: The management of the staff, the acquisition of modern equipment, the maintenance of the office building and the morale of the employees all require attention. Sick leave usage and stress ailments are high, and professional staff are utilized to do routine building maintenance; mow the lawn and do snow removal from the grounds.

Existing staff could be more productive if computer programs, equipment and training were provided to update their functions. At Mr. Johnston's suggestion, the commission recently requested and received the first budgetary allotment to begin this process.

Mr. Johnston states it would be unfair to place sole responsibility for the decline in the petroleum inspection staff on Mr. Chatterton:

This ignores the overriding problem caused by a 40% reduction in the commission's operating budget. As

managers of the commission budget, Mr. Chatterton and the other two commissioners were left with little option but to reduce overall staff. As Chairman, he was also required to defend the commission's programs, which he did to the best of his ability and in a style that was uniquely his.

When asked for suggestions to improve the inspection program, Mr. Johnston outlined the following:

- Augment the program with spot witnessing, walk through and visual tests.
- Expand the computer capability for gathering and analyzing additional data. Make greater use of available data and implement the results of these studies to target high priority inspections.
- Coordinate and prioritize the work, giving highest priority to blow out prevention tests on exploratory wells.
- Implement a work schedule with an adequate number of inspectors to normalize the work hours and the rotation.

Mr. Johnston cautions the commission is not "empire building," but if the safety of the workers and the protection of the environment are not comprehensively covered by the agencies involved, then Alaska should have such a program and the commission's role should be defined in its regulations.

Mr. Johnston believes the ability exists in the commission's workable size, independence and quasi-judicial structure to do an excellent job of enforcement if properly funded and managed. The commission has a strong statistical base and is respected by the gas and oil industry for its knowledge and ability to act.

Citing the ombudsman's use of information from other states and Canada, Mr. Johnston recommends the commission use its membership in the IOCC to better advantage. The membership provides an excellent forum for networking information on inspection programs and many other subjects of common concern.

FORMER COMMISSIONER KUGLER

Harry Kugler recalled when the commission employed five inspectors they were very busy all the time. With fewer inspectors there is no back up for emergency calls or to replace an inspector who is ill or weathered in.

With five inspectors, Mr. Kugler estimated 85% of the tests were witnessed. He stated:

I think the Anchorage Daily News must have mistakenly quoted Commissioner Chatterton as telling the oil companies they have to be on their honor. The commission is a regulatory agency and monitoring the industry is a primary function.

When there are too few inspections, there is a relaxation of the safety regulations. The rig operators begin putting off minor repairs and not following up on previous recommendations.

Mr. Kugler described Mr. Minder as a conscientious and capable employee. In Mr. Kugler's opinion, all capable staff should be encouraged to provide information and opinions, both positive and negative, to assist the commission. It is the commissioners' decision whether or not to act on the information, but such input is essential to any decision-making body.

THE POSITION OF THE COMMISSION STAFF

Russell Douglass, petroleum reservoir engineer, is primarily involved with the development and production process. He serves as the clearing house for the permit process, and is involved with administrative applications and conservation orders.

Mr. Douglas uses the reports on well data production and the inspector's logs to see that recovery is kept up and that adequate pressure is used to assure maximum recovery. He states his supervisor, Mr. Smith, is in the best position to comment on the adequacy of the inspection program and he did not wish to comment further.

Blair Wondzell, petroleum engineer, has been involved in developing the metering process critical to the determination of state revenues. Mr. Wondzell uses the field inspections to provide information on metering accuracy but the level of inspection does not significantly affect his work.

Mr. Wondzell states he and Mr. Minder have had disagreements over the level of inspections needed. Mr. Wondzell wrote a memo to Mr. Smith criticizing Mr. Minder's "excessive" inspections in the UIC program. Mr. Minder's subsequent memos and data established the inspections had been done correctly and with Mr. Smith's approval.

Mr. Wondzell believes Mr. Minder should have been satisfied to give the commissioners his verbal opinion and leave the policy decision to them. Mr. Wondzell states he personally believes the number of inspectors is sufficient. He agrees with concentrating inspections on the poorest performing oil rigs and suggests prioritizing exploratory wells and those in new areas.

Michael Minder, petroleum engineer, has been with the commission eight years. Mr. Minder assumed supervision of the inspection program when Harold Hawkins asked for assurance that he be evaluated by someone not involved in his termination. Supervision was transferred by Commissioner Smith who, in January 1989, described Mr. Minder as:

A hard working and sometimes overly conscientious individual who does a bang up job where clear cut decisions can be made. These same attributes also appear to result in a heavy sense of duty which sometimes goes beyond his area of authority.

As the inspectors reported conditions and problems in the field, Mr. Minder conveyed their findings and recommendations to the commissioners. He recognized the frustration with the long hours and declining field presence but did not have the authority to effect major change.

Mr. Minder states he was told by the commissioners that the inspectors were to set their own hours in the field. The inspectors were also given discretion by the commissioners to decide which inspections to conduct while in the field.

The regulations require the oil companies to notify the commission of critical tests; the companies expect the commission to send an inspector to the field and requested Mr. Minder give them scheduling information. The inspection staff was inadequate to fully comply and Mr. Minder was unable to tell the oil companies when work could be definitely scheduled.

When Mr. Minder referenced the problems in an evaluation of Inspector Doug Amos (March 16, 1989, to February 16, 1990), Commissioner Smith signed as concurring with the following report:

Doug continued to maintain an exceptional performance (PE) rating working long hours and doing what he can to alleviate the problems caused by our present austerity program. His value is greatly magnified as the number of inspector positions are reduced. This creates more demand on the team and is worsened by the growth of existing fields and development of new ones. The UIC program and other assignments vie for the attention, time and talents of the inspector. Doug demonstrates a high degree of self-motivation, contributing far more of his time and efforts than has been defined as acceptable.

This continued a pattern described in the previous year's evaluation when the following comments were made:

He (Amos) willingly accepts additional assignments to alleviate the unsurmountable workload created by a shortage of inspectors and their increased responsibilities . . . occasionally placing himself in jeopardy by trying to do too much, driving with little or no sleep, working such long hours that judgement may be impaired.

Goals for the next rating period included:

Pace yourself, realize you can't do it all, and take more concern for your personal safety.

THE INSPECTOR'S EXPERIENCE

Harold Hawkins and Bobby Foster worked for the Division of Oil and Gas Conservation and transferred to the commission at its inception. Doug Amos joined the staff in 1981.

The inspectors have found BOP equipment installed upside down and oxygen hooked up to lines that should have contained nitrogen. Under pressure to produce and constant task repetition, the rig crews may become less vigilant.

The inspectors cite the gas blowout which burned the Steelhead platform two years ago. Mr. Hawkins recently was on an oil rig that flared for five days and was evacuated several times before being brought completely under control.

The May 1990 issue of Oil and Gas Journal reports:

Another aspect of equipment technology which impacts drilling-rig safety is well control. Rig-loss accidents from blowouts actually increased in the decade of the 80's.

History shows that shallow gas presents serious problems for the industry. Over 50% of all incidents involving diversion of shallow gas have resulted in failure of the diverter system.

Recent incidents have highlighted the problems of drilling deep, high-pressure gas wells. It appears that well-control systems could be exposed to a combination of pressures and temperatures for which they have not been designed.

The inspectors state that through long hours and exhausting trips, they attempt to insure the blowout equipment and safety valve equipment remains in good condition:

The rig hand doesn't tell the tool pusher (his superior) what to do. The attitude is, 'keep your mouth shut and do your job.' Our job is to be sure the equipment is kept in good working order and we are relied upon by the crews.

The rig hand can tell an inspector about a deficiency or unsafe equipment but risks his job if he complains to his boss who already knows about the problem. For example, an operator insists the crew use drilling mud which is too light to prevent a blowout but facilitates faster drilling.

Over the years, the inspectors have learned which companies and operators are safety conscious and which are not. Those who are not require more vigilant observation than is presently possible.

Mr. Hawkins states Commissioner Kugler "backed the inspection program 100%," and Mr. Smith was also seen by the staff as a supportive supervisor. In the inspector's opinion, Mr. Minder did not have the authority to make substantial changes without permission from the commissioners.

The inspectors reported that the commission should have known the number of hours they worked. The inspectors file log summaries listing the hours worked and inspections done after each trip. One such log for March 1990, showed 412 operational inspections and 91.0 test hours in a seven day period.

When the media reported the hours worked, Mr. Chatterton ordered a further reduction in the number of operational inspections. The number of visual inspections was increased, including drive by inspections of well abandonment.

As this investigation progressed, the commissioners did solicit recommendations for improvement from Mr. Minder, who stated: "My proposal would be management by objective and staffing to achieve these objectives."

After making recommendations of specific tests and test frequencies, he concludes with general recommendations for staff and equipment:

It would be ideal to have two men on the slope and one available for various assignments elsewhere. As for equipment and funding, possibly EPA could provide a vehicle and some equipment for their UIC program and share in transportation costs. I would start with 6 inspectors and see if all objectives can be accomplished and field surveillance maintained.

Mr. Amos also recommended the commission employ six inspectors. He would place them on the slope in pairs; one inspector on the east to cover Endicott and Prudhoe Bay, and the other on the west in the Kuparuk field.

Inspector Bobby Foster agrees with Mr. Kugler's assessment, "with five inspectors we didn't miss anything," but even that number is adequate only if all are available.

Very recently, Mr. Foster resigned and Mr. Hawkins broke an arm. When the preliminary report was issued, there was only one inspector available to travel and it had been several weeks since an inspector was on the north slope.

When interviewed, Mr. Foster expressed anger at the commission's reluctance to strengthen the inspection program. He asks, "Do we have the authority or not? If so, why aren't we doing our job and if not why have we always done it in the past?" The inspectors point to the commission handout which still describes the inspections as important and the program as strong.

COMMISSION INFORMATION PROVIDED TO THE PUBLIC

The commission included a new Summary Of Inspection Program with its reply to the preliminary report. The summary may be further refined according to the commissioners. The summary as presented to date is attached to this report.

The previous summary was included in a commission handout last revised in 1987. That handout described the commission's history, regulatory powers, organization and activities. Portions of that handout are discussed in this final report.

In addition to being historically correct, it also demonstrates an ombudsman investigative finding that the public position of the commission prior to the investigation did not accurately reflect its changing policy or practices. The handout was available to the public at the commission office.

The handout reported the commission performs field inspections to assure compliance with commission regulations. The following types of inspections were described:

1. *BOP Inspections.* The BOP equipment is inspected and pressure tested on all exploratory and development wells. This receives a very high priority on the commission's list of field work.

Mr. Minder reported only 27% of the BOP tests on the slope were witnessed by commission representatives during 1989. During 1988, Mr. Minder developed a computerized tracking system which allowed the number of tests performed, witnessed, passed and failed to be more accurately counted. Data on all testing and

the results was provided by the companies. From 1982 until this spring, letters accompanying all approved permits required notification of testing:

To aid us in scheduling field work, please notify this office 24 hours prior to commencing installation of the blowout prevention equipment so that a representative of the commission may be present to witness testing of the equipment before the subsurface casing shoe is drilled. When a diverter system is required, please also notify this office 24 hours prior to commencing equipment installation so that the commission may witness testing before drilling below the shoe of the conductor pipe.

When the commission reduced the number of inspections done, the entire paragraph on notification was replaced with a single sentence:

The commission will advise you of those BOP tests that it wishes to witness.

2. *Witness meter provings and calibrations.* All oil and gas meters within the state from which the state receives royalties are regularly checked for accuracy.

Ranked seventh on the inspector's priority list, this was to be given "very low priority" according to recent commission instructions.

This activity was not as carefully examined as others. The investigation focus was on regulatory functions affecting human and environmental safety. It is known that the meter proving schedule originally established was not being met with three inspectors and was recently curtailed even further.

In the 1987 memo to the Department of Commerce, Mr. Chatterton cautioned against the effect of budget reductions:

Unregulated development would invite inaccurate metering of produced oil and gas (with attendant revenue loss to the state). . . .

3. *Witness oil quality tests and delivery tickets.* At regular intervals a sample of the oil shipped through a sales meter is analyzed and a delivery ticket is printed which shows the gross fluid shipped.

At a staff meeting in May, Mr. Chatterton told the inspectors not to do meter witnessing for now, and just to collect the pump station tickets as printed.

4. *Abandonment Inspections.* Before abandonment of a well is approved, the downhole and surface plugging operations are inspected. The well location is inspected for cleanliness, and the proper well marker must be in place.

Location abandonment is ranked sixth on the priority list. Inspectors estimate they were previously able to inspect only 25% of the abandonments. In recent permit letters the following paragraph has been eliminated:

In the event of suspension or abandonment, please give this office adequate advance notification so that we may have a witness present.

The inspectors were then instructed only to drive by and see that an abandonment marker has been placed on the site.

5. *Inspection of downhole safety valves.* Offshore wells and North Slope wells capable of flowing, have a safety valve installed which automatically closes if there is any pressure loss at the surface. These are checked to see that they are working properly.

The commission's former policy on safety valve testing was set out in a letter sent to the operators:

A State Inspector will witness all tests and retests when possible. If he is not available, testing may be postponed; or if this is not feasible, testing and verification by the operator may be permitted in special instances upon notification of and approval by the Commission.

In a recent news article, the commission suggested that it might further reduce the number of safety valve inspections performed in order to increase inspection of the blowout preventers. Thereafter, on June 28, 1990, the Kuparuk operations representative acknowledged the change:

Pursuant to your request, ARCO Alaska, Inc. (AAI) as operator . . . will immediately commence testing and self-witnessing of the safety valve systems . . . It is our understanding that AO&GCC inspectors will witness testing of the safety valve system on a random basis prescribed by the Commissioner.

6. *Witness no-flow tests.* The downhole safety valve can be left out of a producing well if it is not capable of flowing. A no-flow test is witnessed before approving the removal of this valve.

THE POSITION OF OTHER STATE AGENCIES

DEPARTMENT OF ENVIRONMENTAL CONSERVATION (DEC)

Bill Lamoreaux, Southcentral regional supervisor said he had always assumed the commission was responsible for inspections of the drilling rigs and all subsurface equipment. His department has limited authority on the oil platforms:

Solid and hazardous waste management, air and water quality, food service issues, are examples of DEC focus.

The division's issues do not extend to inspecting drilling operations, and we do not have the technical people on staff to handle issues such as well head configuration, safety and protection devices, and underground pressure tests.

DEPARTMENT OF LABOR

The Occupational Safety and Health Section (OSHA) also performs inspections on the oil platforms once or twice a year. Dennis L. Smythe, chief of Safety and Health Compliance, states:

Our staff does a cursory inspection of the blow out and safety valve equipment to see that they have them and that they are operational. We don't physically inspect the equipment and consider that to be the job of the commission.

If the oil or gas erupts without control the workers are at extreme risk. In addition to the risk of explosion or fire, the noise is excruciatingly painful and the falling debris is highly dangerous.

DEPARTMENT OF NATURAL RESOURCES (DNR)

The Division of Gas and Oil does not have an inspector job class but does have three natural resource officers who spend approximately 25% of their time in the oil field. They inspect surface operations to assure compliance with lease permits but have limited expertise in, and no authority over, well head structure or subsurface equipment.

Bill Van Dyke, petroleum manager for the division, was cautious in criticizing the commission, but states:

I certainly think some agency should do the inspections of the oil rigs, and the commission is in a logical position to do so. If specific practices and equipment are important enough to be identified in the commission's regulations, then they should be enforced and inspected.

The commission sets the level of enforcement with some direction from the governor. If the public wants more enforcement than is presently available they must be willing to allocate greater resources to the commission.

The oil companies and rig operators remain primarily responsible for the safe operation of the oil rigs. The penalties for infractions should be severe enough that the companies best interest is served by safe operation. The less inspections there are; the more insurance the penalties must buy. The possibility of temporarily closing an operation which earns up to one million dollars a day is an example of effective sanction.

Referring to Mr. Minder's statistics, Mr. Van Dyke stated:

Witnessing 30% of any activity may be adequate under routine circumstances. However, if the 32% failure rate quoted in Mr. Minder's memo is indicative of serious or major failures, then that percentage is unacceptable and might indicate the inspection program is too thin. Certainly there should be no fewer than three inspectors and perhaps more are needed.

State Representative Kay Brown, director of DNR's Division of Oil and Gas in DNR from 1982 to 1986, states:

The commission has refused to take an activist attitude in fulfilling the law. If Statute 31 does not explicitly define environmental and safety concerns then those issues have certainly evolved over time. The oil companies have serious liability for unsafe practices and the regulations must reflect that. In the past the commission would not take a strong stance against violations unless forced to do so.

Representative Brown states there are other budget options than continuing to eliminate the inspector positions. Speaking to the House Finance Committee on April 22, 1989, Representative Brown explained the agency hires 11 people who make more than \$69,000 per year and three commissioners who make more than \$90,000, including benefits. She said the commission could make better use of its personnel and the commissioners themselves could become more involved in field activities.

FEDERAL AGENCIES

THE U.S. BUREAU OF LAND MANAGEMENT

The Division of Mineral Resources has oversight responsibility for approximately 150 wells on federal land in Alaska. There are approximately two new drilling operations a year and the bureau retains one full-time inspector who witnesses 100% of the federal BOP operations in Alaska. Aden Seidlitz, petroleum engineer, supervises the inspector:

A high visibility in the field is critical to continued safe operation. With any less than a 50% inspection rate, you don't stay on top of things and the operators get lax. The Bureau's goal nationally is to witness 85% of the BOP tests and 100% of all well plugging and abandonment operations. Safety valve tests are a third priority.

Each year the annual reports are reviewed and priorities for the next year are set: All fields are rated by production level, environmental concerns and prior operator compliance. One hundred percent of the tests are witnessed on initial tests, high producing wells or those previously not in compliance. Alaskan wells rate a very high priority because of the volume of pressure and production and the severe climatic conditions under which operation occurs.

U.S. MINERALS MANAGEMENT SERVICE

The service was instrumental in the recent investigation of a case in which Texaco agreed to pay \$750,000 of a maximum \$1-million dollar fine. The company pled guilty to failing to conduct a weekly test of blowout preventers and falsely showing that the test had been done. The drilling supervisor faces a maximum of 20 years in prison and \$500,000 in fines.

Barry Boudreau, deputy regional supervisor of Field Operations in Alaska asserts:

High visibility in the field by experienced, professional inspectors is the best assurance of safe operation. Respect for the knowledge and experience of the inspection staff is critical and the operators must

recognize the authority of the inspectors to shut the rig down if necessary.

Mr. Boudreau recommends the commission increase its inspection crew, but does not advocate the commission match the federal decision to have a full-time inspector on each offshore rig in Alaska:

The continuous presence of an inspector on each offshore rig is not the norm in other states. Offshore wells in the Beaufort Sea may only operate for 90 days each season due to the extremes of weather. The inspection crew remains continuously on the rig for two weeks at a time. It is dangerous to drop off or pick up crew members more often than that.

There are also many more natural resources; fish, marine mammals etc. that would be adversely affected by a blowout in the sea. The added danger of high winds and waves moving a spill quickly are additional considerations not found on land.

THE ENERGY RESOURCES CONSERVATION BOARD (ERCB), ALBERTA, CANADA

Canada's Oil and Gas industry shares many operational and climatic similarities with Alaska. For this reason inquiry into the function and procedure of the ERCB is particularly applicable to this investigation.

The ERCB was established to regulate the development of Alberta's energy resources. The board receives half its funding from the government and half from the oil companies. It operates as a separate independent body with full licensing and enforcement powers.

William G. Remmer, petroleum engineer, is manager of Field Operations. This is the largest department in the ERCB, with 92 inspectors working out of eight area offices located throughout the province. Mr. Remmer describes the ERCB inspection program as a key to ensuring that facilities are constructed and operated in a safe manner.

In 1989, the ERCB staff conducted 4,700 drilling and service rig inspections, 12,000 oil battery (facility) inspections and 2,500 gas facility inspections. The staff also conducts pipeline, environmental and general lease inspections.

Mr. Remmer described the current and future directions the ERCB is taking. Excerpts from his presentation to the 1990 Petroleum Industry Annual Safety Seminar are applicable to this discussion.

ERCB emphasis is on public safety, specifically blowout prevention, including equipment, procedures and training during drilling and servicing operations. Production requirements include equipment spacing and distances to flame type equipment to minimize the potential of explosions. The ERCB also requires that operators have emergency response plans in place. Mr. Remmer reports:

Following a catastrophic blowout eight years ago (the Lodgepole Blowout), the oil and gas division came under strong attack. Inspections were done informally

and the unsatisfactory level during inspection was as high as 43%.

During the resulting analysis, every drilling contractor's history and safety record was analyzed. Complete computer tracking and analysis of testing was established and the inspection process was formalized. The board instituted a quarterly report of all rig records and inspection results which was distributed to both the contractors and the oil companies.

Mr. Remmer cautions Alaska against extrapolating simple mathematical formulas to determine the number of inspectors needed. On average, 35-40% of all operations are inspected annually, however:

100% of critical, high flow, high pressure, or unusually deep wells are inspected and all critical tests witnessed. This criteria also applies to all wells in environmentally sensitive areas. A minimum of two inspections are done on new wells; one half way down the hole and another just before the point of critical entry.

In 4,186 spuds (start ups) on drilling rigs, inspections revealed the unsatisfactory test rate had dropped to 6.4% from the previous high of 43%. On service rigs the unsatisfactory rate was 7.7% of 919 inspections (historically 41%).

A test is considered unsatisfactory if any item is detected that does not meet ERCB requirements and includes both serious and non-serious items. A serious deficiency is defined as a deficiency which could impair the crew's ability to safely control a kick (prevent a blowout).

In 1989, only 2.7% of the inspection failures were serious. The most frequent failures were blowout preventer related; a failure to operate equipment from the driller's position or insufficient fluid to close the BOPs. On service rigs, 4.6% of the failures were serious:

All serious deficiencies result in a rig shutdown until the item is corrected. This correction must be evidenced by two consecutive satisfactory tests before normal activity is resumed.

Mr. Remmer stresses the importance of working cooperatively with industry to properly identify problems and jointly come up with solutions. Requirements must be reasonable and clearly understood. An inspection manual was developed by the ERCB, outlining all items checked by staff when conducting rig inspections. The operator's representative at the site is required to sign the inspection form to assure his awareness of any problems detected. Inspection results are then distributed to both the contractor and operator. The industry has reacted and has developed their own checksheets and conduct daily and weekly detailed inspections.

The ERCB summarizes the inspection results for industry on an annual basis and provides this information to the oil and gas associations. The information includes the most frequent deficiencies. The ERCB, in writing, request senior management to indicate why there are problems and what they plan to do to correct them.

Following findings of serious failure, a letter is sent to the operator asking why the item was allowed to go undetected and what measures are proposed to prevent future occurrences. Mr. Remmer stresses:

In cases where companies have not taken steps to correct problems, operations have been suspended until a meeting can be arranged on site with management to rectify the problem.

By 1988 only a small sector of industry remained that had not improved. The ERCB then generated an internal priority inspection list and notified the contractors that very frequent inspections would be conducted. This resulted in a further decrease in unsatisfactory inspections.

The ERCB exchanges their targeted contractor list with OH&S (Canada's equivalent of OSHA). OH&S has identified those companies above the industry standard for lost time accidents. These contractors receive more frequent inspections, and occasional joint inspections by both agencies.

The ERCB has initiated a similar approach in oil facility surveillance where test failures have been identified at 30%. A two-part inspection form has been developed and one copy is now being left at the facility following each inspection. An internal inspection manual has been developed and, after review by industry companies, will be available for industry use this fall.

Battery inspection results are now being entered into the computer and results are being analyzed to identify key problem areas. By 1991, summary reports should be available to management. Hopefully, the end result will be fewer unsatisfactory inspections and more operator initiated inspections to assure that ERCB requirements are being met.

The items emphasized by the ERCB are certainly applicable to Alaska's regulatory agency:

- (1) Work co-operatively with industry.
- (2) Increase industry understanding of requirements. This includes the development of manuals, recommended practices and other methods encouraging industry to conduct their own inspections.
- (3) Increase awareness through more distribution of inspection results and summaries. This also would include information exchange between the commission and other regulatory agencies in the gas and oil fields.
- (4) Place increased emphasis on problem operators and contractors.

Finally, the commission must develop the ability to effectively sanction those who seriously violate commission regulations.

DEPARTMENT OF CONSERVATION, STATE OF CALIFORNIA

In California the regulatory and enforcement authority over the oil and gas industry has been returned to the state. The Division of Oil and Gas is funded through an excise tax on a per barrel assessment. Petroleum Engineer Michael Stettner is a regulatory specialist for the division and provided the following information.

Permitting and most compliance functions are handled by six district offices. Each is staffed with at least three field inspectors. The inspector is responsible for following through with an operator on correcting deficiencies observed during inspection. Evaluation of field personnel is carried out by associate engineers and senior engineers who accompany the inspectors annually on tests and inspections. Central office personnel do not conduct field inspections or participate in evaluation of field performance.

Computer technology provides a powerful adjunct to the inspection program but is never used to reduce or replace it. Good industry compliance requires a strong on-site inspection program and a field office which supports its inspectors. The stronger the field presence, the more compliance you have and the less violation work you have to do.

Mr. Stettner states his division strongly believes a constant field presence is necessary to ensure that operators are in compliance with all division laws, regulations and requirements. Referring to drive by surveillance, he states:

'50 mph inspections' as they are referred to are ineffective and misleading. They provide the illusion of enforcement where none exists. Experience has shown operators will cut corners if inspection levels decline.

The division witnesses 100% of initial BOP tests and abandonment operations. A statistical summary by district is published quarterly. The summary identifies the type and number of tests performed, lists any tests waived and any backlog of unmade surface inspections. It also gives detailed information on overtime hours, field test hours including driving time and field test miles.

This level of supervision is maintained even though California is a depleted state where all wells involve artificial lifting of the gas and oil. Presently California has approximately 50,000 operating wells and 13,000 exploratory wells.

Like Alaska, California manages its Underground Injection Well program. California is a member of the Underground Injections Practices Council (UIPC) and received praise from the council.

The frequency of testing (annual) provides an excellent opportunity to detect failures before they have a chance to threaten protected waters. Even considering that the largest district is unable to test its wells more often than every 18 months, the schedule is substantially more frequent than the schedule set out in the EPA rules.

ADDITIONAL INFORMATION SPECIFIC TO ALLEGATION TWO

Allegation two states the commission was unfair in its reprimand of Mr. Minder for writing a memo critical of the inspection level.

Mr. Minder first gave the memo to his supervisor, Lonnie Smith, who did not dispute the truth of the report but stated it could not be typed or submitted. Mr. Minder asked to appeal the decision to Chat Chatterton. Mr. Minder's notes of Friday, January 19, conclude:

I told him I felt very strongly about the matter and pointed out it would possibly be a tool he could use to get legislators to appropriate funds so we could be

effective in the field. He just got madder and refused to return my report and seemed particularly upset at my giving a copy to the inspectors.

On January 22, Mr. Chatterton also refused to allow the report to be typed. Mr. Minder was told he was naive and had better become a team member or he would be relieved of his duties. He also claims Mr. Chatterton said field inspection was useless and served no purpose; that Mr. Minder worked for him and had better fall in place and not try to change things or be a whistleblower.

Mr. Minder asked if there was a higher appeal source. Mr. Chatterton said he could go to the governor, "if I could get him or anyone else to listen." Mr. Minder was then told that if he persisted he could have the report typed but it would be torn up. Mr. Minder states Mr. Chatterton concluded, "I don't get mad; I get even."

Mr. Minder states the report was a plea to the commission to, "Not just ok things on paper based on the companies reports, but to insure the work was actually being done in the field before something happened and not wait until after the fact."

Mr. Minder then told Mr. Johnston of the preceding conversation and of his fear for his job. He assured Mr. Johnston the report was true and very conservative. The actual percentages would be lower if all the diverter tests and unreported BOP tests were counted. Mr. Johnston said he would discuss the matter with the other commissioners.

On January 26, Mr. Smith told Mr. Minder there was no further appeal and to return all copies of the memo. Mr. Minder was described as being insubordinate for having spoken to Mr. Johnston and was told the commissioners were "not in disagreement," so he might as well give up.

All three commissioners then met with Mr. Minder and again demanded all copies of the report returned. Mr. Minder reports Mr. Smith and Mr. Johnston seemed in favor of improving the program but indicated because of the lack of funding, they were unable to do so. Mr. Minder states:

I tried to make it clear that I had no political aspirations nor an axe to grind, that I was merely reporting what was happening and I tried to explain the inherent dangers.

This was not Mr. Minder's first difficulty with the commissioners. Mr. Minder wrote many memos and reports expressing the results of his computer and field data and discussing areas he felt needed improvement or pointing out deficiencies.

Mr. Minder was advised repeatedly that his "personal accusations" and "unacceptable tone" must be eliminated. Eventually he was required to submit all reports in longhand and nothing could be typed without Mr. Smith's approval. On several occasions, Mr. Minder did not comply. He stated to Mr. Smith that he felt it was an attempt to censor his reports. In a January 1989 employee evaluation, Mr. Minder was found lacking in several areas. Overall he achieved an acceptable level.

The commission states in reply to the preliminary report:

Much of Mr. Minder's objectionable behavior stems from his refusal to refrain from making personal accusations or using an unacceptable tone in commission documents.

An example of Mr. Minder's reporting considered objectionable by the commission, together with the final approved version is attached to this report: Mr. Minder's initial 4th quarter 1988 report: MIT Part I, UIC Class II Injection Wells.

The initial report narrative describes that of 16 initial tests one was unwitnessed; and of 50 retests, 5 were unwitnessed. The original report also contained the following headings: Accomplishments for Fourth Quarter '88; Plans for First Quarter '89; in addition to a tabular report.

In the final report all narrative was eliminated including any reference to tests missed.

At the next interim evaluation in August of 1989, Mr. Minder was rated acceptable in all areas. He was following the directive not to have anything typed without permission, was writing objectively as requested and was achieving the goal to follow instructions. Mr. Smith concluded:

You appear at this point to be making an extra effort to achieve your goals and have definitely shown improvement in all areas. Keep up the good work.

The January 1990 performance evaluation rated Mr. Minder acceptable in all areas. Mr. Smith commented:

Mike has made a lot of progress this past year and has achieved an 'acceptable' level for the five goals set as a result of his 1-13-89 performance evaluation and subsequent memo of 2-21-89.

Mike should continue his cooperative attitude toward his coworkers and supervisors and strive to maintain this relationship.

The commission states they had cause to question that progress when the memo at issue was written and distributed without permission.

Mr. Minder submitted copies of personnel evaluations and a description of his duties and responsibilities to cite the appropriateness of his reporting procedures. His regular duties included the following:

Plan, schedule, direct, evaluate work of petroleum inspection staff: directly supervise inspectors.

Analyze, evaluate proposals and actual oilfield operations pertaining to drilling, production, and metering.

Prepare, compile pertinent engineering information in the form of reports and tables for the commission.

Advise the commissioners on administrative matters; recommend appropriate changes and additions to regulation and statute.

Mr. Minder admits he resented not being allowed to have his reports typed without permission and on several occasions did not comply with the directive. He states the issue was at first a suggestion. It gradually, and not always clearly, became an order.

In previous employment, Mr. Minder's efforts to bring negative information to the attention of his supervisors was commended. When Mr. Minder was employed by the State of Utah, Department of Natural Resources, Division of Oil, Gas and Mining, he received outstanding ratings in several areas. An evaluation done at that time stated:

Mr. Minder is a conscientious and hard working state employee who does an excellent job in the field. Through his efforts, this division has a good working relationship with the Department of Health.

In fact, several unauthorized salt water disposal pits have been discovered by Mr. Minder and brought to the attention of said department. He has also identified one or more retrograde condensate reservoirs which the companies are reluctant to admit to.

THE DEPARTMENT OF COMMERCE INQUIRY TO THE COMMISSION

During this investigation, a constituent of Senator Jay Kerttula wrote a letter to the senator strongly criticizing the commission's actions regarding its inspection program as described in a recent news article. The citizen suggested the state was "flirting with another oil disaster" if the program was not improved.

On April 11, 1990, Senator Kerttula forwarded the letter to Larry Mercurieff, commissioner of the Department of Commerce stating he "would appreciate a response to the concerns addressed in (the citizen's) letter."

Copies of the citizen's letter, Senator Kerttula's request and Mr. Mercurieff's response were forwarded to the ombudsman's office.

Mr. Mercurieff did not explain the relationship between his department and the commission in framing his response. The Department of Commerce provides budgetary oversight and guidance to the commission. It administratively supports several boards and commissions and disseminates the governor's budget directives to these agencies.

The commission is an independent body appointed by and answerable directly to the governor. The commission is not a line division of the Department of Commerce and the department has no authority over the commission's operations.

Except for the opening and closing paragraph, the response was written entirely by Commissioner Chat Chatterton over Mr. Mercurieff's signature. In closing, Mr. Mercurieff states:

I plan to keep close touch with the commission as it conducts its review of this important issue, and to carefully analyze the findings.

The implication that the Department of Commerce has operational involvement with the commission was furthered in a May 3, 1990, Anchorage Daily News article: "State says 3 rig spill inspectors plenty." Mr. Mercurieff was quoted as saying:

. . . I had my own staff make an inquiry, we were convinced that the three inspectors we have now is adequate.

The article further states, "Mercurieff reported the inquiry's conclusion to Sen. Jay Kerttula, D-Palmer, in an April 30 letter."

Mr. Mercurieff's implication that he wrote the response or conducted an independent investigation is unfair to Senator Kerttula. The response misleads both the constituent and the public on an important safety and environmental issue.

When asked for comment Mr. Mercurieff said he made an inquiry only of the commissioners, "it wasn't an investigation and I erred in not making that clear." He states he has now suggested to the governor's office that an investigation and "a look at environmental issues," may be in order.

Ron Clark, special assistant to the governor, said the idea had been briefly discussed. "It might be a good time to sit back and take a look at it (the commission), see what it is doing and if it is doing what we want it to." He suggested a performance audit by the Office of Management and Budget or by the Legislative Budget and Audit Committee might be considered.

Both Department of Commerce Commissioner Jane Angvik and the Alaska Oil and Gas commissioners objected to our including this section in the present report. Ms. Angvik stated:

I believe the report's discussion of the department's inquiry to the commission is not relevant to the investigation, and serves no purpose.

The investigation focus concerned the adequacy of the commission's inspection program. Prior to issuance of the ombudsman report, the media reported the subject was under investigation and a public debate ensued. The Department of Commerce entered that debate by publicly implying they had conducted an independent investigation. Those findings would be most germane to the investigation, and certainly would have been included in this report. To subsequently ignore information that such an investigation was not the prerogative of the Department of Commerce, or had not occurred, would have been irresponsible.

INVESTIGATIVE ANALYSIS

Mr. Chatterton had broad influence on the commission for many years. Knowledgeable and respected in the oil and gas industry, he was also a powerful chairman who allowed little argument or dissent. This raises serious concern regarding the potential power available to any commission chairman. Mandatory rotation of any chairmanship is suggested in the absence of limited terms for commissioners.

At present the commission is awaiting the appointment of a third commissioner. Appointment of a commissioner who contributes to effective

management by objective and team building is critical. The commissioner must be neither defensive of nor intimidated by recent commission policy.

Other valuable attributes would include recent experience with regulatory process and familiarity with advanced technology. A modern, dynamic commission could be of increased benefit to the state by assuming a significant role in inter-agency coordination and planning.

Any remaining question of the commission having only "tenuous authority" to regulate industry operations impacting human safety or environmental integrity should be removed by the governor in his or her appointment and by the legislature in its directives and funding.

The adequacy of current statutory and regulatory deterrents to willful violation by the oil and gas companies should be reviewed. The commission must also be willing to use the measures available to stop production temporarily when serious safety violations occur.

The commission should forthrightly describe its policy, goals and objectives for public and governmental consideration. An immediate evaluation of all present commission handouts and other descriptive material is needed. Public information provided by the commission should reflect honestly and accurately its actual policy and practice.

Through measurable criteria, the commission must be more accountable than it has been in the past. Quarterly and annual reports containing actual statistics and numerical standings would provide industry, government and the public with measurement tools which have been eliminated at present.

Representative Cliff Davidson's office recently confirmed that they have requested an investigation of the commission by the Legislative Budget and Audit Committee. This request has been granted.

ALLEGATION ONE: ANALYSIS AND FINDINGS

The first allegation is that the commission has acted unreasonably in progressively reducing the oil and gas well inspection program to a level which compromises the investigative and regulatory function of the commission.

The commission questioned the wording of the allegation and thus its merit:

Given the thoroughness of your investigation, we are somewhat surprised that the allegation was not rejected or, at the very least, reworded to reflect actual events. To state that the commission acted 'unreasonably' in reducing the inspection program implies that other viable options were available to us . . .

In actuality, the commission was forced to trim the inspection program because of budget reductions. These budget cutbacks not only affected a decrease in the commission's inspection program, but pared the entire commission staff to minimum levels . . . In addition to restructuring staff, funding for outside travel and training was cut, along with monies for contractual work, which hampered the commission's reservoir surveillance efforts.

The commission states it only targeted vacant positions and, "although all areas were hurt, none were disabled." The commission flow charts from 1981 to the present suggest personnel were transferred within the commission and some vacant positions were eventually refilled. In no instance did this occur in the inspector category, and once lost, no inspector positions were recovered.

Although budget reductions have been significant, the commission must assume responsibility for its failure to request new positions or equipment. The commission's failure to promulgate accurate statistics on the effect of budget reductions in the past has weakened its bargaining position. The commission has not previously documented either the need for, or the anticipated result of a larger budget.

The commission's denial of regulatory mandates, lack of critical information and elimination of statistical reports hampers close scrutiny. It is not presently possible to evaluate with certainty the exact number of inspectors needed. However, by the regulatory standards established in Canada, California and other states, Alaska falls far short of providing a viable regulatory presence in field safety. Because of these findings the area of revenue measurement is also suspect; although the issue was not reviewed in this report.

The commissioners are not soliciting adequate, consistent or current input from oil and gas field operations. The schedule of equipment tests by company and contractor, pass or fail rates, time and method of correction and other statistical data needed to prioritize field work is not systematically collected nor utilized to determine staffing needs or inspection priorities. When data is gathered, it is not readily accessible to the engineering and inspection staff.

It is evident that three inspectors is inadequate: the number of documented hours worked is excessive and imprudent; being neither safe nor cost effective.

The available inspectors are too few in number to cover emergencies or changes in scheduling. The inspectors receive inadequate direction in setting priorities or enforcing sanctions. Their field reports are, by necessity, cursory and lacking in critical analysis. Finally, there is too little time for training even though the field is rapidly changing. Those gains in industry compliance and cooperation achieved through a strong field presence are in danger of eroding with declining surveillance.

Following media exposure, further reducing the number of inspections in the face of program criticism was not a viable option. The existing list of work priority was not being followed and the most rudimentary goals were not being met. Less than 30% of many critical tests were witnessed and many types of inspections addressed in the regulations could not be done at all.

The commission response pointed to the federal EPA requirement and other sources suggesting 25% as a minimally acceptable inspection rate. Yet, throughout this report, those same sources have stated that figure is woefully inadequate for exploratory wells, wells being reactivated, high pressure wells or those wells located where climatic conditions warrant closer attention. Many Alaskan wells fall into one or more of these categories.

Regulatory bodies in other nations and states have established more certain and objective criteria for policy setting, operation goals and necessary staff levels than has Alaska. Canada in particular warrants study because of its approximation to so many of our own conditions.

The ERCB welcomes visitation or consultation with the commission. The board's staff training, computer programs, inspection manuals, establishment of priorities and effective concentration on reducing test failures might save the commission thousands of hours otherwise necessary to "reinvent the wheel."

It is strongly suggested Alaska take advantage of this offer as the commission's inspection program has slipped to the point of near non-existence. Only one inspector is presently fit to travel and there is inadequate artificial intelligence being employed to gather or analyze data in a systematic way.

Inherent risk in the field is increasingly being recognized in Alaska. The rapid spread of oil in ocean waters during the Exxon Valdez spill proved the catastrophic potential of oil rigs situated over water. There are well operations in Cook Inlet and other sensitive areas where the potential for human tragedy and environmental disaster rises in direct proportion to any error or omission.

The potential dangers of injection wells contaminating future drinking water or tillage is being addressed by a concerned public. Both the type of material injected and the pressure of injection is being questioned. Even drilling mud is now known to be a hazardous substance requiring careful handling and disposal.

As production declines, horizontal drilling which is even more dangerous and other new drilling methods will be increasingly utilized. This is particularly true if oil prices remain elevated.

The commission's position that it has unlimited discretionary latitude in reducing its inspection program is untenable. The evolution of public awareness and concern with human safety and environmental integrity must be reflected in its regulatory agencies. Increased vigilance over industry is needed even as increased self regulation is sought.

I find the allegation partially justified: the commission has acted unreasonably in progressively reducing the oil and gas well inspection program to a level which compromises the investigative and regulatory function of the commission. This finding acknowledges the importance of legislative funding to implement a strong inspection program. However, the commission must assume the responsibility to educate the legislature to the importance of its inspection program and continuously request adequate funding to fulfill its mission.

ALLEGATION TWO: ANALYSIS AND FINDINGS

The second allegation is that the commission acted unfairly in its reprimand of the inspection staff supervisor.

Investigation supports the conclusion that the commission has knowingly allowed both the level and kind of inspections to decline over an extended period of time.

Mr. Minder's annual report, and other reports and memos he wrote, objected to the decline and continued to bring the results to the commission's attention. He developed a computer tracking program, on his own initiative, which further detailed the number and types of tests being missed.

Mr. Minder indicated to the commission he hoped the information could be used to strengthen requests for budget increases. If Mr. Minder or others had accused the commission of deliberately acting irresponsibly, any one of them could have brought the matter to the direct attention of the governor or the ombudsman

under the Alaska Whistleblowers Act. Mr. Minder had not yet given up on working within his own agency for change. Mr. Minder approached the ombudsman office only when he concluded that he could not effect positive change and may have jeopardized his employment in the attempt.

Mr. Minder had a history of conflict with the commission's position that no negative information was to be written. Unfortunately, throughout this conflict, no in-house vehicle for candid written communication was developed.

Mr. Minder did act within his job description in writing the memo and was reasonable in expecting to have it typed and submitted to his immediate supervisor and the other commissioners for consideration.

Mr. Minder did show poor judgement in releasing the memo to the inspection staff without the authority to disseminate the report. There is no evidence that Mr. Minder circulated the report outside the agency.

There is no further evidence of wrongdoing on Mr. Minder's part. There is a conclusive pattern of the commission refusing to allow Mr. Minder to submit narrative information to the commission in written and permanent form even when his job description required him to do so.

Mr. Minder was placed in a difficult position of having responsibility for supervising and reporting on a program over which he had no real authority. Evidence supports the conclusion that Mr. Minder was placed in the position only to provide distance between Mr. Hawkins and the commissioners. Mr. Minder was given no supervisory training or support in assuming control. Good management practice would not predict that Mr. Minder could develop a program without more specific policy goals and objectives than presently exist.

At present the inspection program demands the immediate attention of a commissioner who also accepts full responsibility for its development and performance. Perhaps in the future, with additional supervisory training and commission support, a staff member might be appropriate in the position.

I find the allegation justified: the commission acted unfairly in its reprimand of the inspection staff supervisor.

* * * * *

RECOMMENDATIONS

During the investigation, Mr. Johnston and Mr. Smith began identifying commission programs to be strengthened and began drafting written priorities and expectations for the inspection program. The commissioners were candid and cooperative during this investigation and agreed with all of the recommendations.

The recommendations and the agency response to each follows:

- (1) I recommend that the Alaska Gas and Oil Conservation Commission develop a comprehensive mission statement which defines the role and statutory responsibility of the agency.

Agency Response:

We believe such a mission statement is clearly articulated in the commission's budget submittal for

FY'92, as well as set out in the governing statutes and regulations of the commission. That statement follows:

"The Alaska Oil and Gas Conservation Commission is an independent quasi-judicial agency set up by the Legislature to enforce the Alaska Oil and Gas Conservation Act (AS 31.05). The commission oversees oil and gas drilling, development and production, reservoir depletion and metering operations on all lands subject to the state's police powers. The commission acts to prohibit the physical waste of crude oil and natural gas, to protect the correlative rights of mineral interest owners, and to obtain the maximum ultimate recovery of oil and gas that is prudently possible. The commission levies fines for violations of the statutes, regulations or orders of the commission, and will seek injunctive relief to stop continuing violations.

The commission also is responsible for administering the Underground Injection Control (UIC) program for oil and gas wells in Alaska. The UIC program is authorized by the U.S. Environmental Protection Agency under the Safe Drinking Water Act of 1974, as amended. In addition, the commission acts as Alaska's jurisdictional agency to determine well categories for meeting the maximum lawful price for gas under the Natural Gas Policy Act of 1978, and to approve applications as meeting the requirements of the U.S. Treasury for a qualified tertiary recovery project. It also serves an adjudicatory forum for resolving disputes between the oil and gas industry."

- (2) I recommend that the Alaska Gas and Oil Conservation Commission establish measurable goals and objectives to assist the administration and the staff in fulfilling the mission statement and the agency's responsibilities.

Agency Response:

Again, we will turn to our FY'92 budget submittal to provide a basis for meeting this recommendations. The commission included nine objectives and performance measures in its budget. We will examine these standards in light of your report and make appropriate revisions, if necessary. At a minimum, extra detail will be provided to aid the staff in determining how these objectives and performance measures are to be achieved.

- (3) I recommend that the Alaska Gas and Oil Conservation Commission develop accurate internal standards to aid in measuring the performance of individual staff and the agency as a whole.

Agency Response:

Performance standards already exist for all staff. However, we will immediately commence a review of

the current standards for each employee, and make changes where needed. This review will be done in consultation with the employee. Each employee will be asked to review his or her standards, and will be encouraged to provide suggestions and comments or to seek clarification as appropriate. Our goal will be to provide each employee with realistic, understandable and achievable standards within six months. These standards will then be used to gauge employee performance for annual evaluation or disciplinary purposes.

- (4) I recommend that the Alaska Gas and Oil Conservation Commission promote personnel policies which encourage all staff to provide constructive criticism and suggestions to improve agency functioning.

Agency Response:

Informally, this is already being done, and positive results are being obtained. For example, as we move closer to computer automation, all staff are being encouraged to consider ways to improve their office functions through computerization; training will be provided where appropriate. Also, the petroleum inspection staff have already made recommendations for ways to improve the program, and they will be further consulted as we progress.

This openness policy will extend to staff meetings, which will be held more frequently to explain commission activities and policy decisions. Staff will also be encouraged to put suggestions in writing and to provide background information along with their analysis of the problem. The commissioners will reply in kind as appropriate. This policy will be formalized at the conclusion of this investigation.

- (5) I recommend that the Alaska Gas and Oil Conservation Commission provide a formalized grievance process in which staff may receive an impartial review of any negative personnel action by an objective third party within the agency.

Agency Response:

This vehicle is already in place for our general government bargaining unit employees. Our exempt staff, on the other hand, are covered by the state's personnel rules.

To the extent that it is possible, however, we will use our existing structure to achieve an objective third party. We will issue an internal written policy that states if an employee has a grievance he or she will be asked to deal directly with the immediate supervisor. If the problem is not resolved at that level, then the employee will be encouraged to bring the problem to the attention of the commissioners. If the immediate supervisor is

one of the commissioners, then the other two commissioners will be asked to address the problem.

- (6) I recommend that the Alaska Gas and Oil Conservation Commission revise the FY'92 budget request using "Zero Based" budget techniques to determine the agency's actual needs as defined by the mission statement, state law and current regulations. Use that information to finalize the budget submitted for the governor's consideration and discussions with the legislature.

Agency Response:

The commission submitted its FY'92 budget to the Department of Commerce per the department's instructions and policies prior to receiving this report. In that budget, the commission requested two increments. The first increment is for \$242,600. It will allow the commission [to] hire an additional two inspectors, provide another vehicle for their use on the North Slope, and pay for travel, per diem and training costs. The second increment is for \$30,000. It will fund necessary building maintenance, such as provide new paint and carpeting and sewer and heating repair. Money will also be directed toward securing a ground maintenance contract.

Over the course of the coming year, as we examine each program implemented by the commission, we will also examine funding requirements. Revisions to the budget will be requested when and where appropriate.

- (7) I recommend that the Alaska Gas and Oil Conservation Commission re-examine the agency's actions toward Mr. Minder in light of the findings and recommendations of this investigation.

Agency Response:

The commission relies heavily on its supervisory staff to structure as good a program as possible given its limited funding. It is now clear that Mr. Minder should have received additional supervisory training before being given program responsibility. Unfortunately this was not done, and the commission must assume responsibility for this failure. But, returning Mr. Minder to supervisory capacity at this time is not an appropriate remedy to this problem.

Instead the commission will give Mr. Minder expanded responsibility to develop a computer tracking program to use in the petroleum inspection program. In addition, he will be targeted for supervisory training, as well as program development and communication instruction.

Moreover, the entire staff will be set up on a training schedule, which will allow all employees to have some training in those areas where a need exists. The

commission will also contact the Energy Resources Conservation Board in Alberta to obtain additional information about their inspection program. We also plan to become more involved with the Interstate Oil Compact Commission (IOCC), and have already attended a recent meeting of the IOCC executive committee.

The findings and recommendations cited above will now remain the findings and recommendations of record in this case.

The Alaska Oil and Gas Conservation Commission has agreed to implement the recommendations to varying degrees. Additional changes and measurable standards applicable to the inspection program have yet to be fully identified and implemented. Further, additional funding is a prerequisite to achieving full implementation. Based on the commission's commitment to strengthen the inspection program and improve its personnel management system, I find the disposition of this case to be partially rectified at this time.

DMS:bjc
Attachments

SUMMARY OF INSPECTION PROGRAM

The primary concern of the Commission is to insure that the inspection program is implemented consistent with its statutory authority. That authority is outlined in AS 31.05.030(b), which states, in part: "(t)he Commission shall investigate to determine whether or not waste exists or is imminent..." Additionally, under AS 31.05.030(h), the Commission is charged with implementing the Underground Injection Control (UIC) program for Class II wells in Alaska.

The Commission believes the inspection program should reflect the following parameters in order of priority.

1. Visual inspection and function testing of equipment and examination of daily operating records.

The inspectors will routinely visit drill rigs and workover rigs to visually inspect equipment, including blowout prevention equipment, diverter system, mud system, actuator system and other appropriate auxiliary equipment used to prevent waste. The visual inspection will determine if the equipment has been properly installed and maintained. At the Commission's discretion the operator may be requested to function test the equipment to demonstrate its workability.

The inspector will also examine the operator's records of daily operation to determine if equipment testing has been conducted in conformance with Commission regulations or conservation orders, and reporting requirements are in compliance with regulations.

2. Witnessing of BOPE tests.

The Commission will advise the operator and inspectors of those BOPE tests it wishes to witness by 10-401 cover letters and 10-403 check-offs. As a general matter, inspectors will witness testing of the BOPE installations on all exploratory drill rigs and rigs that have been stacked for an extended period of time. The initial test of the BOPE installed prior to drilling below the shoe of the surface casing is the preferred test to be witnessed. If time or operational constraints prevent witnessing the initial test, a subsequent test of the BOPE installation may be witnessed, instead.

The inspectors will also witness testing of the BOPE installations on all functioning workover rigs at least twice per year. The Commission will determine which test it wishes to witness.

3. Witnessing of mechanical integrity tests under the UIC program.

The Commission will advise the operator and inspectors of those

mechanical integrity tests it wishes to witness. At a minimum, the inspectors will witness at least 25% of the required mechanical integrity tests for injection wells each year. This total will include the mechanical integrity test for all new injection wells. At the Commission's discretion, additional MIT tests will be witnessed on a case-by-case basis. The operator must keep the Commission advised of their testing schedule as required by the UIC orders and report their test data to the Commission.

4. Safety valve testing and witnessing.

The Commission will require operators to schedule, report and test the safety valve system (ie., SSSV, SSV and pilots) of production wells on a routine basis. The frequency of testing will be each 6 months with retest of failed valves within 7 days and repeat failures shut-in until satisfactory test are obtained. Inspectors will then witness the testing of the safety valve system on individual production wells on a random basis. The Commission will prescribe the intervals and times that random witnessing by the inspectors will occur.

As a routine matter, inspectors will check the operator's testing schedules and records to determine if routine testing of the safety valve system is being conducted. From time to time, the inspectors may also visually inspect and function test the safety valve system on individual wells.

5. Wellbore plugging.

The Commission will advise the operator and inspectors of those wells in which it wishes to verify the location and integrity of cement plugs prior to abandonment. Emphasis will be placed on verifying the location and integrity of the cement plug immediately above the hydrocarbon zone, if applicable. If time or operation constraints prevent verification of this plug, then the placement of the surface plug may be verified, instead.

6. Location abandonments.

As time and opportunity allows, the inspectors will check abandoned wells to verify that a proper wellbore marker has been installed and to determine if further action by the Commission is required.

7. Metering.

On a weekly basis the inspectors will pick up the meter log summaries Pump Station #1. At that time, a visual inspection of the facilities may be conducted. From time to time, the inspectors will witness the proving of meters or provers, as required by the Commission.

MEMORANDUM

State of Alaska

ALASKA OIL AND GAS CONSERVATION COMMISSION

TO: C V Chatterton
Chairman

DATE: January 10, 1989

FILE NO: A.MTM.012

TELEPHONE NO:

THRU: Lonnie C Smith
Commissioner

SUBJECT: 4th Quarter Report
MIT Part I
UIC Class II Inj Wells

FROM: Michael T Minder
Sr Petroleum Engineer

Of the 66 MITs performed this quarter, 16 were initial tests, one of which was unwitnessed (1F-2). The remaining 50 MITs were retests, with 5 wells unwitnessed (1F-4, 10, 13, 15, & 1R-13). Only one of the 66 wells tested failed (DS 4-13).

Accomplishments for Fourth Quarter '88:

1. P&A of AAI OWDW-NE disposal well 12/28/88.
2. Resolution of Swanson River wells shut in prior to state primacy. Received notice 12/28/88 confirming AAI's intention to convert these wells to producers.
3. Requested and received test results and log for SRU 41-33WD RTS on 12/21/88.
4. Requested and witnessed initial tests on McArthur River G-36 DPN, Trading Bay A-19RD, and Middle Ground Shoal A-23-1RD; and retest of A-34-11).
5. Worked with Brenda to update WAG & water injection well status in Kuparuk River Field.

Plans for First Quarter '89:

1. Concentrate on development of a computer program to identify and flag MIT Part I wells not in compliance.
2. Continue to concentrate on Inlet wells in an attempt to have all untested wells tested; and to have Shell indicate how and when Middle Ground Shoal wells will be tested (RTS or conventional).

4th Quarter Report - MIT Part I
January 10, 1989
Page 2

Recommendations:

There appears to be confusion among operators using RTS as to when injection may begin or be resumed. I believe this could be clarified if we were to write a letter of approval after RTS are reviewed and the wells are shown to be mechanically sound.

I would like to be informed when policy is made on testing or test procedures; and, if possible, to attend meetings where such matters are discussed.

Attachment

STATUS CLASS II WELLS
DECEMBER 31, 1988

	<u>Wells</u>	<u>MITs This Quarter</u>	<u>Not Tested</u>	<u>Passed</u>	<u>Failed</u>	<u>Of those failed</u>	
						<u>Inj</u>	<u>SI</u>
Beaver Crk	1			1			
Beluga Rv	1			1			
Endicott	11	2		11			
Granite Pt	21			19	2	1	1
Kenai	2			2			
Kuparuk Rv	253	30		251	2	1	1
Lisburne	8	1		8			
McArthur Rv	22	1	1	11	10	6	4
Mid Grd Shoal	23	2	7	6	10	5	5
Milne Pt	16			15	1		1
Prudhoe Bay	164	29	1	153	7	5	2
Swanson Rv	12			12			
Trading Bay	10	1	5	3	2		2
	541	66	14	493	34	18	16

MEMORANDUM

State of Alaska

ALASKA OIL AND GAS CONSERVATION COMMISSION

TO: Lonnie C Smith *LC*
Commissioner

DATE: January 26, 1989

FILE NO: A.MTM.013

TELEPHONE NO:

THRU:

SUBJECT: 4th Quarter tabulation
MIT Part I

FROM: Michael T Minder *M.T.M.*
Sr Petr Engineer

MIT Part I
UIC Class II Wells
as of December 31, 1988

	Statewide						MITs	
	# Wells	Not Tested	Passed	Failed	Of those failed		this yr	
					INJ	SI	P	F
Beaver Crk	1		1					
Beluga Rv	1		1					
Endicott	11		11				2	
Granite Pt	21		19	2	1	1		
Kenai	2		2					
Kuparuk Rv	253		251	2	1	1	30	
Lisburne	8		8				1	
McArthur Rv	22	1	11	10	6	4	1	
Mid Grd Shoal	23	7	6	10	5	5	2	
Milne Pt	16		15	1		1		
Prudhoe Bay	164	1	153	7	5	2	28	1
Swanson Rv	12		12					
Trading Bay	10	5	3	2		2	1	
TOTALS	541	14	493	34	18	16	65	1



State of Alaska
ombudsman

Duncan C. Fowler

November 6, 1990

Lonnie Smith, Commissioner
Dave Johnston, Commissioner
Alaska Oil and Gas Conservation Commission
3001 Porcupine Drive
Anchorage, Alaska 99501

RE: Ombudsman Complaint A90-0317
(Final Findings and Recommendations)

Dear Commissioners Smith and Johnston:

This is the final report of my investigation of the complaint received in February 1990 against the Alaska Oil and Gas Conservation Commission. The report describes the allegations, investigative activities, final findings and recommendations. Because of the interest in this issue, a copy of the report will be sent to the Office of the Governor, members of the Alaska Legislature, interested citizens and members of the press.

For your convenience, the following brief outline states the principle issues investigated as well as my final findings and recommendations.

ALLEGATIONS AND FINDINGS

The complaint consists of two allegations:

(1) The commission has acted unreasonably in progressively reducing the oil and gas well inspection program to a level which compromises the investigative and regulatory function of the commission.

Finding: Partially Justified.

(2) The commission has acted unfairly in its reprimand of the inspection staff supervisor, Michael Minder, for writing an annual report critical of the current level of well inspections.

Finding: Justified.

SUMMARY OF THE INVESTIGATION

Mr. Minder's report, written in memo form, stated the commission had witnessed only 27% of the blowout prevention (BOP) equipment tests during 1989. This was contrasted with an 85% rate when there were five inspectors employed by the commission. The report gave the statistics of other tests witnessed and stated, "A lack of manpower together with budgetary constraints have reduced our exposure both on the North Slope and particularly, in the Cook Inlet fields."

Reply to:

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(800) 478-3257

Mr. Minder was told not to have the report typed and to retrieve rough drafts given to the inspectors. When he failed to comply, he was reprimanded in writing and relieved of all supervisory duty.

THE ALASKA OIL AND GAS CONSERVATION ACT (AS 31.05) describes the commission; its powers and duties, and its ability to set regulations and enforce its orders.

The Alaska Oil and Gas Conservation Commission was established in 1978, as an independent, quasi-judicial body within the Executive Branch to ensure that oil and gas drilling, production, reservoir depletion and metering operations are in compliance with applicable statutes. The Department of Commerce provides administrative and budgetary oversight to the commission but is not involved in commission policy matters.

Each of three commissioners is appointed by the governor and confirmed by the legislature to a six-year term. Terms may be successive without limit.

Authority is given to the commission to regulate the development and production of oil and gas in order to prohibit the physical waste of crude oil and natural gas, protect the correlative rights of owners and provide for the maximum recovery of oil and gas.

The commission presently regulates 1,551 producing oil wells and 133 producing gas wells in the state, and processes approximately 200 drilling permits and 1,000 well repair and other permits per year. Approximately five new wells are expected to be drilled this year.

In January 1986, the commission assumed responsibility from the Environmental Protection Agency (EPA) for the Underground Injection Control (UIC) program. This program is designed to protect underground sources of drinking water. There are presently 569 wells in the program. The EPA requires each well to be inspected prior to injection and again every four years.

The commission's regulations are found at 20 AAC 25 of the Alaska Administrative Code. The regulations describe the types of tests which the operators must do and which tests are subject to witness by the commission. The commission has broad powers to prevent the escape of oil or gas, or the pollution of fresh water supplies, as well as prevent blowouts, cavings, seepages and fires.

The commission's regulations conclude:

The commission will in its discretion, exercise its statutory power to enter and conduct on-site investigations and inspections at reasonable times of facilities, equipment, practices, records, or operations for the purpose of ensuring compliance with the requirements of this chapter.

If it is determined that the requirements of this chapter are not being met, the commission will order remedial work or take other action it considers necessary.

C.V. (Chat) Chatterton, commission chairman since 1982, resigned during the course of this investigation due to illness. Mr. Chatterton died on October 14, 1990. A third commissioner has not yet been appointed.

In Mr. Chatterton's opinion, the oil and gas statute "prohibiting physical waste," was written to address economic, rather than environmental, issues. He stated during the investigative interviews:

AS 31.05, provides the commission with neither the specific authority for; nor does it set forth as a duty, the inspection of blowout prevention equipment installed on drilling rigs in Alaska.

Mr. Chatterton described the statute as providing only "tenuous authority," for the inspection program. He states the level of inspections is a discretionary determination made by the commission and the current staff of three inspectors is adequate.

Following budget cuts in 1986, the inspection staff decreased from five to three and has remained at that level.

Chat Chatterton agreed that the reduced number of inspectors resulted in fewer field tests being witnessed. He did not dispute the figures in Mr. Minder's memo, but states the commission maintains public files and did not want a memo or other document in which the commission "condemns ourselves" available to the press or the public.

Commissioner Lonnie Smith agrees with Mr. Chatterton that Mr. Minder broadened and increased the inspection program beyond the scope of the commission's responsibility and beyond its budget.

Mr. Smith says, "The commission has not been much for putting things in writing." The only written directive is a memo listing eight types of inspections to be done in order. The memo does not define the percentage of tests to be witnessed, the frequency of inspections or the division of the workload. The present investigator level made it impossible to complete all items on the list. The commission responded that it was Mr. Minder's responsibility to determine the methods to increase program effectiveness.

Mr. Smith states the inspection program is welcomed by the oil industry. The high pressure under which Alaskan wells operate and severe climatic conditions make a strong field presence advisable.

Commissioner Dave Johnston, appointed in January 1989, states each commissioner's vote is equal but Mr. Chatterton was "an extremely strong personality," who often resisted abrupt change. Mr. Johnston describes the commission as needing change in many areas including management, staff morale, equipment and office maintenance.

Mr. Johnston states Mr. Chatterton should not be solely blamed for the decline in the inspection program. More important is the 40% reduction in the commission's operating budget over the past nine years.

Mr. Johnston made several suggestions for improving the inspection program: expanding computer capability for gathering data; prioritizing the work load; and hiring enough inspectors to normalize the work hours and field rotation.

Former Commissioner Harry Kugler confirmed that with five inspectors, the commission witnessed approximately 85% of all field tests. He believed Mr. Chatterton must have been misquoted in telling the oil companies to be on their

honor. He stated the commission is a regulatory agency and monitoring the industry is a primary commission function.

Russell Douglass and Blair Wondzell, staff engineers, rely on inspection data to varying degrees. Mr. Douglass stated Mr. Smith was in the best position to decide the number of inspectors needed. Mr. Wondzell described the present number of inspectors as adequate.

Michael Minder states he brought many of the inspector's frustrations to the commissioners' attention, but was not given the authority to effect change. The regulations require the oil companies to notify the commission of critical tests; the companies expect the commission to send an inspector to the field and requested Mr. Minder give them scheduling information. The inspection staff was inadequate to fully comply with even the first item of priority work and Mr. Minder was unable to tell the oil companies when other work could be definitely scheduled.

The inspectors report finding equipment installed incorrectly and safety equipment incapable of functioning. Rig crews rely on the inspectors to order corrections when the operator may have chosen to ignore unsafe conditions. Over the years, the inspectors have learned which companies and operators are safety conscious and which are not. Those who are not require more vigilant observation than is presently possible.

The commission handouts, last revised in 1987, are misleading to the public. They describe various tests and inspections as being both important and regularly performed. Many of these activities have been reduced to a marginal level and some are not being done at all. During this investigation parts of the handout have been updated and the new summary is included with the final report.

Other state departments, including Environmental Conservation, Labor and Natural Resources have various regulatory functions on the oil rigs. All of them rely heavily on the commission. None have the staff, expertise or responsibility for testing or inspecting subsurface equipment. Bill Van Dyke, petroleum manager for the Department of Natural Resources (DNR), Division of Oil and Gas summarizes the position of these agencies:

I certainly think some agency should do the inspections of the oil rigs, and the commission is in a logical position to do so. If specific practices and equipment are important enough to be identified in the commission's regulations, then they should be enforced and inspected.

Representative Kay Brown, director of DNR's Division of Oil and Gas from 1982 to 1986, states the commission could make better use of its personnel and has other budget options than cutting the inspection staff.

Two federal agencies also regulate oil and gas wells in Alaska. The U.S. Bureau of Land Management has oversight for approximately 150 wells on federal land. The U.S. Minerals Management Service oversees off-shore wells in federal waters. These agencies witness 100% of the blowout prevention tests in Alaska. Both agencies agree a high visibility in the field is critical to continued safe operation:

With any less than a 50% inspection rate, you don't stay on top of things and the operators get lax. The Bureau's goal nationally is to witness 85% of the BOP tests and

100% of all well plugging and abandonment operations.
Safety valve tests are a third priority.

Canada's oil and gas industry shares many operational and climatic similarities with Alaska. For this reason inquiry into the function and procedure of the Energy Resources Conservation Board (ERCB), Alberta, is particularly applicable to this investigation.

William G. Remmer, manager of Field Operations reports that 100% of critical, high flow, high pressure or unusually deep wells are inspected and all critical tests witnessed. This criteria also applies to all wells in environmentally sensitive areas. A minimum of two inspections are done on each new well.

The ERCB procedures used in reducing the test failure rate on blowout equipment from a high of 43% to the present 6.4% are fully described by Mr. Remmer and include heavy emphasis on industry awareness of the agencies requirements, involvement of industry representatives in self-regulation and acknowledgement of problem areas.

Enforcement by the agency is strong and a rig may be shut down for noncompliance. Companies and operators continuing to have problems are subjected to increased inspections and even closer scrutiny.

In California, regulatory enforcement has been returned to the state. The Department of Conservation, Division of Oil and Gas maintains six field offices. Inspectors witness 100% of initial BOP tests and well abandonment operations. Quarterly reports by district provide detailed statistical analysis of all tests, inspections and results.

The report also discusses the position the Department of Commerce took in reporting to the news media that it had independently examined the adequacy of the inspection program.

ANALYSIS

If the commission continues in its present form, modern effective management and a team building approach is needed. Rotation of the chairmanship should also be considered.

Any question regarding the "tenuous authority" of the commission to regulate in areas of human safety or environmental integrity must be removed by the governor and the legislature. The commission's position that it has unlimited discretionary latitude in reducing the inspection program is untenable. Public awareness and concern must be reflected in its regulatory agencies. Increased vigilance over industry is needed even as increased self regulation is sought.

Through measurable criteria, including numerical and statistical goals, the commission must become more accountable than it is at present. Reinstating quarterly and annual reports would provide industry, government and the public with measurement tools necessary to evaluate the performance of the commission.

By the regulatory standards established in Canada, California and other states, Alaska falls far short of providing a viable regulatory presence in field safety. It is evident that three inspectors is inadequate. The number of documented hours worked is excessive. The inspectors are unable to cover emergencies and receive inadequate direction in setting priorities. Field reports by the inspectors are, by

necessity, cursory and lacking in critical analysis. There is too little time for training even though the field is rapidly changing.

Those gains in industry compliance and cooperation achieved through a strong field presence are in danger of eroding with declining surveillance. Although budget reductions have been severe, the commission has been lax in requesting new positions or equipment. The commission has not strongly documented either its budgetary needs or the expected results of a larger budget.

Investigation supports the conclusion that the commission has knowingly allowed both the level and kind of inspections to decline over an extended period of time. Mr. Minder's annual report objected to the decline. This memo and others he wrote continually brought the results of this decline to the commission's attention.

Although Mr. Minder should not have distributed a draft of the report to the inspection staff, there is no further evidence of wrongdoing on Mr. Minder's part. Mr. Minder's job description required him to bring this information to the commissioners' attention and he acted within his job description in demanding to have the memo typed and submitted to his supervisor and the other commissioners.

During this investigation the suggestion was raised that the commission's regulatory functions be transferred to another agency. That decision would necessarily consider many functions of the commission not addressed by this investigation. The recommendations will assist the commission in its present form and should assist policy makers considering other options.

RECOMMENDATIONS AND FINDINGS

During the investigation, Mr. Johnston and Mr. Smith began identifying commission programs to be strengthened and began drafting written priorities and expectations for the inspection program. The commissioners were candid and cooperative during this investigation and agreed with many of the recommendations.

The recommendations and the agency response to each follows:

- (1) I recommend that the Alaska Gas and Oil Conservation Commission develop a comprehensive mission statement which defines the role and statutory responsibility of the agency.

Agency Response:

We believe such a mission statement is clearly articulated in the commission's budget submittal for FY'92, as well as set out in the governing statutes and regulations of the commission. That statement follows:

"The Alaska Oil and Gas Conservation Commission is an independent quasi-judicial agency set up by the Legislature to enforce the Alaska Oil and Gas Conservation Act (AS 31.05). The commission oversees oil and gas drilling, development and production, reservoir depletion and metering operations on all lands subject to the state's police powers. The commission acts to prohibit the physical waste of crude oil and natural gas, to protect the correlative rights of mineral interest owners, and to obtain the maximum ultimate

recovery of oil and gas that is prudently possible. The commission levies fines for violations of the statutes, regulations or orders of the commission, and will seek injunctive relief to stop continuing violations.

The commission also is responsible for administering the Underground Injection Control(UIC) program for oil and gas wells in Alaska. The UIC program is authorized by the U.S. Environmental Protection Agency under the Safe Drinking Water Act of 1974, as amended. In addition, the commission acts as Alaska's jurisdictional agency to determine well categories for meeting the maximum lawful price for gas under the Natural Gas Policy Act of 1978, and to approve applications as meeting the requirements of the U.S. Treasury for a qualified tertiary recovery project. It also serves an adjudicatory forum for resolving disputes between the oil and gas industry."

- (2) I recommend that the Alaska Gas and Oil Conservation Commission establish measurable goals and objectives to assist the administration and the staff in fulfilling the mission statement and the agency's responsibilities.

Agency Response:

Again, we will turn to our FY'92 budget submittal to provide a basis for meeting this recommendations. The commission included nine objectives and performance measures in its budget. We will examine these standards in light of your report and make appropriate revisions, if necessary. At a minimum, extra detail will be provided to aid the staff in determining how these objectives and performance measures are to be achieved.

- (3) I recommend that the Alaska Gas and Oil Conservation Commission develop accurate internal standards to aid in measuring the performance of individual staff and the agency as a whole.

Agency Response:

Performance standards already exist for all staff. However, we will immediately commence a review of the current standards for each employee, and make changes where needed. This review will be done in consultation with the employee. Each employee will be asked to review his or her standards, and will be encouraged to provide suggestions and comments or to seek clarification as appropriate. Our goal will be to provide each employee with realistic, understandable and achievable standards within six months. These standards will then be used to gauge employee performance for annual evaluation or disciplinary purposes.

- (4) I recommend that the Alaska Gas and Oil Conservation Commission promote personnel policies which encourage all staff to provide constructive criticism and suggestions to improve agency functioning.

Agency Response:

Informally, this is already being done, and positive results are being obtained. For example, as we move closer to computer automation, all staff are being encouraged to consider ways to improve their office functions through computerization; training will be provided where appropriate. Also, the petroleum inspection staff have already made recommendations for ways to improve the program, and they will be further consulted as we progress.

This openness policy will extend to staff meetings, which will be held more frequently to explain commission activities and policy decisions. Staff will also be encouraged to put suggestions in writing and to provide background information along with their analysis of the problem. The commissioners will reply in kind as appropriate. This policy will be formalized at the conclusion of this investigation.

- (5) I recommend that the Alaska Gas and Oil Conservation Commission provide a formalized grievance process in which staff may receive an impartial review of any negative personnel action by an objective third party within the agency.

Agency Response:

This vehicle is already in place for our general government bargaining unit employees. Our exempt staff, on the other hand, are covered by the state's personnel rules.

To the extent that it is possible, however, we will use our existing structure to achieve an objective third party. We will issue an internal written policy that states if an employee has a grievance he or she will be asked to deal directly with the immediate supervisor. If the problem is not resolved at that level, then the employee will be encouraged to bring the problem to the attention of the commissioners. If the immediate supervisor is one of the commissioners, then the other two commissioners will be asked to address the problem.

- (6) I recommend that the Alaska Gas and Oil Conservation Commission revise the FY'92 budget request using "Zero Based" budget techniques to determine the agency's actual needs as defined by the mission statement, state law and current regulations. Use that information to finalize the budget submitted for the governor's consideration and discussions with the legislature.

Agency Response:

The commission submitted its FY'92 budget to the Department of Commerce per the department's instructions and policies prior to receiving this report. In that budget, the commission requested two increments. The first increment is for \$242,600. It will allow the commission [to] hire an additional two inspectors, provide another vehicle for their use on the North Slope, and pay for travel, per diem and training costs. The second increment is for \$30,000. It will fund necessary building maintenance, such as provide new paint and carpeting and sewer and heating repair. Money will also be directed toward securing a ground maintenance contract.

Over the course of the coming year, as we examine each program implemented by the commission, we will also examine funding requirements. Revisions to the budget will be requested when and where appropriate.

- (7) I recommend that the Alaska Gas and Oil Conservation Commission re-examine the agency's actions toward Mr. Minder in light of the findings and recommendations of this investigation.

Agency Response:

The commission relies heavily on its supervisory staff to structure as good a program as possible given its limited funding. It is now clear that Mr. Minder should have received additional supervisory training before being given program responsibility. Unfortunately this was not done, and the commission must assume responsibility for this failure. But, returning Mr. Minder to supervisory capacity at this time is not an appropriate remedy to this problem.

Instead the commission will give Mr. Minder expanded responsibility to develop a computer tracking program to use in the petroleum inspection program. In addition, he will be targeted for supervisory training, as well as program development and communication instruction.

Moreover, the entire staff will be set up on a training schedule, which will allow all employees to have some training in those areas where a need exists. The commission will also contact the Energy Resources Conservation Board in Alberta to obtain additional information about their inspection program. We also plan to become more involved with the Interstate Oil Compact Commission (IOCC), and have already attended a recent meeting of the IOCC executive committee.

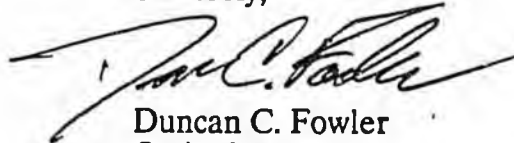
The findings and recommendations cited above will now remain the findings and recommendations of record in this case.

November 6, 1990

You have agreed to implement the recommendations to varying degrees. Additional changes and measurable standards applicable to the inspection program have yet to be fully identified. Further, such changes await additional funding to enable full implementation. Based on the commission's commitment to strengthen the inspection program and improve its personnel management system, I find the disposition of this case to be partially rectified at this time.

I appreciate the candid and cooperative attitude maintained by the commission throughout this investigation. The additional information provided in your written response to the preliminary report was most helpful. Please do not hesitate to contact Assistant Ombudsman Diane Shriner or me if you have questions or comments regarding the final report.

Sincerely,



Duncan C. Fowler
Ombudsman

DMS:pjc
Enclosure



State of Alaska
ombudsman

Duncan C. Fowler

PRESS RELEASE
OFFICE OF THE OMBUDSMAN
November 6, 1990

For more information call: Ombudsman Duncan Fowler
465-4970 (in Juneau)
(800) 478-4970 (toll free)

Subject: Oil and Gas Conservation Commission investigation

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Despite being the top oil-producing state in the country, Alaska's regulation of oil-field safety is lagging far behind that of other states and neighboring Canada, according to an investigation released by the Office of the Ombudsman today.

The 35-page investigation of the Alaska Oil and Gas Conservation Commission found that budget and staff reductions hurt the credibility of the commission's oil and gas well inspection program and compromised the investigative and regulatory function of the commission.

In the report, Ombudsman Duncan Fowler found: "By the regulatory standards established in Canada, California and other states, Alaska falls far short of providing a viable regulatory presence in field safety."

The report also found the commission acted unfairly in its reprimand of the inspection staff supervisor, Michael Minder, who wrote a memo critical of the current level of well inspections.

Minder's memo warned the commission that reducing the number of inspectors from five to three was having a serious effect on some safety programs. Only 27 percent of the blowout prevention equipment tests during 1989 were witnessed by commission inspectors. That compared to an 85 percent rate when there were five inspectors on the job.

"A lack of manpower together with budgetary constraints have reduced our exposure both on the North Slope and particularly in the Cook Inlet fields," Minder said in his memo.

The commission's reaction was to tell Minder not to have the report typed and to retrieve rough drafts given to the inspectors. When he failed to comply, he was reprimanded in writing and relieved of his supervisory duty.

The Alaska Oil and Gas Conservation Commission was established in 1978 to regulate the development and production of oil and gas and to ensure compliance with inspection and safety statutes. It is an independent arm of the Alaska Department of Commerce and Economic Development, which provides

administrative and budgetary oversight, but is not involved in commission policy matters. Members of the commission are appointed by the governor and confirmed by the legislature to six-year terms. Terms may be successive and without limit.

The three-member commission and staff of 18 are responsible for regulating 1,551 producing oil wells and 133 producing gas wells in Alaska. The commission also processes about 200 drilling permits and 1,000 well repair and other permits each year. About five new wells are expected to be drilled this year. The commission also has responsibility for the Underground Injection Control program, designed to protect underground sources of drinking water.

Despite this high degree of responsibility, the commission has suffered a 40 percent reduction in its operating budget in the past nine years. According to the commission, this led to the reduction of staff and the decreased visibility of inspectors.

Commission inspectors reported finding such problems as incorrectly installed equipment and even safety equipment incapable of functioning. Rig crews rely on the inspectors to order corrections in case the operator chose to ignore unsafe conditions. Inspectors were even unable to respond to requests by oil companies for scheduling information on when an inspector could be sent to the field to witness critical tests.

In contrast, the two federal agencies that regulate oil and gas wells on federal land in Alaska, the U.S. Bureau of Land Management and the U.S. Minerals Management Service, have a goal of witnessing 85 percent of blowout prevention tests on its wells and 100 percent of all well plugging and abandonment operations.

In Canada, 100 percent of the critical, high-flow, high-pressure or unusually deep wells are inspected and all critical tests witnessed, according to William Remmer, manager of field operations for the Energy Resources Conservation Board in Alberta.

The ombudsman report also looked at regulatory enforcement in California where the state has six field offices in the Department of Conservation, Division of Oil and Gas. State inspectors in California witness 100 percent of initial blowout prevention tests and well-abandonment operations.

The ombudsman investigation found that gains in industry compliance and cooperation achieved through a strong field presence are in danger of eroding because of declining surveillance. It concluded that the commission has knowingly allowed the level and kind of inspections to decline over an extended period of time.

Although budget reductions have been severe, the commission has been lax in requesting new positions or equipment. The commission has not strongly documented either its budgetary needs or the expected results of a larger budget, the ombudsman report concluded.

But in its response to the ombudsman's preliminary report, the commission defended its actions saying it was merely responding appropriately to budget cutbacks.

According to a letter from commissioners David Johnston and Lonnie Smith, the commission never intentionally wanted to reduce its inspection program and

that there should be no doubt in the minds of the public about the commission's continuing desire to properly regulate oil and gas activities in Alaska.

"Given the magnitude of our budget cutback, we feel the commission acted quite reasonably in spreading staff reductions throughout the organization, and only targeting vacant positions," Johnston and Smith wrote. "Although all areas were hurt, none were disabled. At all times, the commission's approach has been to preserve as viable a program as possible, even with reduced funding."

After including commission comments and responses in the final report, Ombudsman Fowler recommended that the commission clarify its regulatory role over oil and gas activity in Alaska, strengthen its inspection program and improve its personnel management system.

It was also suggested that reinstating quarterly and annual reports would provide the oil industry, government and the public with some measurement tools to evaluate the performance of the commission.

While some of these recommended changes will require additional funding, the commission agreed, in varying degrees, to implement the recommendations in the ombudsman report.

Michael Minder, meanwhile, will be put in charge of developing a computerized tracking system to use in the petroleum inspection program. He is also slated for extra management training. However, at least for the time being, supervisory responsibility for the inspection program will remain with the three commission members.

Alaska State Legislature

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During Session:
P.O. Box V
Juneau, Alaska 99811
(907) 465-4993

Senator Drue Pearce
District G

MEMORANDUM

TO: Senator Lloyd Jones, Chair
Senate Resources Committee

FROM: Senator Drue Pearce *Drue Pearce*

DATE: May 6, 1991

RE: CSSSSB 46 (O&G), Relating to the AOGCC

CSSSSB 46 (O&G), An Act relating to the Alaska Oil and Gas Conservation Commission, was introduced after I read the Ombudsman's Investigative Report of the AOGCC dated November 6, 1990. The report suggested mandatory rotation of the chairmanship in the absence of limited terms for the commissioners (Page 27).

The Oil & Gas Committee Substitute makes two changes to the bill. First, it changes the term of the chair back to four years (line 5) as is in present law. The two year proposal was not warranted. The second change in the CS tightens the title.

I urge your support.

Thank you.

DP:tej

FISCAL NOTE

STATE OF ALASKA
1991 LEGISLATIVE SESSION

BILL NO. CSSSSB 46 (O&G)

Revision Date: April 17, 1991 Department Affected: Commerce
 Title: An act relating to the Chair BRU Oil and Gas Conservation Commission
 of the AOGCC Component: _____

Sponsor: Senator Pearce

Requestor: Senator Pearce

COMPONENT SERIAL NO.

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Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -

CAPITAL	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
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REVENUE	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
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FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year impact: NONE

ANALYSIS: (Attach a separate page if necessary.)

No fiscal impact is anticipated should the proposed amendments be enacted.

Prepared By: Lonnie C. Smith/Commissioner

Phone: 279-1433

Alaska Oil & Gas Conservation Commission Date: April 27, 1991

Approved by Commissioner: Lonnie C. Smith

Agency: Department of Commerce & Economic Dev.

Date: 4-24-91

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMA, & Impacted Agency(ies).

CSSSSB 46: An act relating to the Alaska Oil and Gas Conservation Commission.

The Department of Commerce and the Alaska Oil and Gas Commission has no objection to amendment of AS 31.05.005 (b) as proposed by the Senate Special Committee on Oil and Gas in CSSSSB 46 (O&G).



Glenn A. Olds, Commissioner

Date: 4-24-91

Memorandum State of Alaska
Oil and Gas Conservation Commission

To: *Members*
Sp. Com. on Oil & Gas Date: April 24, 1991
Telephone: 279-1433
Fax number: 278-7542

From: David W. Johnston
Chairman *DW* Subject: CSSSSB #46

The Commission does not object to Senate Bill No. 46, which makes the term of the chair of the Oil and Gas Conservation Commission non-successive. However, we do have two concerns. First, we see no compelling need for the bill. Under the existing statute, the Governor appoints a chair every four years. If a chair is not performing or representing the commission properly, the Governor need not reappoint that individual to another four years. The decision to reappoint a chair is properly with and should remain a Governor prerogative

Second, we are concerned as to why the change is limited only to the Oil and Gas Conservation Commission. If making the term of a chair non-successive is in the best interest of the state, then all boards and commissions should have similar restrictions.