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October 31, 2019

Regulatory Commission of Alaska  
701 West Eighth Avenue, Suite 300  
Anchorage, Alaska 99501

Subject: Tariff Advice Letter 35-733  
Well Maintenance Surcharge Mechanism

Dear Commissioners:

The tariff filing described below is transmitted to you for filing in compliance with Sections 3 AAC 48.200 - 3 AAC 48.430 of the Alaska Administrative Code, and as required by Order U-18-043(15):

<u>Tariff Sheet</u>		<u>Cancels Sheet</u>		<u>Schedule or Rule Number</u>
<u>Number</u>	<u>Revision</u>	<u>Number</u>	<u>Revision</u>	
1	Fourth	1	Third	Index
75	Seventh	75	Sixth	Section 35.1
76	Seventh	76	Sixth	Section 35.2
85	Original			Section 38
86	Original			Section 38
87	Original			Section 38
88	Original			Section 38
89	Original			Section 38
90	Original			Section 38

Ordering paragraph 3 of U-18-043(15) requires Cook Inlet Natural Gas Storage Alaska, LLC ("CINGSA") to "file as a tariff advice filing a proposed well maintenance surcharge mechanism... ." This filing fulfills that requirement. Once approved by the Commission, the provision will apply to all CINGSA customers. CINGSA has four customers receiving firm storage service ("FSS") and it currently has interruptible storage service ("ISS") agreements with six entities.

## I. BACKGROUND

During the course of CINGSA's recent rate case, in Docket U-18-043, there was significant discussion of the costs CINGSA has incurred to conduct storage well maintenance. In Order 15, the Commission noted that "normal" well maintenance

activities generate fairly lumpy and unpredictable costs from year to year. The Commission acknowledged that the need to mobilize a drill rig to perform certain remediation tasks would generate substantially larger expenses. The Commission determined that due to “the outsized nature of drill rig costs together with CINGSA’s critical role in Cook Inlet’s gas deliverability infrastructure,” CINGSA should implement a tariff surcharge for well maintenance activities that require a drill rig. CINGSA was required to file the proposed mechanism as a tariff advice filing by October 31, 2019.<sup>1</sup>

## **II. WELL MAINTENANCE**

In U-18-043(15), the Commission defined “Well Maintenance” for the purposes of the Well Maintenance Surcharge provision as “reasonably practicable activities necessary to maintain, or to return an existing well to or substantially towards, its previous fully functional capacity. Well maintenance primarily mitigates or remediates engineering rather than geological and geophysical risks, and thus excludes the drilling of new wells or sidetracks.” (p.60) CINGSA has adopted this definition of “Well Maintenance” in the proposed provision (Section 38.2 g, Sheet 86).

Well work which requires a drill rig generally falls into two broad categories. One relates to the mechanical integrity of a well, and the other relates to the functional integrity of a well. Mechanical integrity maintenance work includes, but is not limited to: repairing leaks in the tubing string, replacing packer(s), downhole seals or seal assemblies, or repairing wellhead leaks. Functional integrity maintenance work is performed to restore injection/withdrawal capability. This type of work includes, but is not limited to: cleanouts, re-perforating, and other procedures to restore or improve the deliverability capability of the well.

The oil and gas industry has developed various specialized tools and equipment to perform specific tasks (or a range of specific tasks) that are used in downhole well work. Below is a short summary as to how three of these broad types of tools and equipment are used to perform Well Maintenance at CINGSA.

Wireline (defined at Section 38.2 i, Sheet 86) is used to, among other things, place and remove wellbore hardware, such as sub-surface safety valves (“SSSVs”), set temporary bridge plugs, tubing plugs, perform perforating, and setting packers. It is also used to place and retrieve protective sleeves over the polished bore area in the SSSV landing nipple to protect the polished bore seal area during downhole work activity. Once the work on a well has been completed, Wireline is used to remove the plugs and the

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<sup>1</sup> U-18-043(15), pp. 58-62. This section of the Order also specifically discusses well remediation work involving drill rigs planned for two CINGSA wells, Cannery Loop Unit Storage wells 3 and 5 (“CLUS-3” and “CLUS-5”).

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protective sleeve, and the SSSV is reset. The Alaska Oil and Gas Conservation Commission (“AOGCC”) requires a tested, functioning SSSV to be in place for gas withdrawal and injection.

A Coiled Tubing Unit (defined at Section 38.2 b, Sheet 85) may be used for fluids handling, milling, drilling, cleanouts, setting and retrieving plugs, and perforating. After the work is performed, a Coiled Tubing Unit may also be used to remove the fluids before the SSSV is reinstalled in the well bore so that gas injection and withdrawal can resume.

In a Well Maintenance operation, a Drill Rig (defined at Section 38.2 c, Sheet 85) is used to lift the tubing string to allow replacement of damaged sections of the string. This could include pulling out the entire tubing string from the well. A workover rig, a type of Drill Rig, is a small drilling rig that enables quicker mobilization/demobilization time. A workover rig can be used for some drilling operations but on a minimal scale. Any work with a Drill Rig will still require Wireline work to remove the SSSV, set the protective sleeves, and set necessary plugs before work with the Drill Rig begins. Also, in most instances where a Drill Rig is utilized, coiled tubing may also be incorporated in the well maintenance work package to remove kill fluids from the tubing or casing and perform other downhole work. Once the Drill Rig work is completed and before the well can be brought back into service, Wireline is needed to remove the safety plugs, remove the protective sleeve, and reinstall the SSSV.

The AOGCC has statutory jurisdiction over CINGSA’s wells,<sup>2</sup> as the Commission noted in CINGSA’s certification docket (U-10-51(9) at 31). The AOGCC’s regulations at 20 AAC 25.280(a)<sup>3</sup> require CINGSA to submit an Application for Sundry Approvals “in order to enter a well and conduct one or more of the following types of well workover operations: (1) the perforation or reperforation of casing; (2) stimulation; (3) the pulling of tubing; (4) alteration of the casing; (5) repairs to the well.” In reviewing the Sundry Applications, the AOGCC staff review the proposed procedure, including the type of equipment proposed to be used, and may require changes to the procedure. CINGSA has routinely provided its Sundry Approval applications and the AOGCC approvals to the RCA.

A Well Maintenance Work Package (defined at Section 38.2 h, Sheet 86) involves all the tools, materials and equipment necessary to “achieve a stated well-maintenance or well remediation purpose.” (U-18-043(15) at 60). Well Maintenance may be broken into individual phases, which could require separate AOGCC Sundry Approvals. At page 59 of U-18-043(15), the Commission distinguishes between “‘normal’ maintenance expenses” and those requiring “the need to mobilize a drill rig”. To be eligible for CINGSA’s proposed Well Maintenance Surcharge Mechanism, a Well Maintenance Work

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<sup>2</sup> See AS 31.05.030.

<sup>3</sup> Attached for the Commission’s convenience.

Package must utilize a Drill Rig. Given the requirements under 20 AAC 25.280, that work will also have to have Sundry Approvals from the AOGCC. As noted above, any Well Maintenance Work Package with a Drill Rig will also involve Wireline and other auxiliary equipment necessary to comply with the Sundry Approval. As a result, CINGSA believes that it is appropriate to include these other equipment costs as part of the Eligible Well Maintenance Costs, all of which are to be recovered by a Surcharge where a Drill Rig is also used (Section 38.3, Sheet 86).

### **III. OVERVIEW OF PROPOSED PROVISION**

The proposed provision sets out the criteria for the costs to be recovered by a Well Maintenance Surcharge (Section 38.3, Sheet 86), and the mechanism to compute Surcharge rates (Determination of Well Surcharge Rates - Section 38.5, with an example in Section 38.6, Sheet 88). As directed by the Commission in U-18-043(15), each new or revised Surcharge shall be: filed as a separate tariff advice letter, set to recover the costs over three or more years, and applied to FSS Customers on a pro rata basis measured by the contracted injection and withdrawal capacities of the FSS Customers, with a 50% weight on each capacity reservation factor (Section 38.4, Sheet 87). The proposed provision also provides rates to ISS Customers. There is also language to revise Surcharges if there is a change in the total FSS customer contracted commitments that were used to compute the Surcharge rates. The proposed provision provides for the separate listing of each Surcharge amount assessed on the Customer bills (Section 38.7, Sheet 89) and an annual accounting to be filed with the Commission (Section 38.8, Sheet 89).

### **IV. SECTION BY SECTION DISCUSSION OF THE PROPOSAL**

The specific tariff sections being revised or added in this filing are discussed below:

**Index (Sheet 1)**: A listing is being added for new Section 38 – Well Maintenance Surcharge Mechanism.

**Section 35.1 c – Rate Schedule FSS – Firm Service (Sheet 75)**: Language is being added to state the billings are be subject to Well Maintenance Surcharges as provided for in Section 38.

**Section 35.2 c – Rate Schedule ISS – Interruptible Service (Sheet 76)**: Language is being added to state the billings are subject to Well Maintenance Surcharges as provided for in Section 38.

**Section 38.1 – Purpose (Sheet 85):** A new proposed section stating that the purpose of the surcharge mechanism is to allow the Company to recover actual, prudently-incurred Well Maintenance expenses associated with work that requires a Drill Rig.

**Section 38.2 – Definitions (Sheets 85 and 86):** A new proposed section providing meanings for specific defined terms used in Section 38. The terms defined are AOGCC, Coiled Tubing Unit, Drill Rig, Eligible Well Maintenance Costs, Qualified Well Maintenance Work Package, Surcharge, Well Maintenance, Well Maintenance Work Package, and Wireline. The definition of Well Maintenance comes from Order U-18-043(15) at page 60, beginning at line 11. The definitions for Coiled Tubing Unit, Drill Rig, and Wireline are based upon definitions from the Schlumberger Oilfield Glossary.<sup>4</sup>

**Section 38.3 – Eligible Well Maintenance Costs (Sheet 86):** A new proposed section that sets out the criteria for Well Maintenance Costs to be recoverable through the surcharge mechanism set out in Section 38. It includes only actual, historical, prudently-incurred costs, excludes costs of CINGSA personnel and does not include carrying costs, as provided by Order U-18-043(15) at page 61. It includes costs for a Well Maintenance Work Package that utilizes a Drill Rig.

**Section 38.4 – Separate Surcharges (Sheet 87):** A new proposed section that provides that a separate Surcharge shall be leveled for each Qualified Well Maintenance Work Package, as set out in Order U-18-043(15) at page 60.

- Subsection (a) provides that each new or revised Surcharge shall be filed as a separate tariff advice letter, or as part of a general rate case.
- Subsection (b) provides that the costs will be amortized over 36 months, unless a longer period is required and adequately supported.
- Subsection (c) provides that the Surcharge will be applied to FSS Customers on a pro rata basis measured by the contracted injection and withdrawal capacities of the FSS Customers, with a 50% weight on each capacity reservation factor as set out in Order U-18-043(15) at page 61, and also sets out how it will be assessed to ISS customers.
- Subsection (d) provides for a recalculation of the Surcharge if the total contracted amount of FSS MSQ<sup>5</sup> or CWQ<sup>6</sup> changes while a Surcharge is in effect.
- Subsection (e) provides that a Surcharge will remain in effect until the total amount of costs have been recovered, and provides a mechanism for refunds if there has been an over collection.

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<sup>4</sup> <https://www.glossary.oilfield.slb.com/>

<sup>5</sup> As defined in Tariff Sheet 9, Section 2.46

<sup>6</sup> As defined in Tariff Sheet 5, Section 2.14

**Section 38.5 – Determination of Well Maintenance Surcharge Rates (Sheet 88):** A new proposed section that provides the format for the calculation of the rates for a Well Maintenance Surcharge.

- The Surcharge rates are calculated by first taking the Eligible Well Maintenance Costs (line 2) and dividing them by the number of months in the amortization period (line 3) to arrive at a monthly amortization amount (line 4).
- The monthly rate per thousand cubic feet (“Mcf”) to be applied to each FSS customer’s MSQ (line 7) is calculated by taking 50% of the monthly amortization amount calculated at line 4, and is divided by the FSS Total MSQ Contracted Quantities (line 5).
- The monthly rate per Mcf to be applied to each FSS customer’s CWQ (line 8) is calculated by taking 50% of the monthly amortization amount calculated at line 4, and is divided by the FSS Total CWQ Contracted Quantities (line 6).
- The monthly rate per Mcf to be applied to each ISS customer’s maximum quantity of gas stored for a Month (line 9) follows the methodology currently used to compute ISS rates, and is calculated by taking the Surcharge rate applied to FSS CWQ Contracted Quantities (line 8) divided by the average number of days in a Month (30.4) and adding the result to the Surcharge rate applied to FSS MSQ Contracted Quantities (line 7).

**Section 38.6 – Determination of Well Maintenance Surcharge Rates Example (Sheet 88):** A new proposed section that provides an example of the calculation of the rates for a Well Maintenance Surcharge.

**Section 38.7 – Separate Listing on Bills (Sheet 89):** A new proposed section that provides that the total amount billed for each Surcharge will be separately listed on each billing.

**Section 38.8 – Annual Accounting (Sheet 89):** A new proposed section that provides that the Company shall file an annual accounting of the collections under each effective Surcharge at the same time it files its annual report to the Commission.

**Section 38.9 – Effective Well Maintenance Surcharges (Sheet 90):** A new proposed section that will show all Surcharges in effect. There are currently no Surcharges in effect.

## V. CONCLUSION

CINGSA greatly appreciates the Commission’s recognition of the critical role it plays in Cook Inlet’s gas deliverability infrastructure, and its conclusion that the costs of Well Maintenance work that requires the use of a specialized rig creates challenges for which normal ratemaking methods are ill equipped. CINGSA believes that the Well

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Maintenance Surcharge Mechanism it is proposing in this filing achieves the objectives the Commission set out in U-18-043(15).

CINGSA respectfully requests that the Commission approve these revisions and the new provision at the conclusion of the 45-day standard notice and review period.

Sincerely,

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Attachments:

20 AAC 25.280

Revised Tariff Sheets