



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of Natural Resources

DIVISION OF OIL AND GAS

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September 29, 2016

Kelley Nixon
Environmental Specialist
Hilcorp Alaska, LLC
3800 Centerpoint Dr, Suite 1400
Anchorage, AK, 99503

RE: LO/CI 16-004, Hilcorp Alaska LLC, Ninilchick Unit, Kalotsa Pad Construction, Drilling, and Gas Production, Unit Plan of Operations Decision.

Dear Ms. Nixon:

I. INTRODUCTION

On August 9, 2016 Hilcorp Alaska LLC (Hilcorp) submitted a request to the Division of Oil and Gas (Division) for approval of a Unit Plan of Operations (Plan) to carry out construction of a new gravel pad (Kalotsa Pad), access road and adjacent pipeline in the Ninilchik Unit (NKU). The pad construction is approximately 6 miles Northeast of Ninilchik, Alaska. Approval of this Plan, along with approvals from other state and federal agencies, is necessary for Hilcorp to carry out production from the Kalotsa Pad. Any further development is subject to further review and approval by the Department of Natural Resources (DNR).

II. SCOPE OF DECISION

The DNR Commissioner has delegated authority for approval of Unit Plan of Operations activities to the Division under Department Order: 003 in accordance with Alaska Statute (AS) 38.05 and 11 Alaska Administrative Code (AAC) 83.346. As set forth below, the Division has evaluated the proposed Plan to determine if sufficient information as required by 11 AAC 83.346 is provided. The Division has also considered the criteria set forth in 11 AAC 83.303. In approving a Plan, the Division may require amendments that it determines are necessary to protect the State's interests (11 AAC 83.346(e)).

The development and operation of the Kalotsa Pad is necessary to improve recovery of natural gas within the Susan Dionne/Paxton participating area located on the east side of Cook Inlet. The proposed project is located on privately owned land and will take place approximately a quarter mile away from adjoining residential property owners. Fluids from the Kalotsa Pad wells will undergo an initial separation process at Kalotsa Pad and produced water will be shipped through a subgrade flowline to Susan Dionne Pad for further treatment and delivery to the Kenai Beluga Pipeline system. Flowline installation will include two 6-inch-diameter flex-steel gas flowlines, which will be bundled with electrical/instrumentation and fiber optic communication cables and buried 3' underground.

Hilcorp is requesting a separate DNR water use authorization to remove water from the area surrounding the Kalotsa pad into open trenches to allow construction of the accompanying infrastructure (TWUA A2016-97). In addition, the Kalotsa Pad development has been approved by the U.S. Army Corps of Engineers (COE) individual permit (POA 2015-256). The Alaska Department of Natural Resources, Division of Mining, Land and Water previously approved a temporary water use permit for Kalotsa Pad development under TWUA A2014-142.

III. LAND STATUS

The NKU is comprised of state and non-state lands.

- A. Division’s Leased Lands: This section refers to Division managed oil and gas leases regardless of ownership of overlying surface lands.

Oil and Gas Lease: 359242

Oil and Gas Mineral Estate Lessee(s): Hilcorp

Surface Ownership and Access Agreement: State oil and gas lease

Special Use Lands: N/A

Jointly Managed Lands: N/A

Other Considerations: N/A

Project Components	Meridian, Township, Range, & Section(s)	GPS Coordinates
Kalotsa Well #1– Bottom Hole Location	Seward Meridian, T1S, R13W, within portions of Section 6	TBD (subject to revision based on final well trajectory)

Oil and Gas Lease: 384372

Oil and Gas Mineral Estate Lessee(s): Hilcorp

Surface Ownership and Access Agreement: Yes

Special Use Lands: N/A

Jointly Managed Lands: N/A

Other Considerations: N/A

Project Components	Meridian, Township, Range, & Section(s)	GPS Coordinates
Kalotsa Well #2– Bottom Hole Location	Seward Meridian, T1S, R14W, within portions of Section(s) 1 & 12	TBD (subject to revision based on final well trajectory)

- B. State of Alaska Surface Lands: This section refers to State owned surface lands where no Division managed oil and gas leases exist.

Not applicable to this project.

C. **Non-State Lands:** This section refers to areas where the State does not own the surface land and no Division managed oil and gas leases exist.

Oil and Gas Mineral Estate Owner and Relationship with Applicant: Cook Inlet Region Inc. (CIRI) Oil and Gas lease # C061505

Surface Ownership and Access Agreement: Ninilchik Native Association Inc. (NNAI), KPB parcel ID 15701112

Special Use Lands: N/A

Jointly Managed Lands: N/A

Other Considerations: N/A

Project Components	Meridian, Township, Range, & Section(s)	GPS Coordinates
Kalotsa Pad	Seward Meridian, T1S, R13W, Section 7	60.103889, -151.591707
Access road and pipeline corridor	Seward Meridian, T1S, R13W, Section 7	N/A

IV. PROPOSED OPERATIONS

The Plan describes the proposed operations in full detail. Set forth below is a summary of the key details. This project is expected to begin as soon as all applicable permits and authorizations are received. The project schedule may change and dates may move forward or back. The project milestone 1 start date depends on weather, permitting, and company schedule. Project milestones 1,2, and 3 are expected in 2016, but dates in 2016 may vary. The schedule for wells 2 to 4 depends on results from well 1. The possibility of production from all wells depends on the results of testing at well 1.

A. Sequence and Schedule of Events

Project Milestone #	Project Milestone	Proposed Start Date	Proposed End Date
1	Clear vegetation and prepare site for construction	10/2/2016	10/25/2016
2	Construct gravel access road, pad, and flowline	10/16/2016	11/14/2016
3	Drill first well, exploration zones and expected development zones	11/1/2016	4/30/2017
4	Well testing	5/5/2017	5/20/2017
5	Well completion/production	6/3/2017	6/23/2017
6	Drill second well	2/1/2018	2/28/2018
7	Well completion/production	3/2/2018	3/30/2018
8	Drill third well (no pad expansion anticipated)	2018	TBD

9	Drill fourth well (no pad expansion anticipated)	2018 or later	TBD
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B. Well Sites

Hilcorp proposes constructing a 1.78-acre gravel pad located on Ninilchik Native Association Inc. land; four wells are expected to be drilled from the Kalotsa Pad. The angle of drilling to reach the offshore target leaves a limited surface area suitable for pad location. The final selected location is within Section 7, Township 1 South, Range 13 West, Seward Meridian southwest of the Susan Dionne Pad and northeast of the Paxton Pad.

C. Buildings

A heater/separator unit, communication building and a 200-barrel produced water tank will be installed on Kalotsa Pad. Gas will be sent to Susan Dionne Pad for treatment, dehydration and compression. Kalotsa Pad will not be a manned facility, but will be monitored by personnel staged out of the NKU Susan Dionne Pad. Drilling crews will be housed at an offsite drilling camp or other offsite lodging facilities.

D. Fuel and Hazardous Substances

A diesel fuel storage tank (~5,000 gallons) for equipment refueling will be onsite temporarily to support drilling efforts. Methanol, stored in a 350-gallon tote within secondary containment, will be located within the heater/separator unit for well freeze protection at Kalotsa Pad. After separation, produced water will be sent to a 200-barrel tank located within secondary containment on the pad.

E. Solid Waste Sites

Waste will be handled consistent with Hilcorp waste management practices as outlined below:

- Waste will be properly segregated and containers labeled to ensure proper disposal.
- Closed-top dumpsters will be onsite for food trash and household waste and will be hauled away from the site regularly to prevent overflowing.
- Household waste/paper trash will be sent to the Kenai Peninsula Borough Landfill for disposal.
- Oily waste will be segregated and sent to a specialty waste contractor for offsite disposal.
- Waste drilling mud and cuttings will be hauled via vacuum truck or supersucker directly from the rig process tank to an offsite, permitted underground injection disposal facility. The only anticipated storage of drilling waste on location would be in the event of an issue at the disposal facility that prevented immediate shipment, in which case Hilcorp would obtain Alaska Department of Environmental Conservation (ADEC) Temporary Drilling Waste Storage plan approval.
- Produced water tanks will be routinely emptied and produced water hauled offsite for underground injection.

F. Water Supplies

Approximately 100 barrels (bbls) per day of freshwater from one or more existing Alaska Department of Natural Resources (ADNR)-permitted wells will be used for drilling each gas well. Hilcorp obtained temporary water use authorization (TWUA) A2014-142 from ADNR for a future water well located on Kalotsa Pad. Fresh water used for drilling activities may also be trucked in from one or more additional off-site ADNR-permitted wells.

G. Utilities

The proposed 5,823-foot long flowline will extend from the northeastern side of the Kalotsa Pad and travel approximately 3,000 feet east, at which point the flowline will turn to the north for 2,800 feet and connect with Hilcorp's Susan Dionne Pad. The two buried 6-inch-diameter flex-steel gas flowlines will be bundled with electrical/ instrumentation and fiber optic communication cables and buried in a trench adjacent to the access road.

H. Material Sites

Clean fill material will be identified and purchased by Hilcorp or through the construction contract for construction of the road and pad.

I. Roads

A new .57 mile gravel access road will be constructed from the proposed Kalotsa Pad east to an existing gravel road running south that connects with the Sterling Highway. Road construction activities will include clearing and grubbing of existing vegetation, placement of a geotextile fabric on the cleared land within the access road footprint, and placement of compacted gravel fill over the fabric.

J. Airstrips

N/A

K. All Other Facilities and Equipment

Drilling activities will include the following equipment: drilling rig, pipe, mud tanks, mud pumps, boilers, light plants, generators, a line heater, liquids/gas separator, flare, and 400-bbl water storage tank, cement silo(s), and other miscellaneous equipment to support drilling efforts.

L. Rehabilitation Plan

After the field is no longer producing, the access road, pad and pipeline will be cleaned and restored/rehabilitated to the satisfaction of the surface landowner and in compliance with applicable laws and regulations.

M. Operating Procedures Designed to Minimize Adverse Effects

The Kalotsa Pad and access road locations were selected to avoid and minimize placement of fill in wetlands areas. Wetland delineation surveys were performed in September 2014 by Weston Solutions and documented in the Wetland Delineation Report (January 2015), for the Kalotsa Pad. Surveyors also checked the project area for the presence of fish and bald eagle nests while performing the wetlands delineation. No significant nest or other notable findings were discovered during these wildlife surveys; however, during the preliminary engineering surveys performed in December 2014, one bald eagle nest was discovered approximately 1,000' from the center of the proposed Kalotsa Pad, and approximately 600' from the nearest point of the gravel access road. The nest location is documented on the Kalotsa Pad engineering drawings. Hilcorp will follow the U.S Fish and Wildlife Service, National Bald Eagle Management Guidelines (2007) for applicable buffer zones during critical nesting, brooding, and fledging periods. National Bald Eagle Management Guidelines state that in Alaska, Bald Eagle nesting activity begins in February, and fledging is completed in early to mid-October. The USFWS further recommends that "clearing, external construction, and landscaping" between 330' and 660' from the nest be completed outside of the active breeding season (February-May), which the proposed

construction schedule currently is. Oil and Gas activities will take place on the pad once constructed, which will be outside the recommended 660' buffer around the nest. No impact to Bald Eagle nesting, brooding, or fledging is anticipated by the planned activities. Hilcorp will monitor the nest during pad construction and drilling activities to determine if the nest is occupied. If the nest is determined to be occupied, it will be monitored during construction/drilling activities to detect any abnormal behavior of the adult eagles or their chicks; monitoring will continue until the chicks have successfully fledged (the eaglets are capable of strong, coordinated, independent flight).

In approving a Plan, DNR may require amendments necessary to protect the State's interest (11 AAC 83.346(e)). The Division has determined that to protect the State's interest, it is necessary to incorporate into the Plan the 2009 Cook Inlet Areawide Mitigation Measures. Hilcorp addressed these mitigation measures in the application process, but it is necessary to amend the Plan to make clear that the Plan incorporates the 2009 Cook Inlet Areawide Mitigation Measures.

All plan applicants must complete a mitigation measure analysis demonstrating that each mitigation measure is satisfied or inapplicable to the proposed Plan, or that the applicant is seeking an exception. The 2009 Cook Inlet Areawide Mitigation Measures allow for the Division to grant an exception if the applicant shows that compliance with the measure is not practicable or that the applicant will undertake an equal or better alternative to satisfy the intent of the mitigation measure. Hilcorp completed the mitigation measure analysis for the 2009 Cook Inlet Areawide and seeks an exception(s) to the mitigation measure(s) discussed below.

Mitigation Measure: A.1.c

The siting of onshore facilities, other than roads, docks, utility or pipeline corridors, or terminal facilities will be prohibited within one-half mile of the mean high water of Cook Inlet, except where land use plans classify an area for development, or established usage and use history show development. The siting of facilities other than docks, roads, utility, and pipeline crossings will also be prohibited within 500 feet of all fish bearing streams and waterbodies and 1,500 feet of all current surface drinking water sources. Additionally, to the extent practicable, the siting of facilities will be prohibited within one-half mile of the banks of the main channel of the Harriet, Alexander, Lake, Deep, and Stariski creeks, and the Drift, Big, Kustatan, McArthur, Chuitna, Lewis, Theodore, Beluga, Susitna, Little Susitna, Kenai, Kasilof, Ninilchik, and Anchor rivers. Facilities may be sited within these buffers if the lessee demonstrates to the satisfaction of the director, in consultation with Alaska Department of Fish and Game (ADFG), that site locations outside these buffers are not practicable or that a location inside the buffer is environmentally preferred. Road, utility, and pipeline crossings must be consolidated and aligned perpendicular or near perpendicular to watercourses.

Hilcorp provided the below request and explanation for the exception:

The proposed Kalotsa facility will be located within one-half mile of the mean high water of Cook Inlet. However, proposed wells will produce natural gas and are therefore unlikely to impact Cook Inlet. Gas and produced water will be sent to the existing gas production facilities at Susan Dionne Pad, which is located approximately 4,500 feet to the northeast. Oil and Gas

exploration and development is an established land use in this area. During drilling, temporary fuel tanks and produced water storage tanks will be placed within lined and bermed secondary containment areas to reduce risk of an off-pad release. Proposed activities at Kalotsa Pad will not affect Cook Inlet or access to Cook Inlet recreation areas.

Kalotsa pad is not sited within the remaining buffer areas specified in this mitigation measure.

Gas production and development is an established land usage in this area. The NU has been in production since the mid 2000's which established use history in the area. Given the established land usage and use history an exception to this mitigation measure is not required.

The Division has determined that to protect the State's interest, it is necessary to incorporate into the Plan the 2009 Cook Inlet Areawide Mitigation Measures as amendments and stipulations to this Plan (11 AAC 83.346(e)).

At this time Kalotsa Pad will not require additional project specific stipulations under 11 AAC 83.346(e) to protect the State's interests.

V. CONSIDERATION OF UNIT PLAN OF OPERATIONS REQUIREMENTS UNDER 11 AAC 83.346(c-d) and 11 AAC 83.390

A. Full Payment of Damages to the Surface Owner 11 AAC 83.346(c)

Hilcorp has confirmed that the land owner, Ninilchik Native Association Inc., was contacted and an agreement reached. Thus Hilcorp has provided for full payment of damages prior to starting operations (11 AAC 83.346(c)).

B. Plan Sufficiency 11 AAC 83.346(d)

A proposed plan must include statements, maps, or drawings setting forth

- (1) the sequence and schedule of operations;
- (2) the projected use requirements directly associated with the proposed operations;
- (3) plans for rehabilitation;
- (4) a description of operating procedures to prevent or minimize adverse effects on natural resources and concurrent uses of the area (11 AAC 83.346(d)).

The information in section IV. Proposed Operations, above, and additional information contained in Hilcorp's proposed Plan satisfy the requirements for a plan under 11 AAC 83.346(d) and thus provide the Division with sufficient information available at this time to determine the surface use requirements and impacts directly associated with the proposed operations.

C. Oil and Gas Lease Bond 11 AAC 83.390

The State owns all the mineral estate the Plan proposes to produce from. For the State, a lessee provides for payment of damages by posting a bond, and remains liable for full damages under the lease. Hilcorp has a Statewide Oil and Gas Bond in the amount of \$ 500,000 and continuing liability under the lease.

VI. CONSIDERATION 11 AAC 83.303 CRITERIA

A. Protection of Public Interest

The Division has considered the public interest, considering statutory provisions that provide for conserving natural resources through unitized development (11 AAC 83.303(a); AS 38.05.180(p)). The legislature has declared the public's interest in oil and gas development as an interest in developing oil and gas resources to maximize economic and physical recovery, maximize competition, and maximize use of Alaska's human resources (AS 38.05.180(a)(1)).

This Plan addresses the means for carrying out the Kalotsa Pad development which, as determined by the 2016 Plan of Development and Operations for the NKU, is necessary for maximizing recovery of the gas resources. Additionally, development under this Plan will contribute positively to the market by increasing overall natural gas production in the area.

The proposed Plan provides for use of Alaska's human resources by pledging to provide local employment and contracting opportunities and to encourage its contractors to do the same (see proposed Plan Mitigation Measure Analysis # A.7.a)

B. Conservation of Natural Resources

The Division has considered whether the Plan promotes conservation of all natural resources, including all or part of an oil or gas Plan, field, or area (11 AAC 83.303(a)(1)). Conservation, in this context, means maximizing the efficient recovery of oil and gas and minimizing the adverse impacts on the surface and other resources (11 AAC 83.395(1)). Development within a unit is intended to provide more efficient development than on the individual leases that make up the unit, and this Plan considers the development of the Unit, not single leases. Efficient development creates less impact on the land and promotes maximum use of all natural resources in the area, consistent with the public interest.

There are a number of ways in which the Plan seeks to minimize adverse impacts on natural resources. This Plan incorporates the mitigation measures set forth in the 2009 Cook Inlet Areawide Oil and Gas Lease Sale Final Finding (2009 Cook Inlet Areawide Mitigation Measures). These mitigation measures include measures to protect habitat, fish, and wildlife, protect subsistence resources, and limit the impact from fuel and hazardous substances (2009 Cook Inlet Areawide) Final Finding at sections: A.4.a – A.4.j. The Plan also includes operating procedures to prevent or minimize adverse effects, including effects on the environment, wildlife, and subsistence resources discussed in section IV.M of this decision.

C. Prevention of Economic and Physical Waste

The Division has considered whether the Plan promotes the prevention of economic and physical waste (11 AAC 83.303(a)(2)). Issues of economic and physical waste are carefully considered during Unitization and annually thereafter in the Plan of Development and Operations for the NKU; this Plan conforms to the current 2016 Plan of Development and Operations for the Ninilchik Unit on file with the Divisions Units Section.

D. Protection of All Parties of Interest, Including the State

The Division has considered whether the Plan provides for the protection of all parties of interest, including the State (11 AAC 83.303(a)(3)). The parties of interest to a unit plan are the unit operator and working interest owners. The State has an economic interest in the oil and gas resources because it receives royalties from production. It is further in the State's best interest to encourage assessment of oil and gas resources, recognize the costs of exploring in varied

geographic regions, and minimize the adverse impact of exploration, development, production, and transportation activity (AS 38.05.180(a)(2)).

Without approval of a Plan, Hilcorp cannot develop Kalotsa Pad, and the State cannot recover royalties from that development. The Plan thus protects the Unit Operators, working interest owners' and the State's interests in developing the resources.

E. Environmental Costs and Benefits

The Division has considered the environmental costs and benefits of unitized development outlined in this Plan and through the Plan of Development and Operations for the Ninilchik Unit, and annual updates, on file with the Units Section (11 AAC 83.303(b)(1)); this Plan conforms to the current 2016 Plan of Development and Operations for the Ninilchik Unit on file with the Division.

The Cook Inlet Areawide Mitigation Measures, incorporated into this Plan by amendment, include measures to protect habitat, fish, and wildlife (2009 Cook Inlet Areawide Final Finding sections A 2.a – A.2.g). Additional operating procedures designed to minimize adverse effects on other natural resources and other uses of the unit area and adjacent areas are discussed in section IV.M of this decision.

F. Geological and Engineering Characteristics of Hydrocarbons

DNR previously considered the geological and engineering characteristics of a potential hydrocarbon accumulation or reservoir when it approved the unit agreement (11 AAC 83.303(b)(2)); this Plan conforms to the current 2016 Plan of Development and Operations for the Ninilchik Unit on file with the Divisions Units Section.

G. Prior Exploration Activities

The Division has considered prior exploration activities in the Plan area pursuant to 11 AAC 83.303(b)(3). Natural gas exploration within Ninilchik Unit started with the discovery of the Tyonek gas pool by Chevron in 1961 (Falls Creek Unit No. 1 well) and later exploration and discoveries by Marathon in 2001 and 2002.

H. Plan of Development

The Division has considered the plans for development set forth in and approved by DNR in the POD (11 AAC 83.303(b)(4)). The 2016 Plan of Development and Operations for the Ninilchik Unit approved on 4/21/2016 is consistent with Hilcorp's requested operations in the proposed Plan.

I. Economic Costs and Benefits to the State

The Division has considered the economic costs and benefits to the State (11 AAC 83.303(b)(5)). Without approval of a plan, Hilcorp will be unable to proceed with developing Kalotsa Pad, which will cost the State the economic benefit of the royalties, as well as other economic benefits that flow from production.

J. Other Relevant Factors to Protect the Public Interest

The Division has considered other relevant factors necessary or advisable to protect the public interest (11 AAC 83.303(b)(6)). These other factors consist of the mitigation measures (section

IV.M of this document) that will apply to this Plan; and the necessity to obtain other permits and approvals by different Agencies and landowners.

VII. CONSULTATION WITH OTHER GOVERNMENT ENTITIES

In reviewing the proposed Plan, the Division considered the fact that Hilcorp may require approvals from Agencies for other elements of its project. Although mentioned in the Plan and above, these aspects of the project are not operations being approved by this decision and the Division offers no opinion on whether an agency should or should not approve these activities.

In addition to considering the approvals required by Agencies as they relate to this decision, the Division provided an Agency review and comment opportunity for the activities proposed for authorization under this decision. The following government entities were notified on 8/10/2016 for comment on the Plan: Alaska Department of Fish and Game (ADFG), Alaska Department of Environmental Conservation (ADEC), City of Kenai, Kenai Peninsula Borough, United States Fish and Wildlife Service (USFWS), United States Army Corps of Engineers (USACE) and DNR: DMLW, Review and Compliance Program of the Office of History and Archaeology, Office of Project Management and Permitting, Division of Parks and Outdoor Recreation and Division of Oil and Gas. The comment deadline was 4:30 pm Alaska time on 8/17/2016. Comments were received and the Division, Applicant, and commenting agency(ies) reconciled the comments without modifying the Plan ; Agency comment(s) and Applicant's response(s) are summarized in Appendix B. The Plan was then publicly noticed.

VIII. PUBLIC NOTICE

Public notice of the Plan and opportunity to comment, per AS 38.05.035, was published in the Alaska Dispatch News and Peninsula Clarion on August 23, 2016 with a deadline for comments on September 21, 2016 at 4:30 pm Alaska time. Additionally, a copy of the notice was posted on DNR's web site and faxes of the public notice were sent to the Homer, Kenai and Nikiski post offices. No comments were received.

IX. CONDITIONS OF APPROVAL

Having considered the proposed project, the Division approves the Plan as amended and modified by this decision and subject to the below conditions of approval.

To protect the State's interest, the Division finds that it is necessary to amend the Plan to incorporate the following Conditions of Approval:

- a) The applicant shall defend, indemnify and hold the State of Alaska harmless from and against any and all claims, damages, suits, losses, liabilities and expenses for injury to or death of persons and damage to or loss of property arising out of or in connection with the entry on and use of State lands authorized under this approval by the applicant, its contractors, subcontractors and their employees.
- b) The applicant shall inform and ensure compliance with any and all conditions of this approval by its employees, agents and contractors, including subcontractors at any level.
- c) Unless pre-authorized by a general permit, amendments and modifications to this approval require advance notice and must be approved in writing by the DNR.

- d) The Commissioner of the DNR may require that an authorized representative be on-site during any operations conducted under this approval. This stipulation is required to ensure that the Divisions of Oil and Gas and Mining, Land and Water meet their statutory responsibilities for monitoring activities taking place on State-owned lands.
- e) A status report for the activities conducted under this approval must be filed with this office on May 1 and November 1 each year, from the date this approval is issued and until a final completion report is filed with the Division. If a lessee requests an assignment, a status report must also be submitted during the assignment process. Failure to file in a timely manner may result in revocation of this approval.
 - a. Each status report shall include a statement describing and map(s) depicting all operations actually conducted on the leased area as of the date the report is prepared, which includes the location, design and completion status of well sites, material sites, water supplies, solid waste sites, buildings, roads, utilities, airstrips, and all other facilities and equipment installed.
 - b. Upon completion of operations, the applicant will submit a completion report which will include all information required of a status report described in (a) above as well as a statement indicating the date of operations completion, any noncompliance with the terms of this plan approval of which a reasonable lessee would have knowledge of, clean-up activities conducted, the method of debris disposal, and a narrative description of known incidents of surface damage.
- f) Notification. The applicant shall notify the DNR of all spills that must be reported under 18 AAC 75.300 under timelines of 18 AAC 75.300. All fires and explosions must be reported to DNR immediately. The DNR 24 hour spill report number is (907) 451-2678; the fax number is (907) 451-2751. The Department of Environmental Conservation (DEC) oil spill report number is (800) 478-9300. DNR and DEC shall be supplied with all follow-up incident reports.
- g) A certified As-Built survey of the improvement shall be provided within one year of placement of the improvement. This As-Built must be submitted in both electronic and physical format.

To protect the State's interest, the Division finds that it is necessary to amend the Plan to incorporate the following Project Specific Stipulations:

Not applicable for Kalotsa Pad at this time.

X. FINDINGS AND DECISION

Having considered the proposed project and based on the foregoing discussion and consideration of issues and conditions of approval, the Division makes the following findings:

1. The Plan provides sufficient information, based on reasonably available data, for the Division to determine the surface use requirements and impacts directly associated with the proposed operations.
2. The Plan includes statements, maps, or drawings setting forth the sequence and schedule of operations, projected use requirements, description of operating procedures, and a plan of rehabilitation designed to prevent or minimize adverse effects.
3. To protect the State's interest and mitigate potential adverse social and environmental effects associated with the Plan, the Division finds it necessary to amend the Plan to incorporate the

mitigation measures set forth in the 2009 Cook Inlet Areawide Oil and Gas Lease Sale Final Finding.


4. All oil and gas activities conducted under oil and gas leases are subject to numerous local, state and federal laws and regulations with which Hilcorp is expected to comply.
5. The people of Alaska have an interest in developing the state's oil and gas resources and maximizing the economic and physical recovery of those resources. AS 38.05.180(a).
6. Alaska's economy depends heavily on revenues related to oil and gas production and government spending resulting from those revenues. The related revenue sources include bonus payments, rentals, royalties, production taxes, income taxes, and oil and gas property taxes.
7. The potential benefits of approving this Plan outweigh the possible adverse effects, which have been minimized through imposition of mitigation measures, conditions of approval, and project specific stipulations, and thus approval of this Plan as modified is in the State's best interest.

Based upon the Plan, supporting information provided by the applicant and the Division's review, determination of applicable statutes and regulations, consultation with other agencies, relevant entities and individuals, public comment, and the above findings related to that Plan, the Division hereby approves the Plan as modified.

Sincerely,



Kim Kruse
Permitting Section Manager
Division of Oil and Gas



Date

Appeal

An eligible person affected by this decision may appeal it, in accordance with 11 AAC 02. Any appeal must be received within 20 calendar days after the date of issuance of this decision, as defined in 11 AAC 02.040(c) and (d), and may be mailed or delivered to the Commissioner, Department of Natural Resources, 550 W. 7th Avenue, Suite 1400, Anchorage, Alaska 99501; faxed to 1-907-269-8918; or sent by electronic mail to dnr.appeals@alaska.gov. This decision takes effect immediately. An eligible person must first appeal this decision in accordance with 11 AAC 02 before appealing this decision to Superior Court. A copy of 11 AAC 02 may be obtained from any regional information office of the Department of Natural Resources.

Attachments:

- Appendix A: Maps and Figure(s)
- Appendix B: Agency and Public Comments
- Appendix C: Other

ecc: DOG: Corazon Manaois, John Easton, Kyle Smith, Jeanne Frazier
DMLW: Cliff Larson, James Sowerwine, Henry Brooks
ADF&G: Marla Carter, Patti Berkhahn, Megan Marie, Michael Daigneault
ADEC: Gary Evans, Mike Evans
OPMP: Sara Longan, Jeff Bruno, Sara Taylor
Borough: Marcus Mueller, Julie Denison
Other: Pamela Russell DNR State Parks

Appendix A: Maps and Figure(s)

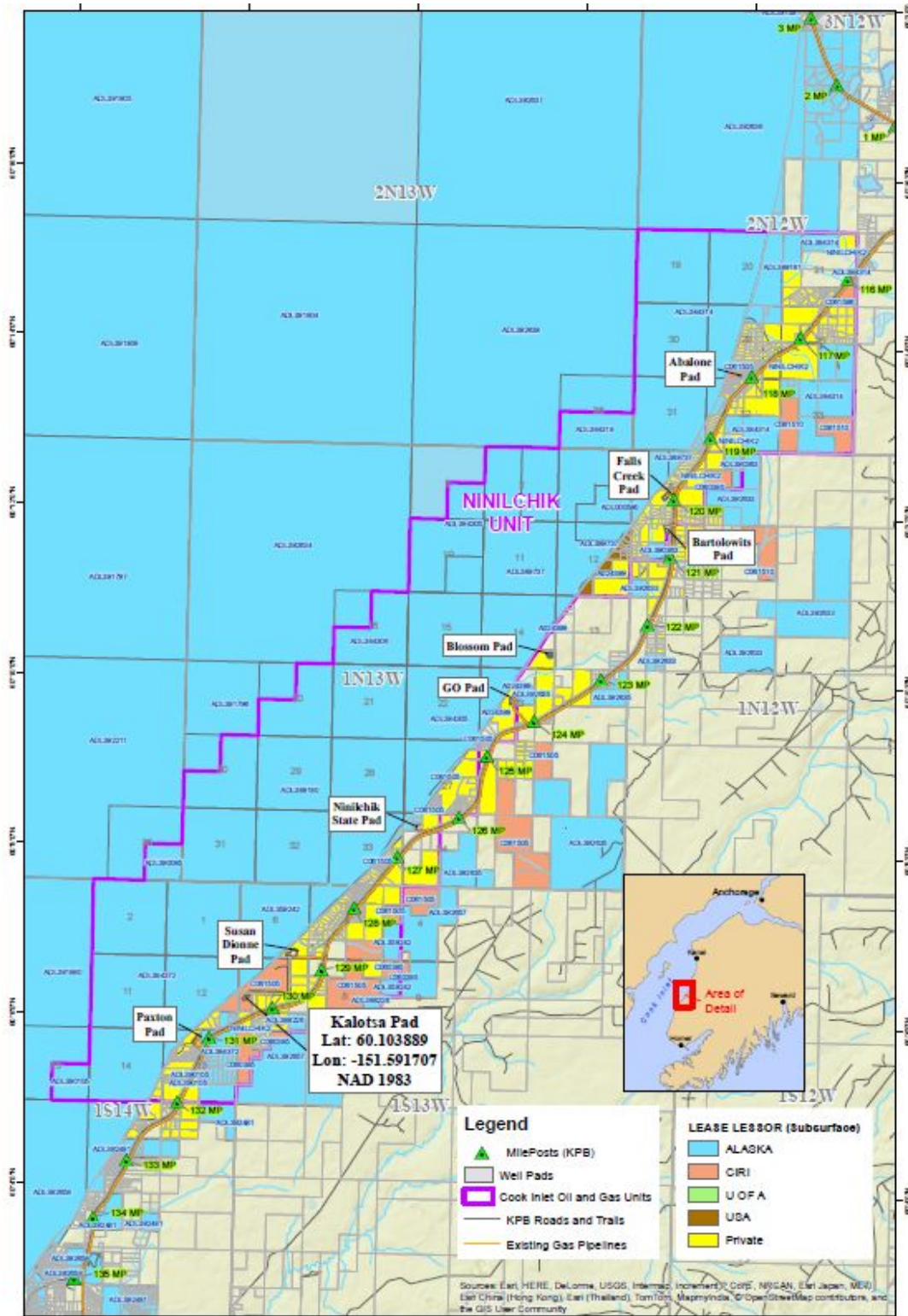
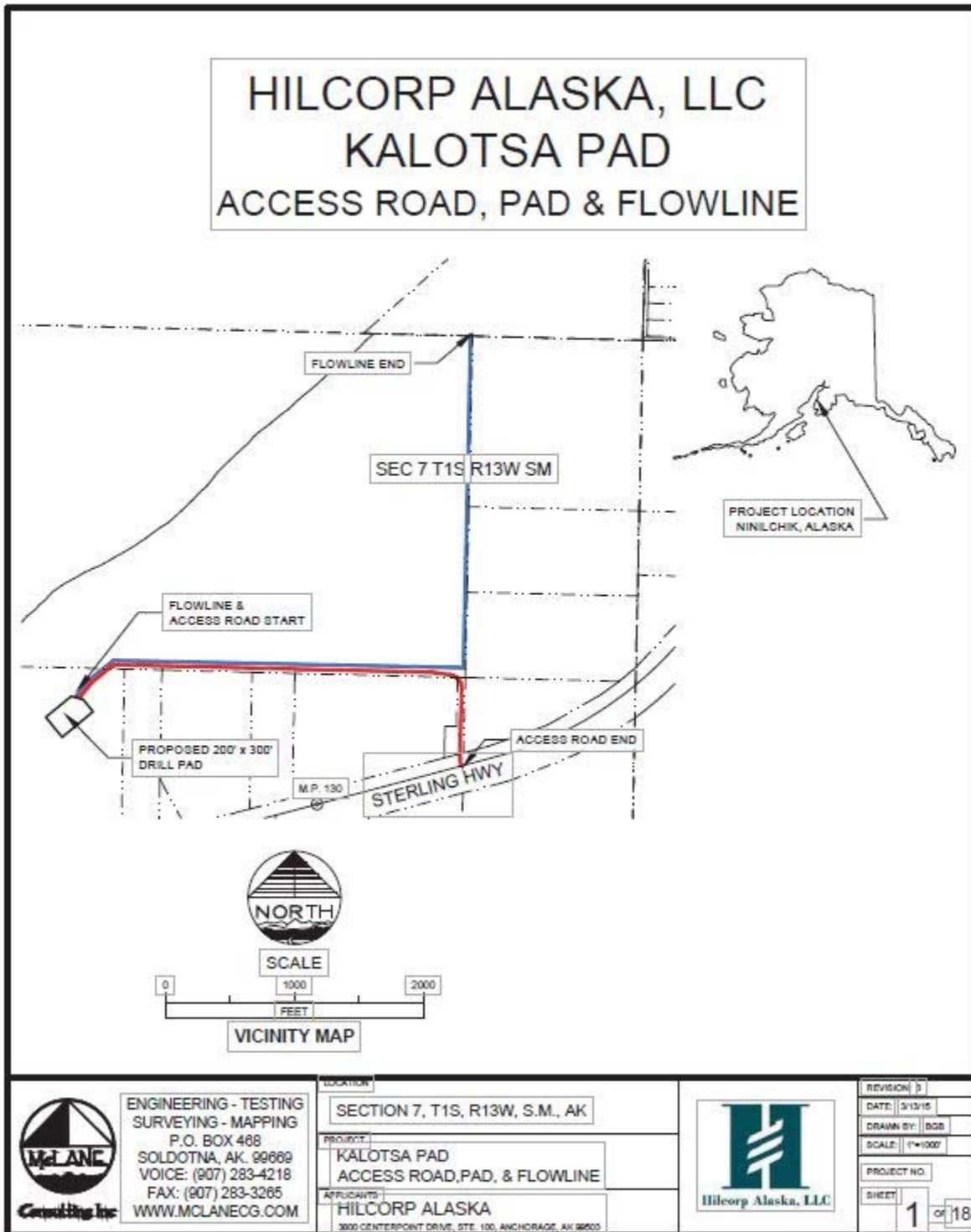


Figure 1
 Ninilchik Unit Boundary
 and Associated Leases

1 inch = 6,250 feet
 0 5,000 10,000 Feet





Appendix B:

Agency Comments:

The proposed Kalotsa Pad was circulated for agency review on August 10, 2016. The comment period was for 7 days, which ended on August 17, 2016. The agency review received comments from SHPO and the Kenai Peninsula Borough (KPB). The comment and Divisions responses are listed below:

SHPO comment:

We reviewed the cultural resources inventory report provided by Hilcorp for the subject project and concur with their recommended finding of "No Historic Properties Affected." As such, please see the attached and let me know if you have any questions or would like to discuss this further. Shina DuVall, RPA Archaeologist, Review and Compliance Coordinator.

Applicant's Response:

If the proposed construction site reveals any site, structure, or object of prehistoric, historic, or archaeological significance, Hilcorp will make reasonable efforts to preserve and protect the discovered site or object and consult with OHA, as to determine the course of action for preservation efforts.

Division's Response: Comment noted.

KPB comment: The north Section Line between sections 6 and 7, T1S, R13W Seward Meridian, is subject to a 33-foot wide section line easement (SLE) on both sides. It is requested that any permanent surface improvements be located outside of the SLE. Julie Denison, Land Management Technician, Kenai Peninsula Borough.

Applicant's Response:

The State of Alaska, DNR, DMLW Southcentral Regional Land Office (SCRO) reviewed the SLE request for placement of infrastructure.

Division Response: See SCRO response below:

The Southcentral Regional Land Office (SCRO) has reviewed the Plan of Operations submitted by Hilcorp Alaska, LLC (Hilcorp) to construct a new gravel pad, access road and flowline on privately owned lands north of Ninilchik, Alaska. While no State recognized RS 2477s were identified in the vicinity, a State-managed Section Line Easement (SLE) has been identified. A 33-foot SLE along the S ½ of Section 6 and a 33-foot SLE along the N ½ of Section 7, both within Township 1 South, Range 13 West, Seward Meridian. SCRO issued non-objection to Hilcorp for placement of the Kalotsa flowline and associated communication cables on August 11, 2016. The administrative record for this non-objection is ADL 232552. The non-objection letter emphasizes that the primary use of an SLE is for access purposes, and that the

infrastructure may be required to be relocated at Hilcorp's expense if the area occupied is reasonably needed for future access development. Thank you for the opportunity to review and provide comments.