



THE STATE  
of **ALASKA**  
GOVERNOR BILL WALKER

Department of Natural Resources

Division of Oil & Gas  
Anchorage Office

550 W. 7<sup>th</sup> Avenue, Suite 1100  
Anchorage, Alaska 99501-3560  
Main: 907.269.8800  
Fax: 907.269.8939

May 26, 2016

CERTIFIED MAIL  
RETURN RECEIPT REQUESTED

David Duffy  
Landman  
Hilcorp Alaska, LLC  
PO Box 244027  
Anchorage, Alaska 99524-4027

Re: Revised Stump Lake Unit 2016 Plan of Development Approval

Dear Mr. Duffy:

On March 3, 2016 the State of Alaska, Department of Natural Resources, Division of Oil and Gas (Division) received the proposed Stump Lake Unit (SLU) 2016 Plan of Development (POD) from Hilcorp Alaska, LLC (Hilcorp), Unit Operator. The Division notified Hilcorp by mail on March 10, 2016 that the Division had deemed the POD application incomplete because the submission lacked long-range activities within the unit. On March 23, 2016 Hilcorp submitted a revised POD which was deemed complete March 30, 2016.

The SLU began production in July of 1990 from the 41-33 well and continued until October, 2000. Production resumed from a sidetrack of the 41-33 well from 2009 until September 2012. For the unit to continue in force past its five-year primary term, the operator either needs to continue production or conduct diligent operations to restore production. 11 AAC 83.336(a)(1). Hilcorp acquired SLU in January of 2012. Since September 2012, Hilcorp has not restored production.

During the 2015 POD period, the Division required Hilcorp to:

- By December 31, 2015, Hilcorp will swab the 41-33 well.
- If swabbing fails to restore production, by May 31, 2016, Hilcorp will add perforations in an effort to re-establish well production.
- In anticipation of well intervention and drilling during 2016, Hilcorp will conclude its ongoing field study of the SLU during the 2015 POD period. Hilcorp will meet with DNR to discuss its well work results from the 2015 POD period prior to submitting its 2016 POD.

Hilcorp did not swab the 41-33 well, add perforations, or restore production by any other means. The 2016 POD states "Hilcorp will continue to progress its ongoing field study of the Sterling, Beluga and Tyonek formations during 2016 POD Period." By this statement we understand

Hilcorp did not complete the field study of the SLU, and no plans for drilling are outlined in the 2016 POD.

In the 2016 POD Hilcorp commits to attempting well work to restore production from the SLU 41-33 well. Hilcorp then states

“if these efforts to return SLU 41-33 to production are not successful, a rig workover, side track or new drill well may be required to return the unit to production. Due to unit’s location within the Susitna Flats State Game Refuge, such operations are only allowed during certain winter conditions (i.e., November 1 to March 31). Therefore, it will be unlikely this work will occur during the 2016 POD period.”

For the unit to continue in force, the operator either needs to continue production or conduct diligent operations to restore production. 11 AAC 83.336(a)(1). Additionally, Article 20(c) of the Stump Lake Unit Agreement requires “...should production cease, so long thereafter as diligent operations are in progress for the restoration of production or discovery of new production and so long thereafter as the unitized substances so discovered can be produced as aforesaid...” As Hilcorp describes in the 2016 POD “the economic life of the Stump Lake Unit has likely passed. The Stump Lake Unit is not currently capable of sustaining production otherwise required by current unit obligations.”

When considering a POD, the Division must consider the criteria in 11 AAC 83.303(a) and (b). Accordingly, the Division considered the public interest, conservation of natural resources, prevention of economic and physical waste, protection of all interested parties including the state, environmental costs and benefits, geological and engineering characteristics of reservoirs or potential hydrocarbon accumulations, prior exploration activities, plans for exploration or development, economic costs and benefits to the state, and any other relevant factors, including mitigation measures. 11 AAC 83.303(a), (b).

In approving the prior POD(s) for the SLU, the Division considered 11 AAC 83.303 and found that the POD(s) promoted conservation of natural resources, promoted prevention of waste, and protected the parties’ interests. The Division incorporates by reference those findings.

Hilcorp’s ongoing field study is a necessary step to returning the SLU to production. The division expects a thorough review of the study at the 2017 POD presentation. Well work on the 41-33 well and adding perforations if necessary to restore production constitutes diligent operations to restore production as required by Article 20(c) of the Stump Lake Unit Agreement and defined by 11 AAC 83.336. Should these activities fail to restore production, additional operations to restore production and proper approval from the Division for those operations will be needed. If Hilcorp does not maintain diligent operations or restore production by the end of the 2016 POD period, the Division may pursue default and unit termination.

Having considered the 11 AAC 83.303 (a) and (b) criteria the Division finds that the Revised 2016 POD complies with the provisions of 11 AAC 83.303. Accordingly, the 2016 POD is approved for the period June 1, 2016 through May 31, 2017.

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 Marty Rutherford,

Acting 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](mailto: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.

If you have questions regarding this decision, please contact Kevin Pike with the Division at (907) 269-8451, or via email at [Kevin.Pike@alaska.gov](mailto:Kevin.Pike@alaska.gov).

Sincerely,



Corri A. Feige  
Director

cc: DOL