



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of Natural Resources

DIVISION OF OIL & GAS

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July 5, 2016

**CERTIFIED MAIL
RETURN RECEIPT REQUESTED**

David W. Duffy, Landman
Hilcorp Alaska, LLC
3800 Centerpoint Drive, Suite 1400
Anchorage, AK 99503

RE: Milne Point Unit 35th Plan of Development—Approved

Dear Mr. Duffy:

On May 2, 2016, the State of Alaska, Department of Natural Resources (DNR), Division of Oil and Gas (Division) timely received the proposed Milne Point Unit Thirty-Fifth Plan of Development (MPU 35th POD) from MPU Operator Hilcorp Alaska, LLC (Hilcorp). The Division notified Hilcorp by email on May 9, 2016 that the POD submittal was complete. On June 15, 2016, the Division and Hilcorp held a technical meeting to discuss the proposed 35th POD. This decision approves the 35th POD.

Unit History

The MPU was formed effective September 28, 1979, and currently produces from three Participating Areas (PAs): Schrader Bluff (SBPA), Kuparuk (KPA), and Sag River (SRPA). The MPU has produced a cumulative 331.1 million Stock Tank Barrels of Oil (STBO) through April 2016. For the month of April 2016, the MPU produced 591,882 STBO: 356,931 STBO from the KPA, 225,041 STBO from the SBPA, and 9,910 STBO from the SRPA.

On November 3, 2014, the Division approved the 34th POD, effective January 1, 2015 through December 31, 2015, submitted by BP Exploration (Alaska) Inc. (BPXA), the previous unit Operator. On November 13, 2014, BPXA transferred fifty percent of its interests in the MPU to Hilcorp. Effective November 18, 2014, BPXA resigned as MPU Operator and Hilcorp was approved as successor MPU Operator. On March 2, 2015 Hilcorp submitted an amended 34th POD which, the Division approved on June 18, 2015, effective January 1, 2015 through July 31, 2016.

34th POD

The amended 34th POD stated that Hilcorp had the Nordic 3 rig under contract for operations in the unit. Hilcorp anticipated drilling up to six new wells and planned 21 rig workovers, 17 well workovers, and 5–10 matrix bypass event treatments. One of the wells scheduled for workover in 2015 was the S-39 Ugnu producer. Hilcorp planned to re-activate the well in 2015 and begin

initial Ugnu drilling in 2016. Hilcorp also planned to initiate construction of a Grind and Inject (G&I) facility at B Pad, which would require installation of new surface piping to connect the facility to an injection well, a water source, and the Central Facilities Pad. Hilcorp anticipates completion of that project by October 2017. Once the interpretation of the recently processed Simpson Lagoon 3D seismic survey was completed during the 34th POD period, Hilcorp was to begin extensive evaluations on new drilling targets, facility optimization, and pipeline integrity during its first full POD period for the MPU.

During the 34th POD period Hilcorp drilled and completed three wells in 2015, all targeting the Schrader OA Lower Lobe: L-49, a lateral injector; L-46, a lateral producer; and L-48, a lateral injector, but postponed two other lateral drilling projects (L-47 and L-50) at the Schrader OA Lower Lobe. Hilcorp also completed several workover projects at Ugnu, Schrader Bluff, and Kuparuk, water injection and disposal well conversions, and 40 electronic submersible pump (ESP) change-outs and three electronic submersible progressive cavity pump (ESPCP) change-outs.

During the 34th POD period Hilcorp also completed several Major Facility Projects:

- Initiated construction of a sprinkler system for the Milne Point System quarters in November 2015.
- Permitted an EPA Class I disposal well in conjunction with the commissioning of a previously stored grind and inject facility in November 2015.
- Purchased and commissioned an Automated Service Rig Innovation (ASRI) workover rig, in June 2015.

35th POD

During the 35th POD period Hilcorp plans to drill up to ten new wells, including: one producer and one injector at L Pad targeting Schrader OA Lower Lobe; one producer at Kuparuk; one producer and one injector at B Pad targeting Schrader ND; one producer at C Pad targeting Sag River; and two producers and two injectors at J Pad targeting Schrader NB. Hilcorp also plans to complete up to 16 well workovers including five with the ASRI rig, and two with the Nordic 3 rig).

Hilcorp plans to also undertake several Major Facility Projects during the 35th POD period:

- Complete installation of the sprinkler system for the Milne Point System quarters.
- Design and permit additional pads at MPU in preparation for future development.
- Routine facility maintenance and minor equipment replacement.

Hilcorp plans to permit and construct a new pad (Moose Pad) and corresponding access road within ADLs 025514 and 025515 to accommodate future development wells. Contingent on market conditions, Hilcorp also plans to expand existing pipeline, electrical, and communication systems in the western portion of MPU to accommodate additional production.

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 earlier PODs for MPU, the Division considered 11 AAC 83.303 and found that the PODs promoted conservation of natural resources, promoted prevention of waste, and protected the parties' interests. The Division incorporates by reference those findings.

Having considered the 11 AAC 83.303(a) and (b) criteria, the Division finds the 35th POD complies with the provisions of 11 AAC 83.303. Accordingly, the 35th POD is approved for the period August 1, 2016 through July 31, 2017.

This approval is only for a general plan of development. Specific field operations require separate approval under 11 AAC 83.346, Unit Plan of Operations. Under 11 AAC 83.343, the 36th POD is due on May 2, 2017, ninety (90) days before the 35th POD expires.

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 Andy Mack, 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.

If you have any questions regarding this decision, you may contact Hak Dickenson with the Division at 907-269-8799 or via email to hak.dickenson@alaska.gov.

Sincerely,



Corri A. Feige
Director

cc: DOL