



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of Natural Resources

Division of Oil & Gas
Anchorage Office

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December 5, 2016

CERTIFIED MAIL
RETURN SERVICE REQUESTED

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

Re: Deep Creek Unit: Delayed Unit Contraction and 2016 POD Amendment - Approved

Dear Mr. Duffy:

On November 23, 2016, the Department of Natural Resources (DNR), Division of Oil and Gas (Division) and Cook Inlet Region, Inc. (CIRI) received a request from Hilcorp Alaska, LLC (Hilcorp) to defer mandatory unit contraction at the Deep Creek Unit (DCU). Hilcorp requested the Division and CIRI delay unit contraction until June 1, 2017 in order to continue exploration activities within the DCU. Hilcorp also requests to amend its 2016 DCU Plan of Development (POD) to add the activities proposed in the request to delay unit contraction. The Division and CIRI met with Hilcorp on November 21, 2016 to discuss the unit contraction and new plans for the 2016 POD period.

The DCU was formed in 2001 and it is managed jointly by the Division and CIRI. Sustained gas production began on November 14, 2004 in the DCU and the original mandatory contraction date was November 14, 2014. The approval of Hilcorp's first request to delay mandatory unit contraction moved the contraction date to December 31, 2015. The second request to delay mandatory unit contraction was granted April 27, 2015 until May 31, 2016. The third request to delay unit contraction was granted May 31, 2016 and extended until November 30, 2016. The third delay of the DCU contraction was approved based on plans to drill the Greystone well to the south of the DCU. Hilcorp drilled and evaluated the Greystone well in the summer of 2016.

Based on the Greystone well results, Hilcorp is narrowing its focus in the Middle Happy Valley area to target Undefined Sterling and Beluga formations. Hilcorp now plans to drill six to eight stratigraphic wells to shallow depths in the winter of 2017 in an attempt to better understand the formations' structure. All the stratigraphic wells will be drilled to the south of the Happy Valley Participating Area. During the 2016 POD period, Hilcorp previously proposed drilling one exploratory well and adding perforations to the HVB-17 well. There were also plans to complete a 2D seismic shoot on the southern end of the DCU. Hilcorp has not presented plans to explore the northern portions of the unit.

Under 11 AAC 83.356(b), 10 years after sustained unit production begins, the unit area must be contracted to include only those lands then included in an approved participating area and lands that facilitate production including the adjacent lands necessary for secondary or tertiary recovery, pressure maintenance, reinjection, or cycling operations. Article 14.2 of the DCU unit agreement states the mandatory unit contraction may be delayed by the DNR Commissioner and the CIRC President if circumstances so warrant.

When evaluating a request to delay the mandatory unit contraction or a POD, the Division will consider the provisions of 11 AAC 83.303. Accordingly, the Division considers the environmental costs and benefits of unitized exploration or development; the geological and engineering characteristics of the reservoir or potential hydrocarbon accumulations; prior exploration activities in the unit area; the applicant's plans for exploration or development of the unit area; the economic costs and benefits to the state; and any other relevant factors, including measures to mitigate impacts identified above, that the Division determines necessary or advisable to protect the public interests. 11 AAC 83.303(b). Then, the Division will consider whether delaying mandatory unit contraction is necessary or advisable to protect the public interest; will promote conservation of all natural resources, including all or part of an oil or gas pool, field, or like area; will promote the prevention of economic and physical waste; and will provide for the protection of all parties of interest including the state. 11 AAC 83.303(a). The Division determines whether a unit contraction delay and a POD are warranted after considering the provisions of 11 AAC 83.303.

Hilcorp is requesting the fourth delay of mandatory unit contraction and an amendment to the 2016 POD to continue exploring state and CIRC acreage within the DCU. Hilcorp is proposing to drill six to eight stratigraphic wells in the winter of 2017 to help inform results from the Greystone well recently-drilled outside the DCU. Delaying contraction to afford Hilcorp additional time to evaluate resources and test new concepts is in the public's interest under these circumstances. The state and CIRC benefit from evaluation of their resources and increased revenue if more hydrocarbons are produced in the DCU. If the current exploration activities fail to meet expectations, the public's interest is protected through the Division's ability to contract its acreage from the DCU and offer the state acreage for lease in an upcoming sale.

DECISION

The Division considered the provisions of 11 AAC 83.303, and the particular circumstances at the DCU, and the Division finds delaying the mandatory 10-year unit contraction under 11 AAC 83.356(b) complies with the provisions of 11 AAC 83.303, 11 AAC 83.356, and protects the public interest. The Division, in concurrence with CIRC, approves a fourth delay of the DCU mandatory contraction from November 30, 2016 to May 31, 2017.

Additionally, the 2016 POD is amended to incorporate the activities proposed in Hilcorp's letter dated November 23, 2016. Having considered the 11 AAC 83.303 (a) and (b) criteria, the amended 2016 POD is also approved.

Hilcorp volunteered to contract unit acreage in the northern portion of the DCU, where exploration activities are not planned. Deep Creek Unit Tract 1 (CIRI lease C-61587) will be contracted from the DCU in its entirety effective on the date of this decision. In accordance with Article 16.1.2 of the Deep Creek Unit Agreement, the lease shall be maintained only in accordance with its terms and conditions. Updated DCU exhibits are due to the Division and CIRI within sixty (60) days of the date of this decision.

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 Andrew 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 questions regarding this decision, please contact Kyle Smith with the Division at 269-8807, or via email at kyle.smith@alaska.gov.

Sincerely,

A handwritten signature in black ink, appearing to read 'Chantal Walsh', with a stylized, cursive script.

Chantal Walsh
Director

cc: DOL
Ethan Schutt, Sr. Vice President, Cook Inlet Region, Inc.