



THE STATE  
of **ALASKA**  
GOVERNOR BILL WALKER

Department of Natural Resources

DIVISION OF OIL & GAS  
550 W 7<sup>th</sup> Avenue, Suite 1100  
Anchorage, AK 99501-3560  
Main: 907.269.8800  
Fax: 907.269.8939

February 23, 2017

CERTIFIED MAIL  
RETURN SERVICE REQUESTED

Tim Jones  
Senior Landman  
Cook Inlet Energy  
601 W 5th Ave, Suite 310  
Anchorage, AK 99501

Re: 52nd Plan of Development for the North Fork Unit

Dear Mr. Jones:

Cook Inlet Energy (CIE) submitted a proposed North Fork Unit (NFU) 52nd Plan of Development (POD) to the Department of Natural Resources, Division of Oil and Gas (Division) on December 23, 2016. This decision approves the 52nd POD.

CIE's proposed POD provides information about development and operational activities, as prescribed by 11 AAC 83.343. Accordingly, the Division notified CIE by email on January 3, 2017 that the Division had deemed the POD submittal complete. CIE also provided a technical presentation on January 25, 2017.

The NFU has been on production since 2011 and has produced 14.92 billion standard cubic feet of cumulative gas through December 2016.

For the 51st POD period, CIE committed to sidetracking the #42-35 well and drilling the #14-26 well. CIE also stated that it would analyze results from its current drilling program to evaluate opportunities to further delineate the unit, which might include drilling a delineation gas well during the 51st POD period.

CIE reports that it did not meet its drilling commitments during the 51st POD period. It offers several explanations: (1) that it began the period in Chapter 11 bankruptcy; (2) low oil prices; (3) "the local Cook Inlet gas market has become increasingly constrained as gas production is consolidated amongst fewer players"; (4) decreased demand for gas because of warmer winters; and (5) decreased demand for gas because of "the exit of key gas users." CIE did, however, analyze results from its drilling program, reprocess 3D seismic data covering the unit, set downhole plugs to control water intrusion in currently producing wells, and is in the process of perforating additional zones to increase production from the #14-25 and #41-35 wells.

CIE's deviation from its 51st POD is significant. The market and competition issues CIE raised are not force majeure and do not change the fact that CIE made these commitments in its POD then failed to comply with them. *See* 11 AAC 83.374(a); 11 AAC 83.395(3). But the Division recognizes the impact of CIE's bankruptcy. While a bankruptcy does not absolve an operator from continuing to comply with its statutory, regulatory, unit agreement, and lease requirements,

it is indicative of an operator's challenges. The Division views CIE's emergence from bankruptcy as a positive development and looks forward to CIE meeting the work commitments from its 52nd POD.

For the 52nd POD period, CIE commits to:

- Complete reprocessing seismic data prior to the beginning of the POD period;
- Convert a depleted well into a Class II water disposal well;
- Conduct workover operations to increase production from the #14-25 and #41-35 wells;
- Increase production, including by perforating additional zones and setting plugs as necessary to control water intrusion.

CIE states that it will drill additional wells only if economic conditions are favorable. Long term, CIE plans to improve infrastructure to enhance production from existing wells, continue monitoring and analyze production, continue a development drilling program to fully delineate and develop all fault blocks, and consider additional drilling pad locations.

When considering a POD, the Division considers the public interest, conservation of natural resources, prevention of economic and physical waste, protection of all interested parties, including the state, environmental cost 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). The Division previously considered these factors in approving the unit and earlier PODs for NFU, and incorporates those findings by reference.

Continued production protects the State's economic interests in developing its resources and minimizing impact to the land. But the Division is disappointed that CIE has gone from committing to drill several wells last POD period, failing to drill, and now including no drilling commitments for the 52nd POD. The Division nonetheless finds that the 52nd POD activities are in the public interest. As CIE continues to emerge from bankruptcy, the Division hopes to see more robust and concrete work commitments to further develop the unit.

Considering the 11 AAC 83.303 criteria, and the continued production proposed with this POD, the Division approves the 52nd POD for the period March 31, 2017 through March 30, 2018. CIE will need to submit a proposed 53rd POD to the Division 90 days before the expiration of 52nd POD, which is on or before December 30, 2017.

A 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](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, contact Becky Kruse with the Division at 907-269-8799 or via email at [Becky.Kruse@Alaska.gov](mailto:Becky.Kruse@Alaska.gov).

Sincerely,

A handwritten signature in blue ink, appearing to read "Chantal Walsh". The signature is fluid and cursive, with the first name "Chantal" and last name "Walsh" clearly distinguishable.

Chantal Walsh  
Director