



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of Natural Resources

DIVISION OF OIL & GAS

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April 17, 2017

CERTIFIED MAIL
RETURN SERVICE REQUESTED

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

Re: 2017 Plan of Development for the Cannery Loop Unit — Approval

Dear Mr. Duffy:

On March 1, 2017, the Department of Natural Resources, Division of Oil and Gas (Division) received the proposed 2017 Plan of Development (POD) for the Cannery Loop Unit (CLU) from Hilcorp Alaska, LLC (Hilcorp). The 2017 POD is the 38th POD for the CLU. The Division had previously met with Hilcorp on February 27, 2017 for a presentation of the Cook Inlet PODs.

The CLU was formed in June 1978 with sustained gas production commencing in April 1986. Effective March 26, 2010, the United States Department of Interior, Bureau of Land Management, waived administration of the CLU to the State of Alaska. The CLU currently produces from the Beluga Undifferentiated Sands Participating Area (PA) and the Upper Tyonek Formation Undifferentiated Gas Sands PA. Gas production in the Tyonek "D" Sands PA ceased production in April 1989, but resumed production in 2015. The former Sterling Gas Sands PA was terminated in 2011 and the PA area was contracted from the CLU to facilitate the reservoir's transition to gas storage for Cook Inlet Natural Gas Storage Alaska, LLC. Average daily gas production for the calendar year 2016 was approximately 9.36 million standard cubic feet per day (MMSCF/D). The CLU's total cumulative gas production at the end of 2016 was approximately 197.4 billion standard cubic feet of gas.

Hilcorp's plans for the 2016 POD included two workovers and continued production. Only one workover was conducted, a successful recompletion of the CLU 5RD in the Deep Tyonek D5A sand.

The 2017 POD anticipates continued production from existing wells, the drilling of a sidetrack from the CLU-10, a further workover of the CLU 5RD, and addressing facilities requirements as they arise. No major facility projects are proposed for the 2017 POD.

When considering a POD, the Division must consider whether the POD is necessary or advisable to protect the public interest. 11 AAC 83.303(a). The Division will approve a POD upon a finding that it will (1) promote conservation of all natural resources, including all or part of an oil or gas pool, field, or like area; (2) promote the prevention of economic and physical waste; and (3) provide for the protection of all parties of interest including the state. *Id.* In evaluating

conservation, prevention of waste, and the parties' interest, the Division will consider (1) the environmental costs and benefits of unitized exploration or development; (2) the geological and engineering characteristics of the potential hydrocarbon accumulation or reservoir proposed for unitization; (3) prior exploration activities in the proposed unit area; (4) the applicant's plans for exploration or development of the unit area; (5) the economic costs and benefits to the state; and (6) any other relevant factors, including measures to mitigate impacts identified above, the commissioner determines necessary or advisable to protect the public interest. 11 AAC 83.303(b).

In approving the prior POD(s) for the CLU, 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.

Hilcorp has been combining new wells and workovers of existing wells to increase gas production from the CLU. This proposed work supports the public's interest in continued evaluation and efficient recovery of the state's resources.

Based on the Division's prior POD approvals and analysis of the 11 AAC 83.303(b) factors, the Division finds that the 2017 POD protects the public interest, promotes conservation, prevents waste, and protects the parties' interests. The 2017 POD for the CLU is approved for the period June 1, 2017 through May 31, 2018.

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. Pursuant to 11 AAC 83.343(c), the 2018 POD for the CLU is due to the Division ninety (90) days prior to the expiration of the 2017 POD, which is on or before March 2, 2018.

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 T. 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.

Sincerely,



Chantal Walsh,
Director