



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 Ninilchik Unit and Mandatory Unit Contraction Delayed - Approval

Dear Mr. Duffy:

On March 1, 2017, the Department of Natural Resources (DNR), Division of Oil and Gas (Division) timely received the proposed 2017 Plan of Development and Operations (POD) for the Ninilchik Unit (NU) from Hilcorp Alaska, LLC (Hilcorp). The Division notified Hilcorp by email on March 8, 2017 that the Division had deemed the 2017 POD complete. Concurrent with the submittal of the 2017 POD, Hilcorp requested a fourth delay of the NU mandatory unit contraction until May 31, 2018. The Division had previously met with Hilcorp on February 27, 2017 for a technical meeting of the NU POD.

The Ninilchik Unit was formed in 2001 and expanded to include the federally-managed Falls Creek Unit in 2003 and the Susan Dionne PA expanded in 2007 to include wells drilled from the Paxton pad. Hilcorp acquired the NU from former unit operator, Marathon Oil Company, on January 30, 2013. The NU currently produces gas from three participating areas (PA): Falls Creek, Grassim Oskolkoff (GO), and Susan Dionne-Paxton. Currently, only Tyonek gas production is unitized, although both Beluga and Tyonek gas is produced outside of the current PAs as a tract operation. In November of 2016 Hilcorp applied to the Division to expand The Unit and the Falls Creek Participating Area. The NU's average daily gas production decreased from 38.2 MMCFD in 2015 to 31.5 MMCFD in 2016. Total cumulative gas production from the unit at the end of 2016 was approximately 189 billion cubic feet.

Plans of Development

During the 2016 POD period, Hilcorp planned to drill two wells, the Kalotsa #1 and GO #9, and working over two GO wells. Additionally, construction of the Kalotsa pad was planned. Hilcorp deviated from these plans by deferring the GO #9 well and beginning drilling the Kalotsa #1 and #2. Three workovers were completed, GO-6, SD-6 and SD-5.

During the 2017 POD period, Hilcorp plans to complete the Kalotsa #1 and #2 if not already completed by the end of the 2016 POD period and drill two new wells, Kolotsa #3 and #4.

Hilcorp plans to workover several Paxton wells adding perforations and evaluating velocity string completions in various wells throughout the unit.

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 PODs for the NU, 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.

Hilcorp continues to conduct work to expand the gas production from the NU with development and exploration drilling efforts, well work, and facility improvements. Gas production has increased again in the unit. Drilling and rate-adding work continues in the NU. The public interest to evaluate and produce additional state resources is promoted with each newly-drilled well and additional production. Hilcorp's activities in the NU since becoming operator have garnered additional revenue and other economic benefits to the state. These activities coincide with the public interest in diligent and efficient extraction of state resources which also promotes the prevention of waste. The work accomplished in the 2016 POD and activities proposed in the 2017 POD are sufficient to protect the public interest.

The Division has considered the 11 AAC 83.303(b) factors and (a) criteria, and the degree to which the additional development impacts its analysis from previous POD approvals. 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 NU 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 NU is due to the Division ninety (90) days prior to the expiration of the 2017 POD, which is on or before March 2, 2018.

Mandatory Unit Contraction - Delayed

Under 11 AAC 83.356(b), ten years after commencement of sustained production, the unit area must be contracted to include only those lands then included in approved participating area and lands that facilitate production including the adjacent lands necessary for secondary or tertiary recovery, pressure maintenance, reinjection, or cycling operations. However, the Commissioner may delay contraction if circumstances so warrant. The Ninilchik Unit's ten year mandatory contraction date was December 12, 2013. As part of the 2016 POD approval the Division again delayed the mandatory contraction until May 31, 2017. Based on Hilcorp's exploration and field development work, Hilcorp requests the Division defer contraction to May 31, 2018. Under the current circumstances, it would be impractical to contract the unit at this time.

Through this POD decision, the Division approves the fifth delay of the mandatory contraction of the NU to May 31, 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