



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 North Trading Bay Unit - Approval

Dear Mr. Duffy:

On March 3, 2017, the Alaska Department of Natural Resources, Division of Oil and Gas (Division) received the 2016 Plan of Development (POD) for the North Trading Bay Unit (NTBU) from Hilcorp Alaska, LLC (Hilcorp). The 2016 POD submittal was deemed complete by the Division on March 28, 2017. The Division had previously met with Hilcorp on March 27, 2017 for a presentation of the Cook Inlet PODs.

The NTBU is an offshore Cook Inlet unit comprised of three state oil and gas leases. The Spurr and Spark platforms, located in the NTBU, were built in 1967 by then unit operator Marathon Oil Company (Marathon). Production from the NTBU ceased in September 2005. In 2008, Marathon set out a long-term conceptual abandonment plan which was not implemented. Hilcorp succeeded Marathon as unit operator in 2013. The platforms are currently maintained in "lighthouse" mode. The crane and helidecks are functional; however, crew facilities are not functional and no wells are currently active. Hilcorp states in the 2017 POD "It was not economically viable or technical feasible to return either platform to production." Hilcorp further clarified that they have no plans to restore Spark or Spurr platforms to production.

During the 2016 POD period, Hilcorp performed inspections and surveys of the platform facilities. Subsurface studies continued from the previous year.

The NTBU platforms will not be returned to service during the 2017 POD period. The 2017 POD states Hilcorp is planning to drill a well from the Monopod platform in the Trading Bay Unit into the North Trading Bay Unit in an attempt to restore unit production.

For the unit to continue in force, the operator either needs to continue production or conduct diligent operations to restore production. 11 AAC 83.336(a)(1). Additionally, Article 20(c) of the NTBU Agreement requires "...should production cease, so long thereafter as diligent operations are in progress for the restoration of production or discovery of new production and so long thereafter as the unitized substances so discovered can be produced as aforesaid..." As Hilcorp describes in the 2017 POD, NTBU has not produced since 2005 and no drilling activity or well work was conducted during the 2016 POD period.

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 or 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 prior PODs for the NTBU, 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.

While the NTBU platforms have been maintained in "lighthouse" mode Hilcorp interests have been protected by keeping costs low, however the state's interest would be best served by restarting production of some kind. Hilcorp has been unit operator at NTBU since early 2013 and by the end of the 2017 POD period will have been operator for five years.

Hilcorp's planned well from the Monopod platform is a reasonable step to returning the NTBU to production. Drilling this well constitutes diligent operations to restore production as required by Article 20(c) of the NTBU Agreement and defined by 11 AAC 83.336. Should this activity fail to restore production, additional operations to restore production and approval from the Division for those operations will be needed. If Hilcorp does not maintain diligent operations or restore production by the end of the 2017 POD period, the Division may pursue default and or unit termination.

Having considered the 11 AAC 83.303(a) and (b), the Division finds that the 2017 NTBU POD protects the public interest, promotes conservation, prevents waste, and protects the parties' interests. The 2017 POD 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 NTBU POD will be due in these offices at least ninety (90) days prior to the expiration of the 2017 POD, 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