



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 Nikolaevsk Unit - Approval

Dear Mr. Duffy:

On March 1, 2017 the Department of Natural Resources, Division of Oil and Gas (Division) received the proposed Nikolaevsk Unit 2017 Plan of Development (POD). The Division notified Hilcorp Alaska, LLC (Hilcorp) by email on March 8, 2017 that the Division had deemed the POD application complete. The Division had previously met with Hilcorp on February 27, 2017 for a presentation of the POD.

The Nikolaevsk Unit has been on production since 2012 and has produced 0.79 Billion Standard Cubic Feet (BSCF) of cumulative gas through year end 2016. Average daily production has declined from 222 Thousand Standard Cubic Feet (MSCFD) in 2015 to 151 MSCFD in 2016.

During the 2016 POD period Hilcorp continued to produce from the Red Well #1 as was described in the plan. This remains the only producing well in the unit. No drilling, well work or facility improvements were performed during the 2016 POD period.

Hilcorp proposes continued production during the 2017 POD period. The Red Well #1 well will be hydraulically fractured, however no new wells are planned. Hilcorp anticipates short-term interruptions of production during the winter months.

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 all interested parties including the state, environmental costs 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).

In approving the prior POD(s) for Nikolaevsk Unit 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. The Division incorporates by reference those findings.

This 2017 POD will continue production from the Nikolaevsk Unit, economically benefitting the State of Alaska.

Having considered the 11 AAC 83.303 (a) and (b) criteria, the Division finds that the 2016 POD complies with the provisions of 11 AAC 83.303. Accordingly, 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 will require an approved Plan of Operations. Under 11 AAC 83.343, the 2018 POD is due on March 3, 2018, 90 days before the 2017 POD expires.

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