



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 Middle Ground Shoal Unit - Denial

Dear Mr. Duffy:

On March 3, 2017, the State of Alaska, Department of Natural Resources, Division of Oil and Gas (Division) received the proposed Middle Ground Shoal Unit (MGSU) 2017 Plan of Development (POD) from Hilcorp Alaska, LLC (Hilcorp), Unit Operator. The Division had met with Hilcorp on February 27, 2017 for a presentation of the Cook Inlet PODs.

Formerly known as the South Middle Ground Shoal Unit, the MGSU is a result of the combination of the South Middle Ground Shoal Unit, North Middle Ground Shoal Field, and the Middle Ground Shoal Field. Four offshore platforms, Baker, Dillon, "A," and "C" are the source for all unit production. "A" platform averaged 340 thousand standard cubic feet per day and 1,270 barrels of oil per day, and "C" averaged 90 thousand standard cubic feet per day and 600 barrels of oil per day during the 2016 calendar year. Baker and Dillon platforms are not producing, but Hilcorp's 2016 North Middle Ground Shoal Field POD stated that Hilcorp anticipated reactivation of the Baker Platform in 2017. As discussed below, the prospect of restarting Baker and Dillon was an important factor in expanding the unit.

During the 2016 POD period Hilcorp proposed and completed workovers on several wells on the "A" and "C" platforms adding artificial lift and additional perforations. The 2017 POD plans sidetracking of three existing wells from platform "C."

The 2016 POD included completion of a comprehensive reservoir study of the former South Middle Ground Shoal Unit, location of the Dillon platform, during the 2016 POD period and maintained its estimate of returning the South Middle Ground Shoal Unit to production in 2018. However, the 2017 POD makes no mention of returning the platform to production. Nor does the 2017 POD address returning the Baker platform to production, in contrast to the 2016 POD for North Middle Ground Shoal, which articulated plans to return to the platform to production in 2017. In questions after submission of the 2017 POD Hilcorp stated "Hilcorp has no present or near term plans to return these specific platforms to production."

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 POD(s) for the MGSU, 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.

Hilcorp's continued development of the MGSU platforms "A" and "C" will bring economic benefit to the State, therefore supporting the best interest of the State.

However, the work commitments for the former South Middle Ground Shoals and North Middle Ground Shoals areas, or lack thereof, in this POD contradicts the basis for the recent unit expansion. Specifically, one of the key reasons the State agreed to bring all of the middle ground shoal fields into one unit was that Hilcorp would restart production from Baker and Dillon platforms. The Director's Decision dated September 21, 2016 expanding and renaming the Middle Ground Shoals Unit, Section IV, paragraph C. 13 on page 14 reads as follows:

Future MGSU PODs submitted to the Division should address the operations to restart production at the Baker and Dillon Platform with timelines and detailed information on efforts to bring the platforms online. The timeline for each platform should include measurable and verifiable milestones. In order to protect the public's interest, Hilcorp and the State are also commencing discussions on DR&R expectations for platforms and offshore location clearance in Cook Inlet.

Hilcorp did not appeal this requirement or any part of the September 21 decision.

The 2017 POD does not address operations to restart production any more than saying no operations will be conducted. When asked for further information after the initial POD submittal Hilcorp responded that they have no plans to return these specific platforms to production and "have a financial assurances agreement with the State of Alaska to ensure we meet all dismantlement, removal and restoration obligations associated with our state Oil and Gas leases at the end of field life." This financial assurances agreement does not address details of dismantlement, removal and restoration expectations for platforms and offshore location clearance in Cook Inlet as required in the September 21, 2016 expansion decision.

While Hilcorp's plans for the A and C platforms might be in the public interest, Hilcorp's lack of plans for the Baker and Dillon platforms is not. Hilcorp's reversal on Baker from the 2016 to 2017 POD is particularly concerning after Hilcorp used its 2016 POD plans to support expanding the unit. Hilcorp had the opportunity to challenge the September 21, 2016 expansion decision and its requirement to include plans for Baker and Dillon in this POD, but chose not to do so. The fact that Hilcorp no longer intends to restart Baker and Dillon does not protect State or public interest, including economic interests in developing resources. The continued existence of these platforms with no plans to either remove or restart production poses potential

environmental risks without corresponding economic benefit to justify those risks. Hilcorp's recent pipeline leak at Platform A demonstrates the inherent risks of aging infrastructure in the Cook Inlet environment.

Having considered the 11 AAC 83.303(a) and (b) criteria, the Division finds that the 2017 POD does not comply with the provisions of 11 AAC 83.303. Accordingly, the 2017 POD is denied.

Hilcorp is encouraged to propose a revised plan of development before the expiration of the current plan on May 31, 2017.

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](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.

Sincerely,



Chantal Walsh,  
Director