



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 Trading Bay 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 Trading Bay Unit (TBU) from Hilcorp Alaska, LLC (Hilcorp). The 2017 POD is the 52nd POD for the TBU. On March 8, 2017, the Division notified Hilcorp by email that the 2017 POD was deemed complete. The Division had previously met with Hilcorp on February 27, 2017 for a presentation of the POD.

The TBU was formed and commenced sustained production in 1967. The TBU produces from four participating areas (PA) situated in what is known as the McArthur River Field: the Hemlock Oil Pool PA, the West Foreland Oil Pool PA, the Middle Kenai "G" Oil Pool PA, and the Grayling Gas Sands PA. On August 23, 2013, the Division approved the 2nd Expansion of the TBU to include the 5,280 acre Trading Bay Field (TBF) in the TBU. Average daily oil production for calendar year 2016 was approximately 7,296 barrels of oil per day. Average daily gas production from the TBU in the 2016 calendar year was approximately 27.1 million standard cubic feet.

During the 2016 POD period, Hilcorp anticipated drilling up to five sidetracks from existing wells and two new wells. Hilcorp performed four sidetracks and no new wells. Hilcorp performed 10 well workovers in the McArthur River Field area and one workover in the TBF area. Hilcorp completed power upgrades at the King Salmon platform and installed a new substructure for the Kuukpik Rig.

During the 52nd POD period, Hilcorp plans up to four sidetracks from the King Salmon Platform and three new drill wells from the Steelhead Platform in the McArthur River Field. At the Trading Bay Field Hilcorp anticipates sidetracking a well from the Monopod Platform into the North Trading Bay Unit. Electric submersible pumps will be replaced as needed to maintain production.

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 TBU, 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 upgrade platform facilities and to bring wells back online since acquiring the TBU assets. The projects and operations are helping to increase production in fields that have been producing for over 50 years. The 2017 POD will continue production from existing wells while conducting new drilling, well workovers, and evaluations of shut-in wells to further increase production. The activities proposed in the 2017 POD benefit the state through maximizing recovery of the state's resources. The work Hilcorp is performing at the TBU is advisable to protect the public interest and increase state oil and gas revenues.

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. Based on the Division's prior POD approvals and analysis of the 11 AAC 83.303(b) factors for the additional development work proposed here, the Division finds that the 52nd POD protects the public interest, promotes conservation, prevents waste, and protects the parties' interests. The 2017 POD for the TBU 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 53rd POD for the TBU is due to the Division ninety (90) days prior to the expiration of the 52nd 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