



3800 Centerpoint Drive  
Suite 1400  
Anchorage, AK 99503

Phone: 907/777-8414  
Fax: 907/777-8301  
dduffy@hilcorp.com

May 24, 2017

Ms. Chantal Walsh, Director  
Oil and Gas Division  
Alaska Department of Natural Resources  
550 W. 7<sup>th</sup> Avenue, Suite 1100  
Anchorage, AK 99501

RECEIVED

MAY 31 2017

DIVISION OF  
OIL AND GAS

**Re: Revised 2017 Plan of Development and Operation for the Middle Ground Shoal Unit**

Dear Ms. Walsh:

Hilcorp Alaska, LLC (“Hilcorp”), as Operator hereby submits the revised 2017 Plan of Development and Operations (“POD”) for the Middle Ground Shoal Unit (“MGSU”). This plan will be effective from June 1, 2017 through May 31, 2018.

## **I. FIELD OVERVIEW**

On September 21, 2016, the Department of Natural Resources (“DNR”) approved Hilcorp’s application to expand and rename the South Middle Ground Shoal Unit. This expansion combined the *North Middle Ground Shoal Field*,<sup>1</sup> the *Middle Ground Shoal Field*,<sup>2</sup> and the *South Middle Ground Shoal Unit*<sup>3</sup> into a single consolidated unit.

As sole working interest owner and operator, unitization of the entire field will allow Hilcorp the ability to maximize the utility of existing infrastructure to maintain and enhance production from Platforms A and C, while promoting new opportunities to explore and produce leases otherwise associated with Platforms Baker and Dillon, both of which are currently shut-in.

On January 12, 2017, the Alaska Oil and Gas Conservation Commission (“AOGCC”) approved Hilcorp’s application to modify existing pool rules for the Middle Ground Shoal Field to apply to the expanded MGSU boundaries.<sup>4</sup> This order also revised the definition of the Middle Ground Shoal Oil Pool and established the Middle Ground Shoal Gas Pool. In addition, specific well spacing issues were addressed.

## **II. 2016 PLAN REVIEW**

### **A. Production Summary**

---

<sup>1</sup> The North Middle Ground Shoal Field (“NMGSF”) consists of the Baker Platform and associated leases.

<sup>2</sup> The Middle Ground Shoal Field (“MGSF”) consists of the A and C Platforms and associated leases.

<sup>3</sup> The South Middle Ground Shoal Unit (“SMGSU”) consisted of the Dillon Platform and associated leases.

<sup>4</sup> See AOGCC Conservation Order 44A (January 12, 2-017).

- a. **Baker Platform:** Throughout calendar year 2016, the Baker Platform remained shut-in.<sup>5</sup>
  - b. **Platform A:** During calendar year 2016, Hilcorp produced approximately 124.6 million cubic feet (“MMcf”) natural gas and 462.9 thousand barrels (“Mbbl”) of oil from Platform A.
  - c. **Platform C:** During calendar year 2016, Hilcorp produce 33.8 MMcf natural gas and 218 Mbbl oil from Platform C.
  - d. **Dillon Platform:** Throughout calendar year 2016, the Dillon Platform remained shut-in.
- B. 3D Seismic:** In 2015, Hilcorp completed a comprehensive off-shore seismic program. Initial data processing was completed during the 2016 POD period. Field studies and data analysis will continue throughout the 2017 POD period. Emphasis will continue to be placed on identifying near-term and future drilling, sidetracking and workover opportunities.
- C. 2016 Drilling Program:** No drilling projects were proposed or completed during the 2016 POD period.
- D. 2016 Workover Program:**
- a. **Platforms A & C:**
- Under the approved 2016 POD, Hilcorp anticipated adding artificial lift to two wells (C-13-13LN and C-31-26) and referenced the potential for adding new perforations to existing wells.
- In review, Hilcorp completed three workovers on A11-01, A12A-01, and A24-01LE (all perf adds) on Platform A. On Platform C, Hilcorp completed five workovers, including: C21-23 (perf add); C22-26RD (thru tubing perf); C13-13LN (flow test and perforate, plus installation of SSC-SSSV gas lift and pump cavity isolation sleeve); C31-26RD (workover to run new completion); and C42-23 (perf add).
- b. **Platforms Dillion and Baker:** Under the 2016 POD, Hilcorp did not anticipate any workovers on the Dillon or Baker Platforms. No such work was undertaken.
- E. 2016 Facility Upgrades/ Repairs**

---

<sup>5</sup> The Baker platform was shut in in October 2014 following a non-well related fire that damaged the living quarters and other platform facilities. Throughout 2016, the platform was maintained in “lighthouse” mode with annual inspections and monitoring, but no production activities.

The Middle Ground Shoal Onshore Generator was replaced during the 2016 POD period. Additional facility upgrades and/or repairs completed on the platforms included:

- a. **Baker Platform:** In the 2016 POD, Hilcorp anticipated replacing living quarters damaged by fire and reactivating the gas dehydration system in support of an eventual platform restart. During project engineering and evaluation, it became apparent that overall project economics had not improved enough to warrant platform reactivation at this time. Our forecast to restore and reactivate the platform is no longer realistic given the current economic climate. Therefore, Hilcorp deferred these expenditures and focused on exploitation activities on Platforms A and C to enhance recovery.

An additional complication to the reactivation of the Baker platform occurred with the recent discovery of a gas line puncture in the pipeline used to supply fuel directly to Platforms A and C. Fuel gas is supplied from shore to Platform A, then distributed north to Baker Platform. At Baker, all production (oil or gas) must flow first to Platform A, then to shore. No active oil pipeline exists at Baker and any future oil production will require conversion of an existing gas line, or installation of a new oil line.

Since the discovery of the leak, Hilcorp has been diligently working with numerous federal and state regulatory agencies to accelerate necessary inspections required to quantify and assess pipeline integrity throughout the MGS system. Absent such data, Hilcorp cannot make safe and prudent operational or investment decisions.

**Hilcorp will not return Platforms A and C to production until sufficient data is gathered to verify pipeline integrity.**

The entire MGSU is geologically associated with a common oil pool. The reactivation potential of Baker and Dillon are intricately linked to existing pipelines and infrastructure associated with the A and C platforms and was a primary driver in Hilcorp's decision to acquire Platforms A and C. Due to this interdependency, unitization is a critical element to redeveloping the overall MGSU area, as is the direct correlation to the Unit's pipeline system and the integrity thereof.

**b. Platform A:**

- i. 2016 Proposed:
  - 1. Ongoing drain installations
  - 2. Installation of new boiler system
  - 3. Relocating top deck gas processing system to below deck

4. Refurbishing skimmer tank, produced water tank, and waste water systems
    5. Repairing the crane to facilitate well work
  - ii. 2016 Actual:
    1. Crane upgrades
    2. Platform refurbished
- c. **Platform C:** In the 2016 POD, Hilcorp identified a need to replace an existing gas-lift compressor. In review, Hilcorp successfully repaired the equipment and therefore avoided the potential risk of shutting or otherwise reducing production capacity on the platform.
- d. **Dillon Platform:** No work was proposed or completed during the 2016 POD period. Hilcorp still has long term plans to reactivate the Dillon Platform with possible wells in the future. All of these plans are influenced by economic factors. However, any reactivation efforts at Dillon will require processing and transport of oil from Dillon to C, C to A, then A to shore. Additionally, fuel gas will be supplied from shore to Platform A, then distributed south to the Dillon. Hilcorp has been diligently working with numerous federal and state regulatory agencies to accelerate necessary inspections required to quantify and assess pipeline integrity throughout the MGS system. Absent such data, Hilcorp cannot make safe and prudent operational or investment decisions.

### III. 2017 PLAN OF DEVELOPMENT AND OPERATIONS

Created from the Unit's recent fuel gas supply pipeline disruption, Hilcorp entered into a negotiated consent agreement with the U.S. Pipeline and Hazardous Materials Safety Administration ("PHMSA"), Hilcorp committed to immediately implementing a comprehensive In-Line Inspection program ("ILI" or smart pig) in 2017. An ILI measures and records irregularities in pipelines including corrosion, cracks, deformation or other defects. Our 2017 program will include ILI runs between Platform A and shore for both the oil and gas pipelines, and also the liquid line between Platforms A and C.

Results from Hilcorp's 2017 ILI program will dictate what repairs or remedial efforts are required to safely transport production from Platforms A and C to market. Until these immediate issues are resolved, Hilcorp's longer-term plans for reactivation of Dillon and Baker have been suspended, as well as any drilling contemplated below. At present, all efforts are focused on taking steps necessary to return Platforms A and C to production.

An assessment of the existing pipeline infrastructure and integrity thereof is an essential first step in returning production to the Unit. Upon completion of the

2017 ILI inspection program, Hilcorp will update the Plan of Development to reflect current conditions.

**a. Baker Platform:**

- a. Drilling: No drilling is anticipated.
- b. Workovers: No workovers are anticipated.
- c. Facility Upgrades / Repairs: No facility work is anticipated.

**b. Platform A:**

- a. Drilling: No drilling is anticipated.
- b. Workovers: No workovers are anticipated.
- c. Facility Upgrades / Repairs: No facility work is anticipated.

**c. Platform C:**

- a. Drilling: Contingent upon the results of our ILI pipeline inspection and integrity evaluation program, Hilcorp anticipates sidetracking three existing wells (C-23-26RD, C-33-26RD, and C-34-26RD) in late 2017 or possibly 2018. These wells are a continuation of the evaluation phase of intermediate opportunities for extended reach wells targeting oil bearing formations of the southern part of the current Unit, formally known as the Southern Middle Ground Shoals Unit, via the C Platform.
- b. Workovers: No workovers are anticipated.
- c. Facility Upgrades / Repairs: No facility work is anticipated.

**d. Dillon Platform:**

- a. Drilling: No drilling is anticipated.
- b. Workovers: No workovers are anticipated.
- c. Facility Upgrades / Repairs: No facility work is anticipated.

Hilcorp, as Unit Operator, reserves the right to propose modifications to this Plan should conditions so warrant; however, no modifications will be made without first obtaining necessary approval from the appropriate governmental agencies.

Your approval of the submitted plan is respectfully requested. Should you have questions, please contact the undersigned at 777-8414.

Sincerely,



David W. Duffy, Landman  
Hilcorp Alaska, LLC

cc: Kevin Pike, DNR ([kevin.pike@alaska.gov](mailto:kevin.pike@alaska.gov))