



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of Natural Resources

DIVISION OF OIL & GAS

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June 7, 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 - Approval

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. In a decision dated April 17, 2017, the Division denied the 2017 POD because it lacked plans for the Baker and Dillon platforms, as required by the September 21, 2016 unit expansion decision. On May 31, 2017 Hilcorp submitted a revised 2017 POD that explained the deviations and changes in conditions since the approval 2016 POD and laid out steps that will be taken in the near term to restore production from the MGSU. This decision approves the revised MGSU 2017 POD.

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 within the unit boundary. "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 were not producing.

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. Hilcorp maintained its estimate of returning the South Middle Ground Shoal Unit to production in 2018.

The 2016 North Middle Ground Shoals Field POD maintained plans to restore production from the Baker platform during 2017 and planned replacement of living quarters and reactivation of the gas dehydration system. In the revised POD Hilcorp explained that during the engineering phase of the Baker reactivation it was determined that the project was uneconomic. This was additionally complicated by a fuel gas pipeline leak supplying gas to the entire MGSU.

The fuel gas pipeline leak was first discovered in early 2017. This fuel gas line supplies fuel for all MGSU platforms. This means “A” and “C” platforms were producing before the leak, but they are now shut in. Hilcorp is working to evaluate the integrity of the pipeline system with the intent of restoring production as soon as possible to the “A” and “C” platforms. Hilcorp contends that this evaluation is key to the economics of restoring Baker and Dillion 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 work to ensure safe and efficient operation of the MGSU pipeline system is integral to restarting production and providing economic benefit to the State. Hilcorp’s continued development of the MGSU platforms “A” and “C” will also bring economic benefit to the State, therefore supporting the best interest of the State. Hilcorp’s plans to complete a pipeline inspection program before committing to further work is prudent and the division expects an updated POD and review of the inspection results upon completion.

Having considered the 11 AAC 83.303(a) and (b) criteria, the Division finds that the 2017 POD complies with the provisions of 11 AAC 83.303. Accordingly, the 2017 POD is approved.

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