



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of Natural Resources

DIVISION OF OIL & GAS
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May 17, 2018

CERTIFIED MAIL
RETURN SERVICE REQUESTED

Cody T. Terrell
Hilcorp Alaska, LLC
3800 Centerpoint Drive, Suite 1400
Anchorage, AK 99503

Re: 2018 Plan of Development for the Cannery Loop Unit – Approval

Dear Mr. Terrell:

On May 1, 2018, the Department of Natural Resources, Division of Oil and Gas (Division), received the proposed 2018 Plan of Development (POD) for the Cannery Loop Unit (CLU) from Hilcorp Alaska, LLC (Hilcorp). The 2018 POD is the 39th POD for the CLU. The Division previously met with Hilcorp on May 7, 2018 for a presentation of the Cook Inlet PODs. Hilcorp was notified by email on May 10, 2018 that the POD submittal was deemed complete.

The CLU was formed in June 1978 with sustained gas production commencing in April 1986. Effective March 26, 2010, the United States Department of Interior, Bureau of Land Management, waived administration of the CLU to the State of Alaska. The CLU currently produces from the Beluga Undifferentiated Sands Participating Area (PA) and the Upper Tyonek Formation Undifferentiated Gas Sands PA. Gas production in the Tyonek "D" Sands PA ceased production in April 1989, but resumed in 2015. The former Sterling Gas Sands PA was terminated in 2011 and the PA area was contracted from the CLU to facilitate the reservoir's transition to gas storage for Cook Inlet Natural Gas Storage Alaska, LLC.

Average daily gas production for the calendar year 2017 was 10.1 million standard cubic feet per day (MMSCF/D). This is an increase from the average daily gas production of 9.36 MMSCF/D during calendar year 2016. The CLU's total cumulative gas production at the end of 2017 was 201.24 billion standard cubic feet of gas. For the 2017 POD period, Hilcorp also recompleted the CLU-05RD workover to the Upper Tyonek formation where the well was plugged back and successfully perforated in the Tyonek 91-2 sand.

Although Hilcorp anticipated side-tracking the CLU-10 during the 2017 POD period, it was delayed due to economic viability. Hilcorp also was unsuccessful in its attempt to add the Upper Sterling A to CLU-06.

Even though Hilcorp has no planned exploration of delineation activities for the CLU during the 2018 POD period, it anticipates continued production from existing wells to remain steady (with possibly a slight decline during the 2018 POD period).

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 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 CLU, the Division considered the criteria set forth in 11 AAC 83.303(b) 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.

As was observed in the 2017 POD approval, Hilcorp has been combining new wells and workovers of existing wells to increase gas production from the CLU. This proposed work supports the public's interest in continued evaluation and efficient recovery of the State's resources.

Based upon the Division's prior POD approvals and analysis of the factors set forth in 11 AAC 38.03.303(b), the Division finds the 2018 POD protects the public interest, promotes conservation, prevents waste, and protects the parties' interests. The 2018 POD for the CLU is approved for the period of August 1, 2018 through July 30, 2019.

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. Under 11 AAC 83.343, the 2019 POD is due to the Division ninety (90) days prior to the expiration of the 2018 POD, which is on or before May 1, 2019.

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.

If you have questions regarding this decision, please contact Ken Diemer with the Division at (907) 269-8784 or via email at ken.diemer@alaska.gov.

Sincerely,



Chantal Walsh
Director