



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of Natural Resources

DIVISION OF OIL & GAS

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July 9, 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 Ninilchik 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 Ninilchik Unit (NINU) from Hilcorp Alaska, LLC (Hilcorp). The 2018 POD is the 14th POD for the NINU.¹ 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.

2017 Plan of Development

Hilcorp committed to complete the Kalotsa 1 and 2 during the 2017 POD period, and drill two new wells, Kalotsa 3 and 4. Hilcorp also committed to workover several Paxton wells by adding perforations and evaluating velocity string completions in various wells throughout the unit. The Kalotsa 1 and 2 were completed in February and March 2017, respectively. The Kalotsa 1 currently is producing from several sands within the Tyonek formation, with production from the Kalotsa 2, also from the Tyonek formation, being intermittent in conjunction with market demand.

Both Kalotsa 3 and 4 were drilled in May and June of 2017, respectively and completed in August and September 2017, respectively. Although each well identified significant potential in both the Beluga and Tyonek formations, Hilcorp systematically has identified unbooked-unproven sands in the lower Tyonek due to lack of near-term market demand until demand warrants production from larger sands. Hilcorp further completed seven stratigraphic test wells both inside and near the NINU, and from which the resulting data obtained is being used for

¹Hilcorp previously was granted a series of delays of the DCU mandatory unit contraction with the most recent delay expiring on May 31, 2018. Although Hilcorp did not request delay of the DCU mandatory unit contraction in its 2018 POD, it submitted a separate request for an additional delay of the DCU mandatory contraction on May 17, 2018, prior to the expiration of the previous delay. The Division is issuing a separate decision addressing that request.

planning the proposed design for the Pearl 2A well along with unit and participating area (PA) reconfigurations.

The newly acquired and in-depth analysis of the Kalotsa drill well data in 2017 allowed for reallocation of and additions to the Susan Dionne-Paxton PA, which continue in 2018. Also, a field study of the Grassim Oskolkoff (GO) PA in Q1 2018 identified six new drill well prospects within that PA. And, a further re-evaluation of the Blossom exploratory well results suggest that the original target may have been missed due to previously unforeseen faulting. Several facility improvements were undertaken at the Kalotsa, Susan Dionne, and Paxton pads, including a completed workover on GO 8 during the 2017 POD period thereby adding production from the Upper Tyonek formation.

Although Hilcorp was unable to achieve all its 2017 POD commitments (*i.e.*, deferring both the drilling of Grassim Oskolkoff (GO) 9 and Pearl 2A for other drilling-development opportunities, deferring the adding of perforations in several Paxton wells, velocity strings, and other artificial lift options in various wellbores), Hilcorp achieved most of its 2017 POD commitments.

2018 Plan of Development

Despite having identified six drill well prospects within the GO PA during the NINU field study, Hilcorp does not anticipate drilling these wells unless a change in market conditions occurs. On the other hand, Hilcorp plans to drill Pearl 2A delineation well from a new pad located on private land outside the NINU. Hilcorp anticipates drilling this well late in the 2018 POD period, and expects that production from Pearl 2A will require both unit and PA reconfiguration.

Hilcorp further plans on a workover of GO 6 to the Upper Tyonek to return the well to production. Both Paxton 8 Tyonek and SD 6 Tyonek perforation additions have been identified for workovers, along with fill-clean out and completion of GO 7 in the Tyonek formation. These commitments, in addition to the drilling of the Pearl 2A delineation well, and along with completion of piping tie-ins of pipelines from the Kalotsa Pad to Susan Dionne Pad, installation of additional dehydration facilities on the Susan Dionne Pad, and evaluation of adding velocity strings or other artificial lift operations to various wellbores to enhance production, are among the several commitments Hilcorp makes for this 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 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 prior POD(s) for the NINU, the Division considered 11 AAC 83.303 and found that the POD promoted conservation of natural resources, promoted prevention of waste, and protected the parties' interests. The Division incorporates by reference those findings.

Hilcorp’s continued production, completion of new wells, and workovers of existing wells to increase production from the NINU, along with its proposed work for the 2018 POD period protects the public 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 NINU is approved for the period of August 1, 2018 through July 30, 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. 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 Jes Spuhler with the Division at (907) 269-8784 or via email at [jes.puhler@alaska.gov](mailto:jcs.puhler@alaska.gov).

Sincerely,



Chantal Walsh
Director