

**SOUTH GRANITE POINT UNIT
APPROVAL OF THE APPLICATION TO EXPAND SOUTH GRANITE POINT UNIT**

Findings and Decision of the Director
of the Division of Oil and Gas
Under a Delegation of Authority
from the Commissioner of the State Of Alaska
Department of Natural Resources

February 24, 2015

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I. INTRODUCTION AND DECISION SUMMARY

The State of Alaska, Department of Natural Resources, Division of Oil and Gas (Division), received the Application for the expansion of South Granite Point Unit (Application), on November 14, 2014 from the South Granite Point Unit (SGPU) Operator, Hilcorp Alaska, LLC (Hilcorp). The existing SGPU contains 4,689 acres. The proposed SGPU expansion area, currently known as the Granite Point Field (GPF), covers three leases containing approximately 10,722 acres. Attachments 1 and 2 set out the proposed and approved Exhibits A and B to the SGPU agreement. The Application also requests that the SGPU be renamed the Granite Point Unit.

The SGPU and GPF are offshore Cook Inlet oil and gas developments comprised of State of Alaska oil and gas leases. The SGPU was approved effective March 28, 1998 and operated by Union Oil Company of California until Hilcorp purchased its working interests in late 2011 and was approved as Unit Operator on January 3, 2012. Hilcorp later acquired the remaining 75 percent working interests in the unit from ExxonMobil Alaska Production Inc. effective June 21, 2012. The SGPU is produced from the Granite Point offshore platform. The GPF leases ADL 18742, ADL 17586, and ADL 17587 were issued by the State of Alaska and became effective in August 1962, February 1962, and February 1962, respectively, with five year primary terms. These leases have been held by production since the end of primary term and are produced by the Anna and Bruce platforms. Because oil production is less than 750 barrels per day from the Bruce platform the oil royalty rate has been reduced from 12.5 percent to 5 percent under AS 38.05.180(f)(6)(E) effective July 1, 19, 2003. AS 38.05.180(f)(6)(E) only affects oil royalty rates; all gas royalty rates remain unchanged. Oil production from SGPU and GPU is processed and sold at the Granite Point Production Facility. The State of Alaska is the only royalty owner and Hilcorp the only working interest owner within the SGPU or GPF.

“A unit must encompass the minimum area required to include all or part of one or more oil or gas reservoirs, or all or part of one or more potential hydrocarbon accumulations.” 11 AAC 83.356(a). Hilcorp has submitted confidential geological, geophysical, and engineering data demonstrating that the area approved for expansion includes all or part of an oil or gas reservoir and potential hydrocarbon accumulations.

The Division finds that the expansion of the SGPU, promotes conservation of all natural resources, promotes the prevention of economic and physical waste and provides for the protection of all parties of interest, including the State. AS 38.05.180(p); 11 AAC 83.303. I approve the Application under the terms and conditions of Section IV. The effective date of the SGPU expansion is March 1, 2015. The SGPU will from the effective date of this decision forward be known as the Granite Point Unit.

II. APPLICATION AND LEASE SUMMARY

Hilcorp submitted the Application on November 14, 2014 and simultaneously paid the \$500.00 unit expansion application filing fee, in accordance with 11 AAC 83.306 and 11 AAC 05.010(a)(10)(D), respectively. The Application included: Exhibit A (Attachment 1), legally describing the proposed expanded unit area, its leases, and ownership interests; Exhibit B (Attachment 2), a map of the proposed expanded unit the SGPU; Exhibit C legally describing the existing Granite Point Sands PA and a second Exhibit C legally describing the Granite Point Hemlock PA; Exhibit D a map of the existing Granite Point Sands PA; and Exhibit D a second map depicting the Granite Point Hemlock PA.

The Division notified Hilcorp by email dated December 3, 2014, that the Application was incomplete. The initial Application did not include the following items required under 11 AAC 83.306: (1) the unit agreement executed by the proper parties; (2) an explanation of proposed modifications to the current unit agreement; (3) geological, geophysical and engineering data requested by the Division. Hilcorp later clarified that the only proposed changes to the existing unit agreement were new exhibits. Hilcorp provided the requested geological, geophysical and engineering data and the Division deemed the Application complete on December 22, 2014.

The Division published a public notice in the "*Alaska Dispatch News*" and in the "*Peninsula Clarion*" on December 30, 2014, under 11 AAC 83.311. Copies of the Application and the public notice were provided to interested parties. The Division provided public notice to, among others, the Alaska Department of Environmental Conservation, the Kenai Peninsula Borough, the City of Kenai, the Village of Tyonek, the Salamatof Native Association, Cook Inlet Region, Incorporated, the Soldotna Postmaster, and the radio station KDLL in Kenai. The notice was also published on the State of Alaska Public Notice website and the Division's website. The public notices invited interested parties and members of the public to submit comments by January 30, 2015.

No comments were received.

The proposed expanded unit is summarized below and fully described in Attachments 1 and 2.

Tract No.	Lease No.	Lease Date	Acres	Royalty	WIO	Description
1	18761	10/1/1962	3809	12.5%	Hilcorp 100%	T10N, R11W SM, AK Section 18: All; Section 19: All; T10N, R12W, SM, AK Section 13: All; Section 14: All; Section 23: All; Section 24: All.
2	374044	4/1/1991	200	12.5%	Hilcorp 100%	T10N, R12W, SM, AK Section 27: E1/2E1/2; Section 34: NE1/4NE1/4.
3	374045	4/1/1991	680	12.5%	Hilcorp 100%	T10N, R12W, SM, AK Section 25: NW1/4NW1/4; Section 26: N1/2, SW1/4, W1/2SE1/4; Section 35: N1/2NW1/4.
4	17586	2/1/1962	3,070.00	12.5%	Hilcorp 100%	T10N, R12W, SM, AK Section 03: N/2, 320 acres; T11N, R12W, SM, AK Section 24: Fractional; All; Section 25: Fractional; All; Section 26: Fractional; All; Section 27: Fractional; All; Section 34: All; Section 35: All; Section 36: All.
5	17587	2/1/1962	2,592.00	12.5%	Hilcorp 100%	T11N, R11W, SM, AK Section 17: Fractional; Section 18: Fractional; Section 19: Fractional; Section 20: All; Section 29: All; Section 30: All.
6	18742	9/1/1962	5,060.00	12.5%	Hilcorp 100%	T10N, R11W, SM, AK Section 05: All; Section 06: All; Section 07: All; Section 08: All; T10N, R12W, SM, AK Section 01: All; Section 12: All; T11N, R11 W, SM, AK. Section 31: All; Section 32: All.

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III. DISCUSSION OF DECISION CRITERIA

The DNR Commissioner (Commissioner) reviews applications related to units under 11 AAC 83.303 - 11 AAC 83.395. By memorandum dated September 30, 1999, the Commissioner approved a revision of Department Order 003 and delegated this authority to the Division Director.

The Commissioner will approve an expanded unit 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. 11 AAC 83.303(a).

In evaluating these three criteria, the Commissioner 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).

A discussion of the subsection (b) criteria, as they apply to the Application, is set out directly below, followed by a discussion of the subsection (a) criteria.

A. Decision Criteria considered under 11 AAC 83.303(b)

1. Environmental Costs and Benefits

The expansion area is habitat for various mammals, waterfowl, and fish. Area residents may use this area for subsistence hunting and fishing. Oil and gas activity in the proposed unit area may affect some wildlife habitat and some subsistence activity. DNR develops lease stipulations through the lease sale process to mitigate the potential environmental impacts from oil and gas activity.

DNR also considers environmental issues during the lease sale process, and the unit Plan of Operations approval process. Alaska statutes require DNR to give public notice and issue a written finding before disposal of the state's oil and gas resources. AS 38.05.035(e); AS 38.05.945; 11 AAC 82.415. In the written best interest finding, the Commissioner may impose additional conditions or limitations beyond those imposed by law. AS 38.05.035(e).

Approval of the SGPU expansion has no direct environmental impact. This decision is an administrative action and does not authorize any on-the-ground activity. The unit expansion does not entail any environmental costs in addition to those that may occur when permits to conduct lease-by-lease exploration or development are issued. The Unit Operator must obtain

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approval of a plan of operations from the State and permits from various agencies on State leases before drilling a well or wells or initiating development activities to produce reservoirs within the unit area. 11 AAC 83.346. Potential effects on the environment are analyzed when permits to conduct exploration or development in the unit area are reviewed. Hilcorp is operating under an approved plan of operations and plan of development.

2. Geological and Engineering Characteristics

History of Oil and Gas Exploration in the Cook Inlet Basin

The modern era of Cook Inlet exploration began in 1955 when Richfield Oil Corp. embarked on a drilling program centered around Swanson River on the Kenai Peninsula. In July 1957 the company discovered oil in the Swanson River Unit #1 well, drilled to a depth of 11,000 feet. The well tested oil at a rate of 900 Barrels of Oil per Day (BOPD) from the Oligocene Hemlock Conglomerate. Reserves were estimated at 250 Million Barrels of Oil (MMBO). In October 1959 Union Oil Co. of California and Ohio Oil Co. discovered the Kenai Gas Field on the Kenai Peninsula. It remains the largest natural gas discovery in the basin, with total recovery estimated to be over 2.5 Trillion Cubic Feet (TCF). Production began the following year and continues today. In 1962 Pan American Petroleum Corp. discovered the Middle Ground Shoal oil field, the first offshore discovery in the Cook Inlet Basin. Shell installed the first offshore production platform (Shell Platform A) in this field in 1964 to develop the Middle Ground Shoal oil field. In 1965 Unocal discovered the McArthur River field, the basin's largest oil field estimated at 1.5 Billion Barrels of Oil (BBO) in place. Additional oil discoveries were made by Unocal at Trading Bay and Mobil Oil at Granite Point to the north. Extensive exploration continued over the next several years resulting in peak annual oil production of 82 MMBO in 1970 and peak annual gas production of 223 BCF in 1996. As of July 2014 a total of 1,456 wells (738 wells onshore, 718 wells offshore) have been drilled in the Cook Inlet Basin. The majority of these wells were drilled from 1958-1970. In addition to the large Swanson River oil and the Kenai Gas Field, 14 offshore discoveries were made during this time. All the major oil fields that exist today were drilled between 1962 and 1965. Fourteen of the sixteen existing offshore production platforms were installed between 1966 and 1969. Since 1970 oil production has declined steadily to 18,836 BOPD during October 2014 and gas production has leveled out at approximately 333 MMCF/day during October 2014.

Regional Tectonic Setting and Structural Geology

The Cook Inlet Basin is an elongated, northeast-southwest trending, fault-bounded forearc basin that extends from the Matanuska Valley southward along the Alaska Peninsula. The basin contains numerous north-northeast-trending, discontinuous, asymmetrical, fault-bounded folds. The folds were formed in response to regional strike slip fault movement as a result of ongoing subduction tectonics and are filled with Mesozoic and Tertiary sediments. The Granite Point field is located in the central portion of the Cook Inlet basin and is contained within an asymmetric northeast-southwest trending anticline that is approximately eight miles long and one mile wide with a steeply dipping fault bounded western flank and a gentle dipping eastern flank.

The east flank of the anticline dips about 25 degrees to the east and the west flank dips from 60 to 80 degrees toward the west.

Depositional Systems and Stratigraphic Framework

Deposition of Tertiary clastic sediments that form the major hydrocarbon reservoirs in the Cook Inlet Basin pre-date the regional folding events. The present day thickness of the Tertiary strata varies along the axis of the basin. The deepest part of the basin is located in the northwest corner of the Kenai Peninsula where 25,000 feet of Tertiary non-marine sediments overlie a thick sequence of marine Mesozoic sediments. Tertiary strata thin to the south to less than 1,500 feet over the Seldovia Arch. The upper Cook Inlet basin contains predominantly Tertiary (Paleocene to Pliocene) non-marine sediments that are comprised of alluvial fans that contain conglomerates near the base and are overlain by and interfingered with fluvial facies composed of sandstone and siltstone. The area contains numerous local and regional unconformities. Alluvial-fan systems occur along the margins of the basin and were sourced from adjacent highlands created by the basin-bounding faults. The fans are conical, lobate deposits of predominantly coarse-grained sediments emplaced by water and gravity-induced density flows. Migrating axial-fluvial systems occupy the central portion of the basin and interfinger with the fans towards the basin margin. These fluvial systems result in the thick accumulation of sandstone, siltstone, and coal in the basin center. The sedimentary accumulations of these two systems are regionally time transgressive and represent laterally equivalent facies deposited across the basin. These two types of depositional patterns created wide horizontal and vertical variations in fluvial architecture, which makes pre-drill predictive modeling and subsurface reservoir sandstone correlations within a given formation difficult and problematic. Modern fluvial systems in south-central Alaska display a similar continuum of braided, meandering, and anastomosed stream types and alluvial fans, providing useful analogs to the depositional systems contained within the Tyonek Formation.

The Tertiary sediments are divided into five formations (from oldest to youngest): West Foreland, Hemlock, Tyonek, Beluga and Sterling. The West Foreland Formation is Eocene in age and consists of tuffaceous sandstones and conglomerates of poor reservoir quality. The Oligocene Hemlock Formation consists of clean, porous sandstone and conglomerate with good reservoir quality that form proven oil reservoirs in many parts of the basin. The overlying Tyonek formation consists largely of siltstone, sandstone and coals of Oligocene to Middle Miocene age. It has been the target of considerable oil and gas exploration in Cook Inlet. The source of oil present in the Hemlock and Tyonek formations is believed to be marine strata of Middle Jurassic age. The Beluga Formation of Middle to Late Miocene age that overlies the Tyonek contains siltstone and thin, muddy sandstone layers that are interbedded with abundant thin coals. The Sterling Formation ranges in age from Latest Miocene to Pliocene and consists largely of stacked porous sandstones with blocky log signatures. Coals are thinner and less abundant than in the underlying Beluga Formation. The gas contained within these formations is believed to be of biogenic origin that is derived from Tertiary coals and organic siltstones.

Granite Point Field

The Granite Point oil field was discovered in 1965 by the Mobil Granite Point No. 1 well in the Tyonek and Hemlock formations. To develop the pool, the Granite Point, Anna, and Bruce platforms (from south to north) were installed during 1966 in water ranging from 62 to 77 feet deep. Sustained production began in March of 1967, and waterflood was initiated during 1971. The primary production on all three platforms is the Middle Kenai "C" sands of the Tyonek formation. The Hemlock formation currently produces from one well, GPS 11-13RD, from the Granite Point platform. Active water injection near the lease line to the north has occurred since 1970. About 112 wells have been drilled in the field. Initial production from the Middle Kenai sands started in 1967 and production peaked in 1968 at 49 MBOPD. Hemlock production started in 1992 and peaked at 1.843 MBOPD in 1993. Current production is 2.8 MBOPD including both oil reservoirs.

<u>PLATFORM</u>	<u>OIL RATE, BOPD (10/2014)</u>	<u>CUMULATIVE OIL, 1000'S BBLs (10/2014)</u>
Granite Point	1,397	64.8
Anna	1,022	57.4
Bruce	380	28.1
Total	2,799	150.3

The Granite Point Middle Kenai Oil Pool – Tyonek reservoir

The Granite Point Middle Kenai Oil Pool is defined as the accumulation common to, and correlating with, that was found in the Mobil Granite Point No. 1 well between 7,725 and 10,800 feet measured depth. The productive sandstone and conglomerate layers within the pool are assigned to the "C" zone of the lower Tyonek. The various sandstone layers were deposited as braided streams during the Oligocene to Miocene. The Tyonek Formation records deposition of both longitudinal (braided, meandering, and anastomosed stream types) fluvial systems deposited along the basin axis and transverse wet alluvial fans deposited perpendicular to the basin axis. Individual reservoir layers vary in thickness from 10 to 100 feet. Net pay for the pool averages about 250 feet. Porosity of the reservoir averages 14 percent, and permeability averages 10 millidarcies. Middle Kenai oil gravity ranges from 41 to 44 degrees API. Although the Granite Point Middle Kenai Oil Pool is not unitized, production from the Granite Point platform was unitized in March 1998 by Union Oil of California (Unocal) as the South Granite Point Unit (SGPU). This was supported by the difference in ownership of the three platforms with Unocal owning and operating the Granite Point platform to the south and Amoco operating the Bruce and Anna platforms to the north. The a row of injectors isolates production from the Granite Point Platform to the south from the Anna and Bruce platforms to the north

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<u>PLATFORM</u>	<u>MIDDLE KENAI OIL</u> <u>RATE, BOPD (10/2014)</u>	<u>MIDDLE KENAI</u> <u>CUMULATIVE OIL,</u> <u>1000'S BBLs (10/2014)</u>
Granite Point	1335	62.6
Anna	1,022	57.4
Bruce	380	28.1
Total	2,737	148.1

Granite Point Field Hemlock Undefined Oil Pool

The Hemlock formation consists of the alluvial fan facies of the depositional systems described above for the Tyonek formation. The pool has never been unitized and is produced as a tract operation. Currently the only well producing out of the Hemlock formation is the GPS 11-13RD well from the Granite Point platform.

<u>PLATFORM</u>	<u>HEMLOCK OIL</u> <u>RATE, BOPD</u>	<u>HEMLOCK</u> <u>CUMULATIVE OIL,</u> <u>1000'S BBLs</u>
Granite Point	62	2.2
Anna	0	0
Bruce	0	0

Due to declining production rates in the GPS 11-13RD (currently 40 BOPD with a water cut averaging 60-65%, Hilcorp requested permission from the AOGCC to commingle production from this well with the overlying Middle Kenai Tyonek reservoir that has yet to be produced from this well. AOGCC approved Hilcorp's request on August 8, 2014.

Granite Point Field – Undefined Gas Pool

The discovery well and currently only well drilled in the pool is Granite Point State 17586 No. 9 from the Bruce platform. Cumulative gas production is 873 million cubic feet through October 2005 when the well was last produced. The gas from the well has been used to fuel platform operations.

Conclusions

Hilcorp now solely operates each platform in the GPF. Production continues to decline in the key Middle Kenai Tyonek reservoir. Only the Bruce platform produces gas for operations. The Alaska Oil and Gas Conservation Commission granted permission to commingle Hemlock production with the as yet unproduced Middle Kenai reservoir in the GPS 11-13RD in order to maximize production from the platform. Given these four factors it is in the best interest of all parties to consolidate operations into one unit. Expanding the current SGPU to include the GPF creates efficiencies regarding administration, operations, and conservation of resources. Unitization maximizes the opportunities for Hilcorp to effectively produce the remaining dwindling reserves in the area.

3. Plans of Development

The Division approved the Seventeenth SGPU Plan of Development (POD) effective May 8, 2014 for the period June 1, 2014 through May 31, 2015.

- Hilcorp plans to execute additional well work and drilling opportunities as they arise. The GP-45 well was worked over and brought online in early March producing approximately 450 BOPD. Hilcorp anticipates a ten-year inspection and repair of oil storage tanks 102 and 103. Hilcorp will continue to pursue efficiencies through various well, infrastructure, and facility repairs including evaluation of shut-in wells for potential return to service.

4. The Economic Costs and Benefits to the State and Other Relevant Factors

The expanded SGPU will provide economic benefits to the State through royalty on production, although, because the expansion area is already producing or contributing to production, there is no additional direct economic benefit. Unitized development conducted under the SGPU Agreement provides for development of all the unitized leases as a single lease, rather than GPF development conducted on a lease-by-lease basis. Unitized development maximizes oil and gas recovery, promotes conservation, prevents waste, and protects all of the parties of interest.

The GPF leases--ADL 18742, ADL 17586, and ADL 17587--are not written on the current lease form. These leases will be modified and amended to conform to the current lease language found in lease form DOG 201308. The Division is making the following changes with the consent of the lessee:

- a. Delete paragraphs 9 (rental), 10 (minimum royalty), 12 (discovery royalty), 14 (RIK), 15 (RIV) and 16 (price).
- b. Add paragraphs 5 (rental), 7 (apportionment of royalty), 10 (POD), 12 (directional drilling), 34 (definitions), 36 (Value), 37(RIV), and 38 (RIK).

B. Decision Criteria considered under 11 AAC 83.303(a)

1. Promote the Conservation of All Natural Resources

A unit may be formed under AS 38.05.180(p) “[t]o conserve the natural resources of all or a part of an oil or gas pool, field, or like area.” Conservation of the natural resources of all or part of an oil or gas pool, field or like area means “maximizing the efficient recovery of oil and gas and minimizing the adverse impacts on the surface and other resources.” 11 AAC 83.395(9). The unitization of oil and gas reservoirs or accumulations and the formation and expansion of unit areas to develop hydrocarbon-bearing reservoirs or accumulations are well-accepted means of hydrocarbon conservation. Unitization, with development occurring under the terms of a unit agreement, can promote efficient evaluation and development of the State’s resources, and minimize impacts to the area’s cultural, biological, and environmental resources.

Expansion of an existing unit, with development occurring under the terms of a unit agreement, promotes efficient evaluation and development of the State’s resources, and minimizes impacts to the area’s cultural, biological, and environmental resources.

2. The Prevention of Economic and Physical Waste

Unitization, as opposed to activity on a lease-by-lease basis, may prevent economic and physical waste. Economic waste is often referred to as the drilling of wells in excess of the number necessary for the efficient recovery of the oil and gas in place. Physical waste, among other things, includes the inefficient, excessive, or improper use of, or unnecessary dissipation of, reservoir energy.

Unitization may also prevent economic and physical waste by eliminating redundant expenditures for a given level of production, or by increasing ultimate recovery with the adoption of a unified reservoir management plan. Annual approval of the SGPU development activities as described in future plans of development must also provide for the prevention of economic and physical waste. Integrating the SGPU with existing GPF infrastructure and facilities eliminates the need to construct additional metering facilities and will eliminate redundant expenditures for future production.

3. The Protection of All Parties of Interest, Including the State

The people of Alaska have an interest in the development of the State’s oil and gas resources to maximize the economic and physical recovery of the resources, AS 38.05.180(a). Approval of the expansion under future annually approved plans of development will provide for continued review and approval of Hilcorp’s plans to develop the SGPU in a manner that will maximize economic and physical recovery. Combining interests and operating under the terms of the SGPU Agreement and SGPU Operating Agreement ensures an equitable allocation of costs and revenues commensurate with the resources.

The SGPU expansion protects the economic interests of Hilcorp and the State. The expansion promotes the State's economic interests because hydrocarbon recovery will be maximized and additional production-based revenue will be derived from the increased production. Diligent exploration and development under a single approved unit plan promotes the State's interest. Operating under the SGPU Agreement provides for accurate reporting and record keeping, State approval of plans of exploration and development and operating procedures, royalty settlement, in-kind taking, and emergency storage of oil and gas, all of which will further the State's interest.

IV. FINDINGS AND DECISION

A. The Conservation of All Natural Resources

1. Expansion of the SGPU will provide for continued development of the expansion area under the SGPU Agreement and will maximize the efficient recovery of oil and gas and minimize the adverse impacts on the surface and other resources, including hydrocarbons, gravel, sand, water, wetlands, and valuable habitat.
2. The unitized development and operation of the expansion leases will reduce the amount of land and fish and wildlife habitat that would otherwise be disrupted by individual lease development. This reduction in environmental impacts and preservation of subsistence access is in the public interest.
3. There is potential for environmental impacts associated with development. All unit development must proceed according to an approved plan of development. Additionally, before undertaking any specific operations, the Unit Operator must submit a unit Plan of Operations to the Division and other appropriate state and local agencies for review and approval. The lessees may not commence any drilling or development operations until all agencies have granted the required permits. DNR may condition its approval of a unit Plan of Operations and other permits on performance of mitigation measures in addition to those in the modified leases and the Agreement, if necessary or appropriate. Compliance with mitigation measures will minimize, reduce or completely avoid adverse environmental impacts.

B. The Prevention of Economic and Physical Waste

1. Hilcorp submitted geological, geophysical and engineering data to the Division in support of the Application. Division technical staff determined that the expanded SGPU acreage encompasses all or part of one or more oil and gas reservoirs.
2. The available geological, geophysical and engineering data justify including the proposed lands, as described in Section III A, 2. of this decision.

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3. The production of hydrocarbons through the existing production and processing facilities reduces the environmental impact of the additional production. Using existing facilities will avoid unnecessary duplication of development efforts on and beneath the surface.

C. The Protection of All Parties in Interest, Including the State

1. The unit expansion as approved protects all parties' interests including the people of Alaska who have an interest in the development of the State's oil and gas resources to maximize the economic and physical recovery of the resources.
2. The economic, geological, geophysical, and engineering data that Hilcorp provided reasonably justify the inclusion of the SGPU expansion acreage under the terms of the applicable regulations governing formation, expansion, and operation of oil and gas units and participating areas (11 AAC 83.301 – 11 AAC 83.395) and the terms and conditions under which these lands were leased from the State.
3. Hilcorp provided evidence of reasonable effort to obtain joinder of any proper party to the Agreement.
4. Hilcorp holds sufficient interest in the unit area to give reasonably effective control of operations.
5. The unit expansion meets the requirements of 11 AAC 83.303.
6. The Division complied with the public notice requirements of 11 AAC 83.311.
7. The unit expansion will not diminish access to public and navigable waters beyond those limitations (if any) imposed by law or already contained in the oil and gas leases covered by this decision.
8. The SGPU Agreement provides for additional expansions and contractions of the unit area in the future, as warranted by data obtained by exploration or otherwise. The SGPU Agreement thereby protects the public interest, the rights of the parties, and the correlative rights of adjacent landowners.
9. The GPF leases--ADL 18742, ADL 17586, and ADL 17587--are not written on the current lease form. These leases will be modified and amended to conform to the current lease language found in lease form DOG 201308. The following changes will be made:
10. a. Delete paragraphs 9 (rental), 10 (minimum royalty), 12 (discovery royalty), 14 (RIK), 15 (RIV) and 16 (price).
11. b. Add paragraphs 5 (rental), 7 (apportionment of royalty), 10 (POD), 12 (directional drilling), 34 (definitions), 36 (Value), 37(RIV), and 38 (RIK).

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12. The approved expanded unit is effective March 1, 2015.
13. The leases approved for inclusion in the expanded South Granite Point Unit are as follows:

Tract No.	Lease No.	Lease Date	Acres	Royalty	WIO	Description
1	18761	10/1/1962	3809	12.5%	Hilcorp 100%	T10N, R11W SM, AK Section 18: All; Section 19: All; T10N, R12W, SM, AK Section 13: All; Section 14: All; Section 23: All; Section 24: All.
2	374044	4/1/1991	200	12.5%	Hilcorp 100%	T10N, R12W, SM, AK Section 27: E1/2E1/2; Section 34: NE1/4NE1/4.
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5	17587	2/1/1962	2,592.00	12.5%	Hilcorp 100%	T11N, R11W, SM, AK Section 17: Fractional; Section 18: Fractional; Section 19: Fractional; Section 20: All; Section 29: All; Section 30: All.
6	18742	9/1/1962	5,060.00	12.5%	Hilcorp 100%	T10N, R11W, SM, AK Section 05: All; Section 06: All; Section 07: All; Section 08: All; T10N, R12W, SM, AK Section 01: All; Section 12: All; T11N, R11 W, SM, AK. Section 31: All; Section 32: All.

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EXPAND SOUTH GRANITE POINT UNIT**

12. The application included an Exhibit A, which incorrectly listed the royalty rate for ADLs 17586 and 17587 as 5 percent. Hilcorp shall submit a revised Exhibit A with the correct 12.5 percent royalty within 60 days of the issuance of this decision.

For the reasons discussed in this Findings and Decision, I hereby approve the SGPU expansion and name change to the Granite Point Unit.

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 Mark D. Myers, 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 any questions regarding this decision, contact Kevin Pike with the Division at 907-268-8451, or by email at Kevin.Pike@Alaska.gov



Paul L. Decker
Acting Director
Division of Oil and Gas

2-24-15
Date

cc: Department of Law

V. ATTACHMENTS

1. Granite Point Unit Proposed Exhibit A
Description of Lands within the Expanded Unit
2. Granite Point Unit Proposed Exhibit B
Map of Expanded Unit Area

**SOUTH GRANITE POINT UNIT APPROVAL OF THE APPLICATION TO
EXPAND SOUTH GRANITE POINT UNIT**

1. Granite Point Unit Proposed Exhibit A
Description of Lands within the Proposed Expanded Unit

Exhibit A
Granite Point Unit
Effective December 1, 2014

Tract	Tract Legal Description	Tract Acreage	Lease #	Mineral Owner	Mineral Interest	Royalty Percent	ORRI Owner	ORRI Percent	Working Interest Ownership	Working Interest Owner %
01	T10N, R11W, SM, AK Section 18: All; Section 19: All; T10N, R12W, SM, AK Section 13: All; Section 14: All; Section 23: All; Section 24: All;	3,809.00	HAK #600953 ADL # 18761	State of Alaska, Department of Natural Resources	100.00%	12.500%			Hilcorp Alaska, LLC	100.00%
02	T10N, R12W, SM, AK Section 27: E1/2E1/2; Section 34: NE1/4NE1/4.	200.00	HAK #605872 ADL # 374044	State of Alaska, Department of Natural Resources	100.00%	12.500%			Hilcorp Alaska, LLC	100.00%
03	T10N, R12W, SM, AK Section 25: NW1/4NW1/4; Section 26: N1/2, SW1/4, W1/2SE1/4, Section 35: N1/2NW1/4.	680.00	HAK #605873 ADL # 374045	State of Alaska, Department of Natural Resources	100.00%	12.500%			Hilcorp Alaska, LLC	100.00%
04	T10N, R12W, SM, AK Section 03: N/2, 320 acres; T11N, R12W, SM, AK Section 24: Fractional; All; Section 25: Fractional; All; Section 26: Fractional; All; Section 27: Fractional; All; Section 34: All; Section 35: All; Section 36: All;	3,070.00	HAK #605833 ADL # 17586	State of Alaska, Department of Natural Resources	100.00%	5.000%			Hilcorp Alaska, LLC	100.00%

Tract	Tract Legal Description	Tract Acreage	Lease #	Mineral Owner	Mineral Interest	Royalty Percent	ORRI Owner	ORRI Percent	Working Interest Ownership	Working Interest Owner %
05	T11N, R11W, SM, AK Section 17: Fractional; Section 18: Fractional; Section 19: Fractional; Section 20: All; Section 29: All; Section 30: All	2,592.00	HAK #605834 ADL # 17587	State of Alaska, Department of Natural Resources	100.00%	5.000%			Hilcorp Alaska, LLC	100.00%
06	T10N, R11W, SM, AK Section 05: All; Section 06: All; Section 07: All; Section 08: All; T10N, R12W, SM, AK Section 01: All; Section 12: All; T11N, R11 W, SM, AK Section 31: All; Section 32: All	5,060.00	HAK #605835 ADL # 18742	State of Alaska, Department of Natural Resources	100.00%	12.500%			Hilcorp Alaska, LLC	100.00%
		Total Unit Acreage							Working Interest Owner	
		15,411.00							Uncommitted	0.00%
									Hilcorp Alaska, LLC	100.00%
									Net Acres	0.00
										Unit %
									15,411.00	100.00%

2. Granite Point Unit Proposed Exhibit B
Map of Proposed Expansion of Unit Area

Exhibit B
Granite Point Unit
Cook Inlet, Alaska

