

Hilcorp Alaska, LLC

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December 6, 2017



Director Chantal Walsh
Division of Oil and Gas
Alaska Department of Natural Resources
550 West 7th Avenue, Suite 1100
Anchorage, AK 99501

RE: Stump Lake Unit Termination Proposal

Dear Director Walsh:

Hilcorp Alaska, LLC (“Hilcorp”) as Operator of the Stump Lake Unit (“SLU”), after consultation with land managers at the Department of Natural Resources (“DNR”), hereby submits a proposal for the termination of the Stump Lake Unit. This proposal for unit termination is contingent on both Hilcorp and the Department of Natural Resources (“DNR”) meeting certain requirements contained herein.

Hilcorp submitted the 2017 Plan of Development and Operations (“POD”) on March 1, 2017. In the POD Hilcorp committed to continue its work over operations for the SLU 41-33RD Well in order to return the SLU to production by the end of the 3rd Quarter of 2017. If SLU production failed to return, Hilcorp committed to plug and abandon (“P&A”) SLU 41-33RD during 2018.

As of September 30th, 2017, Hilcorp has been unable to resume production in the SLU. Hilcorp has begun its P&A work on SLU 41-33RD with initial plans to finish the work before January 1, 2018. However, the work has not been completed as required by AOGCC regulations (20 AAC 25, Article 2). The SLU 41-33RD Well has been cemented to the surface and is no longer capable of production. The remaining P&A work required by AOGCC is the onshore location clearance as provided under 20 AAC 25.170. Due to permitting and weather delays, onshore location clearance cannot be completed until Spring 2018.

DNR has expressed its desires to terminate the SLU, which would cause the SLU leases currently held by the unit to expire. This would allow the acreage to be available in the Spring 2018 Cook Inlet Lease Sale. Hilcorp does not object to unit termination, but we are concerned about Hilcorp’s obligations regarding lease expiration. The AOGCC requires onshore location clearance, as provided under 20 AAC 25.170, to be completed for the SLU 41-33RD Well before expiration of Hilcorp’s underlying oil and gas lease. As stated in the paragraph above, due to permitting and weather delays the onshore location clearance cannot be completed until Spring 2018. The oil and gas lease allows Hilcorp six (6) months from the time of lease expiration to remove all “machinery, equipment, tools, and materials other than improvements needed for producing wells” and further requires us to “deliver up said lands or such portion or portions thereof in good order and condition.” It’s unclear as to what is considered “good order and condition” of the lands as same is not defined. It’s also unclear as to the amount of time Hilcorp has until DNR lands should be returned to DNR in “good order and condition” after lease expiration. Due to the constraints expressed above, it’s apparent that six (6) months is not a reasonable amount of time to perform the required remediation measures and vacate the premises.

With the foregoing taken into consideration, Hilcorp makes the following proposal:

1. Hilcorp agrees to terminate the SLU, allowing the oil and gas leases currently held by the SLU to expire. Unit termination would be effective December 1, 2017. The leases currently held by the SLU will remain in effect ninety (90) days after Unit termination as provided in 11 AAC 83.140, expiring March 1, 2018. This action will allow DNR the opportunity to offer said leases in the 2018 Cook Inlet Lease Sale.
2. Pursuant to 11 AAC 83.140, the leases held by the SLU would continue in full force and effect for not less than 90 days, or no sooner than March 1, 2018. Due to the constraints expressed above, onshore location clearance required under 20 AAC 25.170 cannot be completed prior to March 1, 2018. DNR, as the surface owner and mineral owner of said lands, will grant an extension to Hilcorp to complete the onshore location clearance for the SLU 41-33RD Well until May 1, 2018. Hilcorp commits to completing the onshore location clearance no later than May 1, 2018 as part of the surface remediation work for the lease.
3. Upon receipt of DNR's grant of an extension specified in item 2 above, Hilcorp will submit to AOGCC an Application for Sundry Approvals (Form 10-403) pursuant to 20 AAC 25.170(c) to extend the time for Hilcorp to complete the onshore location clearance activities required under 20 AAC 25.170(a).
4. DNR will provide Hilcorp specific detailed remediation requirements for the remediation of pads, roads, and pipelines located on the surface estate of DNR lands within six (6) months of lease expiration. Hilcorp suggests leaving all pads, roads, and pipelines for future development and to minimize any environmental impacts that the remediation measures may have.
5. Hilcorp will submit to DNR a Remediation Plan within six (6) months of receipt of item 4 specified above.
6. DNR will allow Hilcorp a period of two (2) years, subject to any approved extension thereof, from the date of Hilcorp's Remediation Plan to start the remediation work. Should DNR subsurface become encumbered by an oil and gas lease where Hilcorp has surface improvements, Hilcorp may, upon approval by DNR, transfer all or any portions of roads, pads, and pipelines to the new Lessee for use in their development operations. To the extent the new Lessee and transferee of any roads, pads, and pipelines accepts such assets in their current condition, they will also assume all liability and responsibility for removal of same. Subject to DNR approval, the terms of the transfer may include DNR recognizing the new Lessee as the responsible party and relieving Hilcorp in writing of any further removal obligations under the lease.

Please provide a response at your earliest convenience. Should you have any further questions, please contact the undersigned at (907-777-8432).

Sincerely,



Cody T. Terrell, Landman
HILCORP ALASKA, LLC