



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of Natural Resources

DIVISION OF OIL & GAS

550 W 7th Avenue, Suite 1100

Anchorage, AK 99501-3560

Main: 907.269.8800

Fax: 907.269.8939

October 25, 2018

CERTIFIED MAIL
RETURN SERVICE REQUESTED

Michael W. Schoetz
Hilcorp Alaska, LLC
PO Box 244027
Anchorage, AK 99524-4027

Re: Middle Ground Shoal A Platform Royalty Reduction Decision

Dear Mr. Schoetz:

The Department of Natural Resources (DNR) received your September 21, 2018 letter requesting a royalty reduction pursuant to AS 38.05.180(f)(6)(C). On the Commissioner's behalf, Division staff requested additional information via email from Hilcorp Alaska, LLC (Hilcorp) staff on October 15, and received a reply on October 19. Based on this information and publicly available data concerning production from the Middle Ground Shoal A Platform, formerly known as XTO A, the Commissioner denies your request.

AS 38.05.180(f)(6)(I) states that royalty may only be reduced if production from the platform drops below 975 barrels of oil per day (BOPD), but is:

Not the result of short-term production declines due to mechanical or other choke-back factors, temporary shutdowns or decreased production due to environmental or facility constraints, or market conditions.

The Middle Ground Shoal A Platform was temporarily shut down in 2017 due to a leaking fuel gas pipeline. The leak posed a risk to the environment, thus the shutdown to address the leak was due to environmental constraints. The leak itself was also the result of mechanical issues with the pipeline, so the shutdown was also due to mechanical factors.

Production information demonstrates that current production has dropped below 975 BOPD because of the shutdown. Prior to this shutdown, production was approximately 1,150 BOPD. Production returned at approximately 1,000 BOPD, and has since declined below 975 BOPD. Production in general from this platform had been in decline, but a decline curve analysis of oil production prior to the shutdown shows that production would not have declined to 1000 BOPD by the date production returned. Importantly, the decline curve shows that without the 2017 shutdown production would currently be above 975 BOPD. Instead, the shutdown appears to have impacted flow capacity of the existing wells, which in turn caused production to return at a lower rate than the reservoir is capable of. This fifteen percent decline following the temporary shutdown was thus the result of the mechanical factors and environmental constraints that led to the temporary shutdown. If not for the shutdown and the sharp production drop it caused upon

startup, current production would not be less than the statutory benchmark of 975 BOPD required to trigger royalty reduction.

Therefore, current oil production of less than 975 BOPD was the result of a short-term production decline due to a temporary shutdown. Because your application does not meet the requirements of the statute, the request for royalty reduction is denied.

An eligible person affected by this decision may request reconsideration of it in accordance with 11 AAC 02. Any request for reconsideration 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 request reconsideration of this decision in accordance with 11 AAC 02 before appealing this decision to Superior Court. If the Commissioner does not act on a request for reconsideration within 30 days after issuance of this decision, the request for reconsideration is considered denied and this decision becomes a final administrative order and decision on the 31st day after issuance for the purposes of an appeal to Superior Court. A copy of 11 AAC 02 may be obtained from any regional information office of the Department of Natural Resources.

Sincerely,



Andrew T. Mack
Commissioner

CC: Chantal Walsh, Director, Division of Oil & Gas