



United States Department of the Interior
BUREAU OF SAFETY AND ENVIRONMENTAL ENFORCEMENT
Alaska OCS Region
3801 Centerpoint Drive, Suite 500
Anchorage, Alaska 99503-5823

January 23, 2019

John A. Barnes
Senior Vice President & North Slope Asset Team Leader
Hilcorp Alaska, LLC
3800 Centerpoint Drive, Suite 1400
Anchorage, Alaska 99503

Dear Mr. Barnes:

The Bureau of Safety and Environmental Enforcement (BSEE) is in receipt of the Suspension of Production (SOP) request submitted by Hilcorp Alaska, LLC (HAK) on November 15, 2018. We have also received the most recent supplement to that request (submitted on January 21, 2019), which provides a revised schedule of work. A prior supplement (received by BSEE on December 21, 2018) to the original request has been superseded by the January 2019 submittal.

Background

The Liberty Unit leases are currently held under an SOP that was issued on December 15, 2017; that SOP has remained in effect while BSEE adjudicated your November 15, 2018 request. In that request, you asked BSEE to act pursuant to its authority under 30 C.F.R. § 250.168 *et seq.*, to grant a 5-year SOP for the three-lease Liberty Unit (the unit includes OCS leases Y-1585, Y-1650, and Y-1886) held by HAK in the Beaufort Sea.

Your SOP request correctly asserts that BSEE may grant consecutive suspensions pursuant to 30 CFR 250.170(a). Your request also asserts that granting of another SOP would be in the national interest, and it cites the justification provided by BSEE regulations at 30 CFR 250.174(a). These two elements – national interest and the justification for the SOP – are analyzed below, along with the schedule of work submitted by HAK as required at 30 CFR 250.171(b).

Analysis

The decision to grant or deny a suspension request that meets the threshold regulatory requirements rests squarely within BSEE's discretion. In order for BSEE to grant an SOP in this case, it must be in the national interest, and necessary to "...allow you to properly develop a lease, including time to construct and install production facilities." (30 CFR 250.174(a))

A. National Interest (30 CFR 250.174)

Section 5 of OCSLA (43 U.S.C. § 1334(a)(1)(A)) calls upon the Secretary to promulgate regulations providing for suspensions, "in the national interest, to facilitate proper development

of a lease or to allow for the construction or negotiation for use of transportation facilities.” The Secretary has accordingly issued regulations pursuant to which the “national interest” is a necessary, but not sufficient, condition for obtaining a SOP. The relevant implementing regulation provides that BSEE may grant an SOP where doing so is in the national interest *and* necessary to allow the proper development of the lease for production purposes, securing transportation or sales arrangements for impending production, or avoiding premature abandonment of existing production (*see* 30 CFR 250.174); in other words, after a discovery has been made and lease development is planned or underway. Based on Hilcorp’s progress to date in pursuing development of the Liberty Unit, and on the information provided in your November 15, 2018 request and supplements, we find that development and production are being diligently pursued in an environmentally responsible manner, and that the national interest condition is satisfied.

B. Justification for SOP (30 CFR 250.174(a))

After a thorough review of the applicable laws and regulations, we have determined that we do possess the authority to act on your request pursuant to 30 CFR 250.174(a). As stated in your request, we agree that HAK, with its partner BP, has made significant progress in advancing the Liberty project. While numerous steps remain, you are now clearly poised to progress through the remaining stages of project development, including constructing and installing production facilities, and finally resulting in production from the Liberty Unit. This is precisely the phase of lease development that is contemplated by the regulations at 30 CFR 250.174(a), and the application of this regulatory provision in this case is appropriate.

C. Reasonable Schedule of Work (30 CFR 250.171(b))

Our regulations require suspension requests to include a reasonable schedule of work to be conducted while any suspension is in effect, leading to the restoration of leaseholding operations (30 CFR 250.171(b)). You have supported your SOP request with a schedule of work outlining the steps HAK intends to follow in the coming years to progress toward and achieve leaseholding operations, in this case production. It appropriately focuses on the types of concrete steps and milestones needed to support exercise of BSEE’s authority within 30 CFR 250.174(a). The milestones in the schedule of work represent the commitments HAK is undertaking to achieve production from the Liberty Unit by June 2023.

While the schedule of work includes one milestone incorporating a government action – receiving from BSEE the required contingent approval of the Oil Spill Response Plan, or OSRP – inclusion of this milestone must not be viewed as a pre-decisional commitment by BSEE to approve the OSRP on a specific timeframe. Rather, we have allowed the inclusion of this milestone in the schedule because we recognize the significance to HAK of that step in project development, and the potential linkages between it and certain subsequent steps within the schedule of work. As the OSRP review currently stands, HAK’s proposed schedule for receiving contingent approval is not unreasonable, though success in reaching this milestone will depend in no small part on HAK’s efforts.

Based on the foregoing considerations and the geographic, temporal, and environmental considerations affecting the Liberty Unit and Arctic offshore development in general, BSEE

finds HAK's proposed schedule of work to be reasonable, subject to the conditions attached to this letter.

Decision

Following a detailed review of the information you have submitted, and based on the analysis presented herein, HAK's request for a suspension of production on the Liberty Unit is hereby approved in accordance with 30 CFR 250.174(a) and Articles IX, XVI, and XVII of the Liberty Unit Agreement. This approval is subject to the conditions set forth in the enclosure.

This Liberty Unit suspension commences effective January 15, 2019, coinciding with the end of the prior suspension. However there remains one Unit lease (Y-1886) with time remaining in its primary term. Lease Y-1886 originally entered the Liberty Unit SOP effective April 21, 2016, with 436 days remaining before the end of its primary term on June 30, 2017. To bring that lease into agreement with the other two in the Liberty Unit, lease Y-1886 will continue to toll its primary term from January 15, 2019 until March 26, 2020, when it will re-join the Liberty Unit SOP. Table 1 summarizes the status of the three Liberty Unit leases relative to this SOP.

TABLE 1: LIBERTY UNIT SOP EFFECTIVE DATES		
Lease No.	End of Prior SOP	Date Lease Joins New SOP
Y-1585	January 15, 2019	January 15, 2019
Y-1650	January 15, 2019	January 15, 2019
Y-1886	January 15, 2019	March 26, 2020

This Liberty Unit SOP will last 1.5 years, ending on July 15, 2020. HAK had requested a 5-year suspension, the maximum the regulations allow. However at this stage of development, with concrete project milestones in the reasonable schedule of work and increasing complexity inherent to the lease development process, BSEE typically manages suspensions closely and issues them for shorter timeframes; we have elected to do so in this case. Our choice to issue a shorter suspension here is based solely on BSEE's desired approach to managing this and any future suspensions for Liberty Unit, and does not reflect negatively on HAK's application. While BSEE cannot pre-determine future SOP decisions, the agency has made a determination herein that HAK's overall schedule of work is reasonable, and our expectation is for HAK to follow it to production on the Liberty Unit. We recognize that subsequent SOPs would be required for HAK to reach that goal. We look forward to working with you on future requests for consecutive SOPs along the development timeline; such requests will be adjudicated largely based on HAK's success in executing the reasonable schedule of work set forth in your application, along with any future modifications BSEE may approve.

BSEE reserves the right to terminate this SOP if we determine the circumstances that justified it no longer exist or that other lease conditions warrant termination (30 CFR 250.170(e)), or if HAK fails to satisfy the conditions of approval.

Closure

If you elect to appeal this decision pursuant to 30 CFR Part 290, a Notice of Appeal must be filed with this office and served on the Associate Solicitor, Division of Mineral Resources, within 60 days of receipt of this letter (see NTL No. 2009-N12). If you have any questions about this decision, please contact me at (907) 334-5300, or via e-mail at kevin.pendergast@bsee.gov.

Sincerely,

A handwritten signature in blue ink, appearing to read "Kevin J. Pendergast", written over a light blue horizontal line.

Kevin J. Pendergast, PE CPG
Regional Supervisor, Field Operations

Enclosure:

Conditions of Approval for the Liberty Unit SOP

Cc:

David Johnston, Regional Supervisor - Leasing and Plans, BOEM

Patricia LaFramboise, Chief - Leasing Section, BOEM

Kurt Barton, Minerals Revenue Specialist, DOI Office of Natural Resources Revenue

Chantal Walsh, Director – Division of Oil and Gas, Alaska Dept. of Natural Resources

Conditions of Approval for the Liberty Unit SOP

1. Within 15 days after the end of each calendar quarter, HAK shall provide a written quarterly report to BSEE, as follows.
 - a. The first report must detail progress made on the RSW since January 15, 2019.
 - b. The reports will describe HAK's progress toward addressing upcoming milestones from the reasonable schedule of work (RSW).
 - c. The reports must include a recap of what was accomplished in the prior quarter.
 - d. Each report must be accompanied by written documentation, reports, or other evidence (e.g., contracts, correspondence, etc.) that clearly demonstrate that HAK is meeting or has met the requirements of the work items set forth in the RSW. This information shall be considered evidence of diligence in pursuing the RSW. "Evidence of diligence" is hereby defined as ordinary course of business documents that demonstrate tangible work that has occurred as HAK executes the items set forth in the RSW. BSEE strongly prefers such documentation and will give less weight to written or verbal assertions about work progress. BSEE recognizes, however, that not every step taken by HAK may be reflected in ordinary course of business documents, and that it might be appropriate, at times, to provide written updates on progress. Such updates may be accepted by BSEE on a case by case basis, but will not be allowed as the primary means of demonstrating diligence.
 - e. BSEE will review the quarterly reports and accompanying evidence for adequacy, and we will notify HAK whether the submittals are satisfactory or if additional information is required.
2. Any modifications to the RSW – either in substance or timing – must be presented to BSEE for review and approval.
3. Absent any approved modifications as referenced in Condition #2, and with the exception of events that BSEE agrees are outside of HAK's control, failure to achieve the milestones in the RSW may result in termination of the SOP. If HAK fails to achieve a milestone as defined in the RSW, as part of its consideration of whether termination is appropriate, BSEE will evaluate the steps HAK undertook to meet the milestone and the reasons why the milestone was not achieved.
4. BSEE will evaluate future SOP requests pursuant to applicable laws and regulations, based on the justifications presented by HAK and the circumstances presented at the time. However, future suspension decisions will be greatly influenced by the level of success HAK demonstrates in following the terms of this SOP and executing the RSW.



Hilcorp Alaska, LLC

John A. Barnes
Asset Team Leader
North Slope Team

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Anchorage, Alaska

JAN 23 2019

REGIONAL SUPERVISOR
FIELD OPERATIONS
BUREAU OF SAFETY AND ENVIRONMENTAL ENFORCEMENT

January 21, 2019

Mark Fesmire, PE, JD
Regional Director, Alaska OCS Region
Bureau of Safety and Environmental Enforcement
3801 Centerpoint Drive, Suite 500
Anchorage, AK 99503-5823

Re: Hilcorp Alaska, LLC's (Operator #3361) Amended Project Milestones for the Liberty Unit
Suspension of Production

Dear Mr. Fesmire,

Hilcorp Alaska, LLC ("Hilcorp Alaska"), as operator of the Liberty Unit, submits the attached revisions to the proposed Liberty Project Milestones to supplement Hilcorp Alaska's pending Suspension of Production request. On November 15, 2018, Hilcorp Alaska submitted a request for a new Suspension of Production ("SOP") pursuant to 30 CFR § 250.174. On December 14, 2018, BSEE indicated that Hilcorp's SOP request was received complete and timely, but requested revisions to the proposed schedule of work. On December 21, 2018, Hilcorp Alaska submitted an amended SOP request addressing BSEE's comments. After the December 21, 2018 amended request, BSEE requested additional revisions to the SOP project milestones. Hilcorp Alaska's November 15 and December 21, 2018 SOP requests are incorporated herein by reference, except the previously submitted project milestones. Hilcorp Alaska's amended Liberty Project Milestones is attached hereto as Exhibit A.

It is in the national interest that the Liberty Project continue to be developed, and ultimately, begin production. Hilcorp Alaska requests that BSEE issue a new SOP for the Liberty Unit (including Leases Y-1585, Y-1650, and Y-1886) to remain in effect for five years to provide sufficient time for Hilcorp Alaska to construct and install production facilities pursuant to 30 CFR 250.174(a). By granting this request for a 5-year SOP, BSEE will be acting in the national interest by supporting Hilcorp Alaska's expeditious and orderly development of the Liberty Unit.

Should you require additional information or have questions regarding this request, please contact John Barnes at (907) 777-8350 or jbarnes@hilcorp.com.

Sincerely,

John A. Barnes
Senior Vice President & North Slope Asset Team Leader

cc: Kevin J. Pendergast, PE CPG, Dpty Reg Director, Reg Supervisor, Field Operations, BSEE
Marc Bond, Assistant General Counsel, Hilcorp Alaska, LLC

Attachment

Exhibit A

Hilcorp Alaska, LLC's Liberty Project Milestones¹

January 2019	Initiate the Platform Verification Review – with BSEE.
July 2019	Receive approval of the OSRP from BSEE contingent on signed purchase agreements for oil spill response vessels and equipment.
October 2019	Approve and sanction project.
December 2019	Submit to BSEE final signed purchase agreements for oil spill response vessels and equipment.
January 2020	Initiate Detail Engineering of Process Facilities and Pipelines. Order long-lead materials for island construction.
October 2020	Order long-lead pipeline materials.
December 2020	Initiate Production Safety System Application (PSSA) with BSEE.
January-February 2021	Begin construction of ice roads and gravel mining operations.
March 2021	Initiate island construction, mobilize gravel hauling equipment. Order long-lead facilities equipment.
January 2022	Begin construction of ice roads in support of pipeline construction.
March 2022	Initiate onshore and offshore pipeline construction.
August 2022	Mobilize production modules and drilling rig/equipment to the island during open water season. Submit Application to Drill (APD) for first set of wells.
December 2022	Begin drilling at Liberty.
June 2023	Begin producing oil.

¹ Liberty Project Milestones, as revised on January 21, 2019.



Hilcorp Alaska, LLC

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North Slope Team

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November 15, 2018

Mark Fesmire, PE, JD
Regional Director, Alaska OCS Region
Bureau of Safety and Environmental Enforcement
3801 Centerpoint Drive, Suite 500
Anchorage, AK 99503-5823



Re: Hilcorp Alaska, LLC's (Operator #3361) Request for Liberty Unit Suspension of Production

Dear Mr. Fesmire,

Hilcorp Alaska, LLC ("Hilcorp Alaska"), as operator of the Liberty Unit, submits this request for a new Suspension of Production ("SOP") pursuant to 30 CFR § 250.174. This SOP request applies to the Liberty Unit, which includes Outer Continental Shelf ("OCS") leases OCS-Y-1650, OCS-Y-1585 and OCS-Y-1886. The current SOP that BSEE approved on December 15, 2017, remains in effect until January 15, 2019, which is 90 calendar days after the Bureau of Ocean Energy Management ("BOEM") issued its decision on Hilcorp Alaska's Development and Production Plan ("DPP"). The new SOP would commence January 16, 2019. Thank you in advance for your time and consideration of this request.

Background

On December 31, 2012, the Bureau of Safety and Environmental Enforcement ("BSEE") issued a two-year Suspension of Production ("2012 SOP") for the Liberty Unit leases Y-1585 and Y-1650 to then-operator BP Exploration (Alaska) Inc. ("BP").¹ As a condition of the SOP, the operator was required to submit a DPP to the BOEM no later than December 31, 2014.

Effective November 18, 2014, Hilcorp Alaska became owner of a fifty percent (50%) working interest in, and operator of, the Liberty Unit. The 2012 SOP was formally assigned to Hilcorp Alaska on December 30, 2014. Hilcorp Alaska filed the required DPP with BOEM on December 30, 2014. On December 31, 2014, BSEE extended the 2012 SOP stating it would "remain in effect until 30 calendar days after BOEM completes its review of and renders a decision on the DPP. The additional 30 days is to allow time for [Hilcorp Alaska] to apply for a new SOP."

On December 4, 2017, Hilcorp Alaska submitted a new SOP request to BSEE because it was apparent BOEM would not be able to complete its review of and render a decision on the DPP prior to the termination of the 2012 SOP extension period. BSEE approved the new SOP ("2017 SOP") on December 15, 2017, which "will remain in effect until 90 calendar days after BOEM renders a decision on the DPP...." The 2017 SOP required Hilcorp Alaska to "submit a new SOP request to BSEE within 30 calendar days after BOEM renders a decision on the DPP." BOEM signed its final Record of Decision ("ROD") for the Liberty DPP on October 17, 2018; the Notice of Availability for the Liberty EIS ROD was posted on October 24, 2018. The 30-day deadline after the date the ROD was signed is November 16, 2018.

¹ BSEE approved the addition of Lease Y-01866 into the Liberty Unit on April 21, 2016. On February 1, 2017, BSEE affirmed including Lease Y-01866 under the existing SOP, with an effective date of April 21, 2016, when the lease was formally added to the unit.

SOP Request

This SOP request is in the national interest and consistent with Outer Continental Shelf Lands Act (“OCSLA”) regulations at 30 CFR §§ 250.168-.177. SOPs have a maximum term of five years, but BSEE may grant consecutive suspensions. 30 CFR § 250.170(a). BSEE is explicitly authorized to grant an SOP to allow a lessee/operator time to “properly develop a lease, including time to construct and install production facilities.” 30 CFR § 250.174(a).

The prior SOPs BSEE granted for the Liberty Unit have allowed Hilcorp Alaska and BP, as the prior operator, time to orderly develop the DPP and for BOEM to complete its review and analysis of the DPP. As the current operator, Hilcorp Alaska has made significant progress advancing the Liberty Project. While many regulatory approvals and decisions are yet to be made, Hilcorp Alaska and BP are poised to advance the Liberty Unit into the development stage. This SOP request would provide Hilcorp Alaska and BP with the necessary regulatory certainty from BSEE to continue moving this project into the development phase, and ultimately, into production. Accordingly, pursuant to 43 U.S.C. §1332(3) and 30 CFR § 250.174(a), Hilcorp Alaska requests that BSEE grant a 5-year SOP for Leases OCS-Y-1650, OCS-Y-1585 and OCS-Y-1886.

Hilcorp Alaska is committed to the expeditious and orderly development of the Liberty Unit. To demonstrate this commitment, Hilcorp Alaska submits the following Liberty Project Milestones for your consideration.

Liberty Project Milestones

January 30, 2019	Initiate the Platform Verification Review – with BSEE, finalize the schedule, resources, and milestones for review and approval of island design by 12/15/19.
July 1, 2019	Receive approval of the OSRP from BSEE contingent on signed purchase agreements for oil spill response vessels and equipment.
October 1, 2019	Receive approval and financial sanction of the project by the lease holders.
December 1, 2019	Receive signed, formal approval of the OSRP with signed purchase agreements with suppliers of oil spill response vessels and equipment.
December 15, 2019	Receive Platform Verification Approval from BSEE.
December 30, 2019	Have contracts in place for long-lead purchase of island sheet pile, cement armoring blocks, and long lead hardware necessary for construction of the island.
July 1, 2020	Have contracts in place to haul and place gravel and construct the island.
January 1, 2021	With winter travel approved by Department of Natural Resources (DNR) of the State of Alaska, begin construction of ice roads and gravel mining operations for construction of the island.
July 1, 2021	Have contracts in place to install the offshore and onshore pipeline from the island to Badami Pipeline.

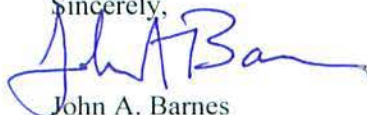
January 1, 2022	With winter travel approved by DNR, begin construction of ice roads and installation of offshore buried pipeline, and VSM supported onshore pipeline and make tie-in to Badami pipeline.
July-October, 2022	During open water season, use barges to mobilize production modules and drilling rig/equipment to the island and begin installing equipment and commissioning same.
August 1, 2022	Submit Application to Drill (APD) for first set of wells.
December 1, 2022	Begin drilling at Liberty.
June 1, 2023	Field startup: Begin producing oil and injecting seawater and produced gas.
June 1, 2025	Have all wells drilled and completed and achieve full production and injection rates.

The development and construction of an offshore island in federal waters in the Beaufort Sea presents unique challenges and time commitments and constraints that are instrumental in developing a reasonable schedule of work and project milestones. While the Liberty Project has made significant progress, there remains some uncertainty regarding regulatory permits, environmental requirements, and potential legal challenges that may impact the Liberty Project Milestones. To illustrate, if Hilcorp Alaska has not yet received the Oil Spill Response Plan from BSEE prior to the July 1, 2019, deadline noted above, all of the subsequent deadlines will be impacted and potentially delayed. Hilcorp Alaska remains committed to continue to provide BSEE quarterly updates. In future quarterly updates, Hilcorp Alaska will include a discussion of successes, challenges, and delays related to the Liberty Project Milestones.

It is in the national interest that the Liberty Project continue to be developed, and ultimately, begin production. Hilcorp Alaska requests that BSEE issue a new SOP for the Liberty Unit (including Leases Y-1585, Y-1650, and Y-1886) to remain in effect for five years to provide sufficient time for Hilcorp Alaska to construct and install production facilities pursuant to 30 CFR 250.174(a). By granting this request for a 5-year SOP, BSEE will be acting in the national interest by supporting Hilcorp Alaska's expeditious and orderly development of the Liberty Unit.

Should you require additional information or have questions regarding this request, please contact Mike Dunn at (907) 777-8382 or mdunn@hilcorp.com.

Sincerely,



John A. Barnes
Senior Vice President & North Slope Asset Team Leader

cc: Kevin J. Pendergast, PE CPG, Dpty Reg Director, Reg Supervisor, Field Operations, BSEE
David Johnston, Reg Supervisor, Leasing and Plans, BOEM Alaska Region
Mike Dunn, North Slope Area Operations Manager, Hilcorp Alaska, LLC
Marc Bond, Assistant General Counsel, Hilcorp Alaska, LLC