

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

DIVISION OF OIL & GAS

SEAN PARNELL, GOVERNOR

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April 13, 2011

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

David Hall
Cook Inlet Energy, LLC
601 W. 5th Avenue, Suite 310
Anchorage, Alaska 99501

Subject: Redoubt Unit – Hemlock PA Final Redetermination Approved

Dear Mr. Hall:

On December 9, 2010, the State of Alaska, Department of Natural Resources, Division of Oil and Gas (Division) received a proposed final redetermination for the Redoubt Unit Hemlock Participating Area (Hemlock PA) from Cook Inlet Energy, LLC (CIE), as the Redoubt Unit (RU) operator. The Division has evaluated CIE's proposed final redetermination for the Hemlock PA and finds it acceptable.

The Division approved formation of the Hemlock PA, effective December 1, 2002. The Hemlock PA approval decision found the RU owners agreed to a final redetermination and an automatic participating area contraction to 160 acres around the development wells on December 1, 2008. In a November 26, 2008 letter, Pacific Energy Resources Ltd (PERL), as the RU operator at the time, requested that the Division postpone the final redetermination. In a February 9, 2009 decision, the Division denied PERL's request. Soon after that decision, in March 2009, PERL filed for bankruptcy.

Through the PERL bankruptcy, CIE acquired 100 percent of the working interest in the leases within the RU and became the RU operator, effective December 1, 2009. At the time CIE acquired the leases, the RU wells were shut-in and the Osprey Platform was in lighthouse mode. The RU wells remained shut-in until after the Division approved a RU Redevelopment Plan on March 16, 2011.

In the Division's April 30, 2010 decision approving the RU 10th Plan of Development (POD), CIE was asked to submit the allocation factors for the Hemlock PA. CIE's proposed allocation factors for the Hemlock PA are based on a 160 acre radius around the perforations that contributed to production within the development wells in the Hemlock PA, specifically the RU #1, RU #2, RU #5A, RU #6, and RU #7 wells. Although initial approval of the Hemlock PA provided for an allocation methodology based on recoverable reserves, the RU Operating Agreement, Supplemental Provision 9, specifies that lease participation will be on an acreage basis, and that lease participation will be the basis for allocating unitized production. Given that the proposed final redetermination is based on allocation factors that are consistent with the RU

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Operating Agreement, and that the allocation factors provide for an equitable division of costs and an equitable allocation of production, the Division accepts the proposed final redetermination for the Hemlock PA, as submitted by CIE.

The Division considered the criteria in 11 AAC 83.303, and finds the proposed allocation factors and final redetermination for the Hemlock PA complies with the provisions of 11 AAC 83.303, 11 AAC 83.351 and 11 AAC 83.371. The Division approves the Hemlock PA Final Redetermination, as described in Attachment A, effective December 1, 2009. In accordance with the decision approving the Hemlock PA, the Hemlock PA is automatically contracted to the boundary encompassing the Final Redetermination as described in Attachment A.

The Division allowed CIE to postpone updating the RU exhibits until after the Hemlock PA final redetermination was approved. At this time, please submit revised unit and PA Exhibits A, B, C, D, E and F to our office by May 15, 2011, along with any amendments to the RU Operating Agreement. If you have questions regarding this decision, please contact Wendy Woolf at 269-8779 or via email at wendy.woolf@alaska.gov.

A 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 Daniel S. Sullivan, 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. If no appeal is filed by the appeal deadline, this decision becomes a final administrative order and decision of the department on the 31st day after issuance. 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.

Sincerely,



Kevin R. Banks
Director

Attachment A: Final Redetermination of the Hemlock Participating Area

Cc: Dan Seamount, AOGCC
Cammy Taylor, DO&G
Jeff Landry, DOL
Terry Peterson, DO&G
Benée Braden, DO&G
Redoubt Unit Team, DO&G
Pirtle Bates, CIE

Attachment A

FINAL REDETERMINATION OF THE HEMLOCK PARTICPATING AREA (Effective December 1, 2009)

<u>Tract #</u>	<u>ADL #</u>	<u>Legal Description</u>	<u>PA Acreage w/in Tract</u>	<u>Allocation Factor</u>
1	378114	Sec. 18: SW $\frac{1}{4}$, W $\frac{1}{2}$ SE $\frac{1}{4}$, SE $\frac{1}{4}$ SE $\frac{1}{4}$; (268 acres)	268 ACRES	23.1633%
2	374002	Sec. 19: N $\frac{1}{2}$, SW $\frac{1}{4}$, W $\frac{1}{2}$ SE $\frac{1}{4}$, NE $\frac{1}{4}$ SE $\frac{1}{4}$; (575 acres) Sec. 30: NW $\frac{1}{4}$ NE $\frac{1}{4}$, N $\frac{1}{2}$ NW $\frac{1}{4}$; (114 acres)	689 ACRES	59.5506%
3	381203	Sec. 24: E $\frac{1}{2}$ E $\frac{1}{2}$; (160 acres) Sec. 25: NE $\frac{1}{4}$ NE $\frac{1}{4}$; (40 acres)	200 ACRES	17.2861%
Totals			1,157 ACRES	100.00%