



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of Natural Resources

Division of Oil & Gas

550 W. 7th Avenue, Suite 1100

Anchorage, Alaska 99501-3560

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September 22, 2017

CERTIFIED MAIL

J. Edward Jones, President
Aurora Gas, LLC
4645 Sweetwater Blvd, Suite 200
Sugar Land, Texas 77479

G. Scott Pfoff, President
Aurora Exploration, LLC
4645 Sweetwater Blvd, Suite 200
Sugar Land, TX 77479

Re: Extension of Existing POD and Denial of Nicolai Creek 44th Plan of Development

Dear Messrs. Jones and Pfoff,

The Department of Natural Resources, Division of Oil and Gas (Division) has extended the existing 42nd Plan of Development (POD) for the Nicolai Creek Unit (NCU) several times in light of the operator Aurora Gas, LLC's (AG) bankruptcy proceedings. The POD is currently scheduled to expire October 1, 2017.

Aurora Exploration, LLC (AE) is in the process of acquiring AG's working interests in NCU, and that sale has been approved by the bankruptcy court subject to Division approval. Based on representations by AE that it would complete the transaction in September, and because the POD would expire soon after, the Division contacted AE and AG to submit the paperwork for AE to ratify the unit agreement and unit operating agreement, for a change of operator to AE, and for AE to submit a POD for consideration prior to the October 1 expiration. AG and AE submitted change of operator paperwork on August 24, 2017. On August 25, 2017, AE provided the Division with a joinder agreement in which it ratified the NCU agreement and unit operating agreement, effective "as of September 1, 2017." AE also submitted a proposed POD on September 5, 2017.

AE has not, however, posted a statewide bond, which is required to be a unit operator. 11 AAC 83.390. Accordingly, the Division is denying the change of operator concurrent with this decision.

Thus we have a POD about to expire and a new POD submitted by a party who is not yet the operator. The Division had accepted the proposed POD from AE with the understanding that the change of operator would be completed prior to the current POD's expiration. It is now evident that this will not happen. The unit agreement and 11 AAC 83.343 require the unit operator to submit the POD. Since AE is not the operator, the proposed POD it submitted on September 5, 2017 is invalid and is hereby denied.

This POD denial is not a reflection on AG or AE. From recent statements in the bankruptcy court, the Division understands that the sale of AG's NCU interests is delayed and potentially uncertain. The Division and the parties tried to address the unit operatorship and POD before the current POD expired. The timing simply did not work out.

Because of the ongoing uncertainty about the NCU sale, the Division has determined that it would be appropriate to extend AG's existing POD until January 1, 2018. If AG will cease operating NCU, it must notify the Division immediately.

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 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 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 questions regarding this decision, contact Ken Diemer with the Division at 907-269-8799 or via email at Ken.Diemer@Alaska.gov.

Sincerely,



Chantal Walsh

Director