

# STATE OF ALASKA

**FRANK H. MURKOWSKI**  
**GOVERNOR**

**DEPARTMENT OF NATURAL RESOURCES**  
**DIVISION OF OIL AND GAS**

550 WEST 7<sup>TH</sup> AVENUE, SUITE 800  
ANCHORAGE, ALASKA 99501-3560  
PHONE: (907) 269-8800  
FAX: (907) 269-8938

CERTIFIED MAIL  
RETURN RECEIPT REQUESTED

November 16, 2006

Bruce D. Webb  
Aurora Gas, LLC  
2500 City West Blvd., Suite 2500  
Houston, Texas 77042

RE: Three Mile Creek Unit Termination

Dear Mr. Webb:

On January 30, 2004, the Alaska Department of Natural Resources (DNR) and Cook Inlet Region, Inc. (CIRI) approved the jointly managed Three Mile Creek Unit (TMCU), operated by Aurora Gas LLC (Aurora). Aurora has since drilled and completed two natural gas wells located on ADL 388233, and built processing facilities and a sales pipeline. Commercial production from the unit began in August 2005. In a letter to the Division of Oil and Gas (Division), dated October 27, 2006, Aurora and Forest Oil Corporation requested that the TMCU be terminated, effective November 1, 2006. The letter also stated Aurora plans to continue producing gas from the lease, and requested that the unit plans of development and operations be administratively approved for lease production and operations.

Consistent with Article 15 of the TMCU Agreement,<sup>1</sup> and 11 AAC 83.336, I approve the termination of the unit, effective November 1, 2006, subject to concurrent approval of the President of CIRI. Following CIRI's concurrence, former unit oil and gas leases may remain in effect consistent with 11 AAC 83.140, 11 AAC 83.336(d), and Article 16 of the TMCU Agreement. ADL 388233 may continue for so long as oil or gas is produced in paying quantities, as defined by 11 AAC 83.105.<sup>2</sup>

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<sup>1</sup> Article 15.4 states that "[t]his Agreement may be terminated by an affirmative vote of the Working Interest Owners and the Commissioner and President's approval."

<sup>2</sup> 11 AAC 83.105 defines production in paying quantities as

"production in such quantity as to enable the operator to realize a profit. For purposes of the habendum clause of a lease, that is, for the purpose of keeping the lease in force after the expiration of the primary term, "paying quantities" means production in quantities sufficient to yield a return in excess of operating costs, even though drilling and equipment costs may never be repaid and the undertaking considered as a whole may ultimately result in a loss."

***"Develop, Conserve, and Enhance Natural Resources for Present and Future Alaskans."***

Aurora shall submit to the Division for approval a lease plan of development for ADL 388233 within 30 days of the date of this letter. Please contact Brian Havelock at (907) 269-8807 if you have any questions about this requirement. Aurora has submitted to the Division for approval a lease plan of operations to continue operations on ADL 388233. In the meantime, Aurora may continue producing gas from ADL 388233, reporting all production to accounting code TM01. Please contact Jim Stouffer at (907) 269-8796 for questions regarding royalty reporting requirements.

This unit termination approval does not release Aurora from its obligations under the TMCU Agreement and the individual leases, including its responsibility for well and facility abandonment and restoration.

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 Michael L. Menge 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@dnr.state.ak.us](mailto:dnr_appeals@dnr.state.ak.us). 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.

Sincerely,

  
For William Van Dyke  
Acting Director

cc: Commissioner Michael Menge  
Keith Sanders, CIRI  
James D. Arlington, Forest Oil Corporation  
John K. Norman, AOGCC  
Jeff Landry, DOL  
Matt Rader, DOG