STATE OF ALASKA
ALASKA OIL AND GAS CONSERVATION COMMISSION
333 West 7th Avenue, Suite 100
Anchorage Alaska 99501

Re: THE APPLICATION OF AURORA GAS, LLC for an order to establish pool rules for development of the Three Mile Creek Beluga Gas Pool, Three Mile Creek Unit, Cook Inlet Basin, Alaska	**)** **)** **)** **)** **)** **)**	**Conservation Order No. 558** **Three Mile Creek Unit** **Three Mile Creek Beluga Gas Pool** **October 7, 2005**

IT APPEARING THAT:

1. By application dated June 27, 2005, and received by the Commission on June 28, 2005, Aurora Gas, LLC ("Aurora") in its capacity as Unit Operator of the Three Mile Creek Unit ("TMCU"), requested an order from the Commission to define a proposed Three Mile Creek Beluga Gas Pool and to prescribe rules governing the development and operation of the pool.
2. Notice of a public hearing was published in the Anchorage Daily News on July 13, 2005.
3. The Commission held a public hearing August 16, 2005 at 9:00 AM at the Commission's offices at 333 West 7th Avenue, Suite 100, Anchorage, Alaska.
4. Aurora submitted additional information to the Commission in support of their application on July 27, September 2, and September 12, 2005.

FINDINGS:

1. Development Area: The area proposed for development is located within the central and southern portion of the TMCU approximately five miles west of the Beluga River Unit on the western side of the Cook Inlet.
2. Landowners, Owners, and Operator: The proposed development area lies within one State of Alaska lease, ADL 388233, and two Cook Inlet Region Incorporated ("CIRI") leases: C-061394 and C-061502. The State of Alaska and CIRI are the respective landowners of these leases. Aurora and Forest Oil Corporation are joint working interest owners of the leases. Aurora is the Operator of the properties within the development area.
3. Pool Identification: The proposed Three Mile Creek Beluga Gas Pool is an accumulation of hydrocarbons common to, and correlating with, the interval between 1,700 feet and 5,531 feet MD in the TMCU No. 1 well.

4. Delineation History and Development Plans: During December 2004, Aurora drilled the TMCU No. 1 discovery well from a surface location in Section 35 to a bottomhole location in Section 34 of T13N, R11W, Seward Meridian ("S.M.") reaching a total measured depth ("MD") of 8,180 feet, 8,011 feet true vertical depth ("TVD"). The well produced gas in potentially commercial quantities from six sand intervals within the Tertiary-aged Beluga Formation ("Beluga") during two separate well tests. Aurora plans to drill two additional delineation wells within Section 34 of T13N, R11W, S.M., and to construct a 5-mile long natural gas transmission pipeline from the TMCU Central Pad to the Lone Creek gathering line. First gas sales are projected in the third quarter of 2005.

5. Stratigraphy/Reservoir Properties: The TMCU contains dry gas within reservoir sandstones of the Beluga. The Three Mile Creek Beluga Gas Pool is comprised of many isolated fluvial channel sandstone reservoirs. The entire reservoir system was deposited in braided and meandering river channels. Based on characteristics seen in nearby wells and in the Beluga River Unit, individual trapping mechanisms are expected to be lenticular and discontinuous over the areal extent of the TMCU and form a complex reservoir system. The system displays a high proportion of lithic fragments and organic debris, and clay content ranging from 18 to 20%. Porosity in the sandstone ranges from 12 to 20% and averages 15%. Permeability ranges from 1 to 20 millidarcies and averages 5 millidarcies. Gas-water contacts have not been observed, but are expected to occur at varying depths because of the discontinuous nature of the reservoir. Obtaining commercial gas flow from this low permeability reservoir system requires commingling of production from multiple intervals within production wells. The composition of the gas within the pool is 99% methane, and it has a specific gravity of 0.565. The original reservoir pressure measured 1,452 psia at 2,933 feet TVD.

6. Structure: The Three Mile Creek structure is a north-south trending anticline bounded by a sealing fault to the west and three-way structural closure to the north, east and south. The closed area on the crest of the structure conforms to the proposed pool area. Aurora proposes a single Three Mile Creek Beluga Pool encompassing all of the currently identified Beluga sandstones of reservoir quality within the field. Geologic structure appears to be the main control over gas accumulations within the pool; however, future drilling may encounter on-structure or off-structure stratigraphic traps that contain gas. The pool will also include any undiscovered new Beluga sandstones that might be found by future wells drilled within the reservoir system.

7. Trap Configuration: Structural elements are believed to be the dominant gas-trapping mechanisms, but the discontinuous nature of the Beluga channel sands suggests stratigraphic trapping of gas may also occur, although stratigraphic trapping has never been confirmed in Cook Inlet Basin. Future drilling may establish whether stratigraphic traps are present on the flanks of the Three Mile Creek structure.

8. In-Place Gas Volume and Recovery Factor: The Three Mile Creek Beluga Gas Pool is currently estimated to contain 50 to 60 billion cubic feet of gas in-place. Approximately 90 percent of that gas is expected to be recoverable.

9. Reservoir Management: Aurora requests 60-acre wellbore spacing to maximize resource recovery from the complex, low permeability Beluga sandstones. Aurora plans to commingle production from separate Beluga sandstones to offset low flow rates from individual sandstones. To ensure optimal resource recovery, Aurora proposes to limit commingled producing intervals to within 2,750 vertical feet within the same wellbore.

10. Reservoir Surveillance: Aurora proposes to conduct a single pressure survey on a selected, key well at least once per year. Bottomhole pressure may be computed by extrapolating surface measurements to bottomhole conditions. All reservoir pressure measurements will be referenced to a datum of 2,933 feet TVD. Flow contribution and detection of cross flow within the pool will be accomplished through the use of production logs.

11. Wellbore Construction: Aurora proposes that wells drilled in the Three Mile Creek Beluga Pool have a surface casing point between 600 feet TVD and 1,000 feet TVD. Aurora has requested the Commission not establish requirements for surface or subsurface safety valves for wells drilled to the pool.

CONCLUSIONS:

1. Pool Rules for the development of the Three Mile Creek Beluga Gas Pool within the TMCU are appropriate at this time.

2. Reservoir delivery and well operability will be the initial focus of TMCU development.

3. Closely spaced wells will be required to effectively drain this complex, low permeability sandstone reservoir system.

4. Production from individual Beluga sandstones will need to be commingled to compensate for poor inter-well reservoir continuity and anticipated low individual sandstone productivity.

5. Regular monitoring of reservoir performance will ensure proper management of the pool and ensure greater ultimate recovery.

6. Setting surface casing between 600 feet TVD and 1,000 feet TVD will provide adequate well control. In order to isolate potential shallow gas-bearing zones and to protect freshwater, surface and production casing strings will need to be cemented to surface.

NOW, THEREFORE, IT IS ORDERED:

The following rules, in addition to the statewide requirements under 20 AAC 25 (to the extent not otherwise superseded by these rules), apply to development operations for the Three Mile Creek Beluga Gas Pool within the following affected area:

Seward Meridian

Township-Range, SM	Sections
T12N, R11W	Section 03: W/2 of NW/4, NE/4 of NW/4 Section 04: NE/4, N/2 of SE/4
T13N, R11W	Section 26: SW/4 of SW/4 Section 27: S/2 of NE/4, SE/4, E/2 of SW/4 Section 34: E/2 of NW/4, E/2 of SW/4, E/2 Section 35: W/2 of W/2, W/2 of E/2 of SW/4

Rule 1 Pool Definition

The Three Mile Creek Beluga Gas Pool is defined as gas-bearing sandstone intervals common to, and correlating with, the intervals between the measured depths of 1,700 feet and 5,531 feet in the Three Mile Creek No. 1 exploration well.

Rule 2 Well Spacing

Spacing units shall be a minimum of 60 acres. The Three Mile Creek Beluga Gas Pool shall not be opened in any well closer than 1,500 feet to any external boundary where ownership or landownership changes.

Rule 3 Wellbore Construction Practices

a. Surface casing point shall be set between 600 feet TVD and 1,000 feet TVD, and cemented to surface. Production casing shall also be cemented to surface.

b. Wellbores shall not be perforated for production through intervals exceeding 2,750 vertical feet.

Rule 4 Annual Reservoir Review

An annual report must be filed by the operator on or before April 1 of each year. The report shall present an overview of reservoir performance, future development and reservoir depletion plans, and surveillance information for the prior calendar year, including:

a. Reservoir pressure map at a datum of 2,933 feet TVD;
b. Summary and analysis of reservoir pressure surveys within the pool;
c. Results and, where appropriate, analysis of production, temperature and tracer surveys, observation well surveys, and any other special monitoring surveys;

d. Estimates of yearly production subdivided by major contributing zones;
e. Progress of plans and tests to expand the productive limits of the pool.

Rule 5 Administrative Action

Unless notice and public hearing are otherwise required, the Commission may administratively waive the requirements of any rule stated above or administratively amend any rule as long as the change does not promote waste or jeopardize correlative rights, is based upon sound engineering and geoscience principles, and will not result in an increased risk of fluid movement into freshwater.

DONE at Anchorage, Alaska and dated October 7, 2005.

John K. Norman, Chairman
Alaska Oil and Gas Conservation Commission

Daniel T. Seamount, Jr., Commissioner
Alaska Oil and Gas Conservation Commission

Cathy P. Foerster, Commissioner
Alaska Oil and Gas Conservation Commission

AS 31.05.080 provides that within 20 days after receipt of written notice of the entry of an order, a person affected by it may file with the Commission an application for rehearing. A request for rehearing must be received by 4:30 PM on the 23rd day following the date of the order, or next working day if a holiday or weekend, to be timely filed. The Commission shall grant or refuse the application in whole or in part within 10 days. The Commission can refuse an application by not acting on it within the 10-day period. An affected person has 30 days from the date the Commission refuses the application or mails (or otherwise distributes) an order upon rehearing, both being the final order of the Commission, to appeal the decision to Superior Court. Where a request for rehearing is denied by nonaction of the Commission, the 30 day period for appeal to Superior Court runs from the date on which the request is deemed denied (i.e., 10th day after the application for rehearing was filed).