

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

Re: THE APPLICATION OF Marathon Oil)
Company for an order granting an exception) Conservation Order No. 567
to the spacing requirements of 20 AAC)
25.055 (a)(2), allowing drilling, completion,) Ninilchik State No. 2
testing and regular production of a gas well) Delineation Gas Well
drilled within 1500 feet of a boundary)
between two owner's properties.) June 7, 2006

IT APPEARING THAT:

1. Marathon Oil Company ("MOC") by letter dated April 19, 2006 and received by the Alaska Oil and Gas Conservation Commission ("Commission") on April 21, 2006 has requested the Commission to issue an order in conformance with 20 AAC 25.055 (a)(2) allowing testing and regular production of the Ninilchik State ("N.S.") No. 2 gas delineation well within 1500 feet of a boundary between two owners' properties.
2. The Commission published notice of opportunity for public hearing in the Peninsula Clarion on May 9, and April 26, 2006 and the Alaska Journal of Commerce on May 7, and May 14, 2006 pursuant to 20 AAC 25.540.
3. No protests to the application or requests for hearing were received.

FINDINGS:

1. The N.S. No. 2 well is proposed as a deviated well with a surface location 1134 feet from the West Line and 983 feet from the North Line of Section 34 T1N, R13W, Seward Meridian (S.M.) and a bottom hole location 474 feet from the West Line and 2314 feet from the South Line of Section 33, T1N, R13W S.M.
2. The N.S. No. 2 well is designed to delineate the down-dip extent of producing gas reservoirs within the Susan Dionne Participating Area of the Ninilchik Unit.
3. The N.S. No. 2 well will target gas reservoirs in the Tyonek Formation.
4. The portion of this deviated well that is designed to encounter Tyonek Formation gas reservoirs will cross the boundary between the Susan Dionne Participating Area of the Ninilchik Unit and State of Alaska oil and gas lease ADL 389180.

5. State of Alaska oil and gas lease ADL 389180 is within the Ninilchik Unit.
6. The projected Tyonek Formation gas reservoirs the N.S. No. 2 well is designed to penetrate are constrained by abundant well and seismic data and are anticipated to be encountered at a distance greater than 3000 feet from the closest well producing from an equivalent interval.
7. The N.S. No. 2 well will be the only producing well in Section 33 T1N, R13W S. M..
8. MOC sent notice of the application for exception to the well spacing requirements of 20 AAC 25.055 for the N.S. No.2 well to all owners, landowners and operators within 3000 feet of the anticipated gas bearing section of the N.S. No. 2 well.
9. An exception to the well spacing provisions of 20 AAC 25.055 (a)(2) is necessary for the drilling, completion, testing and regular production of gas in the N.S. No. 2 well.
10. The Commission received no objections or protests from the public notice regarding the N.S. No. 2 well or the notification by MOC of all known owners, landowners and operators within 3,000 feet of the N.S. No. 2 well.

CONCLUSIONS:

1. An exception to the well spacing requirements of 20 AAC 25.055 (a)(2) is necessary to allow drilling, completion, and testing of gas in the N.S. No. 2 gas delineation well.
2. Prior to regular production of gas from the N.S. No. 2 well, the interests of the persons owning the drilling rights in and the right to share in the production from the section within which the well is located must be pooled under AS 32.05.100
3. Granting a spacing exception to allow drilling, completion, and testing of gas in the N.S. No. 2 gas delineation well will not result in waste or jeopardize the correlative rights of adjoining or nearby owners.

NOW, THEREFORE, IT IS ORDERED:

MOC's application for exception to the spacing requirements of 20 AAC 25.055, for the purpose of drilling, completion, testing and regular production of gas in the N.S. No. 2 gas delineation well is granted.

DONE at Anchorage, Alaska and dated June 7, 2006.

John K. Norman, Chairman
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).