

STATE OF ALASKA

ALASKA OIL AND GAS CONSERVATION COMMISSION

SARAH PALIN, GOVERNOR

333 W 7th AVENUE, SUITE 100
ANCHORAGE, ALASKA 99501-3539
PHONE (907) 279-1433
FAX (907) 276-7542

ADMINISTRATIVE APPROVAL SIO 4.001

Mr. Paul M. Winslow
Chevron North America Exploration and Production
P.O. Box 196247
Anchorage, AK 99519-6247

RE: Storage Injection into Sterling 45-0 Sand

Dear Mr. Winslow:

In accordance with Rules 1 and 8 of Storage Injection Order (SIO) 4.000, the Alaska Oil and Gas Conservation Commission (AOGCC or Commission) hereby grants Chevron North America Exploration and Production (Chevron)'s request for approval to commence storage injection into the Sterling 45-0 sand of the Pretty Creek Gas Storage Facility (PCGSF). Gas storage and retrieval using the Sterling 45-0 sand must be reauthorized on a yearly basis, until the Commission directs otherwise. Likewise, Chevron shall not commingle gas storage-retrieval operations in the Sterling 45-0 sand with the Beluga 51-5 sand until the Commission is satisfied that commingling will not promote waste.

With an effective date of September 12, 2005, SIO 4 authorized Chevron to inject gas into Pretty Creek Unit (PCU) Well 4 for storage during periods of excess gas supply and to produce gas during periods of increased demand. Initial gas storage injection was restricted to the Beluga Formation 51-5 sand. Rule 1 of SIO 4 includes the provision for expanding, with Commission approval, storage injection into the Sterling Formation 45-0 sand after completing one year of storage injection and retrieval operations in PCU 4. To date, Chevron has successfully completed 2 gas injection-retrieval cycles in PCU 4.

Information provided with the application for administrative approval, including gas material balance calculations and accompanying graphical analysis of the reservoir's performance indicate storage-retrieval operations are being conducted in a manner that assures the confinement of injected gas. Mechanical integrity and confinement have been demonstrated throughout the storage injection-retrieval operation. A passing mechanical integrity test of the tubing-casing annulus in PCU 4 was witnessed by a Commission Inspector on March 29, 2008. Monthly reports of wellhead pressures provided by Chevron as required by Rule 4 of SIO 4 show no anomalous conditions that would indicate the loss of well mechanical integrity. Reservoir performance data reported by Chevron indicate gas is confined to the injection interval.

Chevron indicates that the Beluga 51-5 sand is rapidly approaching its individual storage capacity. Allowing gas injection into the Sterling 45-0 sand would significantly increase the

overall storage capacity for the PCGSF and will further enhance gas availability during peak demand periods.

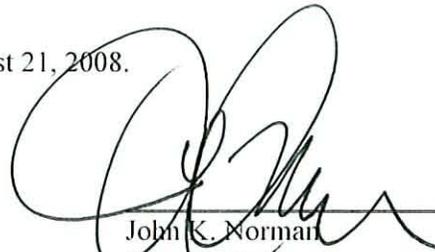
Findings in SIO 4 raise concerns about loss of injected gas due to water encroachment in the Sterling 45-0 sand should storage injection be allowed. The Commission believes operating the Sterling and Beluga sands independently for at least the first year's storage injection-retrieval cycle is a prudent action that allows Chevron to test the ability of the Sterling 45-0 sand to operate effectively and efficiently. Annual reauthorizations of the storage injection into the Sterling 45-0 sand will also provide the Commission the oversight to assure there is no gas waste due to the potential problems associated with gas storage in water-saturated sand. The Commission notes that PCU 4 is completed with separate sliding sleeves across the Sterling 45-0 sand and Beluga 51-5 sand to allow for the independent operation of the two sands.

In correspondence dated August 1, 2008 Chevron clarified that the Sterling 45-0 and Beluga 51-5 sands would likely be isolated for the first and possibly second storage injection-retrieval cycles. Future commingling of the sands would be an option. The Commission believes the Sterling 45-0 and Beluga 51-5 sands should be operated independently for at least the first and second injection-retrieval cycles, allowing the performance of the Sterling 45-0 sand to be assessed.

Please note that this approval establishes a new storage injection pool named Pretty Creek Sterling Gas Storage.

DONE at Anchorage, Alaska and dated August 21, 2008.


Cathy P. Foerster
Commissioner


John K. Norman
Commissioner



RECONSIDERATION AND APPEAL NOTICE

As provided in AS 31.05.080(a), within 20 days after written notice of the entry of this order or decision, or such further time as the Commission grants for good cause shown, a person affected by it may file with the Commission an application for reconsideration of the matter determined by it. If the notice was mailed, then the period of time shall be 23 days. An application for reconsideration must set out the respect in which the order or decision is believed to be erroneous.

The Commission shall grant or refuse the application for reconsideration in whole or in part within 10 days after it is filed. Failure to act on it within 10-days is a denial of reconsideration. If the Commission denies reconsideration, upon denial, this order or decision and the denial of reconsideration are FINAL and may be appealed to superior court. The appeal MUST be filed within 33 days after the date on which the Commission mails, OR 30 days if the Commission otherwise distributes, the order or decision denying reconsideration, UNLESS the denial is by inaction, in which case the appeal MUST be filed within 40 days after the date on which the application for reconsideration was filed.

If the Commission grants an application for reconsideration, this order or decision does not become final. Rather, the order or decision on reconsideration will be the FINAL order or decision of the Commission, and it may be appealed to superior court. That appeal MUST be filed within 33 days after the date on which the Commission mails, OR 30 days if the Commission otherwise distributes, the order or decision on reconsideration. As provided in AS 31.05.080(b), "[t]he questions reviewed on appeal are limited to the questions presented to the Commission by the application for reconsideration."

In computing a period of time above, the date of the event or default after which the designated period begins to run is not included in the period; the last day of the period is included, unless it falls on a weekend or state holiday, in which event the period runs until 5:00 p.m. on the next day that does not fall on a weekend or state holiday.