

BEFORE THE STATE OIL AND GAS BOARD OF ALABAMA

PURSUANT TO A DECISION RENDERED DURING A
REGULAR SESSION OF THE STATE OIL AND GAS
BOARD OF ALABAMA ON AUGUST 28, 2008, THE
FOLLOWING ORDER IS HEREBY PROMULGATED:

IN RE: ORDER NO. 2008-125

DOCKET NO. 7-29-08-7A

THIS CAUSE came on for hearing before the State Oil and Gas Board of Alabama on the petition of FOUR STAR OIL & GAS COMPANY (hereinafter referred to as "Four Star"), a subsidiary of Chevron U.S.A. Inc., a foreign corporation authorized to do and doing business in the State of Alabama, requesting the State Oil and Gas Board (hereinafter referred to as "Board") to enter an order granting an extension of the time to comply with the requirement of Board Order 2007-115 and extending the temporarily abandoned status of the Hatter's Pond Unit 34-10 #1 ST Well, Permit No. 2735-B-GI-93-1, located in the Hatter's Pond Unit, Mobile County, Alabama, for six months. The Board, after receiving and considering the testimony of the witnesses and other evidence, and hearing argument of counsel, finds that due and proper notice of the hearing of said cause has been given in the manner and form and for the time required by law and the rules and regulations of the Board, that proofs of publication of notices are on file with the Board, and that the Board has full jurisdiction of this cause, and being fully advised in the premises finds:

I.

That Four Star is the Operator of the Hatter's Pond Unit 34-10 #1 ST Well, Permit No. 2735-B-GI-93-1, located in Section 34, Township 1 South, Range 1 West, Mobile County, Alabama, in the Hatter's Pond Unit.

II.

That said well was originally permitted in May 1979, and assigned Permit No. 2735. The well was drilled as a straight hole to a total depth of 18,500. In September 1979, the well was completed in the Smackover Formation as a gas condensate well with a significant H₂S gas content. The well last produced in April 1986, and was temporarily abandoned until it was converted to gas injection well in Nov 1993 and assigned P# 2735-GI-93-1. Two months later in January 1994, said well was plugged back due to a casing collapse above the perforations in the Smackover Formation. In May 1995, the well was permitted as a sidetrack and gas injection well, and assigned Permit No. 2735-B-GI-93-1. The well was sidetracked to a total depth of

18,550 feet, perforated in the Smackover Formation, and utilized as a gas injection well through January 1996. Since August 1998, the Board has extended the well's temporarily abandoned status and Class II UIC permit by numerous orders.

III.

That in July 2007, Four Star filed a petition bearing Docket No. 5-16-07-8 requesting an extension of the temporarily abandoned status for the referenced well, but did not request an extension of the Class II UIC permit. The Board, in Order 2007-115, issued on August 3, 2007, granted an extension of the temporarily abandoned status for the referenced well for a period of one (1) year from the date of said Order, or until the next regularly scheduled meeting of the Board following the expiration of said one (1) year extension. Said Order was "granted with the stipulation that by July 2008 Four Star will commence operations to sidetrack the well to establish production or commence operations to plug and abandon the well."

IV.

That since the issuance of Board Order No. 2007-115, the UIC permit for the Hatter's Pond Unit 34-10 #1 ST Well has been cancelled and said well has been assigned Permit No. 2735-B.

IV.

That Four Star avers that because of delays with reservoir modeling, which have recently been resolved, Four Star needs additional time to evaluate the future utility of the subject well. Four Star, therefore, requests an additional six-month extension of the temporarily abandoned status.

V.

That an expert witness for Four Star testified and presented evidence that Four Star had recently drilled a new well in close proximity of the Hatter's Pond Unit 34-10 #1 ST Well (Permit No. 2735-B), namely, the Hatter's Pond Unit 3-3 #2 Well (Permit No. 15611). The witness further testified that the future utility of the Hatter's Pond Unit 34-10 #1 ST Well (Permit No. 2735-B) was dependent on the performance of the new well, which Four Star was in the process of completing. The witness testified that Four Star had mistakenly anticipated that it would have sufficient information from the new well by this time to know whether or not it would be sufficient to drain

the reserves in that area of the Hatter's Pond Unit. The witness further testified that water and mud associated with recent storm activity had delayed Four Star's efforts to complete the new well. The witness testified that Four Star was in the process of laying flow lines from the wellhead to the Hatter's Pond Plant, and anticipated bringing the well onto the plant sometime in September 2008.

VI.

That an expert witness for Four Star testified that the Hatter's Pond Unit 34-10 #1 ST Well (Permit No. 2735-B) has future utility as a sidetrack in the event that the Hatter's Pond Unit 3-3 #2 Well (Permit No. 15611) proves to be nonproductive or insufficient to drain the reserves in that area of the Hatter's Pond Unit. The witness further testified that it would be premature and imprudent to permanently plug and abandoned said well, since it has future utility and would cost approximately \$7 million dollars to drill another well like it. The witness testified that Four Star's recent drilling activity near said well shows that Four Star is committed to developing the Hatter's Pond Field and utilizing said well.

VII.

That an expert witness for Four Star testified and presented evidence that the Hatter's Pond Unit 34-10 #1 ST Well (Permit No. 2735-B) is in a safe condition, both the wellhead at the surface and the wellbore downhole. The witness further testified that the wellbore is in a temporarily abandoned condition, having been substantially plugged back to a depth of 12,890 feet, and there is zero pressure on all three casing strings at the surface.

VIII.

That an expert witness for Four Star testified that said well also has future utility as a standby or alternate well in the event that the Hatter's Pond Unit 3-3 #2 Well (Permit No. 15611) performs well but later encounters wellbore problems. The witness further testified that the reliability of wellbores has been an issue in the Hatter's Pond Field because wellbore conditions deteriorate due to the corrosive nature of the oil and gas produced, the depth, the heat, H₂S, CO₂, the movement of salt, and casing collapse. The witness testified that even if the Hatter's Pond Unit 3-3 #2 Well (Permit No. 15611) performs well, Four Star proposes that the Hatter's Pond Unit 34-

10 #1 ST Well (Permit No. 2735-B) remain in temporarily abandoned status in case the Hatter's Pond Unit 3-3 #2 Well (Permit No. 15611) should sustain wellbore problems.

FINDINGS OF FACT

IX.

That the evidence indicates that the Hatter's Pond Unit 34-10 #1 ST Well (Permit No. 2735-B) has future utility in the recovery of the remaining hydrocarbons in the Hatter's Pond Field and Unit, and, therefore, the extension of the temporarily abandoned status is due to be approved.

X.

That granting Four Star's request would allow Four Star to complete its evaluation of the future utility of said well so that a decision to be made to either sidetrack said well or commence plugging operations.

CONCLUSIONS OF LAW

XI.

That granting this Petition will prevent waste, avoid the drilling of unnecessary wells, and protect correlative rights.

Based on the Findings of Fact and Conclusions of Law set forth hereinabove, IT IS THEREFORE, HEREBY ORDERED, ADJUDGED AND DECREED by the State Oil and Gas Board of Alabama that the Petition be GRANTED, and the temporarily abandoned status of the Hatter's Pond Unit 34-10 #1 ST Well, Permit No. 2735-B, located in the Hatter's Pond Unit, Mobile County, Alabama, is hereby by extended for a period of six (6) months from the date of this Order, or until the next regularly scheduled meeting of the Board following the expiration of the six (6) month period.

ORDERED this 28th day of August, 2008.

STATE OIL AND GAS BOARD OF ALABAMA

BY: James H. Griggs
James H. Griggs, Chairman

BY: Charles E. Pearson
Charles E. Pearson, Member

BY: Rebecca W. Pritchett
Rebecca Wright Pritchett, Member

ATTEST:

Berry H. (Nick) Tew, Jr.
Berry H. (Nick) Tew, Jr., Secretary