MINUTE ITEM

This Calendar Item No. 22 was approved as Minute Item No. 22 by the State Lands Commission by a vote of 3 to 0 at its 2/22/79 meeting.

CALENDAR ITEM

22

2/79
W 40151
Priddy

AGREEMENT AND AMENDMENT TO OIL AND GAS LEASE
AMONG THE BEVERLY HILLS UNIFIED SCHOOL DISTRICT,
THE BEVERLY HILLS OIL COMPANY AND THE CITY OF BEVERLY HILLS

A request has been received from the Beverly Hills Unified School District for approval of an Agreement and Amendment to an oil and gas lease among the School District (lessor), the Beverly Hills Oil Company (lessee), and the City of Beverly Hills (lead agency).

The lease was issued June 2, 1937, by competitive public bid pursuant to the provisions of Section 7052 of the P.R.C. The lease was awarded on the basis of a cash bonus and a royalty rate of 50%. Allen Gutberson, who offered a bonus of $50,000 was the successful bidder. The agreement is a subsurface lease covering approximately 26 acres of the District's property in Beverly Hills. One acre of the leased area has been specifically set aside as a drillsite. Current royalty to the District is aproximately $1,000 per month.

The lease was amended on January 26, 1950, to provide for slant drilling into adjoining properties. The amendment provided for 5% royalty on production from the wells. This amendment is no longer in effect as the drilling requirements were not satisfied. The lease was amended again on August 2, 1960, to provide the lessee with additional storage space. The lease was then assigned to the Beverly Hills Oil Company on December 29, 1960.

In 1976 the Beverly Hills Oil Company requested a modification of the lease to permit slant drilling into adjoining lands. The School District agreed to permit such drilling but requested that the drillsite be moved to a different area of the leasehold to provide for more efficient use of the adjacent active oil field. In order to move the drillsite, the 3 existing wells would have to be abandoned and then redrilled from the new site.

Since the School District requested the relocation of the drillsite, the royalty percentage covering oil and gas produced from the new drillsite should be modified to cover some of the expenses incurred in redrilling the 3 original wells. The royalty would be $5,000 per month or one-half of the 50% royalty provided for in the lease, whichever was greater, until the lessee has recovered 10% of the cost of preparing the new drillsite and 10% of the cost of drilling and completing

A 43

S 22

CALENDAR PAGE 141
MINUTE PAGE 335

3 commercial wells in the leased lands. The costs of noncommercial wells were not included in this provision. Upon recovery of approved costs, the 50% royalty would be restored and thereafter payable.

Additionally, the proposed lease amendment provided for a 5% overriding royalty on oil and gas produced from wells drilled from the leased lands into outside lands. In addition to the 5% royalty, the lessee would pay a compensatory royalty on oil and gas produced from outside lands of 1/3 of 8% for each of the 3 original wells that the lessee did not redrill into the leased lands and complete as commercial wells.

This amendment was approved by the Commission on September 30, 1976. However, this amendment was to become effective only when certain conditions were complied with. Because the required conditions were not complied with, the amendment never became effective and has terminated.

The lessee has requested that the period for compliance with the 1976 amendment be extended and to proceed with development along the lines of this amendment. The lessor is willing to extend the amendment if the City of Beverly Hills will assist the lessor in monitoring the oil operations. The City has agreed to undertake the responsibility to assist the lessor in assuring that the proposed development will be operated in a manner that will be most compatible with the nearby residential, commercial and educational uses. The proposed amendment contain substantially the same provisions as the 1976 amendment except that the new amendment include provisions for mitigation of environmental problems.

Royalty payable for the first 36 months shall be the royalty payable under the 1976 agreement. Royalty payable beginning with the 37th month will be either the royalty payable under the 1976 amendment, the highest posted price in the field multiplied by 1,500 barrels or the highest price per barrel for oil subject to the same marketing regulations in the field multiplied by 1,500 barrels, whichever is highest. As annual compensation to the City, the lessee shall pay the City either $1,200 per year or a royalty share of 5% on oil and gas produced from wells drilled from the leased lands into outside lands, whichever is greater.

The staff has made a geologic and engineering evaluation of the project and has determined that the project is economically feasible and in the best interests of the School District.

A legal review was made of the proposed amendment and it was determined that the amendment conforms with the applicable statutes and the rules and regulations of the Commission.

The City of Beverly Hills acting as lead agency has prepared an EIR covering the project. The EIR was circulated through the State Clearinghouse as required by the State Guidelines (14 Cal. Adm. Code). The School District certified on November 9, 1978, that the EIR was prepared for this project pursuant to the provisions of CEQA and that the project will not have a significant effect on the environment. The EIR has been filed with the State Lands Commission and the County Clerk for Los Angeles County, wherein the project to be undertaken.

EXHIBIT: A. Location Map.

IT IS RECOMMENDED THAT THE COMMISSION:

1. DETERMINE THAT AN EIR HAS BEEN PREPARED FOR THIS PROJECT BY THE CITY OF BEVERLY HILLS ON NOVEMBER 9, 1978.

2. CERTIFY THAT THE COMMISSION HAS REVIEWED AND CONSIDERED THE INFORMATION CONTAINED IN THE EIR.

3. DETERMINE THAT THE PROJECT WILL NOT HAVE A SIGNIFICANT EFFECT ON THE ENVIRONMENT.

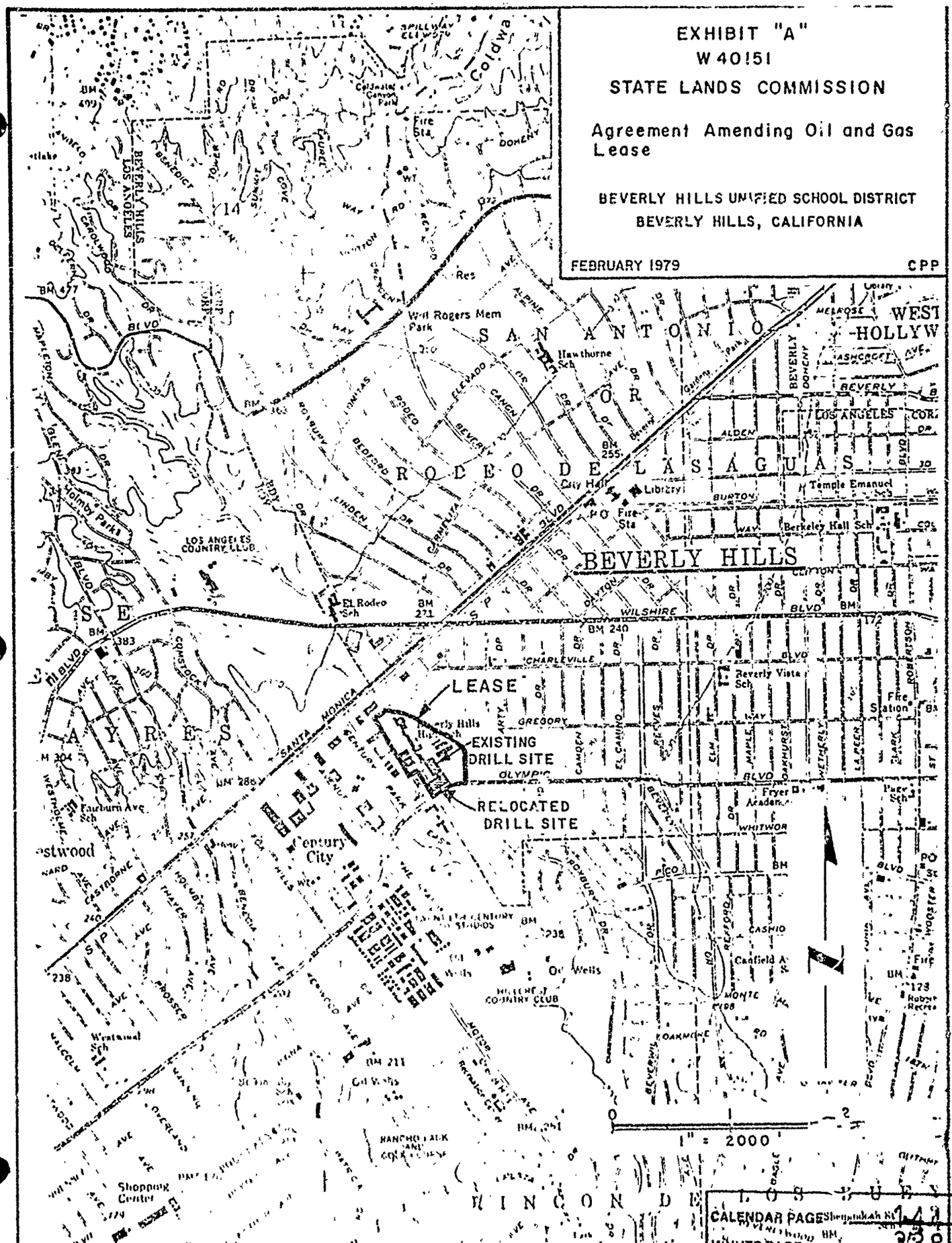
4. AUTHORIZE THE EXECUTIVE OFFICER TO APPROVE THE AGREEMENT AND AMENDMENT TO OIL AND GAS LEASE DATED NOVEMBER 8, 1978, AMONG THE BEVERLY HILLS UNIFIED SCHOOL DISTRICT, AS LESSOR, BEVERLY HILLS OIL COMPANY, AS LESSEE, AND THE CITY OF BEVERLY HILLS (LEAD AGENCY) ON FILE IN THE OFFICE OF THE COMMISSION AND BY REFERENCE MADE A PART HEREOF

EXHIBIT "A"
W 40151
STATE LANDS COMMISSION

Agreement Amending Oil and Gas Lease

BEVERLY HILLS UNIFIED SCHOOL DISTRICT
BEVERLY HILLS, CALIFORNIA

FEBRUARY 1979 CPP



CALENDAR PAGE 141
MINUTE PAGE 338
KL 2-1979