MINUTE ITEM

This Calendar Item No. 17
was approved as Minute Item
No. 17 by the State Lands
Commission by a vote of 3
to 0 at its 7-24-80
meeting.

MINUTE ITEM

7-24-80
PRC 987
Willard
Pinson

17. AUTHORIZATION OF LITIGATION, STATE OIL AND GAS LEASE PRC 987.1.

During consideration of Calendar Item 17 attached, Donald J. Everitts, Chief, Division of Energy and Mineral Resources Development, stated the staff had just received the lessee's consultant's report and did not have adequate time to review it. The report recommended that the lessee:

1. Install a high volume subsurface electrical pump and pump the well at high rates theorizing that more oil could be recovered if they can increase the total volume, water and oil, produced from the well; or

2. Abandon the existing well and redrill to a location directly under the lease.

Mr. Everitts stated if the lessee chooses #2 above, it will no longer be a State well and it would not therefore fall under the jurisdiction of the State Lands Commission.

Mr. Hartley Pinson, Staff Counsel, stated that the staff has accepted portions of the report but there are technical issues remaining which require additional information. Staff has requested a meeting with lessee for the following week. Mr. Pinson also stated that staff is recommending the subject litigation because it was not until this recommendation had been brought before the Commission that progress began.

R. C. Hight, Chief Counsel, stated that implicit in the Commission's authorization would be that staff would work diligently with the lessee and that suit would not be filed immediately with the hope negotiations would be successful.

Mr. Stephen Meyer, representing Ocean Front Oil Company, appeared and urged that the Commission reject the staff's recommendation or defer acting on the matter for another 30-60 days. Mr. Meyer stated that adopting the staff's recommendation would be inconsistent with the settlement negotiations.

After further discussions, the Commission concluded that the staff recommendation was appropriate but that the staff will notify the Chairman before suit is filed.

Upon motion duly made and carried, the following resolution was approved by a vote of 2-0.

THE COMMISSION AUTHORIZES STAFF COUNSEL AND/OR THE OFFICE OF THE ATTORNEY GENERAL TO TAKE ALL STEPS NECESSARY INCLUDING LITIGATION, TO ENFORCE THE PROVISIONS OF STATE OIL AND GAS LEASE NO. PRC 987.1 ON THE CONDITION THAT PRIOR TO FILING SUIT, THE CHAIRMAN SHALL BE NOTIFIED.

CALENDAR ITEM

17.

7/80
PRC 987
Willard
Pinson

AUTHORIZATION OF LITIGATION,
STATE OIL AND GAS LEASE PRC 987.1

State Oil and Gas Lease PRC 987.1 is a one-well lease owned and operated by Ocean Front Oil Company. The well was drilled in 1927 on privately-owned land trespassing into State lands. After court action (State v. Ocean Front Oil Company, Orange County Superior Court Case No. 454667) and payment of a $5000 fine, the State granted Easement 289 to the operator in 1934. The easement was subsequently renewed in 1954 as State Oil and Gas lease PRC 987.1.

The royalty formula is price sensitive. The royalty rate from 1959 to the latter part of 1973 was 19% to 23% when the price of oil was between $2 and $3 per barrel. With the recent increase in the price of oil, the royalty rate has increased to 80% - 100%.

In 1972, the 91 Main Zone Unit was formed for the purpose of increasing oil recovery through secondary recovery operations. At that time the State renegotiated royalty rates with well owners that joined in the project. However, the lessee under Lease PRC 987.1 elected not to participate in the project.

The well was initially produced in 1933 at 285 BOPD. By 1956, production had declined to 25 BOPD. Currently, the well produces less than 1 BOPD and approximately 1000 barrels of water per day. The staff does not believe that the well is capable of producing oil and gas in paying quantities as required by the lease, and the lessee has not contended to the contrary.

Staff has reviewed the status of the well and has determined that the well is in a hazardous condition and is not being operated within good engineering practices. The casing and well head equipment should be pressure tested to determine if any damage has occurred due to wear or corrosion. A subsurface safety valve and tubing packer should be installed to prevent uncontrolled flow of oil and salt water from the well in the event of damage to the well head. Additionally, production and storage facilities require maintenance and repair.

A 73

S 36

CALENDAR PAGE 061
MINUTE PAGE 1588

The lessee has requested that the royalty rate be renegotiated at a lower rate and since September 1973, has paid under protest oil royalties in the amount of $47,422. The staff has reviewed the request and has met with the lessee on several occasions during the past one and one-half years to resolve not only the protested royalty payments, but the removal of hazardous conditions of the well and production and storage facilities. A compromise agreement for resolution of these problems was reached on January 31, 1980, as follows:

1. Within 30 days the lessee would report to the State its decision whether or not to redrill the well on the subject lease so as to no longer be slant-drilled into State land.

2. Within 30 days the State would draft an agreement between the lessee and the State with basic terms as follows:

   a. An established program for abandonment of the lease.

   b. Payment to the lessee of $17,000 of the oil royalty paid under protest to the State. The right to additional royalty due the State prior to acceptance by the State of a quitclaim of the lease by the lessee would be retained by the State.

3. Payment to the lessee of $262.59 in royalties paid by the lessee for non-crude oil production during the period January 1977 through March 1979. This non-crude production was from a source other than the subject lease.

As a result of an apparent misunderstanding of what the lessee was to report to the State within 30 days, the time period was extended to March 1, 1980, for submission of a detailed status report on proposed well work and a final decision on what work would be done to April 1, 1980.

The lessee has not communicated the required information even after repeated requests, and it is the opinion of staff that further extension of time is not in the best interests of the State due to the unsafe condition of the well. Therefore, the staff recommends authorization to commence litigation against the Ocean Front Oil Company.

IT IS RECOMMENDED THAT THE COMMISSION AUTHORIZE STAFF COUNSEL AND/OR THE OFFICE OF THE ATTORNEY GENERAL TO TAKE ALL STEPS NECESSARY INCLUDING LITIGATION, TO ENFORCE THE PROVISIONS OF STATE OIL AND GAS LEASE NO. PRC 987.1.