

MINUTE ITEM

This Calendar Item No. 36
was approved as Minute Item
No. 36 by the State Lands
Commission by a vote of 2
0 at its 12-16-80
meeting.

MINUTE ITEM

12/16/80
W 40214
Willard

36. AMENDMENT OF STATE OIL AND GAS LEASE PRC 1466.1,
RINCON OFFSHORE FIELD, VENTURA COUNTY

During consideration of Calendar Item 36 attached, Mr. D. J. Everitts, Chief, Division of Energy and Mineral Resources Development, explained the lessee wants to drill a single exploratory well to a depth of 12,000 feet and has asked that the royalty provisions of the lease be modified to make it economically feasible.

The staff's main purpose in agreeing to this amendment is to encourage the lessee to drill an exploratory well in the deeper zones. Mr. Everitts pointed out this amendment involves only one well. He pointed out if a discovery is made, the staff will negotiate the lease terms for any new wells, looking particularly at the net profits bidding concept. Commission-Alternate Susanne Morgan asked Mr. Northrop if this amendment is in the best interests of the State. Mr. Northrop stated it was in that this amendment will make it economically feasible to begin exploration in the deeper zones where the oil is considered to be of good quality, as opposed to the current development in the shallow zones. Jack Hundley, representing Atlantic Richfield Company, confirmed Mr. Northrop's statement.

Upon motion duly made and carried, the resolution as presented in Calendar Item 36 was approved by a vote of 2-0.

Attachment: Calendar Item 36

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AMENDMENT OF STATE OIL AND GAS LEASE PRC 1466.1
RINCON OFFSHORE FIELD, VENTURA COUNTY

LESSEE: ARCO Oil and Gas Company
Post Office Box 147
Bakersfield, California 93302

LAND TYPE, AREA AND LOCATION:

State Oil and Gas Lease PRC 1466.1 is located on offshore tide and submerged lands near Rincon Point in Ventura County. The lease includes 1175 acres on which the lessee has constructed a drilling and producing island approximately 3000 feet from shore.

PERTINENT INFORMATION:

On October 30, 1980, the State Lands Commission approved ARCO's application to resume exploratory drilling operations on Lease PRC 1466.1. The project is the drilling of a single exploratory well to evaluate the Repetto formation, a deeper horizon underlying the present producing zones at the island. The Repetto formation is commercially productive at other locations in the area.

Lease PRC 1466.1 provides that oil royalties are calculated on a production sensitive sliding scale formula with a minimum oil royalty rate of 30 percent. The lease does not provide for a maximum rate, therefore, under the formula a royalty rate of 100 percent is reached at an average per well production rate 124 barrels per day.

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Based on an analysis of the expected performance of the proposed well, the lessee would be required to pay a royalty rate of 100 percent for the first five years of production under the present royalty schedule and an average of 87 percent for the life of the well. Such a schedule is not considered economic by the lessee and the Commission staff. Therefore, the lessee requested a modification of the royalty terms for this well.

Section 6827.2 of the P.R.C. provides that when production is economically unfeasible under the terms of the lease, the Commission may renegotiate such terms as are in the best interests of the State.

ARCO and staff have agreed on a proposed oil royalty schedule for this well. Should the well be commercially productive to the extent that additional wells would be required for complete development of the reservoir, the royalty consideration for the additional development could be determined at that time. The royalty proposed for this well is based on a sliding scale formula which commences at a minimum of 16 2/3 percent (100 B/D) escalating upward to a maximum of 50 percent at 500 barrels per day. Under this royalty schedule, the staff projects that the average State royalty rate would be 32 percent, which is the equivalent of 63 percent of the net profits. The royalty on natural gas is proposed to be raised from the lease requirement of 20 percent to 50 percent for this well.

IT IS RECOMMENDED THAT THE COMMISSION:

1. AUTHORIZE AMENDMENT OF STATE OIL AND GAS LEASE PRC 1466.1 TO PROVIDE THAT THE OIL ROYALTY FOR THE WELL TO BE DRILLED PURSUANT TO COMMISSION APPROVAL FOR RESUMPTION OF DRILLING OPERATIONS ON OCTOBER 30, 1980, SHALL BE ACCORDING TO THE FOLLOWING FORMULA:

$$R = \frac{P}{5 + 0.01P}$$

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WHERE R IS THE ROYALTY RATE IN PERCENT, AND

P IS THE AVERAGE PRODUCTION OF OIL PER DAY DETERMINED BY DIVIDING THE TOTAL WELL PRODUCTION IN BARRELS FOR THE MONTH BY THE TOTAL NUMBER OF WELL-PRODUCTION DAYS OF TWENTY-FOUR (24) HOURS EACH. PROVIDED, HOWEVER, THE LESSEE SHALL PAY AT ALL TIMES A MINIMUM OIL ROYALTY RATE FOR THIS WELL OF NOT LESS THAN SIXTEEN AND TWO-THIRDS (16 2/3) PERCENT, AND A MAXIMUM OIL ROYALTY RATE OF NOT MORE THAN FIFTY (50) PERCENT.

FOR PURPOSES OF APPLYING THE ABOVE FORMULA A MULTIPLE COMPLETION WELL SHALL BE DEEMED A SEPERATE WELL FOR EACH ZONE INTO WHICH IT IS COMPLETED AND PRODUCING WHERE THE AVERAGE DAILY PRODUCTION FROM EACH SUCH ZONE IS SEPARATELY MEASURED AND THE PRODUCTION FROM EACH SUCH ZONE IS PRODUCED THROUGH A SEPARATE STRING OF TUBING OR THROUGH CASING WHICH IS NOT IN COMMUNICATION WITH ANY OTHER ZONE.

THE ROYALTY ON DRY GAS, NATURAL GASOLINE AND OTHER PRODUCTS EXTRACTED AND SAVED FROM THE GAS PRODUCED FROM THIS WELL SHALL BE 50 PERCENT OF THE GROSS MARKET VALUE.

2. AUTHORIZE EXECUTION OF THE LEASE AMENDMENT TO THAT EFFECT WHICH IS ON FILE IN THE OFFICE OF THE COMMISSION.