MINUTE ITEM

This Calendar Item No. 26 was approved as Minute Item No. 26 by the State Lands Commission by a vote of 3 to 0 at its 7/22/82 meeting.

MINUTE ITEM
26

7/22/82
PRC 1466
PRC 1961
W 40334
Livenick
Louie

ASSIGNMENT OF STATE OIL AND GAS LEASE
PRC 1446.1 AND EASEMENT LEASE PRC 1961.9

During consideration of Calendar Item 26 attached, Executive Officer Claire Dedrick began the dicsussion by stating that Norris Oil Company was objecting to staff's recommendation that, in approving the assignment, Norris be required to secure a $2 million performance bond. As part of the assignment, Atlantic Richfield Company would also be relieved of any further obligation under the lease. Ms. Dedrick stated that staff's recommendation was based largely on the risk exposure to the State which would occur in restoring the lease site to its original condition.

Mr. Robert Buchanan, attorney for Norris Oil Company, expressed his client's concern that the bond requirement was excessive and that Norris felt the existing requirement under the lease of a $500,000 bond was a more reasonable requirement.

Chairman Cory expressed his reluctance to approve the assignment, given Arco's reluctance to remain liable under the lease. N. Gregory Taylor, Assistant Attorney General, stated that normally an assignor is not relieved of liability.

Mr. Edward Carr, President of Norris Oil Company, appeared and summarized their lease operations.

Mr. Jack Draper, attorney for Atlantic Richfield, expressed the hope that the assignment would be approved, given the original terms of the lease which provided for Arco's relief from liability, upon assignment.

Commission-Alternate Dave Ackerman expressed the opinion that if the Commission approved the assignment given the language of the lease, the Commission would have no option on whether to relieve Arco from their responsibility.

Mr. Taylor stated for the record that the increase in production would nowhere equal the exposure the State would be assuming in approving the assignment without the $2 million bond requirement.

CALENDAR PAGE
MINUTE PAGE 1047

Mr. Buchanan stated that it was his client's wish to not delay action on this matter. He also stated their intent to post a $2 million bond or letter of credit to satisfy the requirements of the assignment.

Mr. Ackerman stated his concern over the risk assumed by the state in other leases because the original bonding levels may now be out of date.

After much discussion, the Commission agreed to the assignment, subject to Arco remaining liable under the lease; or, in the alternative, subject to Norris obtaining and maintaining in effect a $2 million performance bond or letter of credit.

Upon motion duly made and carried, the following Resolution, as amended, was approved by a vote of 3-0.

THE COMMISSION:

1. DETERMINES THAT AN ENVIRONMENTAL DOCUMENT HAS NOT BEEN PREPARED FOR THIS ACTIVITY AS SUCH DOCUMENT IS NOT REQUIRED UNDER THE PROVISIONS OF P.R.C. 21065, 14 CAL. ADM. CODE 15037 AND 15060.

2. APPROVES THE ASSIGNMENT OF STATE OIL AND GAS LEASE PRC 1466.1 AND EASEMENT LEASE PRC 1961.9 BY THE LESSEE, ATLANTIC RICHFIELD COMPANY, TO NORRIS OIL COMPANY EFFECTIVE JULY 22, 1982; SUBJECT TO NORRIS OBTAINING AND MAINTAINING IN EFFECT A $2,000,000 PERFORMANCE BOND OR LETTER OF CREDIT; OR, ATLANTIC RICHFIELD COMPANY REMAINING LIABLE UNDER THE LEASE; ALL OTHER TERMS AND CONDITIONS OF THE LEASES TO REMAIN IN FULL FORCE AND EFFECT.

3. AUTHORIZES THE EXECUTION OF THE APPROPRIATE DOCUMENTS TO EFFECTUATE SAID CONSENT.

CALENDAR ITEM

26

7/22/82
PRC 1466
PRC 1961
Livenick
Louie
W 40334

ASSIGNMENT OF STATE OIL AND GAS LEASE
PRC 1466.1 AND EASEMENT LEASE PRC 1961.9

ASSIGNOR: Atlantic Richfield Company
P.O. Box 2540
Goleta, California 93118
Attention: Peter K. Bacon

ASSIGNEE: Norris Oil Company
P.O. Box A-I
Ventura, California 93002
Attention: Charlotte C. Terry

AREA, TYPE LAND AND LOCATION:
State Oil and Gas Lease PRC 1466.1 was originally issued to the Richfield Oil Corporation (merged with Atlantic Refining Company in 1966 to form the Atlantic Richfield Company) on August 29, 1955, and contains approximately 1,175 acres of tide and submerged lands lying offshore the Rincon Oil Field, Ventura County.

Easement Lease PRC 1961.9 was issued to Richfield on October 23, 1957 and consists of a right-of-way on which a causeway has been built to provide access to Rincon Island (see Exhibit "A" attached).

SUMMARY: Atlantic Richfield Company, lessee of State Oil and Gas Lease PRC 1466.1 and Easement Lease PRC 1961.9, proposes to assign 100 percent of its interest in Leases PRC 1466.1

A 36

S 18

CALENDAR PAGE 162
MINUTE PAGE 1849

and PRC 1961.9 to the Norris Oil Company Section 4 of Lease PRC 1466.1 and Section 6 of Lease PRC 1961.9 provides that the lessee may assign the leases subject to the written consent of the Commission and that the assignee shall be bound by the terms of the lease to the same extent as if the assignee were the original lessee.

Royalty paid to the State by the current lessee and assignor is approximately $50,000 per month. The proposed assignee plans to do extensive well-work, and projects increases in production. Past experience with the assignee on other assignments of State leases indicates that the assignee has been able to operate efficiently, and has been able to increase production.

The lease is produced from one ocean-floor completed well (currently idle), and 46 wells on a filled island reached from shore by a causeway. As a condition of the lease, once production has ceased from the lease it will be necessary for the lessee to return the lease site to the same condition as it was before the lease had been entered into. Thus, the Commission could require that all wells be abandoned (also a requirement of the D.O.G.), and that the filled island and causeway from shore to the island be removed.

Based on today's dollars, it is estimated that it would cost a minimum of $2.7 million to abandon the wells and remove production facilities. The cost of removing the causeway and the island would increase total abandonment costs significantly.

Because of the significant potential liability to be assumed by any new lessee, staff feels that current performance bonding requirements ($500,000) are insufficient, and believes that as a condition of the assignment, the assignee be required to post a bond or letter of credit in the amount of $2,000,000 to assure that the lessee will comply with the terms of the lease.

(Revised 7/22/82)

Staff Counsel has reviewed the documents that will effect the assignments and has determined that the Commission may consent to the assignments in the manner and, subject to the conditions set forth in said documents.

AB 884: N/A.

PREREQUISITES:

1. Assignment forms have been fully executed.
2. Assignee is fully qualified to hold a lease in the State.
3. The statutory filing fees, have been submitted.

EXHIBIT: A. Location Map.

IT IS RECOMMENDED THAT THE COMMISSION:

1. DETERMINE THAT AN ENVIRONMENTAL DOCUMENT HAS NOT BEEN PREPARED FOR THIS ACTIVITY AS SUCH IS NOT REQUIRED UNDER THE PROVISIONS OF P.R.C. 21065, 14 CAL. ADM. CODE 15037 AND 15060.

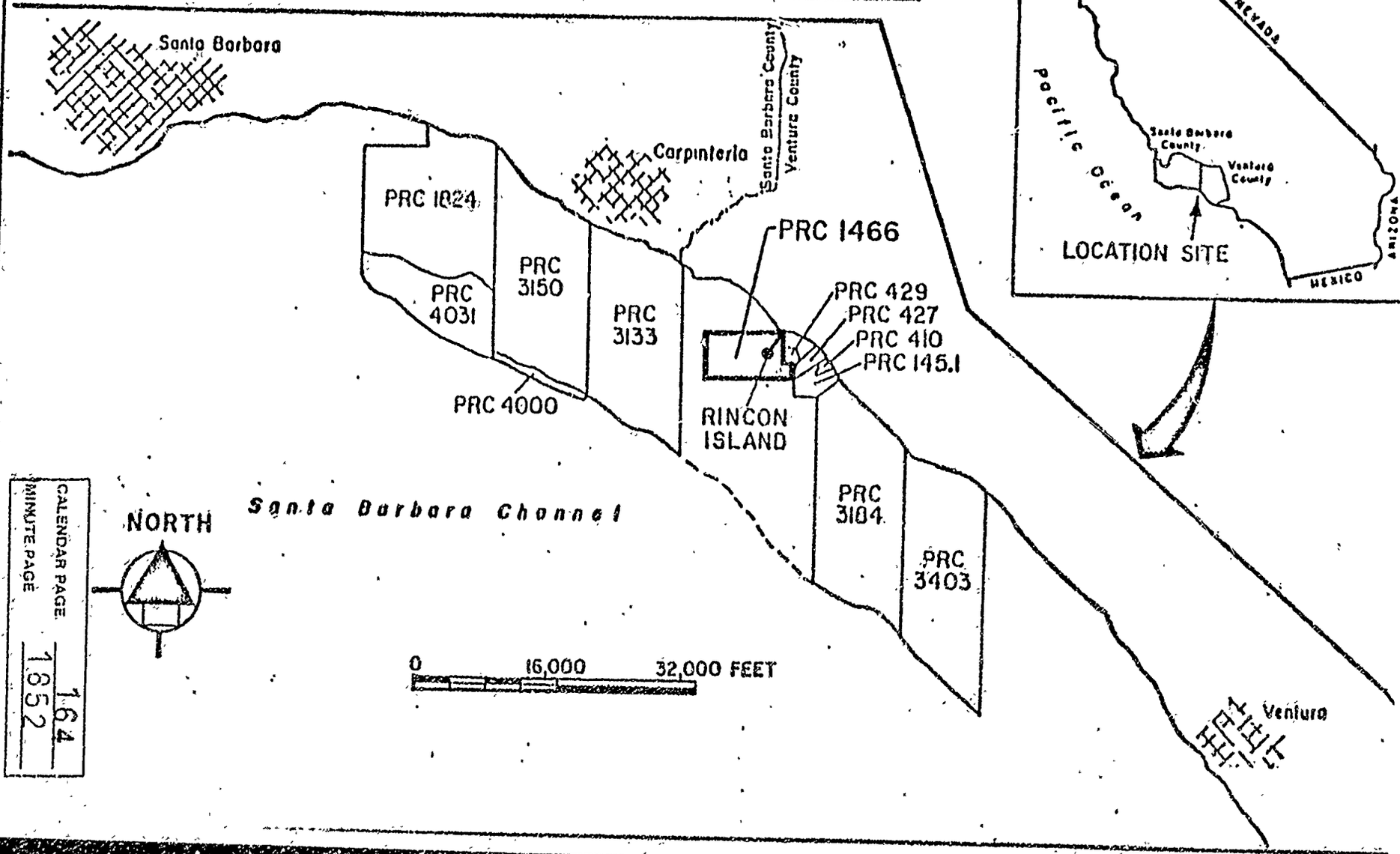
2. APPROVE THE ASSIGNMENT OF STATE OIL AND GAS LEASE PRC 1466.1 AND EASEMENT LEASE PRC 1951.9 BY THE LESSEE, ATLANTIC RICHFIELD COMPANY, TO NORRIS OIL COMPANY EFFECTIVE JULY 22, 1982; SUBJECT TO NORRIS OBTAINING AND MAINTAINING IN EFFECT A $2,000,000 PERFORMANCE BOND; ALL OTHER TERMS AND CONDITIONS OF THE LEASES TO REMAIN IN FULL FORCE AND EFFECT.

3. AUTHORIZE THE EXECUTION OF THE APPROPRIATE DOCUMENTS TO EFFECTUATE SAID CONSENT.

EXHIBIT "A"

PROJECT LOCATION

PRC 1466
RINCON ISLAND
PRC 1961
EASEMENT



CALENDAR PAGE 164
MINUTE PAGE 1652