

MINUTE ITEM

This Calendar Item No.         
was approved as Minute Item  
No.        by the State Lands  
Commission by a vote of         
to        at its         
meeting.

CALENDAR ITEM

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01/31/84  
PRC 987  
Smith

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EXPIRATION OF LEASE PRC 987.1  
AND ABANDONMENT OF WELL DAVIS-11  
AND CONSIDERATION OF REFUND OF PROTESTED ROYALTIES  
HUNTINGTON BEACH OIL FIELD  
ORANGE COUNTY

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 from privately-owned land, trespassing into State Tidelands. After court action (State v. Ocean Front Oil Company, Orange County Superior Court Case No. 454667) and payment of a \$5,000 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 varied 19 percent to 23 percent when the price of oil was between \$2 and \$3 per barrel. After 1973, when the price of oil increased, the royalty rate increased to 100 percent (when prices reached \$12.00/barrel) where it now stands.

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

The lessee had requested in November 1976 that the royalty rate be renegotiated at a lower rate and since April 23, 1974, the Ocean Front Oil Company has been paying royalty under protest. The Staff reviewed the request and recommended that the royalty rate be adjusted, as was done for other "trespass" well lessees participating in the 91 Main Zone Unit.

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In October 1979 at a meeting with Ocean Front Oil Company's representative, Staff reached an agreement in principal to recommend to the Commission that a 62 1/2 percent royalty rate be applied to the value of oil, for which royalties were paid under protest. A recalculation of royalties resulted in an agreement to recommend to the Commission that \$17,000 was a fair refund to Ocean Front Oil Company. An additional oil shipment made in 1981 increases the refund to \$21,300. The well has not produced any oil since then and is only capable of flowing water.

The aforementioned agreement was contingent on the following action by the lessee:

1. Proper abandoning of well "State PRC 987" Davis-11.
- or-  
2. Proper equipping of the well with safety shut-down equipment (because of its flowing status the well presents a potential hazard); increasing the bond to cover future cost of proper abandonment of the well; and providing evidence that the lease is capable of producing oil and gas in paying quantities.

During 1980 and 1981 Ocean Front Oil Company had taken some steps to minimize potential pollution impact and had increased the gross production rate hoping to improve the oil production rate, but without success.

The well originally drilled in 1927, was redrilled by Ocean Front in 1933 and initially produced at 285 BOPD. By 1956 production had declined to 25 BOPD and then declined to less than one BOPD by 1979. The last oil shipment was in April 1981. Since then the well has produced only water with no significant oil or gas.

In 1983, Ocean Front Oil Company proposed to plug back the Lower Main Zone in Well Davis-11 and recomplete in the shallow TM Zone still within State Lease PRC 987 (a 24-inch diameter cylinder surrounding the well bore). The proposal was denied by the SLC staff for the following reasons:

1. Well Davis-11 passes between two other wells which produce from the "TM" Zone and which are part of a Steam Flood Pilot Project, belonging to Aminoil Inc. in surrounding State Lease PRC 91. Well Davis-11's well-bore is less than 200 feet from one of these two

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wells. To permit recompletion of Well Davis-11 in the "TM" Zone without consent of Aminoil would be a violation of the rules and regulations of the State Lands Commission (Cal. Adm. Code Title 2, Division 3, Chapter 1, Sec 2115.)

2. Aminoil with approval of Staff in 1980, established three "TM" Zone Steam Flood Pilot Projects, which they are currently evaluating. The impact of this pilot/test project on future oil production from the entire "TM" Zone is significant and should benefit the State substantially. Completing the well in the middle of the project could substantially affect the pilot.

Position of Staff is that (1) Ocean Front Oil Company has been unable to prove, during nearly four years, that Well Davis-11 is capable of producing oil and gas in paying quantities, (2) the proposal to recomplete the well in the shallow "TM" zone is not in the best interest of the State and (3) the well should be abandoned as a pollution hazard.

During the past three months, Staff has negotiated with Ocean Front Oil Company the attached Memorandum of Agreement (Exhibit "I"), under which Ocean Front will plug back that portion of their well located under State lands. This work is to be completed within 120 days of the full execution of this Memorandum. Within 10 days of completion of the plug back, the Commission will refund to Ocean Front \$21,300 of the protested royalties and Ocean Front will execute a Quitclaim to State Oil and Gas Lease PRC 987. Staff believes that the refund of a portion of protested royalties represents fair and consistent treatment.

Pursuant to the Commission's delegation of authority and the State guidelines (14 Cal. Adm. Code 15061), the Staff has determined that this activity is exempt from the requirements of the CEQA as a categorical exemption under Class 1, Existing Facilities abandonment, 14 Cal Adm. Code 2905(a)(1).

Authority: PRC 21084 and 14c AC 15300.

AB 884: N/A.

EXHIBIT: A. Memorandum of Agreement.

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CALENDAR ITEM NO. 29 (CONT'D)

IT IS RECOMMENDED THAT THE COMMISSION:

1. FORMALLY TAKE NOTICE THAT STATE OIL AND GAS LEASE PRC 987.1 HAS TERMINATED, ACCORDING TO THE LEASE AGREEMENT DATED MARCH 1, 1954 CHAPTER 303, STATUTE OF 1921.
2. AUTHORIZE APPROVAL OF THE MEMORANDUM OF AGREEMENT BETWEEN OCEAN FRONT OIL COMPANY AND THE STATE LANDS COMMISSION ATTACHED HERETO AND DIRECT THE LESSEE, OCEAN FRONT OIL COMPANY, TO ABANDON WELL "STATE PRC 987.1" DAVIS-11, AS REQUIRED UNDER THE LEASE AND ACCORDING TO AN APPROVED ABANDONMENT PROGRAM CONSISTENT WITH THE RULES AND REGULATIONS OF THE STATE LANDS COMMISSION, AND THE DIVISION OF OIL AND GAS.
3. AUTHORIZE PAYMENT TO THE LESSEE OF \$21,300, WITHOUT INTEREST, OF THE DISPUTED OIL ROYALTY (\$58,903) PAID UNDER PROTEST TO THE STATE.
4. FIND THAT THE ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF THE CEQA PURSUANT TO 14 CAL. ADM. CODE 15061 AS A CATEGORICAL EXEMPT PROJECT, CLASS 1, EXISTING FACILITIES, ABANDONMENT 14 CAL. ADM. CODE 2905(a)(1).

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EXHIBIT "A"

MEMORANDUM OF AGREEMENT

WHEREAS the State Lands Commission ("Commission") as Lessor has leased to Ocean Front Oil Co. ("Ocean Front") as Lessee Public Resources Code Lease PRC 987 dated March 1, 1954; and

WHEREAS there is a dispute between Lessor and Lessee as to the termination of said Lease and drilling rights under said Lease,

THEREFORE the Commission and Ocean Front enter into this Agreement in order to resolve differences between them.

1. The Commission does agree to and does approve the Plug Back Program attached hereto as Exhibit A as satisfying the terms of Lease PRC 987, as well as any applicable rules and regulations of the State Lands Commission. The Commission agrees upon execution of this Memorandum to have Phillips Petroleum Co. shut in injector well S-902 until such time as the Davis No. 11 well is no longer capable of flowing to allow Ocean Front to safely perform the Plug Back Program. Ocean Front agrees within ten (10) days of the full execution of this Memorandum to (i) seek appropriate permits from the Division of Oil and Gas and the City of Huntington Beach; and (ii) to request a suitable drilling rig from Finley Drilling Company. Ocean Front further agrees that upon issuance of the appropriate permits and after the Davis No. 11 well is no longer capable of flowing to commence and diligently complete the Plug Back Program when the first suitable drilling rig becomes available from Finley Drilling Company. (This agreement does not preclude Ocean Front from utilizing a pulling rig rather than, or in conjunction with, a drilling rig in completing the Plug Back Program.) However, if the Plug Back Program is not completed within 120 days of the execution of this agreement, the terms of this agreement shall no longer be binding on either party. The 120 day period, however, shall be tolled until the Davis No. 11 well is permanently incapable of flowing. Performance of the covenants and conditions imposed upon Ocean Front herein shall be excused while, and to the extent, that, Ocean Front is hindered in or prevented from complying therewith, in whole or in part, by war, riots, strikes, blackouts, action of the elements, or any other cause beyond the control of Ocean Front, whether similar or dissimilar to those herein specifically enumerated and without regard as to whether such cause existed the day

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hereof or hereafter arises.

2. The Commission shall pay to Ocean Front within ten (10) days of completion of the Plug Back Program Twenty-One Thousand Three Hundred Dollars and No Cents (\$21,300.00) of disputed royalties paid under protest to the Commission. In exchange for the delivery of the Twenty-One Thousand Three Hundred Dollars and No Cents (\$21,300.00), Ocean Front agrees to execute and deliver upon completion of the Plug Back Program a Quitclaim to PRC 987 in favor of the Commission.

3. With regards to any oil produced from PRC 987 but presently unsold, Ocean Front agrees upon execution of this Agreement to forthwith proceed to sell any of such oil as is marketable and to pay to the Commission a royalty of sixty-two and one-half percent (62½) on said oil, and the Commission agrees to accept this royalty as payment in full.

4. In consideration of the promises and obligations set forth herein Ocean Front agrees, (1) to release and discharge the Commission from any and all liability and damages not to sue on any claim or cause of action arising out of Commission management, administration or other activity in the Main Zone; (2) to not assert any claim or right to complete or redrill a well into the "TM" Zone or any other zone, except as provided for in this Agreement; and (3) to withdraw any claim it may have to royalties paid in protest under PRC 987, except as to that amount to be paid to Ocean Front as specified in Paragraph 2 herein.

5. The parties may execute this Agreement in one or more counterparts.

Dated: 23 Jan. 1985

OCEAN FRONT OIL COMPANY

By Charles L. Lichten

STATE LANDS COMMISSION

By \_\_\_\_\_

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EXHIBIT "A"

OCEAN FRONT OIL CO  
WELL "PRC 987" DAVIS 11

1. Establish that well is no longer flowing. (Assuming Phillips will shut-in Lower Main Zone injection so as to keep Davis 11 well head pressure at zero.)
2. Move in work-over rig with circulation pumps and mud pits.
3. Install Blow-out preventer, Class II (2M-SRRA).
4. Pick up tubing and run in to top of 2-1/2" sleeve. Circulate until hole is clean.
5. Run feeler on wire line to determine amount of fill below 2-1/2" sleeve on inside 3-1/2" liner.
  - a. If fill is above 3800 ft pickup 1" macaroni string with 2" O.D. saw tooth shoe and circulate out to a depth that can be reasonably attained. (Previous attempts to circulate below 4500 ft failed.)
  - b. Place cement plug inside 3-1/2" and 5-3/4" liners and attempt to squeeze away. Don't plug back above 3875!
6. Perforate twenty 1/2" holes at about 3800 ft and squeeze cement through 3-1/2", 6-5/8" and 8-5/8" casing to establish bridge above top of Main Zone.
7. Repeat shooting and squeezing to place cement bridge at about 2880 ft (Top Jones Zone) and about 2700 ft (Top of "Tm" Zone). Set retainer for top squeeze.
  - a. If well is to be abandoned cut and recover 6-5/8" inside 8-5/8" as directed by D.O.G. and place cement plug 100 ft <sup>above</sup> 6-5/8" stub and 100 ft inside 8-5/8" casing. Place 100 ft cement plug 10 ft below surface and restore surface site.
  - b. If well is to be redrilled cut and recover 6-5/8" at least to about 900 ft and 8-5/8" to about same depth. Place plugs for redrilling to a location on the fee land.

NOTE:

At any time Davis 11 begins flowing work will cease while Phillips reduces injection pressures.

If any unforeseen mechanical conditions develop which necessitate a variance from this program State Land will be advised and their approval for further future action will be obtained.

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