MINUTE ITEM

This Calendar Item No. 1
was approved as Minute Item
No. 1 by the State Lands
Commission by a vote of 3
to 0 at its 7/11/86
meeting.

CALENDAR ITEM

A 35

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07/11/86
PRC 410
PRC 429
PRC 1466
Willard

S 18

AMENDMENT OF ROYALTY REQUIREMENTS
PRC 410, PRC 429 AND PRC 1466
RINCON OIL FIELD, VENTURA COUNTY

LESSEE: Norris Oil Company
9454 Wilshire Boulevard
Suite 314
Beverly Hills, California 90212-2994

AREA, TYPE OF LAND AND LOCATION:
State oil and gas Leases PRC 410 (50 acres), PRC 429 (80 acres) and PRC 1466 (1175 acres) are located on tide and submerged lands near Rincon Point, Ventura County.

BACKGROUND INFORMATION:
State oil and gas lease PRC 410 was issued on April 17 1929, under Chapter 303, Statutes of 1921, to Pan-American Petroleum Company. After many assignments the lease was acquired by Norris on January 26, 1981. Lease PRC 410 contains ten wells (seven producing three idle) drilled from an upland site. Daily production currently (May 1986) averages 76 B/D, 27 °API, and is being sold for $9.60/barrel. State royalty is on a sliding scale so that at the low production rate the lease minimum royalty rate of 12 1/2 percent is applicable.

Lease PRC 429 was issued on April 21, 1931, pursuant to Chapter 303, Statutes of 1921 to Sea Cliff Development Company. After many assignments the lease was acquired by Norris on January 29, 1970. The lease is developed at

the end of a 3,000-foot pier (another lease operated by Mobil, PRC 427, is also developed from the pier). All 15 wells on the PRC 429 are currently idle (May 1986). The minimum royalty rate is 12 1/2 percent.

Lease PRC 1466 containing 1175 acres of tide and submerged lands was issued on August 29, 1955 to Richfield Oil Corporation. On July 22, 1982, the lease was assigned to Norris Oil Company. The lease is developed from an earth-filled drilling and production island. To date, 48 wells have been drilled and currently 9 wells are producing 120 B/D (May 1986). The lease has been amended (April 1968) to provide for secondary recovery operations with a fixed flat rate of royalty at 32.28 percent.

PROPOSAL: The president of Norris has indicated that these leases have not been profitable for over four years. This situation has worsened as a result of the sudden and severe decline in oil prices ($23.50/bbl. in December 1985 to $9.60/bbl. in May 1986). Operating costs are exceeding gross revenues. An audit conducted by the staff of the State Lands Commission for the months January through April 1986 has confirmed this for that period. Even after recent cost saving efforts, Norris is still losing almost $2 per barrel.

In order to further reduce expenses Norris has proposed that:

1. Its major stockholder, ABEG Hydrocarbons, Inc. purchase the existing bank loan of $4.5 MM with Norris issuing stock for capitalization of this amount. In this manner Norris would increase its current cash flow by approximately $36,000 per month (interest payment on loan, principal payments had previously been waived by the bank).

2. Norris would establish a fund within the Office of the State Controller for the ultimate abandonment of all lease facilities. Norris will contribute to the fund as follows:

   a. For gross daily revenues up to $4,500 the sum of four (4) percent of such gross revenues and fifty cents ($0.50) per barrel of oil produced;

   b. For gross daily revenues greater than $4500 but less than $10,000 the sum of seven and one-half (7 1/2) percent of such gross revenue and fifty cents ($0.50) per barrel of oil produced;

   c. For gross daily revenues of $10,000 and greater the sum of six and two-thirds (6 2/3) percent of such gross revenues and fifty cents ($0.50) per barrel of oil produced.

3. State royalty would be reduced to the following:

   a. For gross daily revenues up to $4500 a royalty of one (1) percent;

   b. For gross daily revenues greater than $4500 but less than $10,000 a royalty of five (5) percent;

   c. For gross daily revenues of $10,000 and greater a royalty of ten (10) percent.

4. Norris will provide the State with one million dollars ($1,000,000) in lieu of lease performance bonds. The money may be invested by the State for the exclusive purpose of securing Norris' compliance with the terms and conditions of the leases or used for immediate abandonment of specific lease facilities, whatever is determined to be in the best interests of the State.

5. Norris would commit to the expenditure of two hundred thousand dollars ($200,000) per year for the five (5) year term of the royalty modification for the exclusive purpose of developing reserves currently in the ground but not yet produced ("located behind casing").

6. Norris would agree to the exploration and development of the deep zone (below 5,000 feet) as follows:

   a. Initiate applications for required well permits when the price Norris receives for its share of oil is $15 per barrel.

   b. Drilling would commence when the price Norris receives for its share of oil is $20 per barrel or the last permit is received whichever is later.

   c. State royalty for oil produced from the deep zone would be changed from the current sliding scale schedule of each lease to a flat twenty-five (25) percent of the gross revenue after the recovery of one hundred and ten (110) percent of drilling costs.

The alternative to reducing the State's royalty requirements under the leases as well as the other financial modifications would be to continue the present uneconomic operation. Lease termination would only be a matter of time and the lessee would default under the terms of the leases without sufficient funds to properly abandon the leaseholds. Continued operation of the leases with pecific requirement for establishment and maintenance of an account for ultimate abandonment expenses would appear to be in the best interests of the State.

OTHER PERTINENT INFORMATION:

1. Section 6827.2 of the PRC provides that the Commission in order to prevent premature abandonment of a lease may renegotiate the royalty provisions of the lease if it is determined that operations under existing terms are not economically feasible and that continued production from the lease is in the best interests of the State.

2. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines (14 Cal. Adm. Code 15061), the staff has determined that this activity is exempt from the requirements of the CEQA because it is not a "project" as defined by CEQA and the State CEQA Guidelines.

   Authority: P.R.C. 21065 and 14 Cal. Adm. Code 15378.

3. Royalty oil produced under these leases is currently being taken in kind by the State and sold to Cal Jet, Inc. The proposed royalty rate modifications will impact the volume of oil available for sale to the extent that Cal Jet, Inc. would prefer to terminate the sales agreement on the effective date of the modifications. If this item is approved, the termination of Royalty Oil Sales Contract PRC 6535 will be on the July 24, 1986 agenda.

EXHIBIT: A. Location Map.

AB 884: N/A.

IT IS RECOMMENDED THAT THE COMMISSION:

1. FIND THAT THE ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF THE CEQA PURSUANT TO 14 CAL. ADM. CODE 15061 BECAUSE IT IS NOT A PROJECT AS DEFINED BY P.R.C. 21065 AND 14 CAL. ADM. CODE 15378.

2. PURSUANT TO SECTION 6827.2 OF THE PUBLIC RESOURCES CODE, DETERMINE THAT IT IS IN THE BEST INTERESTS OF THE STATE THAT THE PROPOSED AGREEMENT BE ENTERED INTO, AND

3. AUTHORIZE THE AMENDMENT OF STATE OIL AND GAS LEASES PRC 410, PRC 429 AND PRC 1466 TO PROVIDE FOR THE REDUCTION OF STATE ROYALTY AND OTHER SPECIFIED CONDITIONS SUBSTANTIALLY IN THE FORM ON FILE IN THE OFFICES OF THE COMMISSION AND MADE A PART HEREOF, FOR A PERIOD OF FIVE (5) YEARS ENDING AUGUST 1, 1991. ALL OTHER TERMS AND CONDITIONS OF STATE OIL AND GAS LEASES PRC 410, PRC 429 AND PRC 1466 SHALL REMAIN IN FULL FORCE AND EFFECT.

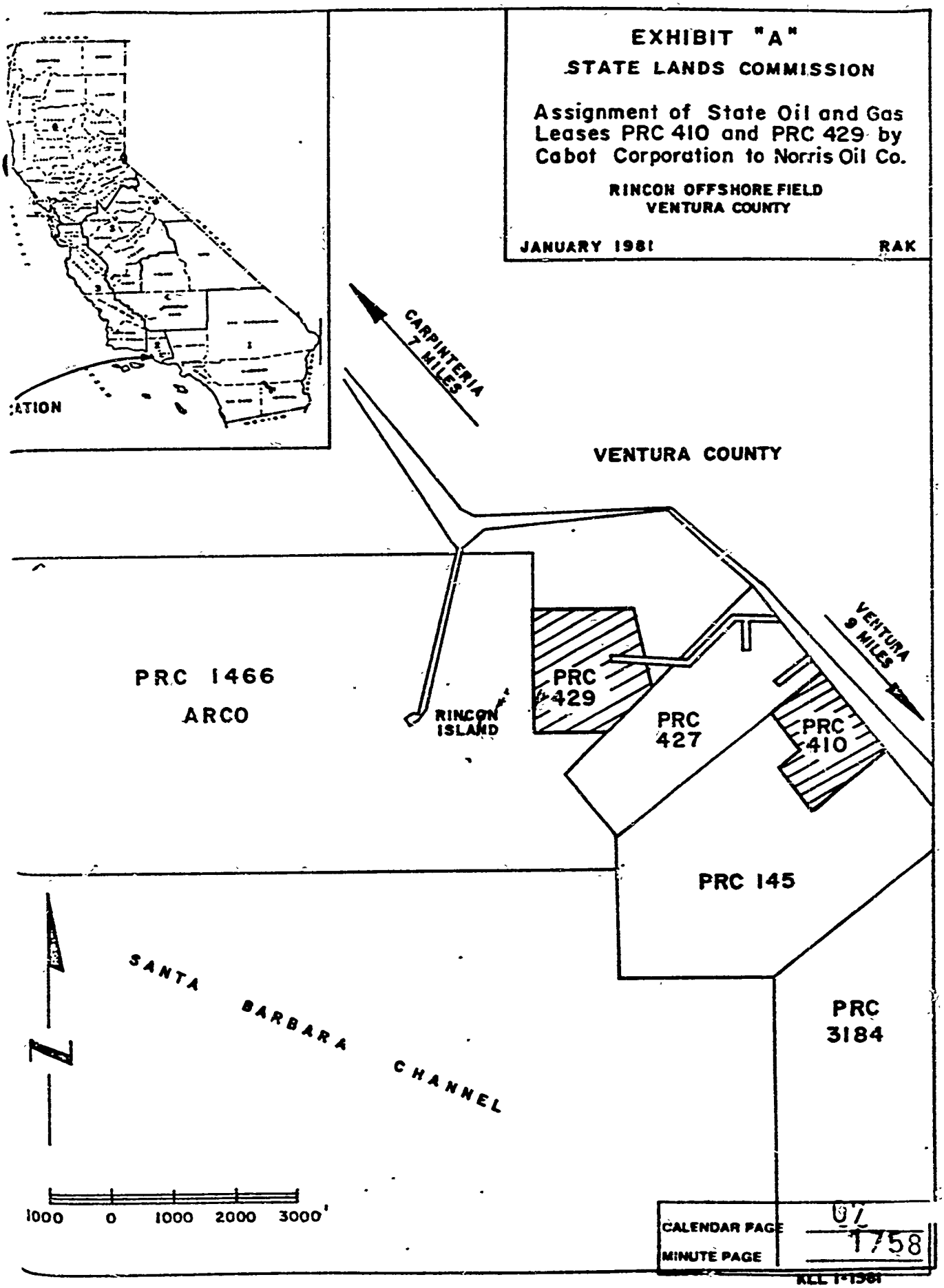
EXHIBIT "A"
STATE LANDS COMMISSION
Assignment of State Oil and Gas Leases PRC 410 and PRC 429 by Cabot Corporation to Norris Oil Co.
RINCON OFFSHORE FIELD
VENTURA COUNTY
JANUARY 1981
RAK
CARPINTERIA 7 MILES
VENTURA COUNTY
VENTURA 9 MILES
PRC 1466
ARCO
RINCON ISLAND
PRC 429
PRC 427
PRC 410
PRC 145
PRC 3184
SANTA BARBARA CHANNEL
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CALENDAR PAGE 67
MINUTE PAGE 1758