

MINUTE ITEM

This Calendar Item No. 32
was approved as Minute Item
No. 32 by the State Lands
Commission by a vote of 2
to 0 at its 9-23-87
meeting.

CALENDAR ITEM

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09/23/87

PRC 410

PRC 429

PRC 1466

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AMENDMENT OF STATE OIL AND GAS LEASES
PRC 410, PRC 429 AND PRC 1466
RINCON OIL FIELD, VENTURA COUNTY

LESSEE: Bush Oil Company
Mr. Harvey L. Bryant
President
P. O. Bin X
Taft, California 93268

AREA, TYPE OF LAND AND LOCATION:

State Oil and Gas Lease PRC 410 (50 acres),
PRC 429 (80 acres) and PRC 1466 (1,175 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 Oil Company on February 1, 1981. Lease
PRC 410 contains ten wells (seven producing,
three idle) drilled from an upland site. Daily
production currently averages 137 B/D.

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 February 1, 1981. 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). Lease 429 contains fifteen
wells (three producing, twelve idle). Daily
production is currently 40 B/D.

CALENDAR ITEM NO. 32 (CONT'D)

Lease PRC 1466, containing 1,175 acres of tide and submerged lands, was issued on August 29, 1955 to Richfield Oil Corporation. On August 31, 1982, the lease was assigned to Norris. The lease is developed from an earth-filled drilling and production island. Lease 1466 contains 47 wells. Currently 11 wells are producing 130 B/D.

On July 11, 1986, the Commission authorized an amendment of the three leases as follows:

1. Lessee would establish a fund within the Office of the State Controller for the ultimate abandonment of all lease facilities. Lessee 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 \$4,500 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.
2. State royalty would be reduced to the following:
 - a. For gross daily revenues up to \$4,500, royalty of one (1) percent;
 - b. For gross daily revenues greater than \$4,500 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.

CALENDAR ITEM NO. 32 (CONT'D)

3. Lessee 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 Lessee's 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.
4. The fund (Items 1 and 3 above) is currently valued at \$1,122,985.
5. Lessee 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. Lessee 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 Lessee receives for its share of oil is \$ 15 per barrel.
 - b. Drilling would commence when the price Lessee 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 ten (110) percent of drilling costs.
7. The term of the amendment would be for five (5) years ending August 1, 1991.

CALENDAR ITEM NO. 32 (CONT'D)

On June 26, 1987, Norris Oil Company was acquired by Berry Petroleum Company and Norris became a wholly owned subsidiary of Berry. Norris was subsequently renamed Bush Oil Company.

PROPOSAL:

The president of Bush Oil Company has advised that Bush is proposing an extensive exploration program on the subject leases. The program includes exploration of a potentially productive deep zone on the leases. In order to justify the capital expenditure required for the exploration program, Bush has requested further modification of the leases. Staff believes that modification of the leases in the manner set forth below is necessary for continued economic production from the leased lands.

Staff and Bush have agreed on the following:

1. The previous amendment effective August 1, 1986 shall be terminated.
2. For the purpose of oil and gas royalty determination only, the monthly production on Leases PRC 410, PRC 429, and PRC 1466 shall be combined as from a single lease.

The oil and gas royalty which Bush shall pay will be as follows:

- a. A flat royalty rate of twelve and one half per cent (12 1/2%) for two (2) years from the effective date of this amendment.
- b. Thereafter the royalty rate shall be a flat sixteen and two-thirds per cent (16 2/3%).

CALENDAR ITEM NO. 32 (CONT'D)

- c. No royalty payment shall be required on the production from the first new Deep Zone well drilled and completed on each of the three leases until the gross value of the oil and gas produced by each well equals the direct drilling and completion costs, exclusive of operating and salvageable equipment costs of that well. The cost of any of these three wells which is noncommercial shall not be offset by production from other wells which may be producing in commercial quantities.
3. Bush shall submit within fifteen (15) days following approval of this amendment an irrevocable letter-of-credit in the amount of \$4 million guaranteeing performance of all terms and conditions of the leases and the proposed amendment. The amount of the security shall be subject to review and modification every three years based on change of Bureau of Labor Statistics Index Code No. 0561 Crude Petroleum (Domestic Production) Base Year 1967, with March 1986 Index of 387.4.
4. Bush shall complete an evaluation of all idle wells on the leases and submit to the State by January 1, 1988 specific proposals for well abandonments. These well abandonments are to be completed by July 1, 1988.
5. Bush shall drill by March 1, 1988 a new Deep Zone test well on PRC 410 to evaluate this lease.
6. Bush shall drill a Deep Zone test well to evaluate PRC 429 and another Deep Zone test well on PRC 1466. At least one of these wells shall be spudded by January 1, 1989, and the drilling of both wells shall be completed by January 1, 1990.

CALENDAR ITEM NO. 32 (CONT'D)

7. Bush shall drill an exploratory well on the western portion of PRC 1466 with a jack-up drilling rig and abandon well 1466-102 both to be completed by January 1, 1990.
8. Bush shall apply for State Lands Commission permits to perform the work under Items 5, 6 and 7 above, including environmental assessments and execution of reimbursable agreements with the Commission to prepare the environmental documents. Complete applications shall be filed by June 30, 1988.
9. The sinking fund will be terminated and returned to Bush upon approval of this amendment and receipt of an irrevocable letter of credit as provide in Item 3. Bush shall use the money in the sinking fund for abandonment of wells (determined under Item 4), the well work for restoration of production from the leases and costs of environmental assessments
10. The term of the amendment will be for so long as oil and gas are produced in paying quantities from the leased lands.
11. Performance by Bush of all terms and conditions of each of the leases and of all terms and conditions of this amendment shall be guaranteed by Berry Petroleum Company.

STATUTORY AND OTHER REFERENCES:

- A. P.R.C.: Div. 6, Parts 1 and 2; Div. 13.
- B. Cal. Adm. Code: Title 2, Div. 3; Title 14, Div. 6.

AB 884: N/A.

OTHER PERTINENT INFORMATION:

1. Section 6827.2 of the P.R.C. provides that the Commission, in order to prevent premature abandonment of a lease, may

CALENDAR ITEM NO. 32 (CONT'D)

renegotiate the royalty provisions of the lease if after a public hearing it finds that continued production from the lease is in the best interests of the State and that such production is economically unfeasible under the existing terms of the lease.

2. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines (14 Cal. Adm. Code 501), 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.

EXHIBIT: A. Location Map.

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. FIND THAT CONTINUED PRODUCTION FROM STATE OIL AND GAS LEASES PRC 410, PRC 429 AND PRC 1466 IS IN THE BEST INTEREST OF THE PEOPLE OF CALIFORNIA AND THAT SUCH PRODUCTION IS ECONOMICALLY UNFEASIBLE UNDER THE PRESENT TERMS OF THE LEASES.
3. AUTHORIZE PURSUANT TO SECTION 6827.2 OF THE P.R.C. THE AMENDMENT OF STATE OIL AND GAS LEASES PRC 410, PRC 429 AND PRC 1466 TO PROVIDE FOR THE MODIFICATION OF STATE ROYALTY AND OTHER SPECIFIED CONDITIONS AS SET FORTH ABOVE AND SUBSTANTIALLY IN THE FORM ON FILE IN THE OFFICES OF THE COMMISSION AND MADE A PART HEREOF. 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"

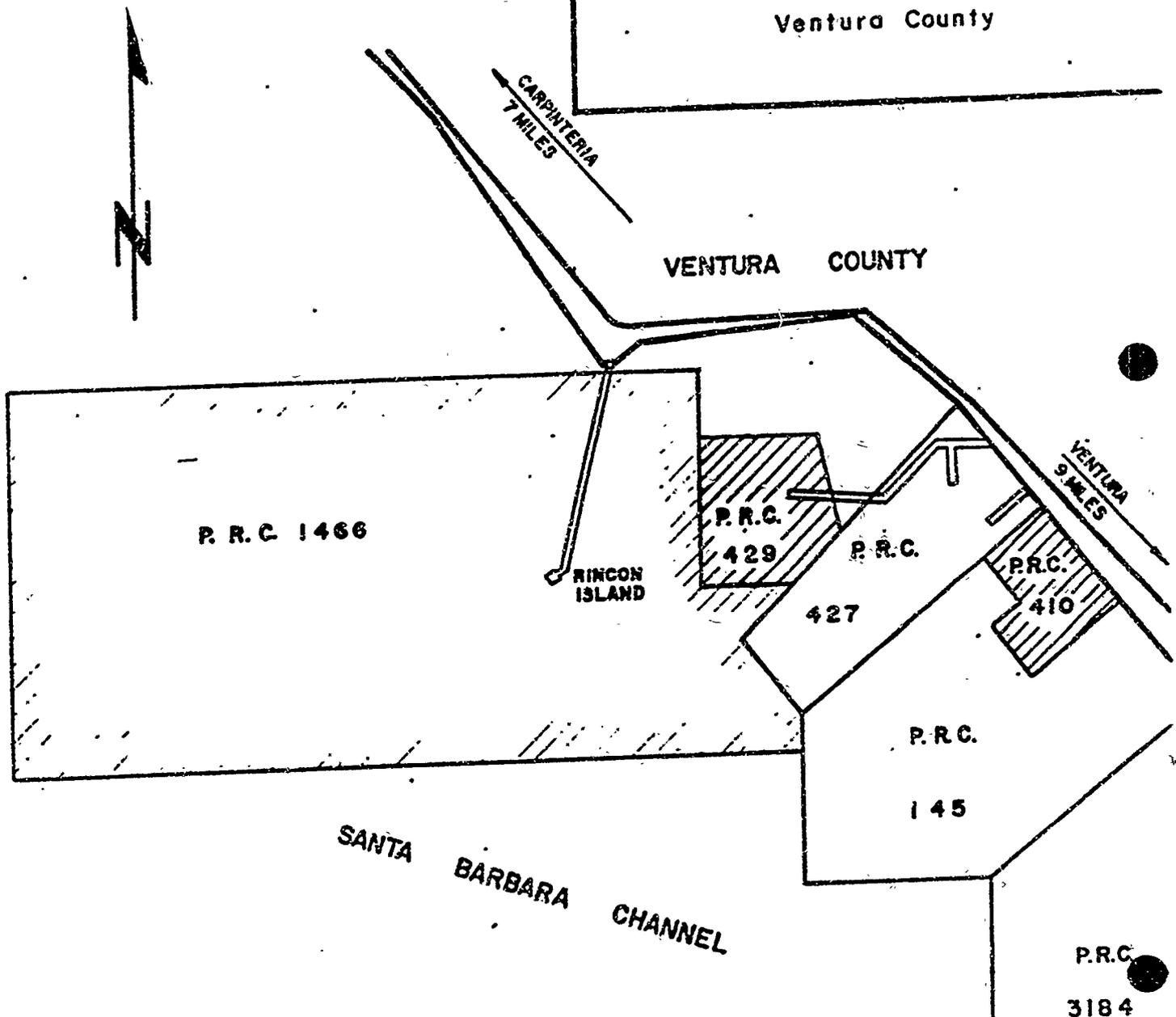
STATE OF CALIFORNIA
STATE LANDS COMMISSION

Bush Oil Company

Amendment of State Oil and Gas Leases

PRC 410.1, PRC 429.1 and PRC 1466.1

Ventura County



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CALENDAR PAGE

182

MINUTE PAGE

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