

MINUTE ITEM

This Calendar Item No. 023
was approved as Minute Item
No. 23 by the State Lands
Commission by a vote of 3
to 0 at its 9/23/91
meeting.

CALENDAR ITEM

A 36
S 18

023

09/23/91
PRC 3314
Nitsche

DEFERMENT OF DRILLING OBLIGATION
STATE OIL AND GAS LEASE PRC 3314
VENTURA COUNTY

LESSEE:

Shell Western E&P Inc.
Attn: T. E. Enders
P.O. Box 11164
Bakersfield, California 93389-1164

OPERATOR:

Bush Oil Company
Attn: Ralph E. McPhetridge
P.O. Bin X
Taft, California 93268

AREA, TYPE LAND AND LOCATION:

State oil and gas lease PRC 3314, issued on July 1, 1965, contains approximately 5,430 acres of tide and submerged lands located west of Oxnard in Ventura County. Current lessee of PRC 3314 is Shell Western E&P, Inc. (SWEPI); Bush Oil Company is operator of the lease.

SUMMARY:

Resumption of drilling operations was authorized by the State Lands Commission (SLC) on April 29 1981. Exploratory drilling of up to six wells from a floating vessel, as well as drilling of nearshore prospects from an upland drillsite operated by Chevron, were authorized by the SLC. The lease provides for a 120-day drill string obligation. Only one well has been drilled on the lease since resumption was authorized. The 3314 #1 well was drilled for SWEPI by Chevron from an onshore location which is referred to as the Patterson Ranch drillsite.

On November 21, 1985, the Commission granted a one-year deferment of the drilling obligation for State Lease PRC 3314 through February 7, 1987. The purpose of the deferment was to allow Shell and its operator:

CALENDAR ITEM NO. C 2 3 (CONT'D)

- (1) to evaluate further the 3314 #1 well by placing it on production (this well is currently producing 14 MCFPD of gas and approximately 50 BOPD);
- (2) to obtain approvals to consolidate two existing drillsites located in the Mandalay State Beach area into one larger, more efficient drillsite, and obtain appropriate permits to conduct drilling operations from those sites; and
- (3) to evaluate gas production potential and the economics of constructing a gas processing plant.

In January 1987, Chevron as operator requested an additional two-year deferment on economic grounds, citing (1) a steep decline in production of the well, (2) a steep decline in the price of crude oil, (3) a decline in gas prices making a gas processing plant uneconomical, thus necessitating burning the gas, and (4) the high cost of transporting the crude oil by truck to the refinery.

On March 26, 1987, the Commission granted an additional six-month deferment of the drilling obligation.

On November 19, 1987, the State Lands Commission approved a one-year deferment of the drilling obligation for State Lease PRC 3314. The approval extended the drilling obligation date for PRC 3314 from August 8, 1987 through August 7, 1988. Further deferment was approved from August 9, 1988 through August 8, 1991 so Chevron could pursue the necessary right-of-ways and permits for the gas sales pipeline, as well as continue to study alternatives to decrease the operating expenses so as to improve the economics of further development.

Chevron obtained right-of-ways and permits and the gas pipeline was installed in February 1988 and Bush Oil Company became the operator in 1989.

The operator has found the daily operating expenses continue to remain high and has indicated mechanical difficulties are a continuous problem with the downhole hydraulic pump. Average run life before pump failure is approximately 80 days. Bush Oil Company is actively reviewing alternative production methods in an effort to reduce operating costs and increase efficiency.

As a result of the above, Bush Oil Company, as operator for PRC 3314.1, and on behalf of Shell Western E&P Inc., the Lessee, requests an additional drilling deferment through August 8, 1993.

This deferment will allow Bush Oil Company time to evaluate the complex geological potential and await improved economics necessary for additional development.

AB 884:

N/A.

OTHER PERTINENT INFORMATION:

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

Authority: P.R.C. 21065, 14 Cal. Code Regs. 15378.

EXHIBIT:

- A. Location Map.

IT IS RECOMMENDED THAT THE COMMISSION:

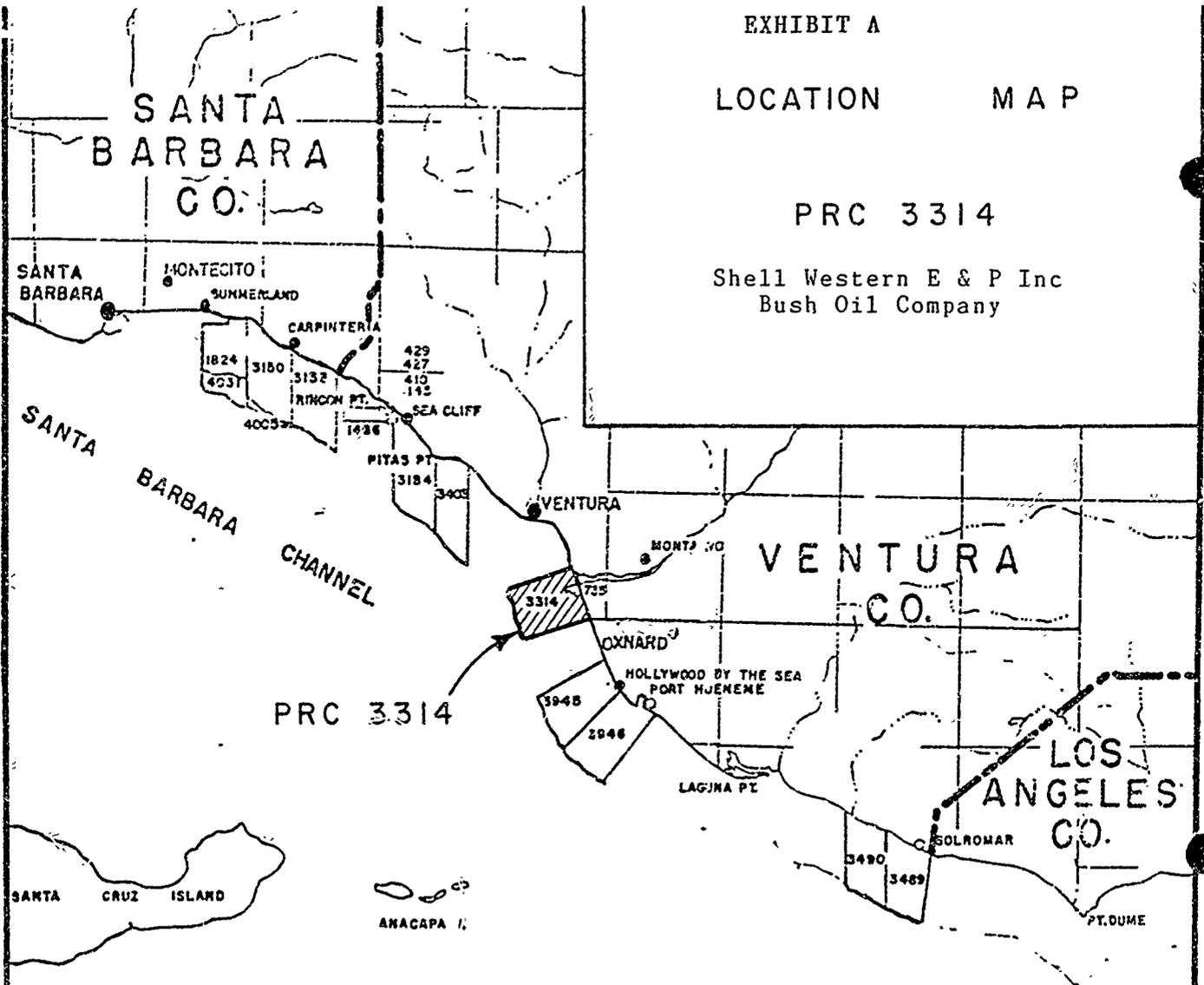
1. FIND THAT THE ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF THE CEQA PURSUANT TO 14 CAL. CODE REGS. 15061 BECAUSE THE ACTIVITY IS NOT A PROJECT AS DEFINED BY P.R.C. 21065 AND 14 CAL. CODE REGS. 15378.
2. APPROVE A DEFERMENT OF THE DRILLING OBLIGATION UNDER STATE OIL AND GAS LEASE PRC 3314 FROM AUGUST 9, 1991 THROUGH AUGUST 8, 1993. ALL OTHER TERMS AND CONDITIONS OF THE LEASE TO REMAIN IN FULL FORCE AND EFFECT PROVIDED THAT, AS A CONDITION OF THIS DEFERMENT, LESSEE AND OPERATOR SHALL REPORT QUARTERLY TO COMMISSION STAFF THE LEASE OPERATING ECONOMICS.

EXHIBIT A

LOCATION MAP

PRC 3314

Shell Western E & P Inc
Bush Oil Company



PRC 3314

NORTH



0 MILES

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