

MINUTE ITEM
This Calendar Item No. C104 was approved as
Minute Item No. 104 by the California State Lands
Commission by a vote of 3 to 0 at its
4-24-01 meeting.

CALENDAR ITEM
C104

A 35, 37
S 18

04/24/01
PRC 2199.1
PRC 2894.1
PRC 2920.1
J. Planck

**CONSIDER APPROVAL OF AN ASSIGNMENT
OF ALL OF THE INTERESTS IN OIL AND GAS LEASE NOS.
PRC 2199.1, PRC 2894.1, AND PRC 2920.1, AND
CONSIDER APPROVAL OF A DEFERMENT OF THE
DRILLING OBLIGATION, OFFSHORE GAVIOTA AREA,
SANTA BARBARA COUNTY**

ASSIGNOR:

Molino Energy Company, LLC
Attn: Mr. Charles Katherman
P. O. Box 930
Los Olivos, CA 93441

ASSIGNEE:

Benton Oil And Gas Company
Attn: Mr. Harry Harper
6267 Carpinteria Avenue, Suite 200
Carpinteria, CA 93013

AREA, TYPE LAND AND LOCATION:

Oil and Gas Lease Nos. PRC 2199.1, PRC 2894.1, and PRC 2920.1 (Leases),
each comprised of approximately 4,250 acres of tide and submerged land, are
located offshore of the Gaviota area in Santa Barbara County.

BACKGROUND:

The subject leases were assigned to Molino Energy Company LLC (Molino) from
Shell Western Exploration and Production, Inc. and Chevron USA between 1994
and 1997. Molino assigned partial interests in the leases to Benton Oil and Gas
Company (Benton) in 1997 and Benton is the current operator of the leases.

CALENDAR ITEM NO. C104 (CONT'D)

An EIR, for development of the offshore gas fields from an onshore drilling and production site, was prepared and was certified by the County of Santa Barbara on September 3, 1996. On September 11, 1996, the California Coastal Commission considered and approved an amendment to the Santa Barbara County Local Coastal Plan to allow for the development. The California State Lands Commission (Commission) approved the development plan at a regularly scheduled meeting on July 11, 1997.

The onshore drilling and production site is approximately three acres in size and is located within a County designated Consolidated Oil and Gas Planning Area. In 1998, Benton and its partner, Molino, drilled an extended reach gas well into lease PRC 2199. The drilling was difficult and expensive, and although tests showed the presence of gas and condensate, the well was unable to produce at economic levels.

The Commission granted Benton (and Molino) a two-year drilling deferment in 1998, so that the companies could re-evaluate the field and revise their development plan. During that time, the County of Santa Barbara initiated an R1 permit condition review of the Gaviota Processing Facility. This review affects what and where the companies would process produced gas from the project. The review period became extended in consideration of Federal Lease development plans and the uncertainty of development of these leases. The elapsed time precipitated a R1 permit condition review of the Benton/Molino facilities themselves.

CURRENT REQUEST

Molino and Benton submitted requests to the California State Lands Commission, and the County of Santa Barbara, to assign all of its interests in the subject leases to Benton, and to grant an extension of time to resume development. The County of Santa Barbara, at a County Planning Commission meeting on February 28, 2001, acted on those requests, and on Benton/Molino's request for an amendment to its Final Development Plan.

At the February hearing, the Santa Barbara County Planning Commission approved an exemption to CEQA, the amendment to the development plan, and assignment of interests to Benton ("change of owner and operator"). The approval was conditioned on Benton meeting three project development milestones. Failure to meet any of the milestones will result in a review by the Planning Commission to determine if facility abandonment, or modification to the

CALENDAR ITEM NO. C104 (CONT'D)

facility, is appropriate. The approval also allows for subsequent wells to be drilled within a 10-month period after release of a testing rig from the site of each drilled well, the entire drilling operation not to exceed 48 months from February 28, 2001. Failure to start another well, or if the annual average operational throughput of the gas processing facilities over any twelve (12) consecutive month period is at or below 2.25 MMSCFD of produced gas on an average annual basis, will result in the same review discussed above. The milestones are as follows:

Six Months – March 1, 2001 to August 31, 2001

Benton shall undertake an extensive 3-D seismic reprocessing program to better image 55 square miles of offshore seismic data covering the Molino Gas Project target leases. Benton shall work to develop an improved subsurface velocity model to better delineate and establish potential drilling targets and priorities in the Gaviota, Molino and Caliente structures.

Six Months – September 1, 2001 to February 28, 2002

Benton shall interpret reprocessed 3-D seismic volume and integrate the data into an existing well database with onshore surface expressions and geologic features. Benton shall prepare detailed economic models of costs, future net revenues, operating costs and present worth to establish optimum priority of drilling the Gaviota, Molino or Caliente structures.

Ten Months – March 1, 2002 to December 31, 2002

Benton shall conduct pre-drilling preparation, including site preparation, and apply and obtain miscellaneous permits from other affected departments and agencies. Benton shall establish specifications and well design requirements, bid procedures for a specialized electric drilling rig to conduct extended reach drilling. Benton shall commence drilling at least one test well. Depending on seismic results, the first well could be re-entry or sidetrack of the first test well (Gaviota #7) or extended reach drilling to the Molino or Caliente deep gas reserves.

STATUTORY AND OTHER REFERENCES:

- A. Public Resources Code sections: Division 6, Parts 1 and 2; Division 13.
- B. California Code of Regulations sections: Title 3, Division 3; Title 14, Division 6.

OTHER PERTINENT INFORMATION:

CALENDAR ITEM NO. **C104** (CONT'D)

1. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines (Title 14, California Code of Regulations, section 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 the CEQA and the State CEQA Guidelines.

Authority: Public Resources Code section 21065 and Title 14, California Code of Regulations, section 15378.

EXHIBITS:

- A. Location Map
- B. Copy of the Santa Barbara County Planning Commission approval letter for the Change of Owner and Operator and Amendment to the Approved Final Development Plan

PERMIT STREAMLINING ACT DEADLINE:

N/A

RECOMMENDED ACTION:

IT IS RECOMMENDED THAT THE COMMISSION:

CEQA FINDINGS:

FIND THAT THE ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF THE CEQA PURSUANT TO TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15061 BECAUSE THE ACTIVITY IS NOT A PROJECT AS DEFINED BY PUBLIC RESOURCES CODE SECTION 21065 AND TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15378.

AUTHORIZATION:

1. APPROVE THE ASSIGNMENT OF ALL OF THE INTERESTS OF MOLINO ENERGY COMPANY, LLC, IN OIL AND GAS LEASE NOS. PRC 2199.1, PRC 2894.1, AND PRC 2920.1 TO BENTON OIL AND GAS COMPANY, OFFSHORE GAVIOTA AREA, SANTA BARBARA COUNTY.
2. APPROVE A DEFERMENT OF THE DRILLING OBLIGATION ON THOSE LEASES UNTIL DECEMBER 31, 2002, IN CONFORMANCE WITH THE MILESTONES SET FORTH BY THE

CALENDAR ITEM NO. **C104** (CONT'D)

SANTA BARBARA COUNTY PLANNING COMMISSION AT THEIR HEARING ON OR ABOUT FEBRUARY 28, 2001, APPROVING AN AMENDMENT TO THE FINAL DEVELOPMENT PLAN, AND AS INCORPORATED HEREIN, AND SUBJECT TO THE FOLLOWING CONDITIONS:

- A. BENTON SHALL BRIEF THE COMMISSION OF THEIR PROGRESS UNDER THIS DEFERMENT AT A REGULARLY SCHEDULED COMMISSION MEETING NOT LATER THAN THE END OF THE SECOND QUARTER OF 2002, OR AT ANY OTHER TIME AT THE REQUEST OF THE COMMISSION.
- B. FAILURE TO MEET ANY OF THE MILESTONES SET BY THE SANTA BARBARA PLANNING COMMISSION AT ITS HEARING ON FEBRUARY 28, 2001 SHALL TERMINATE THIS DEFFERMENT AND TERMINATE LEASES PRC 2199.1, PRC 2894.1 AND PRC 2920.1 UNLESS OTHERWISE EXTENDED BY THE COMMISSION.
- C. BENTON SHALL SUBMIT TO THE COMMISSION BY DECEMBER 31, 2002 AND EXPLORATION AND DEVELOPMENT PLAN FOR LEASES PRC 2199.1, PRC 2894.1 AND PRC 2920.1. FAILURE TO DO SO SHALL TERMINATE ANY OMITTED LEASE UNLESS OTHERWISE EXTENDED BY THE COMMISSION.

CALENDAR PAGE	000653
MINUTE PAGE	0001194

Location Map

Benton/Molino Project Area

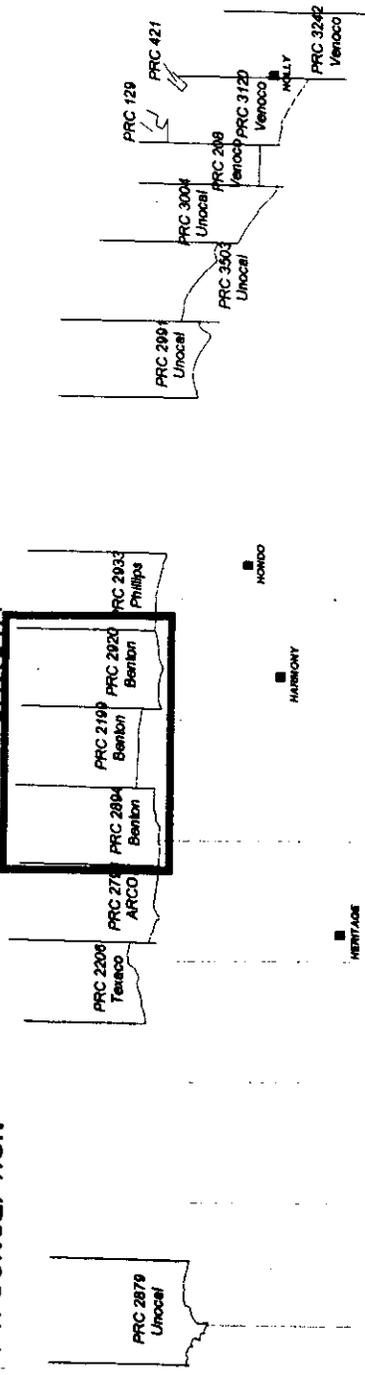


PT. CONCEPTION

GAVIOTA

SANTA

Santa Barbara O



CALENDAR PAGE	000654
MINUTE PAGE	0001195

March 5, 2001

Charles Katherman
Molino Energy Company, LLC
P.O. Box 930
Los Olivos, CA 93441

PLANNING COMMISSION
HEARING OF FEBRUARY 28, 2001

Harry C. Harper
Benton Oil and Gas Company
6267 Carpinteria Avenue, Suite 200
Carpinteria, CA 93013

RE: *Molino Gas Project Change of Owner and Operator, 94-FDP-024 RV02*

Hearing on the request of Molino Energy Company and Benton Oil and Gas Company to consider an amendment to permit # 94-FDP-024 to change the owner and operator of the Molino Gas Project from Molino Energy Company, LLC to Benton Oil and Gas Company; and to accept the Exemption pursuant to Section 15321(a) of the State Guidelines of the California Environmental Quality Act. The staff report and all documents may be reviewed at the Planning and Development Department, 123 E. Anapamu St., Santa Barbara and at the Energy Division, 30 E. Figueroa St., Santa Barbara. The application involves **AP No. 081-130-052**, located adjacent to the Gaviota Oil and Processing Facility, addressed as 16700 Calle Real, Gaviota area, Third Supervisorial District.

Dear Mr. Katherman and Mr. Harper:

At the Planning Commission hearing of February 28, 2001, Commissioner Farnum moved, seconded by Commissioner Valencia and carried by a vote of 4-1 (Beall no) to:

1. Adopt the required findings for the project specified in Attachment A of the staff report dated February 20, 2001; and
2. Approve the project subject to the conditions included as Attachment B of the staff report dated February 20, 2001, as revised at the hearing of February 28, 2001.

CALENDAR PAGE	000655
MINUTE PAGE	0001196

REVISIONS TO THE CONDITIONS OF APPROVAL

Condition A-23 is amended:

A-23 General Liability, Pollution Legal Liability, and Well Control Drilling Insurance

Prior to construction, Molino Energy Company Benton shall demonstrate to P&D, County Counsel and Risk Management that it carries a minimum of on the Molino Gas Project General Liability Insurance, in an aggregate amount of not less than \$15,000,000, in General Liability Insurance, combined single limits, and \$15,000,000 in Well Control Drilling Insurance, and a policy of Pollution Legal Liability Insurance in an aggregate amount of not less than \$30,000,000 \$2,000,000 for Phase 1 and \$5,000,000 during Phases 2 and 3, combined single limits. This insurance shall provide coverage for claims for bodily injury, or property and environmental damage that result from pollution conditions at, on or emanating from the Molino facilities. on the Molino Gas Project with an The Pollution Legal Liability Insurance policy may not contain an exclusion of onsite remediation costs if such an exclusion would exclude, remove or impair coverage for onsite remediation performed in response to a governmental order, demand, warning or other legally enforceable requirement. Should an exclusion exist in the policy, Benton may shall post a bond per Condition R-2 to cover costs associated with remediation.

The insurance policies must be secured through with an insurance company rated having a Best's rating of "A - VII" or better. Benton shall submit one or more certificates of insurance to P&D to be approved by the County Risk Manager. The General Liability and Pollution Legal Liability Insurance policies policy shall be in place prior to issuance of the Coastal Development Permit and shall remain in full force and effect until revocation of the permit. The Pollution Legal Liability Insurance policy shall be in effect prior to drilling operations. Benton shall submit certificates of insurance 30 days in advance of the renewal anniversary of each policy. Such certificate(s) shall evidence the coverages described above, shall name the County of Santa Barbara as an additional insured as to each policy provided, and shall afford the County 60 days advance notice of cancellation or non-renewal. The County Risk Manager may adjust the aggregate coverage amount specified above over time depending on factors such as inflation, modifications to State and Federal oil spill financial responsibility guidelines, and project modifications. In making such adjustments, the County Risk Manager shall give due regard to the cost and availability of such coverage, and shall allow Benton a reasonable period of time in which to place such coverage.

The General Liability Insurance policy shall be in effect prior to construction and shall be maintained for the life of the Molino Gas project, through abandonment of the facility. The Well Control Drilling Insurance policy shall only be required to be in effect while drilling operations are being conducted. Molino Energy Company Benton may satisfy this the Well Control Drilling Insurance requirement by having its drilling contractor or subcontractors supply the required insurance, so long as the aggregate insurance maintains the total required. The County of Santa Barbara shall be named as an additional insured on all policies. The policy(s) shall contain a provision that it may not be modified or cancelled without 60 days notice to County.

CALENDAR PAGE	000656
MINUTE PAGE	0001197

Condition R-1 is amended:

R-1 Abandonment Determination

~~If project development activities cease for longer than any twenty four (24) consecutive month period,~~

Benton shall meet the following three project development milestones. The milestones represent the maximum time allotted for the defined tasks but in no way restrict early completion. Early completion of all milestone tasks shall trigger commencement of the next group of milestone tasks on the first day of the next month. Milestone tasks commencing earlier than defined in this condition shall be completed within the adjusted timelines and not by the original end date.

In order to verify milestone progress, Benton shall meet with Energy Division staff twice monthly, and attend bi-monthly compliance meetings with the County and present proof of compliance. Attendance at the Systems Safety and Reliability Review Committee (SSRRC) meetings shall satisfy this requirement at least every other month.

PROJECT DEVELOPMENT MILESTONES

Six Months – March 1, 2001 to August 31, 2001

Benton shall undertake an extensive 3-D seismic reprocessing program to better image 55 square miles of offshore seismic data covering the Molino Gas Project target leases. Benton shall work to develop an improved subsurface velocity model to better delineate and establish drilling targets and priorities in the Gaviota, Molino and Caliente potential structures.

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CALENDAR PAGE	000657
MINUTE PAGE	0001198

If Benton fails to meet any of the milestone dates, or if the test wells permitted in Phase 1 prove unsuccessful (drilling of each subsequent well shall commence within a 10-month period, as described in the last milestone, from the release of a testing rig from the site for each well, not to exceed 48 months from February 28, 2001), or when annual average operational throughput of gas processing facilities over any twelve (12) consecutive month period is at or below 2.25 MMSCFD of produced gas on an average annual basis, the Planning Commission shall review this Final Development Plan at a properly noticed public hearing to determine if facility abandonment or facility modifications are appropriate. The 2.25 MMSCFD "trigger" for review of the FDP represents three percent (3%) of the maximum permitted operating capacity of 75 MMSCFD. If, in the future, the County adopts a different trigger to initiate abandonment or the review of the need for permit modifications due to very low throughput, ~~Molino Energy Company~~ Benton Oil and Gas Company shall comply with such County policy. In order to maintain operations at or below the established "trigger" level, ~~Molino Energy Company~~ Benton Oil and Gas Company must provide the Planning Commission with documentation indicating that the low production throughput remains economically viable.

The attached findings and conditions of approval reflect the Planning Commission's actions of February 28, 2001.

Decisions of the Planning Commission may be appealed to the Board of Supervisors by the applicant or any interested person adversely affected by such decision. Appeal applications may be obtained at the Planning & Development Department or the Clerk of the Board's office. The appeal form must be filed along with any attachments to the Clerk of the Board. In addition to the appeal form a concise summary of fifty words or less, stating the reasons for the appeal, must be submitted with the appeal. The summary statement will be used for public noticing of your appeal before the Board of Supervisors. The appeal, which shall be in writing together with the accompanying applicable fee must be filed with the Clerk of the Board of Supervisors within ten (10) calendar days of the date of the Planning Commission's decision.

The Planning Commission's decision may be appealed by the applicant, an aggrieved person, as defined under Section 35-58, or any two members of the Coastal Commission within 10 calendar days of the date of the Planning Commission's decision. The appeal period for this project ends on March 12, 2001 at 5:00 p.m.

If an appeal is filed, it shall be filed and processed in accordance with all provisions of Section 35-182.3 of the Coastal Zoning Ordinance.

If this decision is appealed no filing fee is required since this project is appealable to the Coastal Commission under Section 35-182.4.2.

Sincerely,

Rita Bright
Secretary to the Planning Commission

CALENDAR PAGE	000658
MINUTE PAGE	0001199

cc: Case File: 94-FDP-024 RV02
Planning Commission File
Lisa Martin, Records Management
Address File: 16700 Calle Real, Goleta, CA 93117
California Coastal Commission, 89 S. California Street, Suite 200, Ventura, CA 93001
County Chief Appraiser
County Surveyor
Fire Department
Flood Control
Park Department
Public Works
Environmental Health Services
APCD
Supervisor Marshall, Third District
Commissioner Farnum, Third District
Bill Dillon, Deputy County Counsel
Kevin Drude, Planner
Barbara Phillips, North County Reference Binder

Attachments: **Findings**
 Conditions of Approval

RB:cm

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CALENDAR PAGE	000659
MINUTE PAGE	0001200