

MINUTE ITEM

This Calendar Item No. C84 was approved as
Minute Item No. 84 by the California State Lands
Commission by a vote of 3 to 0 at its
9-17-01 meeting.

**Minute Item
C84**

09/17/01
PRC 3314
J. Planck

**BERRY PETROLEUM COMPANY
(APPLICANT)**

Calendar Item C84. Commission considered a request by Berry Petroleum for a
deferment. Public testimony taken.

Item approved as presented.

CALENDAR PAGE

MINUTE PAGE

12088

**CALENDAR ITEM
C84**

A 35

09/17/01
PRC 3314.1
J. Planck

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**CONSIDER REQUEST FOR A TWO YEAR
DEFERMENT OF THE LEASE DRILLING OBLIGATION,
OIL AND GAS LEASE NO. PRC 3314.1,
OFFSHORE MONTALVO OIL FIELD,
VENTURA COUNTY**

LESSEE/OPERATOR:

Berry Petroleum Company
Attn.: Mr. Ralph E. McPhetridge
Post Office Bin X
Taft, CA 93268-0042

AREA, LAND TYPE, AND LOCATION:

Oil and Gas Lease PRC 3314.1 contains approximately 5,340 acres of tide and submerged lands situated offshore within the Montalvo Oil Field, Ventura County.

BACKGROUND:

Oil and Gas Lease No. PRC 3314.1 was issued to Shell Oil Company in 1965. Through a series of assignments, the present lessee and operator is Berry Petroleum Company (Berry). Berry is now requesting a two-year deferment of its drilling obligation under the lease.

There has been one well drilled into the lease in 1985 by Chevron Oil Company (a "farm-out" from Shell) from an upland location on the east side of Harbor Boulevard, and that well has been producing and continues to produce, an average of 100 BOPD since it was drilled. There is a small oil and gas processing facility at that onshore location. The well, one of four possible wells permitted for the lease from the onshore site, has produced steadily since it was drilled. The Commission approved a one-year drilling deferment on the lease at its June 27, 2000, meeting, pending an assignment or submission of a development program. A prior request by Berry to assign the lease has been withdrawn.

CALENDAR ITEM NO. C84 (CONT'D)

Berry now intends to drill more wells on the lease, but it needs to conduct a seismic survey, using the current state-of-the-art tools, in order to increase the probability of success and to determine exact bottom hole locations. Berry has estimated that permitting and executing such a survey will require approximately 10 months. A permit will be required from the Commission. Berry estimates that interpretation of the data will require another six months. Following interpretation of the data, Berry estimates that it will take another eight months to permit and begin the drilling phase of the project (drilling from the onshore drill site).

Commission staff has reviewed Berry's request and concludes that the milestones are achievable if a diligent effort is made, and that the deferment to allow the added geophysical investigation and permitting is in the best interest of the State. The lease has a high potential and would be subject to premature abandonment if further development were not done.

STATUTORY AND OTHER REFERENCES:

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

OTHER PERTINENT INFORMATION

- 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 under the general rule that the CEQA applies only to projects which have the potential for causing a significant effect on the environment. The staff believes, based on the information available to it, that there is no possibility that this project may have a significant effect on the environment.

Authority: Title 14, California Code of Regulations, section 15061 (b) (3).

EXHIBITS:

- A. Location Map.
- B. Letter of May 15, 2001 from Berry Petroleum Company

CALENDAR PAGE	000734
MINUTE PAGE	002088

CALENDAR ITEM NO. C84 (CONT'D)

PERMIT STREAMLINING ACT DEADLINE:

N/A

RECOMMENDED ACTION:

IT IS RECOMMENDED THAT THE COMMISSION:

CEQA FINDING:

FIND THAT THE ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF THE CEQA PURSUANT TO TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15061 BECAUSE THERE IS NO POSSIBILITY THAT THE ACTIVITY MAY HAVE A SIGNIFICANT EFFECT ON THE ENVIRONMENT; TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15061 (b) (3)

AUTHORIZATION:

APPROVE A DEFERMENT OF THE DRILLING OBLIGATIONS OF OIL AND GAS LEASE NO. PRC 3314.1 AND REQUIRE BERRY PETROLEUM TO INITIATE DRILLING OPERATIONS BY JULY 1, 2003, SUBJECT TO THE FOLLOWING CONDITIONS:

A. BERRY PETROLEUM COMPANY BE REQUIRED TO MEET THE FOLLOWING MILESTONES, GIVING THE STAFF WRITTEN NOTICE OF COMPLETION OF EACH PHASE:

1. PHASE I – SEISMIC OPERATIONS AND PROSPECTING: PERMITTING: 8 MONTHS (BY FEBRUARY 1, 2002). BERRY PETROLEUM COMPANY TO UNDERTAKE PERMITTING A 3-D SEISMIC ACQUISITION PROGRAM OVER THE MONTALVO OILFIELD, INCLUDING THE NEAR SHORE PORTION OF LEASE NO. PRC 3314.1 ACQUISITION: 2 MONTHS (BY APRIL 1, 2002)
2. PHASE II - INTERPRETATION: 6 MONTHS (BY OCTOBER 1, 2002) PRODUCTION OF TIME AND DEPTH STRUCTURE MAPS, ISOCHRON/ ISOPACHS, AMPLITUDE ANOMALY MAPS, AND WELL-TO-SEISMIC CORRELATION. THIS WORK WILL ALSO INCORPORATE PREVIOUS INTERPRETATIONS OF THE AREA. THE

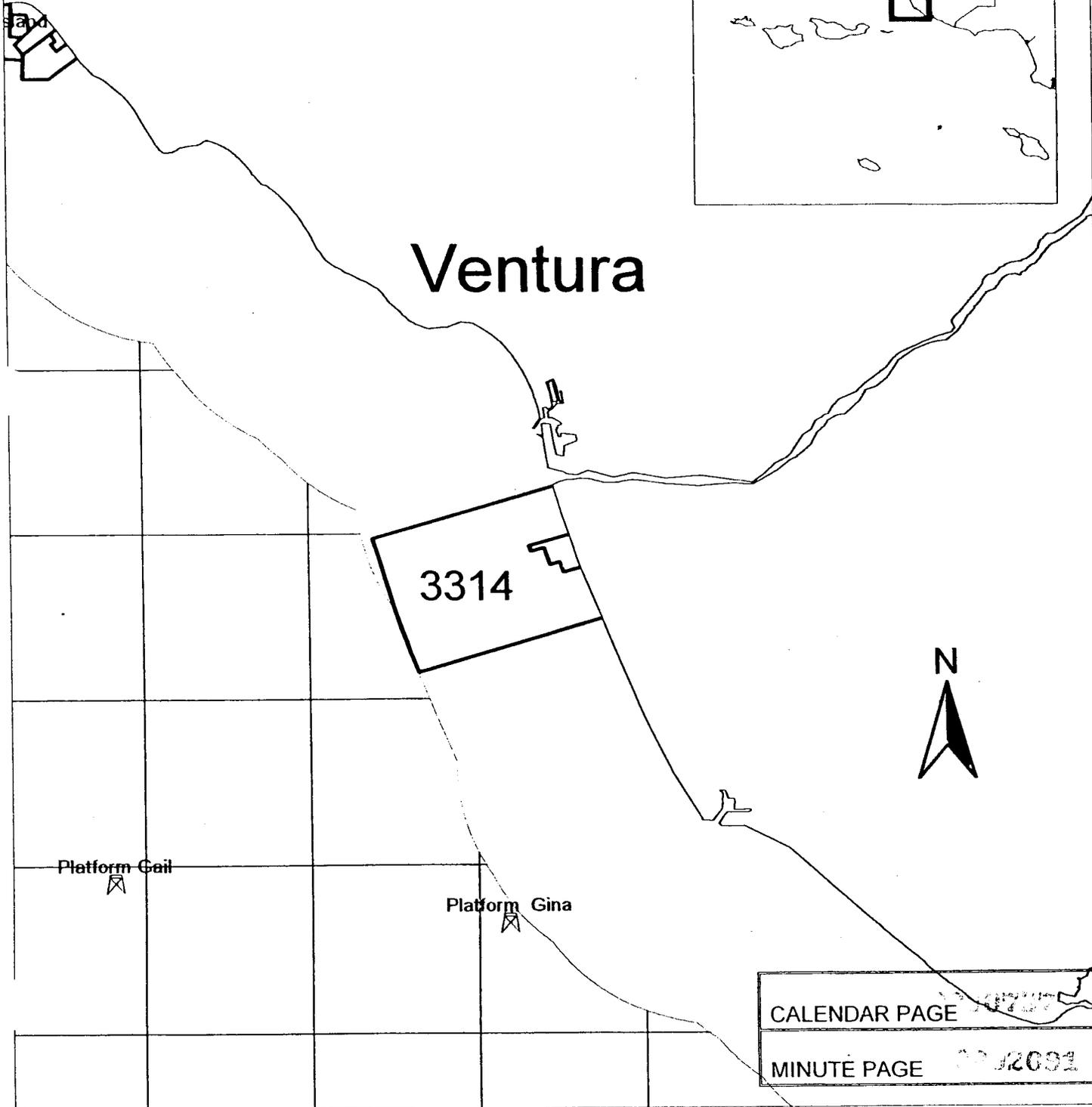
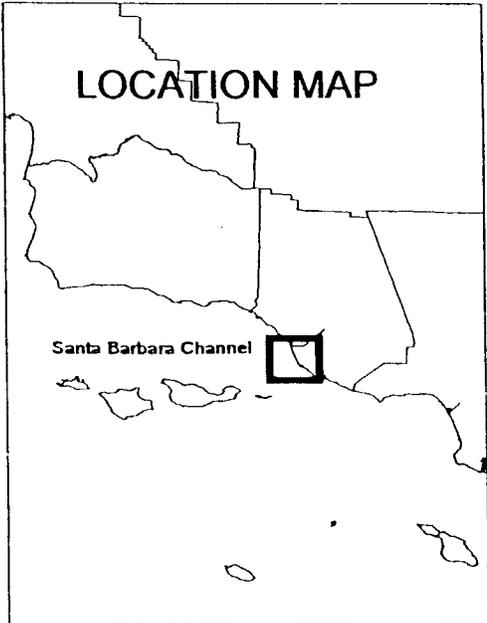
CALENDAR ITEM NO. C84 (CONT'D)

RESULTS OF THIS EFFORT WILL ALLOW
DEFINITION OF DRILLING TARGETS WITHIN THE
PROXIMAL AREA OF THE 3314 LEASE.

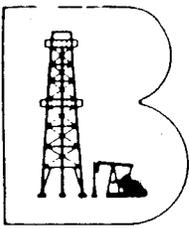
3. PHASE III – PERMITTING AND DRILLING: 8
MONTHS. ACQUIRE PERMITS AND BEGIN
DRILLING OPERATION ON LEASE NO. PRC 3314.1
BY JULY 1, 2003.
- B. BERRY PETROLEUM COMPANY TO BRIEF THE
COMMISSION ON OR BEFORE OCTOBER 1, 2002, ON ITS
PROGRESS.

CALENDAR PAGE	10730
MINUTE PAGE	12030

EXHIBIT A



May 15, 2001

(661) 769-8811
www.bry.comRalph E. McPhetridge
Land Manager

Mr. Jeff Planck
State Lands Commission
200 Ocean Gate, 12th Floor
Long Beach, California 90802

RE: Request for Extension
Oil and Gas State Lease PRC 3314
Montalvo Field
Ventura County, California

Dear Mr. Planck:

Proposal:

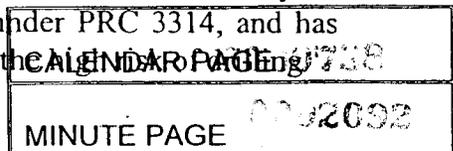
On Tuesday, May 8, 2001, Berry Petroleum Company (BPC) staff met with State Lands Commission staff at their Long Beach offices to discuss Berry's request for a drilling extension on the subject lease. As an outcome of that meeting, BPC is providing this request for extension with an explanation of our proposed development plans, and an Application to Conduct an onshore 3-D seismic survey with passive geophone tails extending past the surf zone.

Toward that end, BPC respectfully requests that the State Lands Commission grant an extension of the drilling obligation under PRC 3314 until July 1, 2003.

As shown in the section identified as "Schedule" hereinbelow, the first sixteen months of the requested two-year period are necessary for permitting, conducting the survey, processing and interpreting the seismic data. If our interpretation of the seismic data is conclusive and geologically favorable, the remaining eight months will be used to permit and commence the drilling of at least one development well underlying PRC 3314. Attached is a completed State Lands Application Form to include the use of passive ocean bottom geophones on PRC 3314.

Background:

On May 1, 1990, Chevron assigned a portion of State Lease PRC 3314 to Berry Petroleum Company. Shell Oil Company assigned the balance of the lease to Berry on May 29, 1992. One onshore well was slant drilled by Shell under PRC 3314, and has been producing since 1985. Primarily due to low oil prices and the



without supporting seismic data, State Lands has granted BPC several extensions to resume lease development.

Oil prices began to improve in late 1999 and by early 2000, exhibited a substantial recovery. Since that time, BPC has engaged an engineering consultant to assist in defining the geologic interpretation on and offshore in the Montalvo field. Berry also engaged a drilling consultant to determine the cost of extended reach drilling to multiple targets from several onshore locations. Based on current scientific data, the risked economics for offshore development via extended reach drilling are marginal. However, as BPC was preparing to commence further development of PRC 3314, the California electricity and energy crisis began. This crisis has demanded the full attention of BPC's management and resulted in a default of electricity revenue owed to Berry of \$27 MM and a huge reduction in our capital budget from \$24.5 MM to \$8 MM.

In February of 2001, we assigned a team to complete and improve our geological interpretation of the Montalvo field, including PRC 3314. This study resulted in a recommendation to conduct a 3-D seismic survey onshore and extend the passive geophone array to approximately the 10-fathom line. This will provide subsurface data reaching approximately ½ mile offshore underlying PRC 3314. BPC management believes the information gained from the proposed 3-D seismic program will provide invaluable data in reducing the risk of drilling an extended reach offshore well.

Following is a schedule setting out the milestones of our proposed work plan.

Schedule:

Phase I – Seismic Operations and Prospecting

Permitting: 8 months

Berry Petroleum Company proposes to undertake a 3-D seismic acquisition program over the Montalvo oilfield. This will cover a total of 8,176 acres. Of this, 6,482 acres will cover the onshore portion of the field, with 1,694 acres over the innermost portion of the 3314 lease (bounded on the west by the 10 fathoms counter and on the east, by the shoreline). Please refer to the attached map, which shows the area of interest.

Acquisition: 2 months

Geophones will be deployed on the ocean bottom, and will record seismic energy generated by vibroseis equipment operating on land only. Conventional 3-D seismic operations will then acquire data for the onshore portion of the survey.

Interpretation: 6 months

This time shall be spent producing time and depth structure maps, isochrons/isopachs, amplitude anomaly maps, and well-to-seismic ties. This work will also tie previous interpretations of the area. The results of this effort will support continued development

CALENDAR PAGE 00-2099
MINUTE PAGE 00-2099

onshore while providing enough coverage to allow definition of drilling targets within the proximal area of the 3314 lease.

Phase II – Permitting and Drilling: 8 months

Based upon encouraging data from the 3-D survey, drilling targets will be prioritized underlying the 3314 lease area. BPC shall then pursue the necessary permits from the regulatory agencies for the drilling and completion of one or more development wells to PRC 3314.

As you know, if you support our proposal we need to be on the June 2001 consent calendar.

Should you have any questions or need additional information, please call me at 661-769-2337.

Very truly yours,



Ralph E. McPhetridge
Land Manager

CALENDAR PAGE 10740

MINUTE PAGE 20094