MINUTE ITEM
This Calendar Item No. 64
was submitted for information
only, no action thereon
being necessary.

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64

04/09/02
PRC 145.1
PRC 410.1
PRC 427.1
PRC 429.1
PRC 1466.1
J. Hemphill
G. Scott

CALIFORNIA STATE LANDS COMMISSION
(INFORMATIONAL)

Commissioners listened to staff presentation regarding Rincon Island. Informational item only, no action taken.

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STAFF REPORT ON THE STATUS OF RINCON ISLAND AND ASSOCIATED OFFSHORE OIL AND GAS LEASES,RINCON OIL FIELD, VENTURA COUNTY

INTRODUCTION:

At its January 2002 meeting, the Commission requested an update on the ownership and operational status of the Rincon Island lease and the other State leases for the offshore portion of the Rincon oil field in Ventura County. Rincon Island Limited Partnership (RILP) operates the leases. Compass Bank, RILP's major creditor, obtained indirect control of RILP by exercising lien rights obtained during the Chapter 11 bankruptcy proceedings as a result of the restructuring of RILP' debt. Compass Bank, directly or through a subsidiary, continues to provide funding for RILP's operations and has technical and environmental/safety oversight through an international petroleum-consulting firm. Compass Bank has advised staff that it wished to dispose of its interest in RILP in order to recover on the defaulted loan.

LEASE HISTORY AND CURRENT STATUS:

RILP is the current lessee and operator of State Oil and Gas Lease Nos. PRC 145.1, PRC 410.1, PRC 429.1 and PRC 1466.1, covering tide and submerged lands in the Rincon oil field. RILP is also the current lessee of State Right of Way Leases PRC 1961.1 (Rincon Island and causeway - still in place) and PRC 5968.1 (Whitten wharf and pier – removed in 1999) that served the oil and gas operations. Lease Nos. PRC 145.1 and PRC 410.1 were developed by wells that

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have been slant-drilled from onshore locations. Lease PRC 429.1 was developed by wells drilled from the wharf. Lease PRC 1466.1 was developed by wells drilled from Rincon Island.

The offshore leasing of the Rincon Oil Field began from 1929 to 1931 with the issuance of leases for the lands included in PRC 410.1, PRC 427.1, and PRC 429.1 and ended in 1955 with the issuance of State lease PRC 1466.1. Several different oil companies have held these leases over the years. By the end of the 1980s, Atlantic Richfield Company (ARCO) and Berry Petroleum Company held all the various state leasehold interests at Rincon, except for portions of PRC 145 owned by Energy Development Corporation. In 1992, the Commission approved the assignment by ARCO to Berry of all its interests in the Rincon leases. When approving that assignment, the Commission required that ARCO remain liable for removing Rincon Island and the causeway leading to it. British Petroleum (BP), which acquired ARCO, now has this liability. In 1995, the Commission approved the assignment of Berry's interest in the Rincon leases to RILP with the condition that Berry remain liable for removing the Island and the causeway.

On August 20, 1998, RILP and its managing general partner, Windsor Energy US Corporation ("Windsor") filed a voluntary petition in the Bankruptcy Court seeking relief under Chapter 11 of the Bankruptcy Code. Pursuant to a confirmed plan of reorganization, Rincon continues to operate the State leases, subject to the continuing jurisdiction of the Bankruptcy Court. Compass Bank, the principal creditor of RILP, held a first priority lien on the assets of RILP, the stock of RILP's managing general partner, Windsor, and the partner's equity interest in RILP. In June of 2001, Compass Bank foreclosed on all of the stock of Windsor and the partner's interest in RILP, thereby assuming indirect control of RILP. RILP, under the indirect control of Compass Bank, continues to operate the State leases on an interim basis. Compass Bank has indicated to staff that it acquired RILP with the intent of disposing of the limited partnership, or all of the assets, as quickly as possible. Compass Bank has actively been seeking a buyer for the properties. The Commission retained the right to approve the transfer of the leases to another lessee. Compass Bank has given assurances to staff that it will seek Commission approval of any transfer of the leases.

FINANCIAL SECURITY:

RILP has a $5 million performance bond issued by the Capital Indemnity Corporation guaranteeing its performance of its obligations under the lease, including the plugging and abandonment of all wells and the removal of all facilities and the causeway. BP and Berry remain liable for the removal of

Rincon Island and the causeway. The staff estimates that the facility and well abandonment costs for all leases will not exceed $5 million. RILP is a member of Clean Seas and complies with the oil spill prevention requirements of the Office of Spill Prevention and Response, including a Certificate of Financial Responsibility backed by a $10 million oil spill insurance policy.

SAFETY AUDIT RESULTS:

In February 2001, the staff completed its engineering and technical safety audit of RILP's lease operations. The staff found 473 Action Items that needed to be addressed and resolved to bring the lease operations up to current safety and environmental standards. Forty-eight of these Action Items were high priority, 101 were moderate priority, and 324 were low priority. RILP has addressed all the Action Items and resolved 418 of them. It is working to resolve the 55 that remain. The 14 remaining high priority Action Items require additional time for engineering studies, design, and equipment fabrication. RILP has already spent over $1 million to resolve the Action Items. Schlumberger, a large international petroleum service and engineering company hired by Compass Bank, has reviewed and validated the Safety Audit and RILP's compliance with the Audit.

RILP'S PROPOSED REDEVELOPMENT PLAN:

In December 2001, RILP submitted to the Commission an application for a development project for the Rincon leases. The staff reviewed the application, found it to be incomplete and asked RILP to resubmit it. The staff received the revised application in February 2002 and advised RILP that it remains incomplete.

The redevelopment plan calls for drilling 21 new wells and redrilling 15 existing wells. The plan would be implemented over a period of five to six years at a cost in current dollars of about $45.7 million. An estimated 9.6 million barrels of additional oil production and 6.6 billion cubic feet of additional natural gas production are listed in the Plan. The staff has not analyzed the Plan to assess the reasonableness of its expectations and the likelihood of its implementation.

RILP'S CURRENT OPERATIONS:

RILP has seven full time employees, a registered geologist/registered environmental assessor, a production foreman, an office manager and four operators. RILP's employees have over 100 years of industry experience, most of it in the Rincon oil field. RILP also hires registered petroleum engineers for reservoir, facility, well drilling, and workover analyses and electrical, construction, and drilling and workover contractors as needed. Compass Bank has a

petroleum engineer on staff and retained Schlumberger to provide an operations manager and technical and safety oversight of the operations.

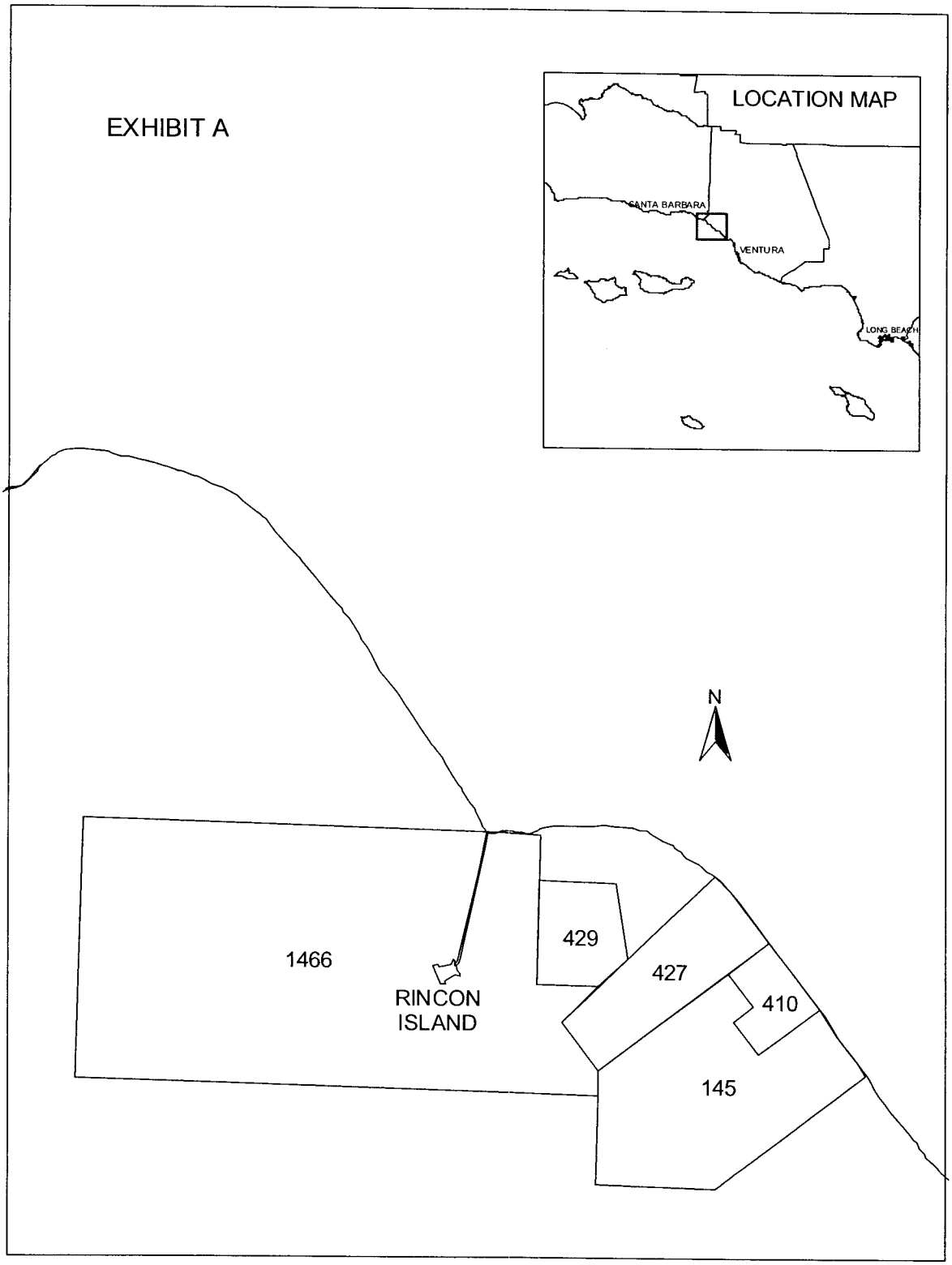
COMPASS BANK'S EFFORTS TO SELL ITS INTEREST IN RILP

Compass Bank has been seeking a qualified buyer to acquire the leases. The purchaser would take over the operation of the leases, subject to the approval of the Commission. Compass Bank has invited several operators to review the development potential and condition of the leases. At this time, none has expressed any serious interest. In the meantime, RILP remains as the operator of the leases, with Compass Bank providing financial support. In addition, RILP, with the support of Compass Bank, continues to be committed to going forward with a redevelopment plan. The staff believes that the current operational status of the Rincon leases is satisfactory. The speed with which Compass Bank proceeds with its plan to find a buyer rests with Compass Bank. When a buyer is found, that buyer must have the financial resources and the record of operational competency and environmental sensitivity to operate the leases safely and prudently and to meet all of the lease obligations.

EXHIBIT:

A. Location Map

PRC 145.1
PRC 410.1
PRC 429.1
PRC 1466.1



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