MINUTE ITEM
This Calendar Item No. C68
was submitted for information only, no action thereon being necessary.

INFORMATIONAL
CALENDAR ITEM
C68

A 35, 37

06/18/02
PRC 2199.1
PRC 2894.1
PRC 2920.1
J. Planck

S 18

STAFF REPORT ON THE STATUS OF OIL AND GAS LEASE NOS. PRC 2199.1, PRC 2920.1, AND PRC 2894.1, OFFSHORE GAVIOTA AREA, SANTA BARBARA COUNTY

INTRODUCTION:

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

The subject leases were assigned, in their entirety, to Benton Oil and Gas Company (Benton) in 2001, and Benton is the current lessee and operator of the leases. An EIR for development of the offshore gas fields from an onshore drilling and production site was prepared and certified by the County of Santa Barbara on September 3, 1996. The California Coastal Commission considered and approved an amendment to the Santa Barbara County Local Coastal Plan to allow for the development on September 11, 1996. 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 located within the County designated Consolidated Oil and Gas Planning Area. In 1998 Benton and its then partner, Molino Energy Company LLC (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 reservoir was not sufficiently permeable at the bottom hole location to produce enough gas to make the completion of the well profitable.

In 1998, the Commission granted Benton (and its partner Molino) a two-year drilling deferment, to re-evaluate the field and revise the development plan. During that time, the County of Santa Barbara initiated an R1 permit condition review of the Gaviota Processing Facility. This review impacted what and where the companies could process gas produced from the project. That review period became extended because of other factors and the uncertainty of continued development of these leases. The elapsed time precipitated a R1 permit condition review of the Benton/Molino facilities themselves. These reviews have since been completed and Benton has continued their review and analysis for development of these leases.

SANTA BARBARA COUNTY ACTIONS:

Molino and Benton submitted a request to the County of Santa Barbara, to assign all of its interests in the onshore facilities and county permits to Benton, to grant an extension of time to resume development, and for an amendment to its Final Development Plan.

At the February 28, 2001hearing, 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's meeting three project development milestones. Failure to meet any of the milestones would result in a review by the Planning Commission to determine if facility abandonment or modification would be appropriate. The approval also allowed for subsequent wells be drilled within a 10-month period after release of a testing rig from the well site, with 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 gas processing facilities is at or below 2.25 MMSCFD, the same review discussed above would result.

The milestones were as follows:

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

An extensive 3-D seismic reprocessing program and development of an improved subsurface velocity model to delineate and establish drilling targets and priorities in the Gaviota, Molino and Caliente potential structures.

Six Months – September 1, 2001 to February 28, 2002
Interpretation and integration of the reprocessed 3-D seismic the data into an existing well database with onshore surface expressions and geologic features. Preparation of detailed economic models of costs, future net revenues, operating costs and present worth to establish optimum priority of drilling the Gaviota, Molino or Caliente potential structures.

Ten Months – March 1, 2002 to December 31, 2002
Pre-drilling preparation, including site preparation, and apply and obtain miscellaneous permits from other affected departments and agencies. Benton is required to commence drilling at least one test well (which could be re-entry or sidetrack of the first test well, Gaviota #7).

LAST COMMISSION ACTION:

At its April 24, 2001, California State Lands Commission hearing, the Commission approved a deferment of the drilling obligations of these leases until December 31, 2002, and incorporated the milestones set forth by the County Planning Commission at their February 28, 2001, meeting. Benton was also subject to these additional conditions:

1. Benton was required to brief the Commission of its progress under the deferment at a regularly scheduled Commission meeting not later than the end of the second quarter of 2002 (or any time at the Commission's request).

2. Failure to meet any of the milestones set by the County Planning Commission would terminate the deferment and terminate the subject leases (unless otherwise extended by the Commission).

3. Benton was required to submit an exploration and development plan for the subject leases by December 31, 2002. Failure to do so would terminate the subject leases (unless otherwise extended by the Commission).

CURRENT PROGRESS and UPDATE:

Since the Commission's meeting, Benton Oil and Gas Company has moved its corporate headquarters, and entire operation, to Houston, Texas. It has retained local consultants (Rincon Energy, LLC – no relation to Rincon Island Limited

Partnership or any of those lessees or operations), to manage the properties and to continue working on the development plans.

In a letter to staff in March, and subsequent communication between Staff and Mr. Minkin of Rincon Energy, and in communication with the County of Santa Barbara Energy Division, staff can confirm that Benton, through its consultants, has met all of the County milestones to date (the first requirement of the Commission approval). The County staff has received regular updates and had meetings with Mr. Minkin and his staff. The following is a synopsis of the work done, or work in progress, to date by the Lessee's consultants:

1. "Migration" of the original 3D survey has been completed and delivered for interpretation. This work has resulted in a much-improved seismic image of the leasehold. Interpretation and mapping is ongoing to revise the previous view of the subsurface configuration of potential traps. Additional velocity updating is contemplated to further improve the data quality.

2. Drilling engineering studies evaluating a program of reentry of the 2199 #7 well, stimulation, testing, and possible abandonment have been completed.

3. Project economic models have been developed evaluating sensitivities to gas and condensate prices together with capital and operations expenditures.

4. Progress has been made in securing investors, or another oil and gas operator, for the reentry project and development from the onshore site. Recent communications with Commission Staff have indicated that a potential buy-out by another operator may actually occur. Concurrently, Benton has identified a project possibly involving testing structures on the leaseholds from federal waters and is exploring that option for a future project.

5. Benton, through its consultants, has kept the County and State staffs apprised of its progress regularly.

OTHER PERTINENT INFORMATION

1. Rincon Energy, LLC, Benton's consultant, will be available to give a presentation or to answer any Commission's questions regarding the status and the ability to meet the Commission, and County, milestones.

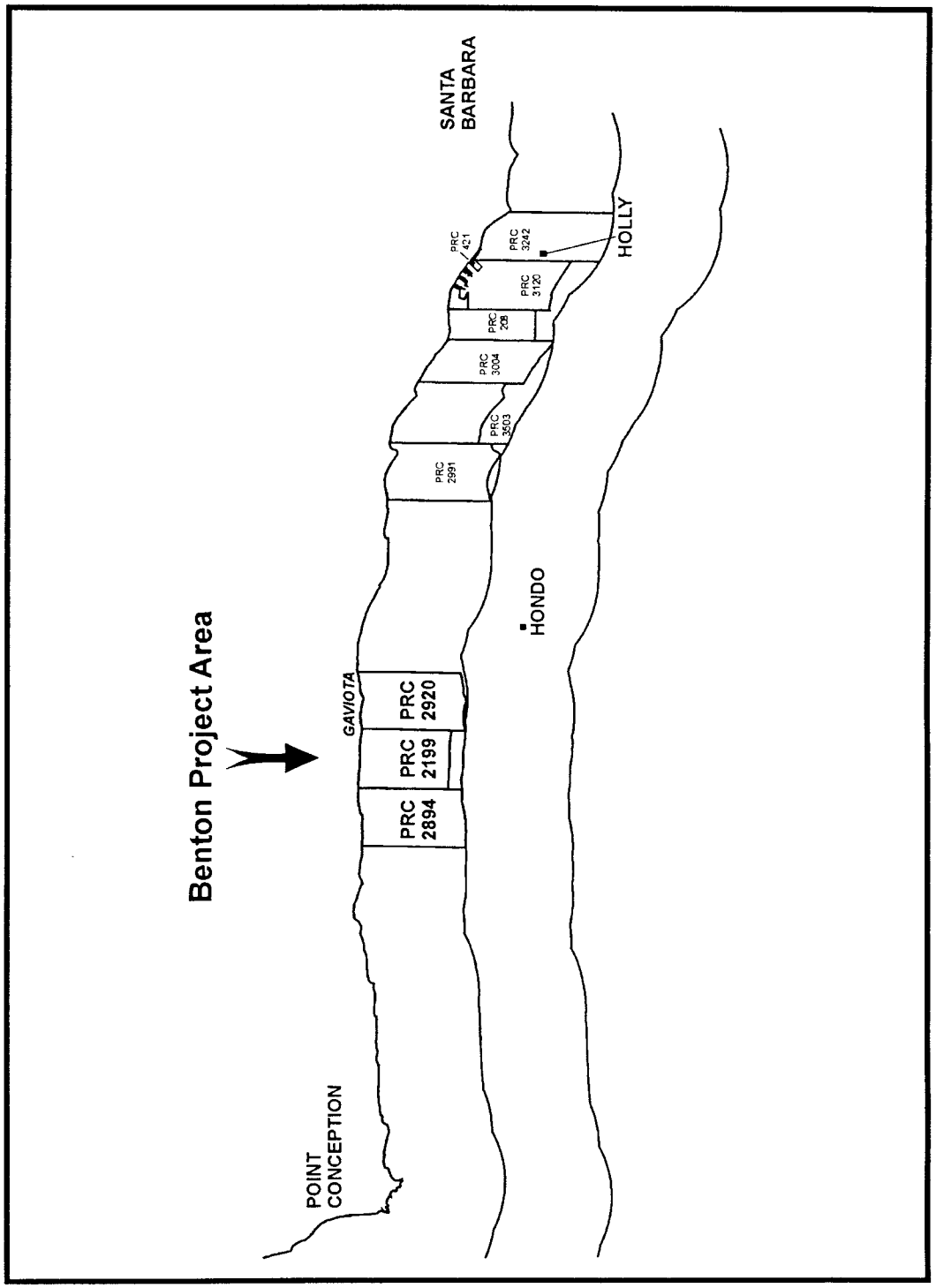
2. A request to assign the leases (i.e. a buy-out) would require Commission approval of the assignee.

3. Any future project contemplated by drilling from a federal platform would require CEQA processing and documentation (most probably an EIR or EIR/EIS) and approval by the Commission.

EXHIBIT:

A. Location Map

EXHIBIT A


Benton Project Area
POINT CONCEPTION
GAVIOTA
PRC 2894
PRC 2199
PRC 2920
PRC 2991
PRC 3003
PRC 3004
PRC 298
PRC 3120
PRC 421
PRC 3242
HONDO
HOLLY
SANTA BARBARA