

MINUTE ITEM
This Calendar Item No. C66 was approved as
Minute Item No. 166 by the California State Lands
Commission by a vote of 3 to 0 at its
10-01-02 meeting.

**INFORMATIONAL
CALENDAR ITEM
C66**

A 35

10/01/02

S 18

PRC 3314.1

J. Planck

**STAFF REPORT ON THE STATUS OF
OIL AND GAS LEASE NO. PRC 3314.1,
OFFSHORE MONTALVO OIL FIELD,
VENTURA COUNTY**

APPLICANT:

California State Lands Commission
100 Howe Avenue, Suite 100-South
Sacramento, CA 95825-8202

INTRODUCTION AND LEASE HISTORY:

Oil & Gas Lease PRC 3314.1 consists of approximately 5,340 areas of tide and submerged lands offshore Montalvo Oil Field, in Ventura County. The lease was issued to Shell Oil Company in 1965. Through a series of assignments, the present lessee and operator is Berry Petroleum Company (Berry).

There has been one well drilled into the lease, in 1985, by Chevron (a "farm-out" from Shell) from an upland location on the east side of Harbor Boulevard. That well has been producing, and continues to produce, an average of 100 barrels of oil per day (BOPD) since it was completed. There is a small oil and gas processing facility at that onshore location.

LAST COMMISSION ACTION:

At the September 17, 2001, regularly scheduled California State Lands Commission (Commission) hearing, Berry requested and was granted a two-year drilling deferment for this lease. Berry requested the deferment in order to conduct a seismic survey and to finish analysis of the geologic framework. The Commission's approval was subject to the following conditions and completion milestones, which were determined by the applicant and Commission staff to be reasonable and achievable:

CALENDAR ITEM NO. C66 (CONT'D)

1. Permitting of the seismic operation by February 1, 2002, with completion of the survey by April 1, 2002, and data acquisition by April 1, 2002.
2. Interpretation of the data, and incorporation of previous interpretations and data, and identification of drilling targets by October 1, 2002.
3. By January 1, 2003, submit development plans to the Commission for consideration and evidence that the applications for all necessary permits have been initiated.

These milestones were to be completed and Commission staff was to receive written notice of the completion of each "phase." Berry was also required to brief the Commission on or before October 1, 2002, on its progress.

CURRENT PROGRESS and UPDATE:

On February 1, 2002, Commission staff received written notice advising of Berry's progress as required by the Commission's approval. Berry desires to move forward expeditiously to meet the third milestone. In a subsequent letter dated September 20, 2002, Berry has stated that it has acquired old seismic information that it will be reprocessing, thus substituting for the seismic survey contemplated.

Even though the first milestone was not met on time, existing seismic data has been acquired by Berry and the goal has now been met. The second milestone, the interpretation of the data and identification of drilling targets by October 1, 2002, will not be met. However, Commission staff met with representatives of Berry Petroleum on September 18, 2002, and was given assurances that Berry is proceeding quickly to analyze and interpret the seismic data in an effort to identify potential drilling targets. At the meeting, and in a subsequent letter, Berry stated they would be starting the permitting process soon, and still plans to be able to meet milestone three by January 1, 2003. They stated the reason the first and second milestones were not reached were because of a significant decline in oil prices at the first of the year, and studies showed that the completion of 3D seismic surveys and alternatives were not either economically feasible or would not provide the necessary information to make a commitment to invest the \$3 million or more per well. Therefore, they took the alternate path of securing previously run seismic surveys to provide the required information.

CALENDAR ITEM NO. C66 (CONT'D)

The process to acquire the information from a third party required more time than anticipated and desired.

In their letter of September 20, 2002, Berry has asked for a renegotiation of royalty rates. Staff will schedule meetings with Berry to discuss the possibility after the new data is analyzed and more information is available as to the amount of oil reserves remaining and costs for developing those reserves are determined.

Commission staff believes that the course of action proposed by Berry should result in Berry being able to meet the third milestone, preparing and presenting a development plan to the Commission, and securing drilling permits, environmental documentation, and well approvals from the County to begin development of the lease by July 1, 2003.

Commission staff has requested that Berry be available to brief the Commission of its progress, as required by the September 17, 2001, approval, and to present its intentions regarding this lease and the final milestone.

EXHIBITS:

- A. Location Map
- B. Letter of February 1, 2002 from Berry Petroleum Company
- C. Letter of September 20, 2002 from Berry Petroleum Company

EXHIBIT A

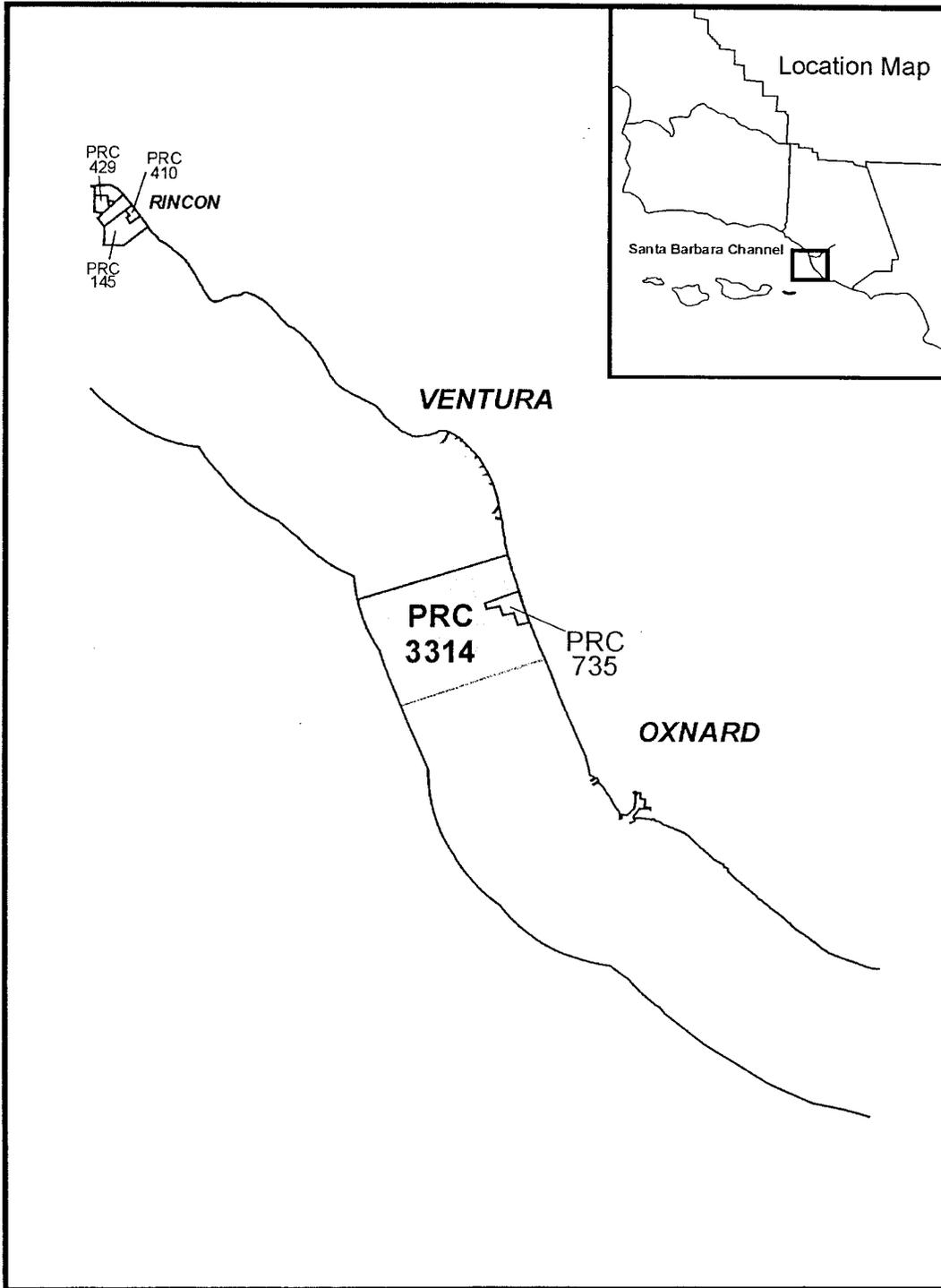
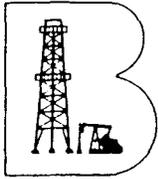


EXHIBIT B



Berry Petroleum Company

Post Office Box 925
Taft, California 93268-0925

February 1, 2002

(661) 769-8811
www.bry.com

Ralph E. McPhetridge
Land Manager

Mr. Paul Mount
State Lands Commission
200 Oceangate, 12th Floor
Long Beach, California 90802

RE: State Lease PRC 3314
Montaivo Field, Ventura County, California
BPC Land File CA01005

Dear Mr. Mount:

As a result of State Lands Commission Calendar Item C84 dated September 17, 2001, Berry Petroleum Company began a review to determine the economic feasibility of conducting an onshore 3-D seismic program covering the Montaivo Field. The purpose of this proposed 3-D program was to assist Berry in identifying additional economic development opportunities for both onshore and offshore. Because of State Lands policy, conventional seismic energy sources would be restricted to onshore locations, which would limit the area of offshore coverage to one-half mile or less. Calendar Item C84 requires Berry to provide State Lands a progress report on or before February 1, 2002.

In compliance with said Calendar Item, and as discussed in our telephone conversation dated January 8, 2002, Berry Petroleum Company has completed its 3-D seismic feasibility review. Unfortunately the results of this review (see attached Exhibit "A") were economically disappointing and has dictated that we terminate our plans to conduct said 3-D program. This decision was necessary due to the cost of conducting such a 3-D seismic program compared to the probable benefits of drilling an extended reach well(s) on 3314 and/or any additional onshore development wells. Any additional drilling under the 3314 lease would be a high risk and in our opinion an uneconomic venture. This conclusion is based on the limited amount of offshore seismic coverage that could be obtained and other existing data including the historical production volumes from the PRC 3314 and PRC 735 leases. It is conceivable that at some point in the future, with new drilling and geophysical technology, and higher oil prices, further development of 3314 could become an economic venture. However, at this point in time, we cannot economically justify drilling any additional wells.

000350

CALENDAR PAGE

002050

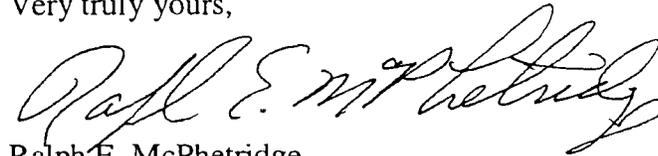
MINUTE PAGE

Paul Mount
February 1, 2002
page two

Therefore, it is respectfully requested that this lease be considered economically developed pursuant to paragraph 20 of the lease. If this request is granted, we will continue to follow new technology in hopes of making drilling on PRC 3314 more attractive in the future. In fact, we have just recently become aware of a seismic program referred to as 3D VSP. This program is performed by placing the receivers in an existing well bore and moving a single low energy source in a radius around the receivers. This 3D VSP program is currently being used by THUMS in Long Beach Harbor. However, we understand that the energy source being used in the Long Beach Harbor would be prohibited in State waters. We believe that this may be a feasible method if the energy source is modified so that it complies with State Lands policy, and can be economically implemented at Montalvo. If so, it may provide information that could improve the economics of drilling an extended reach well offshore Montalvo. We will continue to investigate and monitor this new seismic procedure very closely.

Your consideration regarding this request will be appreciated. Should you have any questions, please call me at 661-769-2337

Very truly yours,



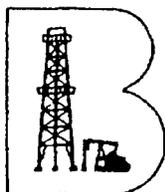
Ralph E. McPhetridge
Land Manager

000351

CALENDAR PAGE

002051

MINUTE PAGE



Berry Petroleum Company

5201 Truxtun Ave., Suite 300
Bakersfield, CA 93309-0640

September 20, 2002

(661) 616-3900
www.bry.com

Stephen T. Burke
Land Manager

Via Facsimile: 562-590-5210

Mr. Paul B. Mount II
State Lands Commission
Mineral Resources Management Division
200 Oceangate, 12th Floor
Long Beach, CA 90802-4331

RE: State Lease PRC 3314
Montalvo Field, Ventura County
BPC Land File CA01005

Dear Paul:

On behalf of Berry Petroleum Company, we appreciated the opportunity to meet with you and your staff to discuss Berry's activities related to PRC 3314 during the past several months. The meeting was held at the State Lands Long Beach office on September 18, 2002 and attended by our respective representatives.

Following is an outline of the issues discussed:

1. Berry has completed its 3-D seismic feasibility review. We were disappointed to learn that the cost to shoot the 3-D seismic was higher than originally thought. Said high cost combined with the high risk and high cost to drill an extended reach well(s) compared to the probable benefits made this project uneconomic. Therefore, as we informed you by letter dated February 1, 2002, the 3-D project was terminated.
2. Subsequent to terminating the 3-D program, Berry hired a geophysical consultant to investigate the feasibility of utilizing a process called Vertical Seismic Profile (VSP) to evaluate the 3314 offshore potential. This process is performed by placing receivers in an existing well bore and moving a single low energy source in a radius around the receivers. After extensive research, our consultant concluded that the area surveyed by this process is too limited to be effective at the deeper offshore objective intervals needed to explore the subject lease.
3. After learning that the VSP would be ineffective, Berry decided to acquire over fifteen miles of existing onshore 2-D seismic lines. These lines will be reprocessed and are expected to provide sufficient data to identify additional onshore oil and/or gas prospects.

000352

CALENDAR PAGE

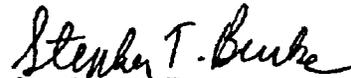
002052

MINUTE PAGE

4. Berry is also investigating the feasibility of permitting additional onshore (some near offshore) 2-D seismic lines pending the results of the reprocessing of existing 2-D seismic lines.
5. In anticipation that this onshore interpretation may enhance the offshore potential via extrapolation of productive fairways under the subject leased lands, we are planning on meeting next week with Ms. Julie Ward, Ventura County Planning Department. The primary purpose of the meeting will be to discuss the permitting process in order to secure a drilling permit from a drillsite that can access the subject lands. We will be starting the permitting process soon in order to be prepared to drill a well on PRC 3314 by July 1, 2003.
6. Due to the high cost and high risk involved in drilling any offshore well it is respectfully requested that consideration be given to modifying the existing sliding scale lease royalty to a flat one-sixth (1/6). Economic projections under the existing royalty formula are not conducive to lease development.

For your use, we provided you with an interpretive extrapolated Sespe Zone Structure Map showing cumulative production. Should you have any questions regarding this map or any of the issues discussed in our meeting, please give me a call at 661-616-3815.

Very truly yours


Stephen T. Burke
Land Manager

000353

CALENDAR PAGE

002050

MINUTE PAGE