MINUTE ITEM
This Calendar Item No. C32 was approved as Minute Item No. 32 by the California State Lands Commission by a vote of 3 to 0 at its 8-8-05 meeting.

CALENDAR ITEM
C32

A 35,37

S 19, 23

08/08/05
PRC 3997.1
PRC 4017.1
PRC 4324.1
PRC 5967.1
S. Young

CONSIDER APPROVAL OF ASSIGNMENT AND PROPOSED AMENDMENT OF THREE RIGHT-OF-WAY LEASES AND ONE INDUSTRIAL LEASE, SANTA BARBARA AND VENTURA COUNTIES

LESSEE/ASSIGNOR:

Plains Exploration & Production Company
5640 S. Fairfax Avenue
Los Angeles, CA 90056

ASSIGNEE:

Dos Cuadras Offshore Resources, LLC
5201 Truxtun Ext., Suite 120
Bakersfield, CA 93309

AREA, LAND TYPE, AND LOCATION:

Three Right-of Way Leases and one Industrial Use Lease consisting of approximately 187 acres of tide and submerged lands in Santa Barbara and Ventura counties.

AUTHORIZED USES:

Lease Nos. PRC 3997.1, PRC 4017.1, PRC 4324.1, and PRC 5967.1 are for the continued use and maintenance of existing submarine pipelines, water lines, and electrical lines which serve various federal Outer Continental Shelf (OCS) oil and gas leases in the Pacific Ocean.

LEASE TERMS:

PRC 3997.1 – 49 years, beginning January 17, 1968
PRC 4017.1 – 49 years, beginning August 28, 1968
PRC 4324.1 – 49 years, beginning October 2, 1969
PRC 5967.1 – 25 years, beginning April 1, 1981

ANNUAL RENT:

PRC 3997.1 - $15,750
PRC 4017.1 - $27,612
PRC 4324.1 - $25,185
PRC 5967.1 - $54,752

SPECIFIC LEASE PROVISIONS:

Insurance:

General Liability insurance in the amount of no less than $2,000,000

Bond:

Lease Performance Bond in the amount of $3,000,000

BACKGROUND:

The California State Lands Commission (Commission) previously issued 12 leases that, through various assignments, came to be held by Nuevo Energy Company. Three of these leases PRC Nos. 3033.1, 3095.1 and 3413.1, covering Platforms Eva and Ester, are for offshore oil and gas operations in State waters and three are for the associated pipeline right-of-ways. The remaining six leases include five right-of-way leases and one industrial lease covering various pipelines and power cables serving federal OCS operations.

On August 17, 2004, the Commission approved the amendment of the three oil and gas leases and the nine pipeline right of way leases in connection with the merger acquisition of Nuevo Energy Company by Plains Exploration & Production Company (PXP). The Commission also approved the assignment to PXP of two of the right of way leases that required Commission approval for the transfers to be effective. At that time, the oil and gas leases and seven right of way leases did not explicitly require Commission approval of the merger or transfer of controlling interest to PXP. The Commission approved amendments that provided that future mergers or transfer of controlling interest of the remaining ten leases be subject to Commission approval. Additionally, these amendments revised the performance bond and general liability amounts of all 12 of the leases.

Staff has received an application from PXP requesting the assignment of the three oil and gas leases, as well as for seven of the right of way leases to Dos Cuadras Offshore Resources, LLC (DCOR). At this time, staff is recommending the Commission approve the assignment and amendment of only three of the pipeline Right of Way leases, PRC 3997.1, PRC 4017.1, PRC 4324.1 and the one Industrial Lease PRC 5967.1, which serve various federal OCS oil and gas

leases in Ventura and Orange Counties. The State oil and gas leases and the associated right of way leases are the subject of a separate Calendar Item on the Commission's Agenda.

PROPOSED AMENDMENT:

The proposed amendment to lease nos. PRC 3997.1, PRC 4017.1, PRC 4324.1 and PRC 5967.1 provides specific language requiring:

1. DCOR to comply with all existing and subsequently enacted laws or regulations promulgated by the federal government, including but not limited to the Department of Transportation or the National Transportation Safety Board or any other governmental agency having lawful authority and jurisdiction over the pipelines.

2. Prior review and approval by the Commission of DCOR's future proposed repairs or structural modifications to any portion of the pipelines or other improvements located within the Lease Premises.

3. The Commission the right to examine all records and data associated with the pipelines within the Lease Premises as well as the right to go on the Lease Premises for any purpose associated with the Leases or for carrying out any function required by law, or the rules, regulations or management policies of the Commission.

4. DCOR maintain all records of inspection, repair and testing and maintenance activities, in accordance with provisions of 9 CFR Part 192 and 195, and in accordance with any Mineral Management Service Pacific OCS Regional Manager orders, directives, or other requirements regarding pipeline testing and surveillance, and provide copies of those records to the Commission.

5. DCOR provide copies of all pipeline inspection test procedures, prior to testing, for Commission review and approval as well as submit results of all testing for Commission review and approval. Under this provision, DCOR is required to provide copies and plans for any other inspections, repair or maintenance activities on the Lease Premises.

6. DCOR provides a copy of the current pipeline operations manual and provides updates, as they are available. Lessee operator is required to conduct training classes and periodic drills simulating a pipeline leak and

the procedures to be followed when a potential leak is detected.

7. Specific language as to Oil Spill Emergency procedures and notifications required.

OTHER PERTINENT INFORMATION:

1. An Assignment Consent Agreement (Agreement) executed by DCOR and PXP, to which the State is also a party, is a condition of the proposed assignment. The Agreement provides for: (1) PXP to remain fully responsible for and bear all costs of the decommissioning, abandonment and site clearance associated with the State ROW leases; (2) PXP shall maintain in place existing bonds totaling $3 million to guarantee the faithful performance by DCOR of all obligations under the leases; (3) in the event that any existing bond (s) is canceled or terminated by the surety, PXP would replace it with a bond or bonds acceptable to the State, and if the surety should refuse or fail to provide funds to cure, then PXP will undertake to cure DCOR's default in an amount not to exceed $3 million; and (4) in the event the State increases the amount of the bonding requirements on any of the affected leases above the present amount, DCOR would be responsible for posting any increased amount.

2. As a condition of the proposed assignment, DCOR's parent company, Crescent Resources LLC must provide an unconditional guarantee for full performance by DCOR of all obligations under the leases. The California State Lands Commission will release or modify the unconditional guarantee if it finds such action is warranted by DCOR's financial and operational strength and if the modification or release of the guarantee will not result in endangering the public health or safety, private or public property or the environment.

3. The U.S. Department of Interior's Minerals Management Service has approved the assignment from PXP to DCOR of the federal oil and gas leases, served by the State right of way leases, and has approved DCOR as PXP's operator.

4. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines [Title 14, California Code of Regulations, section 15060(c)(3)], the staff has determined that this activity is not subject to the provisions of the CEQA because it 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, sections 15060 (c)(3) and 15378.

EXHIBITS:

A-1. Site and Location Map for PRC 5967.1
A-2. Site and Location Map for PRC 3997.1, PRC 4017.1 and PRC 4324.1

PERMIT STREAMLINING ACT DEADLINE:

N/A

RECOMMENDED ACTION:

IT IS RECOMMENDED THAT THE COMMISSION:

CEQA FINDING:

FIND THAT THE ACTIVITY IS NOT SUBJECT TO THE REQUIREMENTS OF THE CEQA PURSUANT TO TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15060(c)(3) BECAUSE THE ACTIVITY IS NOT A PROJECT AS DEFINED BY PUBLIC RESOURCES CODE SECTION 21065 AND TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15378.

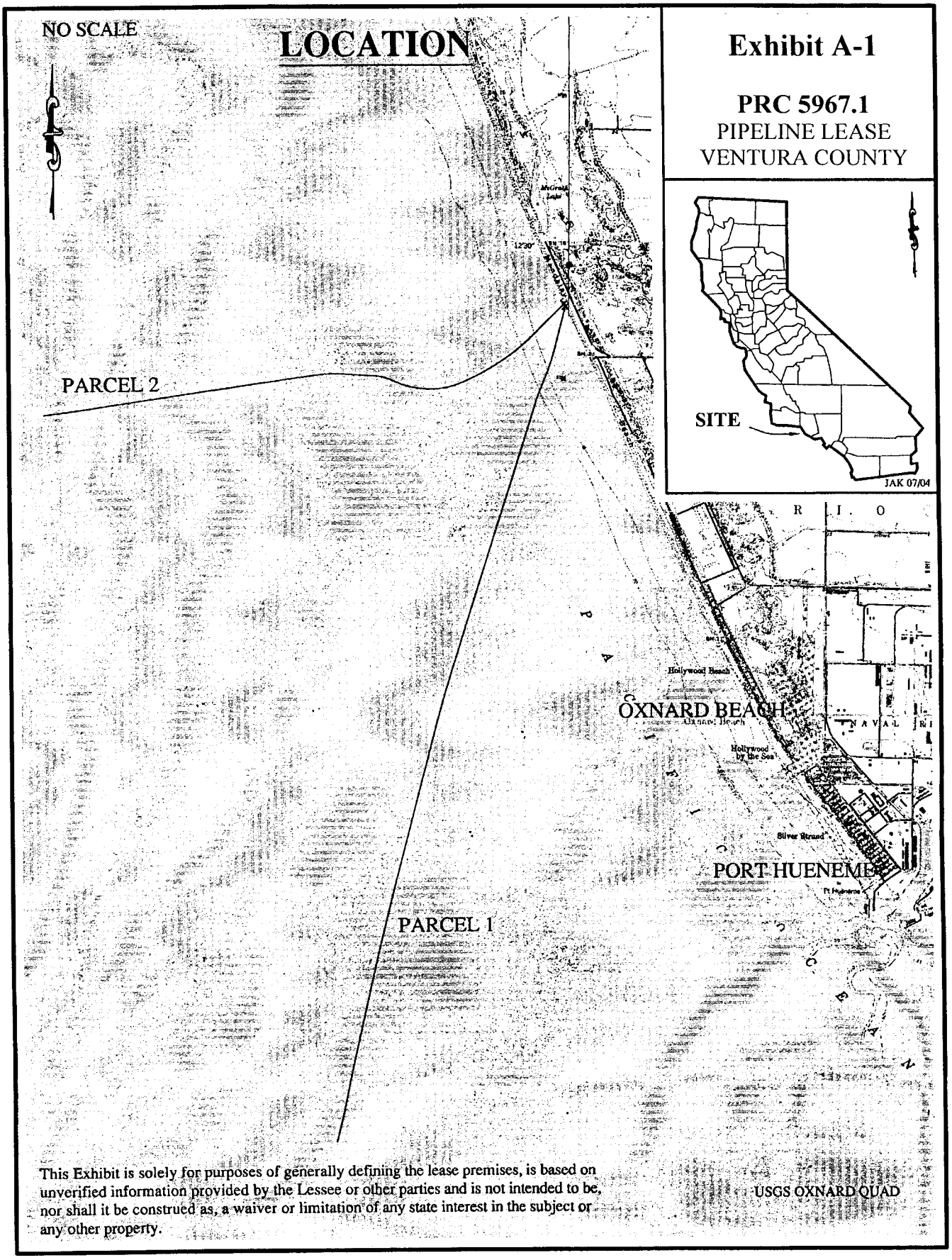
AUTHORIZATION:

AUTHORIZE THE ASSIGNMENT FROM PLAINS EXPLORATION & PRODUCTION COMPANY (ASSIGNOR) TO DOS CUADRAS OFFSHORE RESOURCES, LLC (ASSIGNEE) OF ALL OF PLAINS' INTEREST IN STATE RIGHT OF WAY LEASE NOS. PRC 3997.1, PRC 4017.1, PRC 4324.1 AND STATE INDUSTRIAL LEASE NO. PRC 5967.1, EFFECTIVE AUGUST 8, 2005.

AUTHORIZE THE AMENDMENT OF RIGHT-OF-WAY LEASES PRC 3997.1, PRC 4017.1, PRC 4324.1 AND INDUSTRIAL LEASE NO. PRC 5967.1, EFFECTIVE AUGUST 8, 2005, SUBSTANTIALLY IN THE FORM ON FILE IN THE SACRAMENTO OFFICE OF THE COMMISSION.

AUTHORIZE THE EXECUTION OF THE ASSIGNMENT CONSENT AGREEMENT FOR RIGHT-OF-WAY LEASES PRC 3997.1, PRC 4017.1, PRC 4324.1 AND INDUSTRIAL LEASE NO. PRC 5967.1, EFFECTIVE

AUGUST 8, 2005, SUBSTANTIALLY IN THE FORM ON FILE IN THE SACRAMENTO OFFICE OF THE COMMISSION.

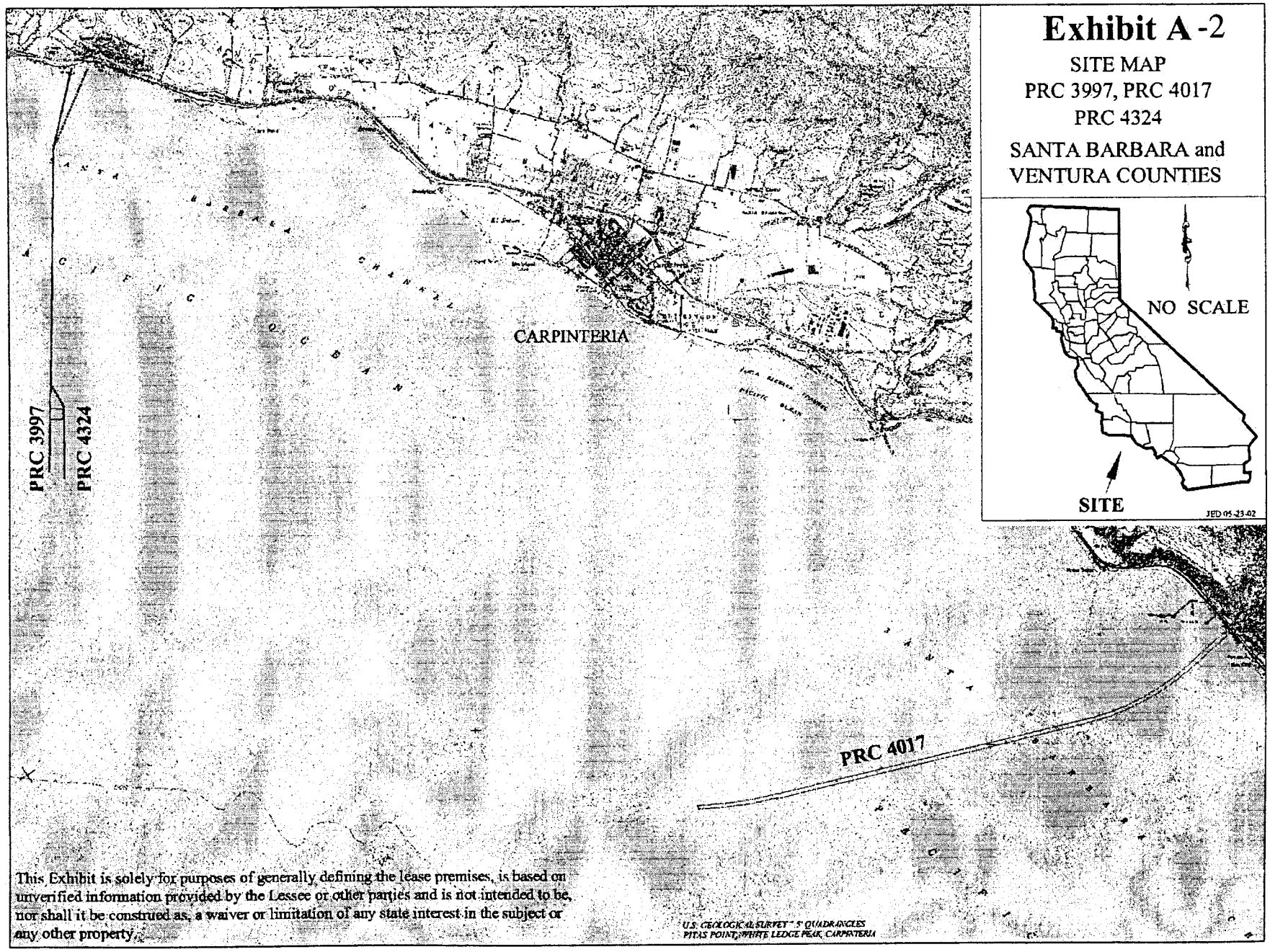


This Exhibit is solely for purposes of generally defining the lease premises, is based on unverified information provided by the Lessee or other parties and is not intended to be, nor shall it be construed as, a waiver or limitation of any state interest in the subject or any other property.

Exhibit A-2

SITE MAP
PRC 3997, PRC 4017
PRC 4324

SANTA BARBARA and
VENTURA COUNTIES



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