

**CALENDAR ITEM  
C41**

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10/20/05  
PRC 3033  
PRC 3095  
PRC 3413  
PRC 3116  
PRC 3394  
PRC 6417  
M. Voskanian  
J. Planck

S 33, 37

**CONSIDER ASSIGNMENT OF  
PLAINS EXPLORATION & PRODUCTION COMPANY'S INTEREST  
IN, AND AMENDMENT OF, OIL AND GAS LEASE NOS.  
PRC 3033, PRC 3095, AND PRC 3413, AND RIGHT-OF-WAY LEASE NOS.  
PRC 3116, PRC 3394, AND PRC 6417, TO DCOR, LLC,  
OFFSHORE ORANGE COUNTY**

**ASSIGNOR:**

Plains Exploration & Production Company  
Attn: Mr. Steve Rusch  
5640 S. Fairfax Ave.  
Los Angeles, CA 90056

**ASSIGNEE:**

DCOR, LLC, a Texas limited liability company  
Attn: Mr. Andrew Prestridge  
6267 Carpinteria Avenue, Suite 250  
Carpinteria, CA 93013

**AREA, LAND TYPE, AND LOCATION:**

All of these leases are located offshore Orange County, California.

- State Oil and Gas Lease No. PRC 3033.1 is an active producing lease that contains approximately 2,113 acres. Platform Eva, built in 1964, is served by Right-of-Way Lease Nos. PRC 3116.1 (pipelines, water line, power cable) and PRC 6417.1 (two electric power cables and condensate pipeline).
- State Oil and Gas Lease No. PRC 3095.1 is an active producing

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lease that contains approximately 3,360 acres. Platform Esther, originally an island built in 1965, and rebuilt in 1986 as a platform (after the destruction of the island by a 1983 storm), is served by Right-of-Way Lease No. PRC 3394.1 (pipelines and power cable).

- State Oil and Gas Lease No. PRC 3413.1 contains 1,871 acres, is contiguous with PRC 3033, and is currently used for waterflooding operations.

**BACKGROUND:**

The California State Lands Commission (Commission) issued the six (6) leases that, through a series of assignments, came to be held by Nuevo Energy Company (Nuevo). Three of the leases are offshore oil and gas leases and three are right-of-way (ROW) leases covering pipelines and power cables serving the offshore operations (see Location Maps attached as Exhibit A and A1 to this Calendar Item).

In 2004, Plains Exploration and Production Company (PXP) acquired Nuevo Energy Company (in a buy-out) and merged that company into PXP. As a consequence, the leases are currently owned and operated by PXP.

Each of the State leases contains a provision requiring the prior consent of the Commission to any assignment, transfer or sublease of the lessee's interest. In addition, Public Resources Code section 6804 provides that, unless approved by the Commission, no assignment, transfer or sublease of an oil and gas lease shall be of any effect.

PXP and DCOR, LLC (DCOR) approached staff September 2004, to discuss the process for obtaining Commission approval for the assignment of the leases from PXP to DCOR. The asset transfer between the companies also included ten (10) federal offshore oil and gas leases (with nine platforms) and State ROW leases for pipelines serving those federal OCS leases. The assignment of the State ROW leases serving only the federal OCS platforms was the subject of an earlier calendar item that was approved by the Commission at the August 8, 2005, meeting.

DCOR submitted its application seeking Commission approval for the assignment of the State leases in early November of 2004. On November 30, 2004, staff sent a response to the applicant expressing concerns over DCOR's staffing, experience and lack of offshore operating history. The letter requested, among other things, additional information regarding DCOR's financial condition,

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the proposed allocation of responsibility between PXP and DCOR for the abandonment of wells and decommissioning of facilities, and DCOR's proposal for the maintenance of bonding requirements under the leases. Working closely with staff, DCOR submitted responses to that inquiry and other staff requests for information over the following months. An extensive review of all the materials submitted and numerous discussions with DCOR and PXP (the current lessee) ensued.

**TERMS OF THE PROPOSED ASSIGNMENT;**

PXP and DCOR entered into a Purchase and Sales Agreement (PSA), dated September 29, 2004, under the terms of which PXP agreed to sell all of its interest in ten federal offshore oil and gas leases (containing nine federal platforms), three State oil and gas leases (containing state platforms Eva and Esther), together with associated State ROW leases for pipelines and power cables serving the platforms. The purchase price provided for in the PSA is \$112.5 million. The sale closed on December 20, 2004, subject to the parties securing necessary approvals, including Commission approval of the assignment of the State leases.

Under the terms of the PSA, DCOR will assume responsibility for the plugging and abandonment of all wells on the assigned leases and PXP retains responsibility for decommissioning and abandonment of the platform facilities and associated pipelines. The PSA further provides for DCOR to either maintain a performance bond for the benefit of PXP in the amount of \$25 million to secure DCOR's obligation to abandon all wells, or to make annual payments into a well abandonment escrow fund in an amount not to exceed \$30 million, subject to disbursement of funds back to DCOR as the wells are abandoned.

The PSA further provides for DCOR to extend offers of employment to individuals employed by PXP in connection with managing and operating the properties to be sold. Offers of employment have been made and accepted by approximately 140 people (virtually all) who were employed by PXP to perform work directly on, in support of, or in supervisory roles in connection with the state and federal platforms. DCOR reports that all of the employees associated with the assets on California state leases, from the manager of California Offshore Operations down through the operators on the platforms, have accepted the offers of employment. DCOR has advised staff that among the former Nuevo-PXP employees with offshore experience that it has hired are its Operations Manager, having over twenty-six (26) years experience managing onshore and offshore assets, fifteen (15) years of which have been managing offshore assets

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in California and Alaska; its Production Superintendent, having over twenty years of experience working offshore California; and four Foremen with offshore experience. DCOR also employs senior engineers and geologists with a minimum of ten (10) years each of offshore experience in California. DCOR's Vice President of Operations is a Petroleum Engineer who has over twenty (20) years of experience in the petroleum industry, although, prior to DCOR's acquisition of the OCS platforms earlier this year, had no offshore operating experience. Within the past 8 months, DCOR has also hired a new Vice President of Land & Legal affairs who has more than twenty (20) years serving in technical and management roles for companies engaged in oil and gas exploration, including approximately five (5) years serving as Vice President, Land and Legal and as a Director of Petsec Energy, an oil and gas exploration company operating exclusively in the Gulf of Mexico.

In accordance with the requirement of the State leases, PXP furnished the State with performance bonds totaling \$21 million, as follows: \$18 million covering the state oil and gas leases (PRC Nos. 3033, 3095, and 3413) and their associated ROW leases PRC 3116.1 and 3394.1, and \$3 million for ROW lease PRC 6417.1, and the ROW leases located in Santa Barbara County serving the federal platforms, previously approved for assignment to DCOR by the Commission at its August 8, 2005 meeting. The PSA provides for PXP to maintain the existing bonds in place. Staff has reviewed the sufficiency of the bond amount, and PXP has agreed to increase the bond amount for the State Oil and Gas leases and ROW leases PRC Nos. 3116.1 and 3394.1 by an additional \$3 million (see Exhibit C, Lease Amendment, attached hereto).

In furtherance of PXP's obligation under the PSA to maintain the bonds required by the State Leases, and to address staff's concerns regarding bonding and related matters, PXP and DCOR have agreed to enter into an Assignment Consent Agreement with the COMMISSION, in the form attached as Exhibit B, containing the following terms: (1) PXP is to remain fully responsible for and bear all costs of the decommissioning, abandonment and site clearance associated with Platforms Eva and Esther and all of the State ROW leases; (2) PXP shall maintain, in place, existing bonds totaling \$21 million to guarantee the faithful performance by DCOR of all obligations under the State leases; (3) PXP will increase the bond coverage for State Oil and Gas Leases PRC 3033.1, 3095.1 and 3413.1 and State Right of Way Leases Nos. PRC 3116.1 and 3394.1 by an additional \$3 million; (4) in the event that any existing bond(s) is cancelled 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

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cure, then PXP will undertake to cure DCOR's default in an amount not to exceed \$24 million; (5) in the event of a failure of DCOR to plug and abandon the wells on the State leases, PXP would plug and abandon the wells as a prerequisite to its platform decommissioning obligations, and (6) 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 additional monies necessary to meet such requirements.

**FINANCIAL CONSIDERATIONS:**

PXP is a publicly traded, independent oil and gas corporation with a market capitalization estimated by staff to be approximately \$3 billion dollars. PXP is primarily engaged in the activities of acquiring, developing and producing oil and gas properties in the United States.

As a publicly traded company, PXP is subject to the regulatory oversight of the Securities and Exchange Commission and is required to make periodic filings of audited financial statements and disclose information about the company that would materially affect investment decisions by the public.

DCOR is one of five limited liability companies identified below (collectively referred to as the "Templeton Companies") that are owned (99%) and controlled, directly or indirectly, by Mr. William M. Templeton. DCOR, and Yowlumne Resources, LLC, a Texas LLC, are owned entirely by Castle Peak Resources, LLC, a Texas LLC, which in turn is owned entirely by Crescent Resources, LLC, a California limited liability company ("Crescent"). Crescent also owns Cascade Resources, LLC, a California limited liability company. DCOR reported its daily share of production from offshore platforms operated by PXP, prior to the closing of the PXP-DCOR sale, to be 1,430 BOE/D. Since closing of the sale, DCOR reports its current production to be approximately 14,000 BOE/D.

Crescent Resources, LLC (DCOR'S "parent" company) has provided staff with a consolidated Pro Forma market derived (based on oil/gas reserve reports conducted by consultants) balance sheet dated September 30, 2004, that shows post acquisition assets of \$262.1 million, liabilities of about \$125 million and equity of about \$137 million, or a debt to equity ratio of 1:1.1. The Pro Forma estimates that the PXP acquisition increases the company's equity amount by about \$89.4 million. In a letter dated April 7, 2005, DCOR stated that as of the date of acquisition of the PXP assets, based upon engineering valuations, the capitalized value of the equity of DCOR and its affiliates exceeds \$150 million. DCOR asserts that debt, as a percentage of the assets acquired from PXP, is

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projected to be less than 50% at year-end 2005. DCOR indicates that current debt related to assets acquired from PXP as of March 31, 2005, stands at \$103.5 million, a reduction in excess of \$17.5 million since the closing of the acquisition of the PXP assets on December 20, 2004.

In order to finance the acquisition of the State and federal leases under the PSA and to provide additional operating capital, DCOR obtained a loan and line of credit of approximately \$125 -150 million. DCOR has agreed to continue to pay down its debt, and Crescent Resources (the parent company) has agreed that its consolidated debt as a percentage of its assets (adjusted for the difference between the book value of its oil and gas assets and its PW 10 value as calculated by third party engineers acceptable to Crescent's lending institutions and adjusted for any hedging differentials) will not exceed 50% through June 30, 2008. In sum, in this time period, the value of Crescent's total assets will be at least two times the amount of the debt that burdens those assets.

Crescent has also agreed to provide an unconditional guarantee of DCOR 's faithful performance of all the terms, covenants and obligations under the State Oil and Gas leases and associated ROW leases.

To insulate against the risk of declining oil/gas prices, DCOR has "hedged" a large portion of its projected oil/gas production. For the four-year period from 2005 to 2009, the hedged oil prices average \$43.79, \$41.24, \$39.72 and \$38.08 per BBL respectively. Natural gas prices were hedged for a three-year period 2005, 2006 and 2007 at \$6.64, \$6.44 and \$6.18 per MMBTU respectively.

DCOR has advised that it will carry the same type and amount of liability and casualty insurance as maintained by PXP. Information provided by DCOR's insurance broker reflects coverage in the following amounts: Oil Spill Financial Responsibility at \$35 million; Control of Well coverage at \$50 million; Workers Compensation in the statutory amount; Excess Liability, including pollution, at \$100 million; and Excess Liability covering limited categories of risk of an additional \$50,000,000. DCOR would also be a member of the Clean Coastal Waters cooperative for oil spill response and services.

**ADDITIONAL INFORMATION:**

Mr. Templeton, has stated that, since 1987, he has managed and participated in producing property acquisitions and exploration projects, serving in the capacities of president and/or manager of the following entities or joint ventures, with responsibility for the operations and finances of the following companies: 1)

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Kilmont Energy, Inc., citing mineral reserves valued at \$20 million (1987-1991); 2) A-R Resources, Inc and CBAR Investments, LLC - in joint ventures with Phoenix Oil & Gas, Ltd., LLC, citing mineral reserves valued at \$25 million (1991-1997); 3) Castle Peak Resources, LLC- in joint ventures with Phoenix Oil & Gas, Ltd., citing mineral reserves valued at \$40 million (1997-2001); and 4) the Templeton Companies, citing mineral reserves valued at over \$300 million (2001-2005).

Since the consummation of the purchase by DCOR of PXP's federal assets covering ten (10) oil and gas leases and nine (9) platforms, the Minerals Management Service (MMS) has approved the transfer of assets (January/February 2005), and approved DCOR's operatorship, or sub-operatorship (March/April 2005), on all of the federal leases.

The fact that DCOR and its related companies are owned almost entirely by a single individual raised the concern of staff regarding how succession of executive management would occur in the event that Mr. Templeton ceased to serve in his present capacity. In response, executive management authority for DCOR was transferred into a Voting Trust. The purpose of the Voting Trust is to provide for the orderly and uninterrupted succession of qualified executive management of DCOR. During the term of the Voting Trust, executive management rights will be transferred to the trustee(s) under the trust. The Voting Trust provides for the appointment of Mr. Templeton as the initial trustee, and further designates a board of three trustees who would succeed Mr. Templeton should he cease to serve. Section 8.04 of the Voting Trust establishes minimum qualifications for successor trustees, including without limitation, trustees shall have experience in the management or regulation of oil and gas properties with specific experience in offshore operations. The Voting Trust is irrevocable for a period of ten (10) years. DCOR has agreed to maintain the Voting Trust in effect for a minimum of ten (10) years from August 15, 2005, or until DCOR has either transferred all of the State Leases with the approval of the State, or surrendered the leases in accordance with their terms, whichever first occurs. The minimum qualifications for the successor trustee(s) are not to be modified during the term of the trust. DCOR shall promptly notify the Commission of any change in trustee and furnish a resume and/or other information satisfactory to the State detailing the qualifications of the replacement trustee(s).

In November 2004, Commission staff conducted a site visit to the Cascade Field in Los Angeles County. The oil field is owned by Cascade Resources, LLC and

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operated by Castle Peak Resources, LLC. Staff paid particular attention to safety practices and property maintenance programs. Staff observed that the relatively small property, consisting of approximately 21 active wells, appeared to be operated in a satisfactory manner and demonstrated acceptable and safe oil field practices. The equipment appeared in good condition and housekeeping and field maintenance also appeared in good order. Staff also contacted the District Deputy Supervisor at the Ventura office of the California Division of Oil, Gas and Geothermal Resources, who commented favorably upon Castle Peak's safety and operating practices. A review of Castle Peak's OSHA recordable incidents statistics for the years 2001-2003 did not raise any concerns. A recent review of DCOR's operation of the federal leases it acquired and has operated since earlier this year revealed no significant problems.

**PROPOSED AMENDMENT OF STATE LEASES;**

Staff and representatives of DCOR have had extensive discussions that have led to an agreement to modify certain terms of the State leases to provide an additional level of assurance that the leases will continue to be operated in a safe and prudent manner by an experienced and financially stable operator. The general terms of the proposed lease amendment are outlined below and more specifically set out in Exhibit C. The terms of the proposed amendment, to which DCOR has agreed, are as follows:

1. The bond requirement under the State Oil and Gas Leases: PRC Nos. 3033.1, 3095.1, and 3413.1 and State ROW Leases PRC Nos. 3116.1 and 3394.1 is increased from \$18 million to \$21 million dollars. PXP shall be responsible for posting and maintaining bonds covering the State Leases in the foregoing amounts.
2. The amount of consolidated debt carried by DCOR's indirect parent company, Crescent Resources, LLC, a California limited liability company, as a percentage of assets, shall not exceed 50% through June 30, 2008.
3. The membership interest in DCOR shall remain subject to the Voting Trust for a minimum of ten (10) years, or until DCOR ceases to hold an interest in any of the State leases, whichever occurs first. DCOR shall not reduce the minimum experience qualifications for successor trustees.
4. DCOR shall complete safety training of all current personnel within

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90 days of approval.

5. DCOR shall conduct a full deployment oil spill exercise at one of the State platforms within 180 days of approval.
6. Crescent Resources, LLC shall execute an irrevocable and unconditional guaranty of DCOR's performance of the terms of all of the State leases.
7. A follow-up safety audit to assess the integrity of the safety management systems will be conducted at the end of a three-year period from approval.
8. Pipeline inspections shall be conducted in accordance with the regulations of the State Lands Commission. DCOR shall conduct repairs or modifications as may be necessary to bring the pipelines up to current API standards.
9. DCOR is to make capital expenditures to enhance production on the State Oil & Gas leases in an amount of not less than \$1 million per year for calendar years 2006, 2007 and 2008.
10. DCOR will present the COMMISSION with quarterly reviews of selected financial data for a period of two years following assignment, and thereafter on an annual basis.
11. DCOR shall maintain at least the current level of staff experience and knowledge of offshore California drilling and production operations as is possessed by its current senior and operations management.
12. At the direction of the State Lands Commission staff, Lessee shall suspend drilling and/or production operations on a platform, except those that are corrective, protective or mitigative, in the event of a spill, air emission incident or other pollution incident, or if a regulatory violation is discovered that poses a threat to public health or safety to the environment. Operations shall remain suspended until the cause of the incident is identified and all repairs, installations, training and other work to prevent a recurrence of the incident are accomplished or the regulatory violation is corrected, all to the satisfaction of State

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Lands Commission staff.

13. State Pipeline ROW Lease PRC Nos. 3116.1, 3394.1 and 6417.1 would be amended to require the Lessee to provide a copy of the current pipeline operations manual and provide updates, as they are available, and to maintain records of all inspection, repair, testing, and maintenance activities, in accordance with the provisions of 49 CFR Part 192 and 195.
14. State Pipeline ROW Lease PRC No. 3394.1 would be amended to require the Lessee to comply with all existing and subsequently enacted laws or regulations promulgated by the federal government or any other governmental agency, having lawful authority and jurisdiction over the pipeline.
15. State Pipeline ROW Lease No. PRC 6417.1 would be amended to require the Lessee to maintain records of all inspection, repair, testing and maintenance activities, in accordance with any Minerals Management Service Pacific OCS Regional Manager orders, directives, or other requirements regarding pipeline testing and surveillance, and provide copies of those records to the Lessor.

**STAFF RECOMMENDATION:**

For the reasons outlined above, the adoption by DCOR of a Voting Trust Agreement to provide for the orderly succession of competent management, the execution of the Assignment Consent Agreement (Exhibit B) and the Lease Amendment adding other conditions agreed to by DCOR (Exhibit C), staff recommends the Commission approve the execution of the Assignment Consent Agreement and the Lease Amendment, and grant its approval for the assignment of State Oil and Gas Leases Nos. PRC 3033.1, 3095.1 and 3413.1, and associated State ROW Leases Nos. PRC 3116.1, 3394.1 and 6417.1 to DCOR.

**STATUTORY AND OTHER REFERENCES:**

- A. Assignment Provisions of the respective Leases
- B. Public Resources Code section: 6804

**OTHER PERTINENT INFORMATION**

1. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines [Title 14, California Code of Regulations, section 15060(c)(3)],

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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. Location Map for ROW Lease No. PRC 6417.1
- A1. Location Maps for Oil and Gas Lease Nos. PRC 3033.1, PRC 3095.1 and PRC 3413.1 and Right-of-Way Lease Nos. PRC 3116.1 and PRC 3394.1
- B. Assignment Consent Agreement
- C. Lease Amendment

**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.

**STAFF RECOMMENDATION:**

1. APPROVE THE ASSIGNMENT CONSENT AGREEMENT (ATTACHED AS EXHIBIT B) AND AUTHORIZE THE EXECUTIVE OFFICER OR HIS DESIGNEE TO EXECUTE ANY DOCUMENT NECESSARY TO IMPLEMENT THE COMMISSION'S ACTION.
2. APPROVE THE AMENDMENT TO OIL & GAS LEASES PRC 3033, PRC 3095, AND PRC 3413 AND STATE RIGHT-OF-WAY LEASES PRC 3116, 3394 AND 6417 (ATTACHED AS EXHIBIT C) AND AUTHORIZE THE EXECUTIVE OFFICER OR HIS DESIGNEE TO EXECUTE ANY DOCUMENT NECESSARY TO IMPLEMENT THE COMMISSION'S ACTION.

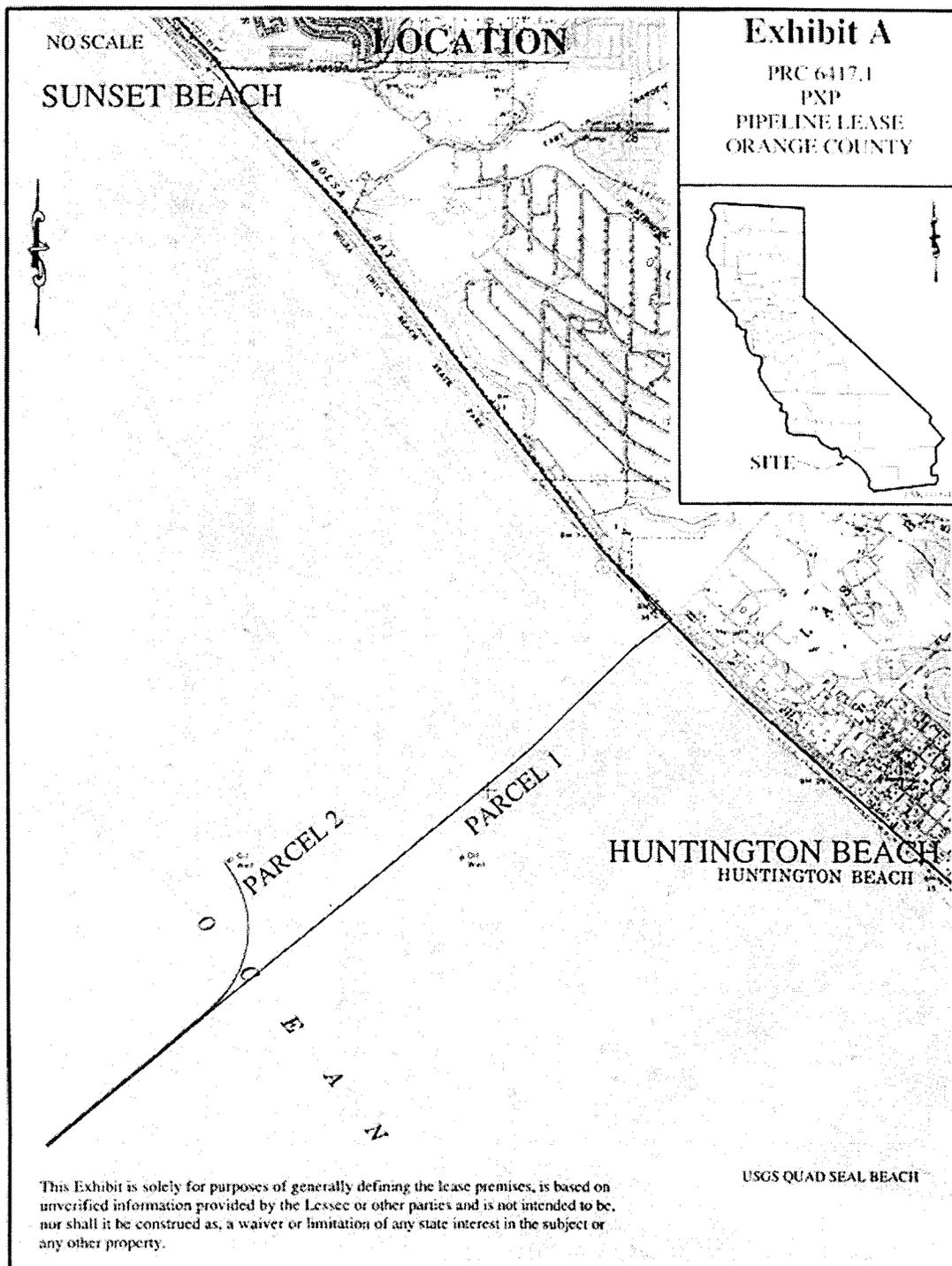
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3. APPROVE OF THE ASSIGNMENT OF ALL OF PLAINS EXPLORATION & PRODUCTION COMPANY'S INTEREST IN OIL AND GAS LEASE NOS. PRC 3033, PRC 3095, AND PRC 3413, AND RIGHT-OF-WAY LEASE NOS. PRC 3116, PRC 3394, AND PRC 6417, OFFSHORE ORANGE COUNTY, CALIFORNIA, TO DCOR, LLC, AND AUTHORIZE THE EXECUTIVE OFFICER OR HIS DESIGNEE TO EXECUTE ANY DOCUMENT NECESSARY TO IMPLEMENT THE COMMISSION'S ACTION.

PRC 3033  
PRC 3095  
PRC 3413  
PRC 3116  
PRC 3394  
PRC 6417

### EXHIBIT A



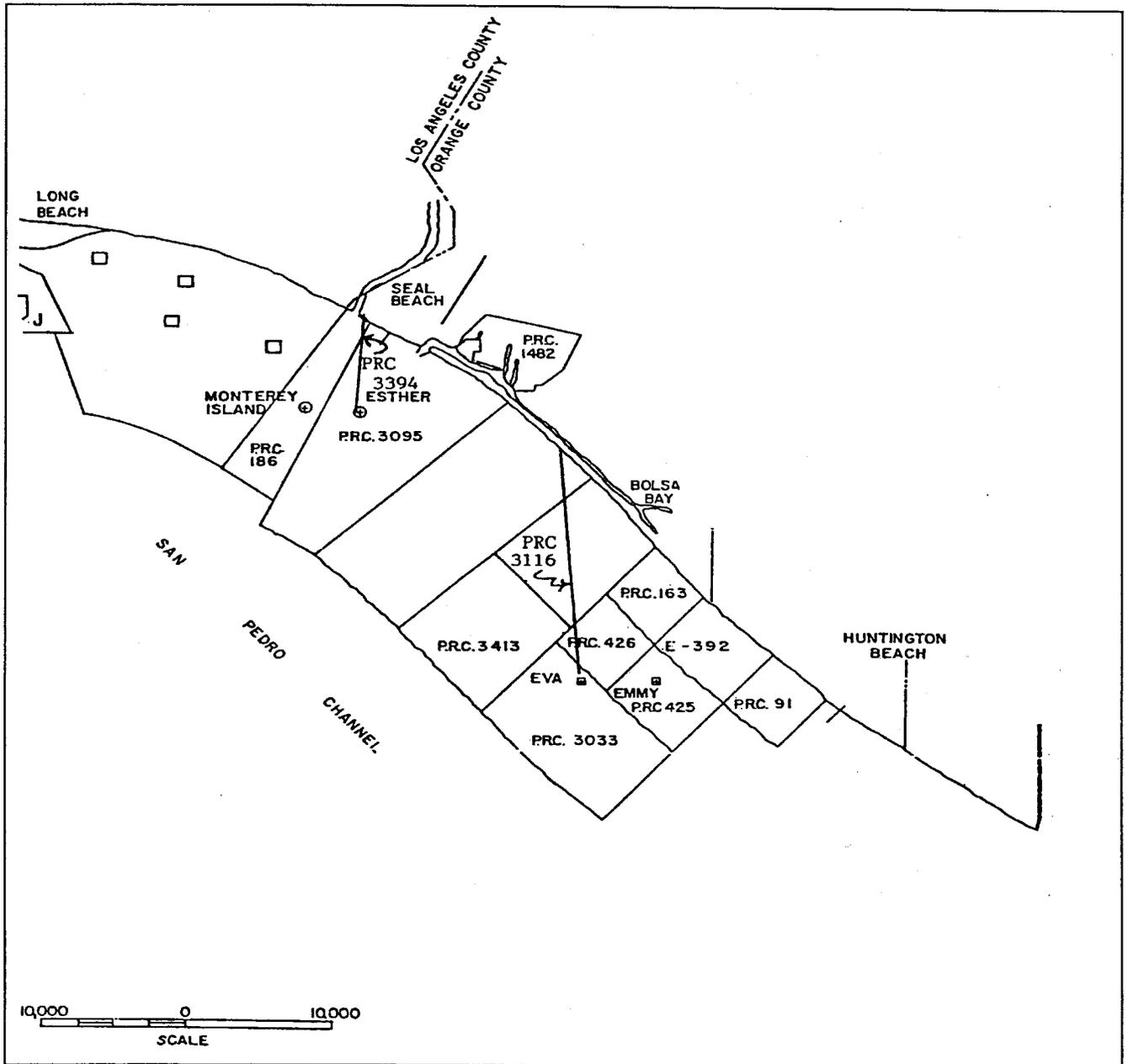
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### EXHIBIT A1

### Location Map



PRC 3033  
PRC 3095  
PRC 3413  
PRC 3116  
PRC 3394  
PRC 6417

## EXHIBIT B

### ASSIGNMENT CONSENT AGREEMENT

This Assignment Consent Agreement is entered into by and among Plains Exploration & Production Company, a Delaware corporation (Plains), DCOR, LLC, a Texas limited liability company (DCOR), and the State of California, acting by and through the California State Lands Commission (State).

This Assignment Consent Agreement is made with reference to the following:

A. Plains is the lessee of three offshore State Oil and Gas Leases. These leases are PRC Nos. 3033.1, 3095.1 and 3413.1 and are located in state tide and submerged lands offshore Orange County. All are currently producing.

B. Leases 3033.1 and 3413.1 produce oil and gas from the Huntington Beach field from an offshore producing structure known as Platform Eva located on lease 3033.1. Lease 3095.1 produces oil and gas from the Belmont Offshore field from an offshore producing structure known as Platform Esther located on lease 3095.1.

C. Plains is the lessee of two State Right of Way Leases for pipelines serving the three State Oil and Gas Leases. These State Right of Way Leases are PRC Nos. 3116.1 and 3394.1.

D. Plains is the lessee of an additional State Right of Way Lease PRC 6417.1 for power cables and a condensate pipeline serving oil operations on federal oil and gas leases on the Outer Continental Shelf.

E. Plains has entered into a Purchase and Sale Agreement dated September 29, 2004, as amended, with DCOR that involves the sale to DCOR of assets that include State Oil and Gas Leases 3033.1, 3095.1 and 3413.1 and State Right of Way Leases PRC Nos. 3116.1, 3394.1, 3997.1, 4017.1, 4324.1, 5967.1 and 6417.1. On August 8, 2005, the State approved the assignment of State Right of Way Leases PRC Nos. 3997.1, 4017.1, 4324.1, 5967.1 from Plains to DCOR, which are the subject of a separate assignment consent agreement among the parties. This Assignment Consent Agreement shall apply only to State Oil and Gas Leases PRC Nos. 3033.1, 3095.1 and 3413.1 (the State Oil and Gas Leases) and State Right of Way Leases Nos. 3116.1, 3394.1 and 6417.1 (the State Right of Way Leases). The State Oil and Gas Leases and the State Right of Way Leases, when referred to collectively, shall be the State Leases.

F. Plains currently has in effect and has filed with the State performance bonds in the amount of \$21 million guaranteeing the lessee's performance under the State Leases. Of the \$21 million, \$18 million cover State Oil and Gas Leases PRC Nos. 3033.1, 3095.1 and 3413.1 and State Right of Way Leases Nos. 3116.1, 3394.1 and \$3 million cover State Right of Way Lease PRC 6417.1. The existing bonds are listed in Exhibit A attached.

G. Plains proposes to assign to DCOR all its right, title and interest in the State Leases. The State Leases, however, require that in order for any assignment to be effective, the State must consent to the assignment.

The State is willing to consent to the assignment from Plains to DCOR of the State Leases on the following terms and conditions to which Plains and DCOR agree:

1. Plains will remain fully responsible for and bear all of the costs of the decommissioning, abandonment and site clearance of all the State Oil and Gas Leases upon cessation of commercial production from these leases or their sooner termination. This decommissioning, abandonment and site clearance includes but is not limited to the complete removal of Platforms Eva and Esther in conformity with all applicable state, federal and local laws and regulations and the specifications of the State and compliance with the California Environmental Quality Act (CEQA) and whatever mitigations may be required under CEQA.

2. Plains will also remain fully responsible for and bear all of the costs of the decommissioning, abandonment and site clearance of all the State Right of Way leases upon cessation of commercial production from the oil and gas leases they serve or the sooner termination of these oil and gas leases. This decommissioning, abandonment and site clearance includes but is not limited to abandoning the pipelines to the specifications of the State and compliance with CEQA and whatever mitigations may be required under CEQA.

3. Except as otherwise provided in this Assignment Consent Agreement, Plains shall maintain in place, until released by the State, all existing bonds totaling \$21 million to guarantee the faithful performance by DCOR of all of the lessee's obligations under the State Leases. In addition, within 30 days of the effective date of this Assignment Consent Agreement, Plains shall increase the bond coverage for State Oil and Gas Leases PRC Nos. 3033.1, 3095.1 and 3413.1 and State Right of Way Leases

Nos. 3116.1, 3394.1 by \$3 million, thereby raising the total amount of bond coverage applicable to the State Leases to \$24 million.

4. Subject to the prior written approval of the State, Plains may replace any or all of the bonds required under this agreement, with another bond or bonds of like amounts and conditions or with other types of security acceptable to the State.

5. If a surety for any of the bonds gives notice of its election to cancel or otherwise terminate any of the bonds, Plains shall provide to the State replacement bonds acceptable to the State at least 30 days prior to the effective date of the termination of the bonds. If Plains is unable timely to secure replacement bonds acceptable to the State, Plains shall provide to the State a written guarantee of the faithful performance by DCOR of the lessee's obligations under the State Leases in whatever amount is required to bring the total security, including the coverage of any bond or bonds that may still be in effect, to \$24 million.

6. If the State gives notice in writing to a surety under any of the bonds that DCOR is in default of any obligation under any State Lease or Leases covered by the bond or bonds and a surety refuses in writing or fails within 15 days of the State's notice to provide sufficient funds to cure DCOR's default or if the bond or bonds have been replaced by Plains' written guarantee, Plains (1) shall not challenge the State's determination of a default by DCOR and (2) shall take all reasonable and necessary action itself to cure the default and bring the operations under the State Lease or Leases into full compliance with the terms of the State Lease or Leases, applicable state, federal and local laws and regulations and the directives of the State within the time required under the State Lease or Leases to cure the default or as otherwise required by the State.

In the event that Plains must undertake work on any State Lease to cure a default, DCOR shall permit Plains complete and unimpeded access to the State Lease to perform all operations required to cure the default. Plains' obligations under this paragraph 6, but not its obligations under paragraphs 1 and 2, shall be limited to the amount of \$24 million. There shall be no monetary cap to Plains' obligations under paragraphs 1 and 2.

7. If the State increases the amount of the bond above the current amount of \$21 million for State Oil and Gas Leases PRC Nos. 3033.1, 3095.1 and 3413.1 and State Right of Way Leases PRC Nos. 3116.1 and 3394.1 or above the current amount of \$3 million for State Right of Way Lease PRC Nos. 6417.1, DCOR shall be solely responsible for furnishing the additional bond coverage.

8. In the event of a failure for any reason by DCOR to plug and abandon to the standards of the California Division of Oil, Gas and Geothermal Resources (DOGGR), the wells on any of the State Oil and Gas Leases, and notwithstanding the monetary limitation on Plains' guarantor responsibilities, Plains shall plug and abandon these wells to the standards of DOGGR at its own cost as the necessary prerequisite to its retained obligation under paragraph 1 to decommission, abandon and clear the site for all of the State Oil and Gas Leases, including but not limited to the complete removal of Platforms Eva and Esther.

9. The effective date of this Assignment Consent Agreement shall be October 20, 2005, provided however, it shall become binding upon the State only when approved by and duly executed on behalf of the State Lands Commission.

10. This agreement may be executed in counterpart with the same force and effect as if all parties subscribed their names to the same document.

IN WITNESS WHEREOF, the parties have executed this Assignment Consent Agreement on the dates set forth below.

Dated: \_\_\_\_\_ PLAINS EXPLORATION & PRODUCTION COMPANY  
By \_\_\_\_\_

Dated: \_\_\_\_\_ DCOR, LLC  
By \_\_\_\_\_

Dated: \_\_\_\_\_ CALIFORNIA STATE LANDS COMMISSION  
By \_\_\_\_\_

ASSIGNMENT CONSENT AGREEMENT

EXHIBIT A

EXISTING BONDS

A) State Oil and Gas Leases PRC Nos. 3033.1, 3095.1 and 3413.1 and State Right of Way Leases PRC Nos. 3116.1 and 3394.1:

|                                            |              |
|--------------------------------------------|--------------|
| 1) Bond No. 4410404 National Farmers Union | \$8 Million  |
| 2) Bond No. JP1088 St. Paul Fire Marine    | \$10 Million |

B) State Right of Way Lease PRC Nos. 6417.1:

|                                            |             |
|--------------------------------------------|-------------|
| 1) Bond No. 4410405 National Farmers Union | \$2,650,000 |
| 2) Bond No. 103496452 Travelers            | \$350,000   |

PRC 3033  
PRC 3095  
PRC 3413  
PRC 3116  
PRC 3394  
PRC 6417

**EXHIBIT C**

**AMENDMENT OF STATE OIL AND GAS LEASES  
PRC 3033.1, PRC 3095.1, AND PRC 3413.1  
AND RIGHT-OF-WAY LEASES  
PRC 3116.1, PRC 3394.1, AND PRC 6417.1**

This Lease Amendment is entered into by and between the State of California, acting by and through the State Lands Commission (the "State"), as Lessor and DCOR, LLC, as Lessee

**RECITALS**

Whereas, the State of California, acting by and through the State Lands Commission (the "State"), leased certain lands located in Orange County pursuant to State oil and gas lease PRC 3033.1 to Union Oil Company of California on July 25, 1963, which lease, through assignment and a merger, is presently held by Plains Exploration and Production Company (PXP); and

Whereas, the State leased certain lands located in Orange County pursuant to State oil and gas lease PRC 3095.1 to Chevron USA Inc. (formerly Standard Oil Company of California) on January 30, 1964, which lease, through assignment and a merger, is presently held by PXP; and

Whereas, the State leased certain lands located in Orange County pursuant to State oil and gas lease PRC 3413.1 to Union Oil Company of California on December 1, 1965, which lease, through assignment and a merger, is presently held by PXP; and

Whereas, the State leased certain lands located in Orange County pursuant to State Right of Way lease PRC 3116.1 to Union Oil Company of California on March 26, 1983, which lease, through assignment and a merger, is presently held by PXP; and

Whereas, the State leased certain lands located in Orange County pursuant to State Right of Way lease PRC 3394.1 to Chevron USA Inc. (formerly Standard Oil Company of California) on October 21, 1965, which lease, through assignment and a merger, is presently held by PXP; and

Whereas, the State leased certain lands located in Orange County pursuant to State Right of Way lease PRC 6417.1 to Chevron USA Inc. on December 1, 1982, which lease, through assignment and a merger, is presently held by PXP; and

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Whereas, PXP and Dos Cuadras Offshore Resources, LLC, a Texas limited liability company, entered into a purchase and sale agreement under the terms of which PXP has agreed to assign each of the leases identified above (hereafter collectively referred to as the "State Leases") to Dos Cuadras Offshore Resources, LLC ; and

Whereas, Dos Cuadras Offshore Resources, LLC has undergone a change of name and is now known as DCOR, LLC, a Texas limited liability company ("DCOR"); and

Whereas the State Leases may not be assigned to DCOR without the approval of the State; and

Whereas, as a condition to securing the State's approval of the assignment to DCOR, the State and DCOR have agreed to amend the State Leases as hereafter provided.

## **AGREEMENT**

NOW THEREFORE, the State and DCOR agree to amend the State Leases as follows:

1. The bond requirements to guarantee the faithful performance by the Lessee of the terms, covenants, and conditions of the State Leases are hereby increased collectively from \$18 Million to \$21 Million for the following leases State Oil and Gas Leases: PRC Nos. 3033.1, 3095.1, and 3413.1 and State Right of Way Leases 3116.1 and 3394.1. Pursuant to that certain Assignment Consent Agreement (the "ACA") between the State, DCOR and PXP, dated October 20, 2005, PXP shall be responsible for posting and maintaining bonds covering the State Leases in the foregoing amounts. If the State increases the amount of the bond above the current amount as stated above on any of the State Leases, DCOR shall be solely responsible for furnishing the additional bond coverage. Failure to maintain bond coverage in the amounts required under the any of the State Leases, irrespective of whether the failure is attributable to bonding obligations allocated to PXP or DCOR under the ACA, shall nevertheless constitute a default under the provisions of the affected lease or leases.
2. The amount of consolidated debt carried by DCOR's indirect parent company, Crescent Resources, LLC, a California limited liability company, ("Crescent"), including all debt of business entities owned directly or indirectly by Crescent, as a percentage of its assets (adjusted for the difference between the book value of its oil and gas assets and its PW 10 value as calculated by third party engineers acceptable to Crescent's lending institutions and adjusted for any hedging differentials) shall not exceed 50% through June 30, 2008.
3. Castle Peak Resources, LLC, a Texas limited liability company ("Castle Peak"), as owner of 100% of the membership interest in DCOR, and William M. Templeton ("Mr. Templeton"), as indirect owner of a 99% interest in Castle Peak, have entered into that certain Irrevocable Voting Trust Agreement for DCOR, LLC, dated August 15, 2005 (the "Voting Trust"). The purpose of the Voting Trust is to provide for the orderly and uninterrupted succession of qualified executive management of DCOR. During the term of the Voting Trust, member voting rights that would otherwise be exercised directly by

Castle Peak as sole owner of the membership interest in DCOR, will be transferred to the trustee(s) under the trust. The Voting Trust provides for the appointment of Mr. Templeton as the initial trustee, and further designates a board of three trustees who would succeed Mr. Templeton should he cease to serve. Section 8.04 of the Voting Trust establishes minimum qualifications for successor trustees, including without limitation, trustees shall have experience in the management or regulation of oil and gas properties with specific experience in offshore operations. The Voting Trust is irrevocable for a period of 10 years. The State regards the orderly succession and stability of experienced executive management of DCOR as critical to the safe and prudent management of the State Leases. DCOR agrees to maintain the Voting Trust in effect for a minimum of 10 years from August 15, 2005, or until DCOR has either transferred all of the State Leases with the approval of the State or surrendered the leases in accordance with their terms, whichever first occurs. For so long as the Voting Trust is in effect pursuant to the requirements of this paragraph, Crescent shall not modify the minimum qualifications for the successor trustee(s) as currently provided for in Paragraph 8.04 of the trust. DCOR shall promptly notify the State of any change in trustee and furnish a resume and/or other information satisfactory to the State detailing the qualifications of the replacement trustee(s).

4. DCOR shall complete safety training (Hazwoper, OSHA, etc.) of all current personnel within 90 days following the effective date of the lease assignment from PXP to DCOR.
5. DCOR shall conduct a full deployment oil spill exercise at one of the State platforms within 180 days following the effective date of the lease assignments from PXP to DCOR.
6. Crescent Resources, LLC shall execute and deliver to State an irrevocable and unconditional guarantee of DCOR's faithful performance of all of the terms, covenants and obligations under the State Leases.
7. A follow-up safety audit to assess the integrity of the safety management systems will be conducted at the end of a three-year period following the effective date of the lease assignment from PXP to DCOR. The cost of the safety audit is to be paid by DCOR.
8. Pipeline inspections shall be conducted in accordance with the regulations of the State Lands Commission, commencing with Title 2, Division 3 of the California Code of Regulations, Section 2132 (f) 6, et seq., as such regulations may be modified from time to time. Lessee shall conduct such repairs or modifications as may be necessary to bring the pipelines up to current API standards as approved by State Lands Commission staff.
9. PRC Oil and Gas Leases PRC 3033.1, 3095.1 and 3413.1, are hereby amended to include the following provisions:
  - a. DCOR agrees to make capital expenditures for production enhancement operations to be conducted upon PRC 3033.1, 3095.1 and 3413.1 in an amount of \$ 1 million per year for each of the calendar years 2006, 2007 and 2008. DCOR

will submit an expenditure plan for production enhancement to the State for review within 60 days of the effective date of the lease assignment from PXP to DCOR.

- b. DCOR shall present quarterly reviews for a period of two years following the assignment, and thereafter annual reviews of the following information: (i) financial Status of DCOR and Crescent, including computed ratios per the December 20, 2004, Bank of Texas, N.A., (Agent) and Crescent Resources, LLC (Borrower) agreement; (ii) Capital and Operating Budget for each state lease; (iii) Operations activities and changes, including any changes in insurance, litigation and other material issues that affect business. Information furnished to the State pursuant to this paragraph, and clearly marked as "confidential" by DCOR, shall be deemed to be furnished to the State in confidence pursuant to the provisions of California Evidence Code section 1040 and California Public Resources Code section 6254(k), and may not be disclosed by the State without the prior written approval of DCOR, or as otherwise required by law.
- c. DCOR agrees to maintain at least the current level of staffing experience and knowledge in offshore California drilling and production operations as is possessed by current senior and operations management.
- d. At the direction of the State Lands Commission staff, Lessee shall suspend drilling and/or production operations on a platform, except those that are corrective, protective or mitigative, in the event of a spill, air emission incident or other pollution incident, or if a regulatory violation is discovered that poses a threat to public health or safety to the environment. Operations shall remain suspended until the cause of the incident is identified and all repairs, installations, training and other work to prevent a recurrence of the incident are accomplished or the regulatory violation is corrected, all to the satisfaction of State Lands Commission staff.

10. State Pipeline Right of Way Lease Nos. PRC 3116.1, 3394.1 and 6417.1, are hereby amended to include the following provisions:

- a. Lessee shall provide a copy of the current pipeline operations manual and provide updates, as they are available.
- b. Lessee shall maintain records of all inspection, repair, testing, and maintenance activities, in accordance with the provisions of 49 CFR Part 192 and 195.

11. State Pipeline Right of Way Lease No. 3394.1 is hereby amended to include the following provision:

Lessee shall 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

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Safety Board, or any other governmental agency, whether federal, state or local, having lawful authority and jurisdiction over the pipeline.

12. State Pipeline Right of Way Lease No. 6417.1 is hereby amended to include the following provision:

Lessee shall maintain records of all inspection, repair, testing and maintenance activities, in accordance with any Minerals Management Service Pacific OCS Regional Manager orders, directives, or other requirements regarding pipeline testing and surveillance, and provide copies of those records to the Lessor.

13. The effective date of this Amendment shall be October 20, 2005.

This Amendment will become binding on the State only when duly executed on behalf of the State Lands Commission of the State of California.

IN WITNESS HEREOF, the parties have executed this Amendment of Leases PRC 3033.1, PRC 3095.1, PRC 3413.1, PRC 3116.1, PRC 3394.1, and PRC 6417.1

LESSEE: DCOR, LLC, a Texas  
Limited Liability Company

LESSOR: STATE OF CALIFORNIA  
STATE LANDS COMMISSION

By: \_\_\_\_\_

By: \_\_\_\_\_

Title: \_\_\_\_\_

Title: Chief, Mineral Resources Management Div.

Dated: \_\_\_\_\_

Dated: \_\_\_\_\_