

**CALENDAR ITEM
C63**

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04/06/11
PRC 735.1
PRC 3314.1
M. Le Clair
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**CONSIDER APPLICATION TO RE-ENTER SEVEN EXISTING WELLBORES ON
STATE LEASE NO. PRC 735.1 TO NEW BOTTOM HOLE LOCATIONS
ON ADJOINING STATE NO. LEASE PRC 3314.1; AND AMENDMENT OF
SECURITY REQUIREMENT (PERFORMANCE BOND),
WEST MONTALVO FIELD,
VENTURA COUNTY**

APPLICANT, LESSEE AND OPERATOR:

Venoco, Inc.
Attn.: Mr. Stephen A. Greig
6267 Carpinteria Avenue, Suite 100
Carpinteria, CA 93013

AREA, LAND TYPE, AND LOCATION:

Oil and Gas Lease No. PRC 735.1 was originally issued by competitive bid to Standard Oil Company of California (Chevron) on June 30, 1952, and contains approximately 220 acres offshore Ventura County; Oil and Gas Lease No. PRC 3314.1 was originally issued by competitive bid to Shell Oil Company (Shell) on July 2, 1965, and contains approximately 5,430 acres offshore Ventura County. Lease No. PRC 3314.1 completely surrounds Lease No. PRC 735.1 (Exhibit A, attached hereto). Through a series of assignments, the present lessee and operator of both leases is Venoco, Inc. (Venoco).

BACKGROUND:

The onshore portion of the Colonia reservoir was discovered in 1948 with the drilling of the McGrath 4 well. Development of the offshore reservoir began in 1953 on Lease No. PRC 735.1 and all but two of the 10 development wells were drilled by 1966. Lease No. PRC 3314.1 was issued in 1965, and the first commercial well 3314-1, which was drilled in 1985 as a farm-out by Chevron, has produced steadily since it was drilled. Both leases are developed from onshore

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locations (Exhibit A, attached hereto). The lease location contains surface production facilities, including a processing facility and access to onshore pipelines.

Berry Petroleum Company (Berry) was assigned the lease from Shell in 1992 and presented a development plan that consisted of drilling two additional wells, 3314-F2 and 3314-2. That plan was approved by the California State Lands Commission (Commission) in 2005. Berry then assigned the lease to Venoco in 2007, and Venoco drilled well 3314-F2 in July 2007 and well 3314-2 in December 2008. Oil production from these two wells continues to produce revenue to the State.

PROPOSED PROJECT:

Venoco now proposes to re-enter seven existing idle or low production wellbores on Lease No. PRC 735.1 and drill to new bottom hole locations on conterminous Lease No. PRC 3314.1. The surface locations for this project are all on existing onshore well pads associated with Lease No. PRC 735.1 where Venoco currently has ten wells on artificial lift.

The goal for this project is to increase oil production and further delineate and develop Lease No. PRC 3314.1. The completion target is the Colonia Zone of the Sespe Formation at approximately 11,000 to 13,000 feet true vertical depth, and the proposed bottom-hole locations will extend from 1,200 to 4,000 feet offshore.

The estimated time to drill each well is 45 to 60 days. The seven wells will be drilled in sequence, per the development plan, for an estimated drilling duration of 11 to 14 months. Venoco has indicated it will need time to allow for reviewing well data and drilling delays due to rig availability. The project should be completed by September 16, 2016, to comply with County requirements.

Existing pipelines and production headers will be used to transport crude oil production from the wells to the nearby State 735 Tank Setting and Metering Facility. Access to the location will continue to be provided to the site via a private road.

MODIFICATION OF ONSHORE INFRASTRUCTURE:

Venoco meters Lease No. PRC 3314.1 production from the current well located on the beach site through a wet oil meter at the State 735 Tank Setting and uses a second wet oil meter at the Colonia Tank Setting for the two inland Lease No. PRC 3314 wells. The State 735 Tank Setting and Metering Facility meters all production from the two offshore State leases and an onshore private lease. The operation will be upgraded to meter the increase in well production expected

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from this project if approved. The facility consists of a 1,000 barrel (bbl) Lease Automatic Custody Transfer (LACT) shipping tank, a 1,000 bbl LACT reject/overflow tank, a 500 bbl water tank, a 250 bbl water tank, a vertical heater treater, a hot water heater, a gas scrubber, a gas oil separator, a well testing vessel and an emergency flare. Separated oil is then transported via the "Crimson" pipeline to ConocoPhillips, and gas is sold to the Southern California Gas Company.

As part of the Development Project, Venoco has proposed installing new artificial lift equipment at each well and upgrades to the existing State 735 Tank Setting. The upgrade of production facilities includes replacement of the Wet Oil metering Skid V702 to account for the increase in the production from the new wells; replacement of LACT Tank T40 with a new 2,000 gallon tank and replacement of LACT shipping Tank T-41 with a new 2,000 gallon tank and upgrade; and replacement of the PRC 735 Vapor Recovery Unit (this will be achieved by adding two new compressors to the production facilities units). The facilities will continue to be contained within the existing berm and fenced area of the State 735 Tank Setting location.

ENVIRONMENTAL REVIEW

The County of Ventura is the lead agency for the project under the California Environmental Quality Act (CEQA) (Public Resources Code sections 21000, et seq.). In accordance with CEQA Guidelines section 15070, the Ventura County Planning Department determined that this proposed project may have a significant effect on the environment and has prepared a Mitigated Negative Declaration (MND) (SCH #2010121072). The County of Ventura certified the MND on March 21, 2011, and Venoco has agreed to implement the mitigation measures identified in the MND, and included in the Mitigation Monitoring Program (MMP) (Exhibit B, attached hereto), prior to the project moving forward.

Commission staff has reviewed the MND and additional materials submitted by Venoco, as well as conditional use permits issued by the County of Ventura as the lead agency under CEQA. Commission staff concurs with the findings and conclusions reached by Ventura County.

BOND:

Currently, Venoco maintains a \$900,000 performance bond for Lease No. PRC 735.1 and a \$300,000 performance bond for Lease No. PRC 3314.1. Because the proposed re-drills pass through Lease No. PRC 735.1 into Lease No. PRC 3314.1, Commission staff proposes that Venoco increase and combine the performance bonds into a single \$2,000,000 blanket bond or other security acceptable to the State, to guarantee performance by the Lessee of all the terms

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and conditions of the leases and rules and regulations of the State, including the maintenance and abandonment of all structures, wells and pipelines, and their removal at the request of the State upon expiration or termination of these leases (Exhibit C, attached hereto).

STATUTORY AND OTHER REFERENCES:

- A. Public Resources Code section: 6804
- B. Public Resources Code sections: 21065 and 15301
- C. Paragraph 13 of Lease No. PRC 735.1
- D. Paragraph 14 of Lease No. PRC 3314.1

OTHER PERTINENT INFORMATION

1. A Mitigated Negative Declaration (SCH #2010121072) was prepared by Ventura County and adopted on March 21, 2011, for this Project. The California State Lands Commission staff has reviewed this document.
2. A Mitigation Monitoring Program was adopted by Ventura County.
3. The Planning Director of the County of Ventura approved the Minor Modification No. LU10-0009 to existing Conditional Use Permit 12, subject to 68 conditions of approval on March 21, 2011. No appeals were filed, and a notice of final decision was issued to Venoco.
4. This activity involves lands which have NOT been identified as possessing significant environmental values pursuant to Public Resources Code sections 6370, et seq. However, the Commission has declared that all lands are "significant" by nature of their public ownership (as opposed to "environmentally significant"). Since such declaration of significance is not based upon the requirements and criteria of Public Resources Code sections 6370, et seq., use classifications for such lands have not been designated. Therefore, the finding of the project's consistency with the use classification as required by Title 2, California Code of Regulations, section 2954 is not applicable.
5. Upon approval of the Project, Lease No. PRC 735.1 and Lease No. PRC 3314.1 shall each be amended to incorporate the language attached herewith as Exhibit C. The proposed amendments provide that the amount of bond required under the leases has been increased from \$900,000 for Lease No. PRC 735.1 and \$300,000 for Lease No. PRC 3314.1 to a total combined bond in for the amount of \$2,000,000.

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EXHIBITS:

- A. Location Map
- B. Mitigation Monitoring Program
- C. Proposed amendments to Oil and Gas Lease Nos. PRC 735.1 and PRC 3314.1.

PERMIT STREAMLINING ACT DEADLINE:

N/A

RECOMMENDED ACTION:

It is recommended that the Commission:

CEQA FINDINGS:

- 1. Find that a Mitigated Negative Declaration (SCH# 2010121072) and a Mitigation Monitoring Program were prepared by Ventura County and adopted on March 21, 2011, for this Project and that the Commission has reviewed and considered the information contained therein.
- 2. Adopt the Mitigation Monitoring Program, as contained in Exhibit B, attached hereto.
- 3. Adopt the findings of the County of Ventura and the conditions of the approval for the site plan adjustment (Minor Modification No. LU10-0009) to the existing Conditional Use Permit 12 issued for the seven wells.

AUTHORIZATION:

- 1. Consent to the plugback of seven wells on Lease No. PRC 735.1 and the re-drilling of the wells from onshore drill sites into Oil and Gas Lease No. PRC 3314.1, West Montalvo field, Ventura County, provided that all work here approved shall be completed by September 16, 2016.
- 2. Require that, (a) prior to commencement of any work approved by the Commission under this action, Venoco shall submit to the Commission a letter providing a detailed outline of its commitment to correct or remedy the deficiencies identified in the current Lease Process Safety Audit being conducted by staff on the two leases (PRC 735.1 and PRC 3314.1); the deadlines for completion of correction and remedial work, based on the Program priority

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established by the Commission's staff, being as follows: thirty (30) days for deficiencies listed as Priority One, one hundred twenty (120) days for those listed as Priority Two, and one hundred eighty (180) days for those listed as Priority Three; (b) if staff determines that Venoco is not meeting any deadlines provided in this authorization relating to the Lease Process Safety Audit, staff may report the matter to the Commission, and the Commission may suspend or rescind any authorization given hereunder, necessitating the suspension of any work relating to re-drilling; and (c) Venoco shall prepare an Operations Manual for the two leases in accordance with the provisions of Title 2, Sections 2170 et seq., of the California Code of Regulations.

3. Approve the amendment of the above leases regarding the security requirements for the faithful performance of the terms and conditions of the leases as detailed in Exhibit C, attached hereto.
4. Authorize the Executive Officer or his designee to execute any documents necessary to implement the Commission's action.

EXHIBIT A

PRC 735.1
PRC 3314.1

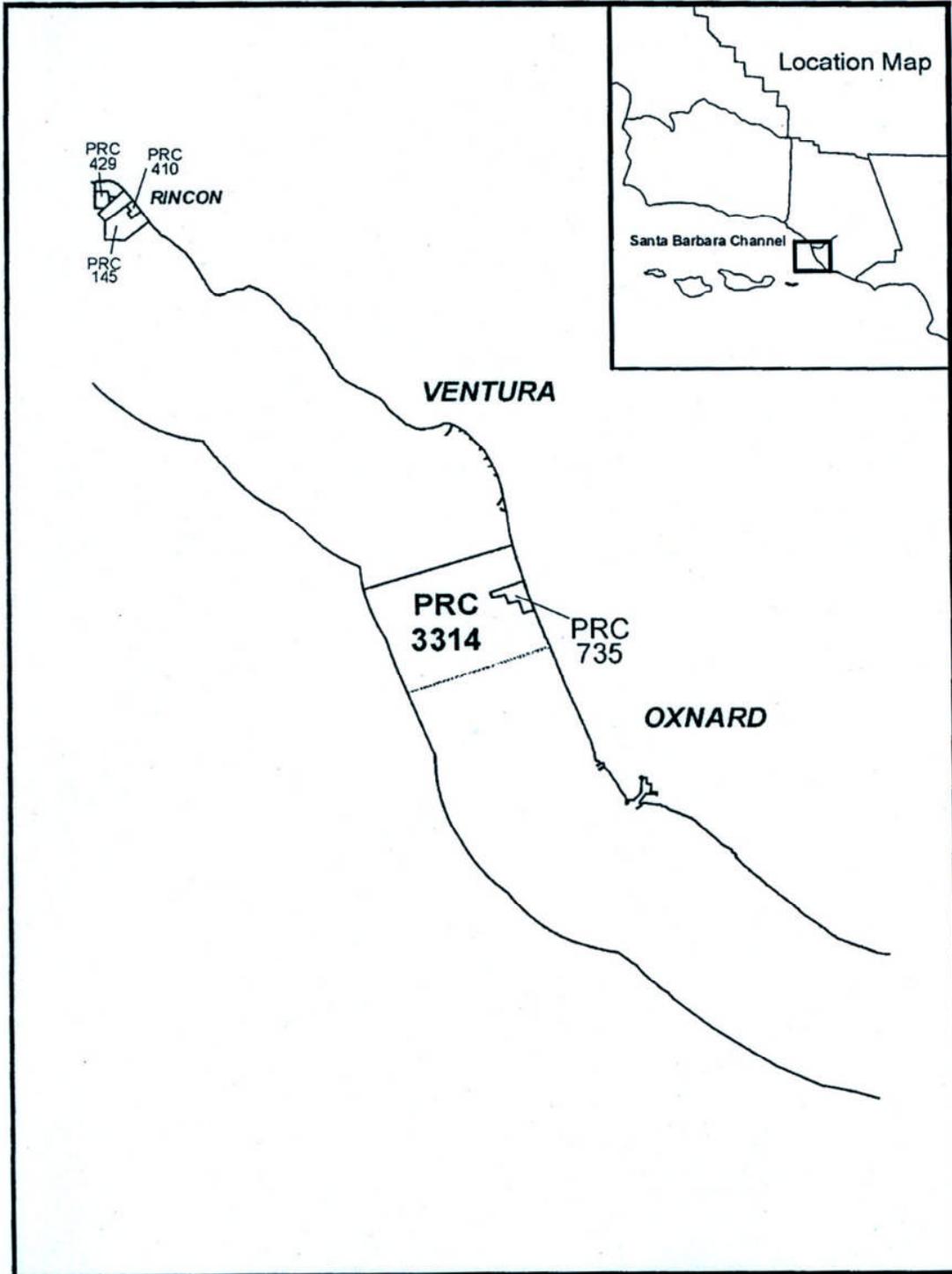


EXHIBIT B

PRC 735.1
PRC 3314.1

EXHIBIT 6 - MITIGATION MONITORING AND REPORTING PROGRAM

Mitigation Measure	Monitoring Responsibility	Monitoring Timing and Frequency	Monitoring Program	Standard of Success	Compliance Verification		
					Initial	Date	Comments
<p>MM-1: Unauthorized site access will be controlled during drilling. Prior to drilling or grading, staking and flagging will be placed along the perimeter of the project footprint. Flagging shall be added to existing stakes that mark the sensitive dune habitat to the north, west, and south of the project footprint, and additional staking and flagging shall be installed along the boundary of the project footprint to mark the riparian scrub habitat to the north and the habitat associated with McGrath Lake on the north and east of the project footprint. Fencing would limit wildlife movement along the dunes and be counterproductive as a mitigation measure, and therefore only staking and flagging will be used.</p>	<p>Planning Division Staff</p>	<p>Prior to ground disturbance activities</p>	<p>Site Inspections by Planning Division</p>	<p>Adjacent sensitive habitats remain undisturbed, while remaining accessible for wildlife</p>			
<p>MM-2: During the nesting season (March 15 through September 15), the Permittee shall contract with a County-approved qualified biologist to coordinate with California State Parks and survey for nesting birds within 400 feet of the current or next proposed drilling site, with an emphasis on special status species. The nesting bird survey shall be conducted by a qualified biologist with a California Department of Fish and Game Scientific Collecting Permit within 7 days prior to drilling activity. The nesting bird survey shall cover areas within 400 feet from the drilling site. If any disturbance to the Western Snowy Plover or California Least</p>	<p>County-approved Biologist</p>	<p>Prior to issuance of zoning clearance for development</p>	<p>Surveys on a weekly basis</p>	<p>Avoidance of disturbance to the nesting success of birds during the construction and drilling phase of the project</p>			

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Mitigation Measure	Monitoring Responsibility	Monitoring Timing and Frequency	Monitoring Program	Standard of Success	Compliance Verification	
					Initial	Date
<p>Tern as a result of drilling activities is observed, then the County-approved biologist shall consult with State Parks, California Department of Fish and Game, and Fish and Wildlife Service to develop and implement a plan to insure that no "Take" will occur by adjusting the mitigation measures or obtaining the necessary permits. If active nests are found within 400 feet of the drilling site, then additional actions described in Mitigation Measures 3 and 4 shall be implemented.</p>						
<p>MM-3: During the nesting season (March 15 through September 15) and to the extent feasible as determined by the Planning Director, the Permittee shall select the drilling location that is located the furthest distance from any special status species nests found during the surveys required by Mitigation Measure 2.</p>	Planning Division Staff	Prior to initiating drilling	Pre-drilling portion of surveys	Avoidance of disturbance to the nesting success of birds during the construction and drilling phase of the project		
<p>MM-4:</p> <ol style="list-style-type: none"> 1. An electric-diesel hybrid drill rig (e.g., diesel generator powering the rig's electrical supply) shall be used as opposed to the louder, full diesel rig. 2. Lights shall be hooded and directed downward to minimize backscatter. 3. A sound proofed rig floor shall be used to reduce noise directly at the drill rig. 4. Screening to block light and reduce noise 	Planning Division Staff	Prior to drilling	Site Inspections by Planning Division	Avoidance of disturbance to the nesting success of birds during the construction and drilling phase of the project		

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Mitigation Measure	Monitoring Responsibility	Monitoring Timing and Frequency	Monitoring Program	Standard of Success	Compliance Verification	
					Initial	Date
<p>at ground level shall be installed prior to any drilling activity around two or three sides (i.e., north, south, and west) of the drill rig to the extent feasible as determined by the Planning Director.</p> <p>5. If nesting birds are detected within 400 feet of an operating drill rig (Mitigation Measure MM2), a County-approved qualified biologist shall monitor the nests during the first week of drilling operations. If any disturbance to the nests is observed, the County shall be immediately notified. The County, in consultation with California Department of Fish and Game, shall determine the appropriate additional measures that must be taken to ensure that nest disturbance is minimized to the extent feasible as determined by the Planning Director. If additional measures are implemented, monitoring of the nests shall continue until disturbance is mitigated, as determined by a County approved biologist and the Planning Director.</p>	Planning Division Staff	During construction and drilling	Site Inspections by Planning Division	Contain any oil spill such that it does not pollute wetland habitat or, the case of a failure to fully restore, the wetland habitat to its pre-		
<p>MM-5: The Permittee shall install stormwater protection measures and maintain the stormwater protection measures during drilling and construction. If a spill event occurs during the construction or operation of the project, the Permittee shall implement the SCP.</p>						

EXHIBIT 6 - MITIGATION MONITORING AND REPORTING PROGRAM

Mitigation Measure	Monitoring Responsibility	Monitoring Timing and Frequency	Monitoring Program	Standard of Success	Compliance Verification		
					Initial	Date	Comments
				contaminated state			
MM-6: When any grading activity is initiated within 300 feet of a wetland or riparian area, the Permittee shall install a weighted silt-screen fence surrounding the graded area.	Planning Division Staff	Prior to the initiation of grading activities	Site Inspections by Planning Division	Contain construction generated sediment within the construction footprint			
MM-7: At all hours during redrilling operations the Permittee shall install and maintain: <ul style="list-style-type: none"> • 20 foot high noise curtains along the north and west sides of the drill site and along all sides of the generators shown in Figures 2-5 of the Navcon report (Navcon Report No. 102249, August 10, 2010). The curtains must have an STC 25 and NRC 0.7 rating; • 8 foot high noise curtains along the east and south-east corner of the drill rig platform as shown in Figures 2-5 of the Navcon report. The curtains must have an STC 25 and NRC 0.7 rating; and, • Rubber mats on the "V-door." 	Planning Division Staff	During the redrilling phase of the project	Site Inspections by Planning Division	Success occurs when any one of the following occurs: (1) No noise complaints occur during the redrilling phase of the project; (2) If noise complaints occur, additional noise monitoring show that the project does not exceed the more restrictive			

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Mitigation Measure	Monitoring Responsibility	Monitoring Timing and Frequency	Monitoring Program	Standard of Success	Compliance Verification	
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<p>The Permittee shall lay down or pick up drill pipe or casing such that it results in minimized noise generation from metal to metal impact.</p>				<p>of the applicable noise standards; or, (3) If the project exceeds the more restrictive of the applicable noise standards the operator implements additional mitigation measures which project-related noise to below the applicable standards to the extent feasible as determined by the Planning Director.</p>		
<p>MM-8: The Permittee shall control transient noises (e.g., banging pipes, hammering, backup alarms, and voices) through "quiet mode" drill site operating and materials handling procedures. Except as otherwise required to comply with applicable safety regulations, as determined by the Planning Director, "Quiet mode" operations shall be in effect between 7:00 p.m. and 7:00 a.m. and shall include, but not be limited to, the following:</p>	<p>Planning Division Staff</p>	<p>During the redrilling phase of the project</p>	<p>Site Inspections by Planning Division</p>			

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Mitigation Measure	Monitoring Responsibility	Monitoring Timing and Frequency	Monitoring Program	Standard of Success	Compliance Verification	
					Initial	Date
<ul style="list-style-type: none"> • Workers shall communicate using walkie-talkies as opposed to yelling. • No horns, whistles, backup alarms, music or other loud devices shall be used. • As much as practical, handling of pipe and use of hammers and hammer wrenches should be restricted. • All truck engines and other equipment shall be turned off when not in use. 						

EXHIBIT C

PRC 735.1
PRC 3314.1

AMENDMENT OF BONDING PROVISIONS OF STATE OIL AND GAS LEASES PRC 735.1 AND PRC 3314.1

Whereas the State of California by and through the State Lands Commission did lease certain lands known as PRC 735.1 in Ventura County to Standard Oil Company of California on June 30, 1952, and through successive assignments to Venoco, Inc. effective on November 1, 2007; and

Whereas the State of California by and through the State Lands Commission did lease certain lands known as PRC 3314.1 in Ventura County to Shell Oil Company on July 2, 1965, and through successive assignments to Venoco, Inc. effective on November 1, 2007; and

Whereas the amount of the performance bond required pursuant to the terms of Paragraph 13 of PRC 735.1, as previously amended, is \$900,000; and

Whereas the amount of the performance bond required pursuant to the terms of Paragraph 14 of PRC 3314.1, as previously amended, is \$300,000; and

Whereas it has been determined to be in the State's best interest to make certain modifications in the security requirements for faithful performance by the lessee under the above referenced leases, Commission staff and Venoco propose to combine the performance bonds into a single \$2,000,000 blanket bond or other security acceptable to the state to guarantee performance by the Lessee of all the terms and conditions of the leases.

NOW THEREFORE, Venoco, Inc. and the State Lands Commission mutually agree as follows:

1. The Lessee shall furnish and maintain a good and sufficient bond or other security acceptable to the State in favor of the State of California in the sum of \$2,000,000 to guarantee the faithful performance by the Lessee of the terms, covenants, and conditions of the leases as amended now and hereafter and of the provisions of Division 6 of the Public Resources Code, Statutes of California, and the rules and regulations promulgated thereunder.
2. The amount of the bond shall be subject to review and modification every five years.
3. As long as the bond referenced in Paragraph 1 of this Amendment is maintained and in effect, Lessee shall be deemed to be in compliance with Section 13 of PRC 735.1 as subsequently amended and Section 14 of PRC 3314.1 as subsequently amended; failure to maintain the bond as specified in Paragraph 1

of this Amendment shall be considered a violation of those respective sections of PRC 735.1 and 3314.1, as amended.

4. All terms and conditions of the leases, as amended, shall otherwise remain in full force and effect.
5. The effective date of these amendments shall be May 1, 2011.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment of Bonding Provisions of State Oil and Gas Leases PRC735.1 and PRC 3314.1.

LESSEE
Venoco, Inc.

STATE OF CALIFORNIA
STATE LANDS COMMISSION

By _____

By _____

Title _____

Title _____

Dated _____

Dated _____