

**CALENDAR ITEM
C89**

A 2,7,8,11

02/22/13
PRC 3743.1
PRC 3896.1
PRC 8377.1
PRC 8989.1

S 2,4,7

M. LeClair

**CONSIDER APPROVAL OF (1) A LEASE AMENDMENT
AND ASSIGNMENT OF 100 PERCENT OF VENOCO, INC.'S
INTEREST IN OIL AND GAS LEASE NO. PRC 8377.1; AND
(2) AN ASSIGNMENT OF 100 PERCENT OF
VENOCO, INC.'S INTEREST IN OIL AND GAS LEASE NOS.
PRC 3743.1, PRC 3896.1 AND PRC 8989.1;
ALL TO VINTAGE PRODUCTION CALIFORNIA LLC;
COLUSA, CONTRA COSTA, SOLANO,
AND SUTTER COUNTIES**

ASSIGNOR:

Venoco, Inc.
Attn.: Mr. Patrick T. Moran
370 17th Street, Suite 3900
Denver, CO 80202

ASSIGNEE:

Vintage Production California LLC
Attn.: Mr. Michael D. Gooding
9600 Ming Avenue, Suite 300
Bakersfield, CA 93311

AREA, LAND TYPE, AND LOCATION:

Negotiated Oil and Gas Lease Nos. PRC 3743.1 and PRC 3896.1 contain 2,241 acres and 1,448 acres, respectively, of tide and submerged lands around Ryer Island in Suisun Bay, Contra Costa and Solano Counties (Exhibit A, attached hereto). Negotiated, limited surface use Oil and Gas Lease No. PRC 8377.1 contains 362.49 acres, more or less, of State sovereign lands and 4,165.5 acres, more or less, of California Department of Fish and Wildlife (CDFW) lands in Solano County (Exhibit B, attached hereto). Negotiated Subsurface Natural Gas

CALENDAR ITEM NO. **C89** (CONT'D)

Lease No. PRC 8989.1 contains approximately 15 acres of sovereign lands underlying the Sacramento River located near the City of Grimes in Colusa and Sutter Counties (Exhibit C, attached hereto).

BACKGROUND:

Oil and Gas Lease Nos. PRC 3743.1 and PRC 3896.1 were awarded by competitive bid to Standard Oil Company of California (now Chevron USA) on April 10, 1967, and on January 26, 1968, respectively. On January 29, 1999, the California State Lands Commission (Commission) approved an assignment of an undivided 100 percent (100%) interest in both leases from Chevron USA to Venoco, Inc. (Venoco) a Delaware corporation, effective February 1, 1999.

The Commission issued negotiated limited surface use Oil and Gas Lease No. PRC 8377.1 to Occidental Resources of California, LLC (ORCA) on January 30, 2002. The State's mineral interests in the leased lands are of two types: first, a 50 percent (50%) mineral interest in those CDFW lands underlying Grizzly and Hammond Islands and, second, a 100 percent (100%) mineral interest in State sovereign lands that underlie Grizzly Slough, Howard Slough, Montezuma Slough, and the Roaring River. The CDFW administers all surface uses of the Grizzly Island Wildlife Management Area. On August 8, 2005, the Commission approved an assignment of an undivided 100 percent (100%) interest from ORCA to Venoco.

The Commission approved on August 14, 2012, Venoco's application to convert a portion of a current compensatory gas agreement (PRC 2826) operated by Venoco into negotiated subsurface (no surface use) Natural Gas Lease No. PRC 8989.1. The Commission determined that a new negotiated subsurface Natural Gas Lease was the best option to protect the natural gas resources that may underlie the State lands.

On December 31, 2012, Venoco entered into a Purchase and Sale Agreement with Vintage Production California LLC (Vintage), a Delaware limited liability corporation for a portion of its California assets, including its interest in State Oil and Gas Lease Nos. PRC 3743.1, PRC 3896.1, PRC 8377.1, and PRC 8989.1. In an application dated January 7, 2013, Venoco requested that the Commission approve the assignment of its 100 percent (100%) interest in the Leases to Vintage. As part of the assignment review process, Staff reviewed the application forms and found them to be complete. Vintage is a wholly owned subsidiary of Occidental Oil and Gas Holding Corporation, which also owns OXY USA, Inc. (Lessee of State leases in the Huntington Beach Field) and OXY Long

CALENDAR ITEM NO. **C89** (CONT'D)

Beach (Contractor/Operator of the Long Beach Unit and the West Wilmington tidelands). It is staff's opinion that Vintage, a current lessee of several State oil and gas leases, is a viable lessee based upon its history of consistent payment of rental and royalties in a timely manner and its proactive addressing of lease issues. Vintage will continue to maintain the bonding and insurance required by the Leases and will be the party responsible for the payment of all rental and royalties due under the Leases.

Staff recommends that Lease No. PRC 8377.1 should be amended to provide additional protection of the State's interests in the lease lands. The Amendments to the Lease is on file with the Commission in a form substantially similar to the document attached as Exhibit D. The Amendment requires Vintage to execute a lease management fee reimbursable agreement with the Commission to cover staff costs associated with lease administration.

STATUTORY AND OTHER REFERENCES:

- A. Section 4 of Lease Nos. PRC 3743.1 and PRC 3896.1, section 29 of Lease No. PRC 8377.1, and section 15 of Lease No. PRC 8989.1.
- B. Public Resources Code section 6804.

OTHER PERTINENT INFORMATION

- 1. The staff recommends that the Commission find that the subject lease amendment and assignment do not have a potential for resulting in either a direct or a reasonably foreseeable indirect physical change in the environment, and are, therefore, not projects in accordance with the California Environmental Quality Act (CEQA).

Authority: Public Resources Code section 21065 and California Code of Regulations, Title 14, sections 15060, subdivision (c)(3), and 15378.

- 2. Assignment forms have been provided and prerequisite filing fees have been paid by Venoco.
- 3. Upon approval of the assignments, State Oil and Gas Lease No. PRC 8377.1 shall be amended in a form substantially similar to the Amendment document attached as Exhibit D.

CALENDAR ITEM NO. **C89** (CONT'D)

EXHIBITS:

- A. Location Map PRC 3743.1 and PRC 3896.1
- B. Location Map PRC 8377.1
- C. Location Map PRC 8989.1
- D. Proposed Lease Amendment PRC 8377.1

RECOMMENDED ACTION:

It is recommended that the Commission:

CEQA FINDING:

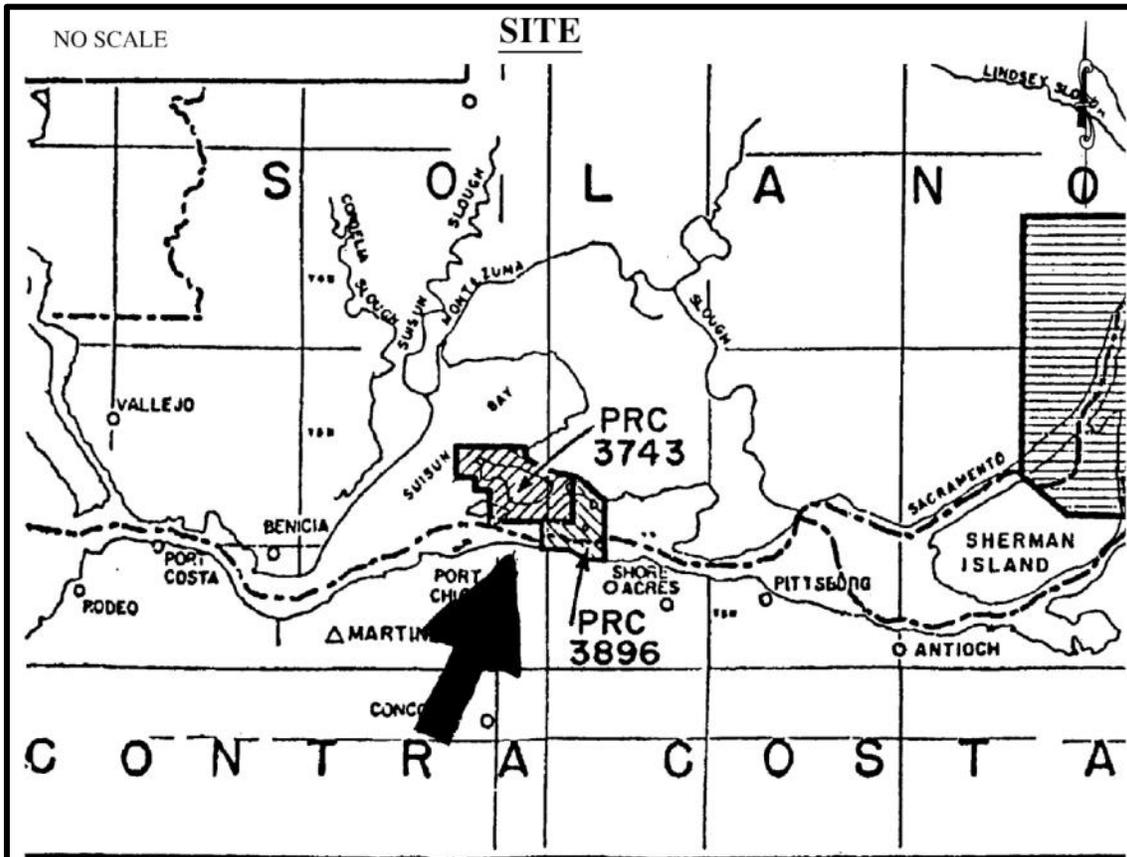
- 1. Find that the subject lease amendment and assignment are not subject to the requirements of CEQA pursuant to California Code of Regulations, Title 14, section 15060, subdivision (c)(3), because the subject activity is not a project as defined by Public Resources Code section 21065 and California Code of Regulations, Title 14, section 15378.

AUTHORIZATION:

- 1. Consent to the assignment of 100 percent (100%) of Venoco, Inc.'s interest in State Oil and Gas Lease Nos. PRC 3743.1, PRC 3896.1, PRC 8377.1 and PRC 8989.1 to Vintage Production California LLC, with the assignee to be bound by all the terms and conditions of the Leases.
- 2. Approve the Lease Amendment for State Oil and Gas Lease No. PRC 8377.1 in a form substantially similar to that set forth in Exhibit D of this calendar item.
- 3. Authorize the Executive Officer or her designee to execute any documents necessary to implement the Commission's action.

EXHIBIT A

PRC 3743.1
PRC 3896.1



SUISUN BAY, RYER ISLAND

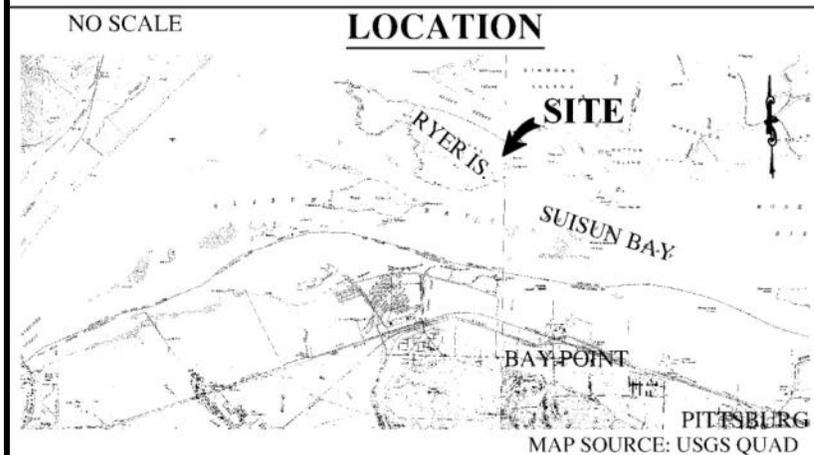


EXHIBIT A
PRC 3743.1 & PRC 3896.1
VINTAGE
OIL AND GAS LEASE
SOLANO & CONTRA
COSTA COUNTIES



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 B

PRC 8377.1

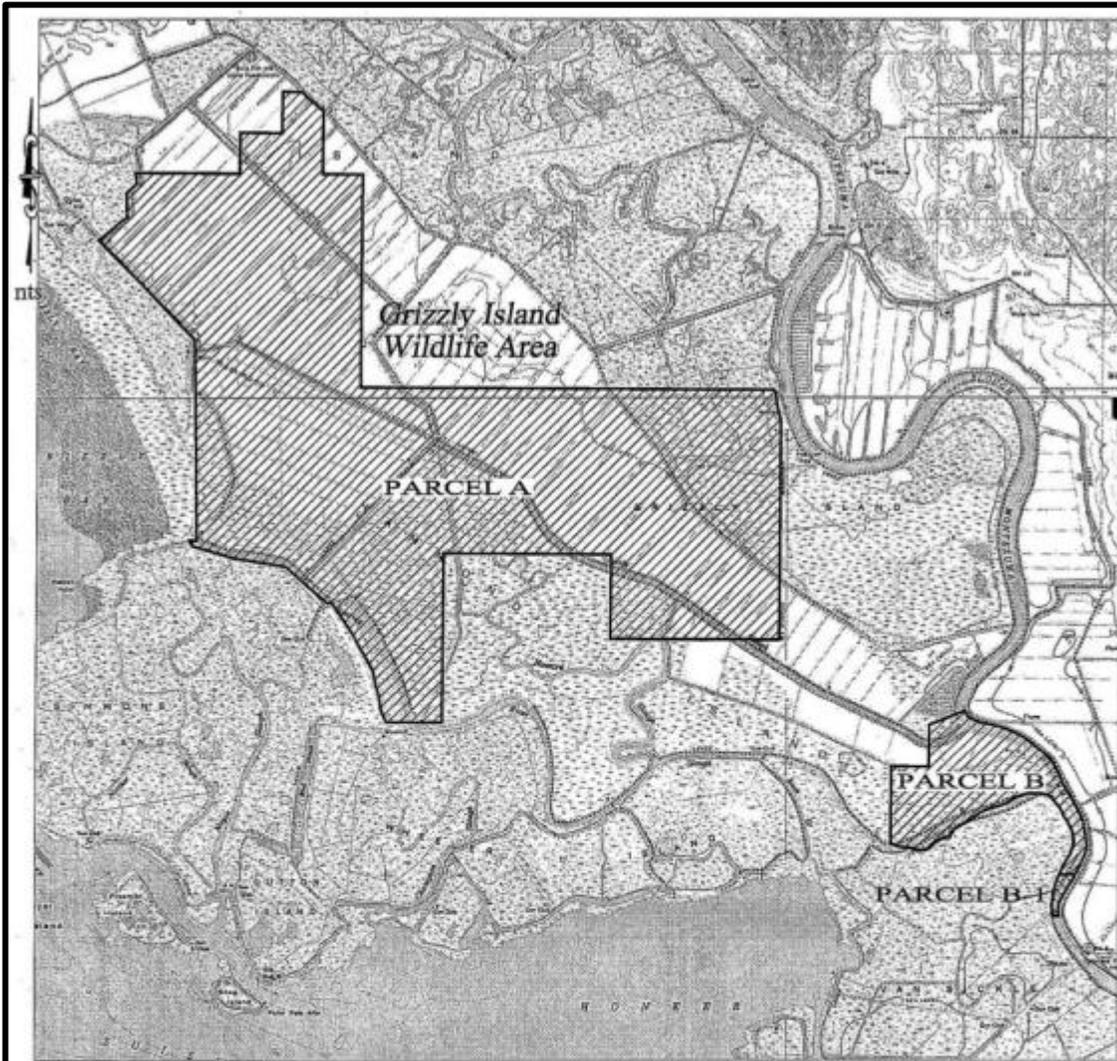


EXHIBIT B

OIL AND GAS LEASE

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

LOCATION MAP

PRC 8377

VENOCO INC.

OIL & GAS LEASE
HOWARD, MONTEZUMA &
GRIZZLY & ROARING RIVER
SLOUGHS AND FISH & GAME
LANDS ON HAMMOND &
GRIZZLY ISLAND

SOLANO COUNTY

EXHIBIT C

PRC 8989.1

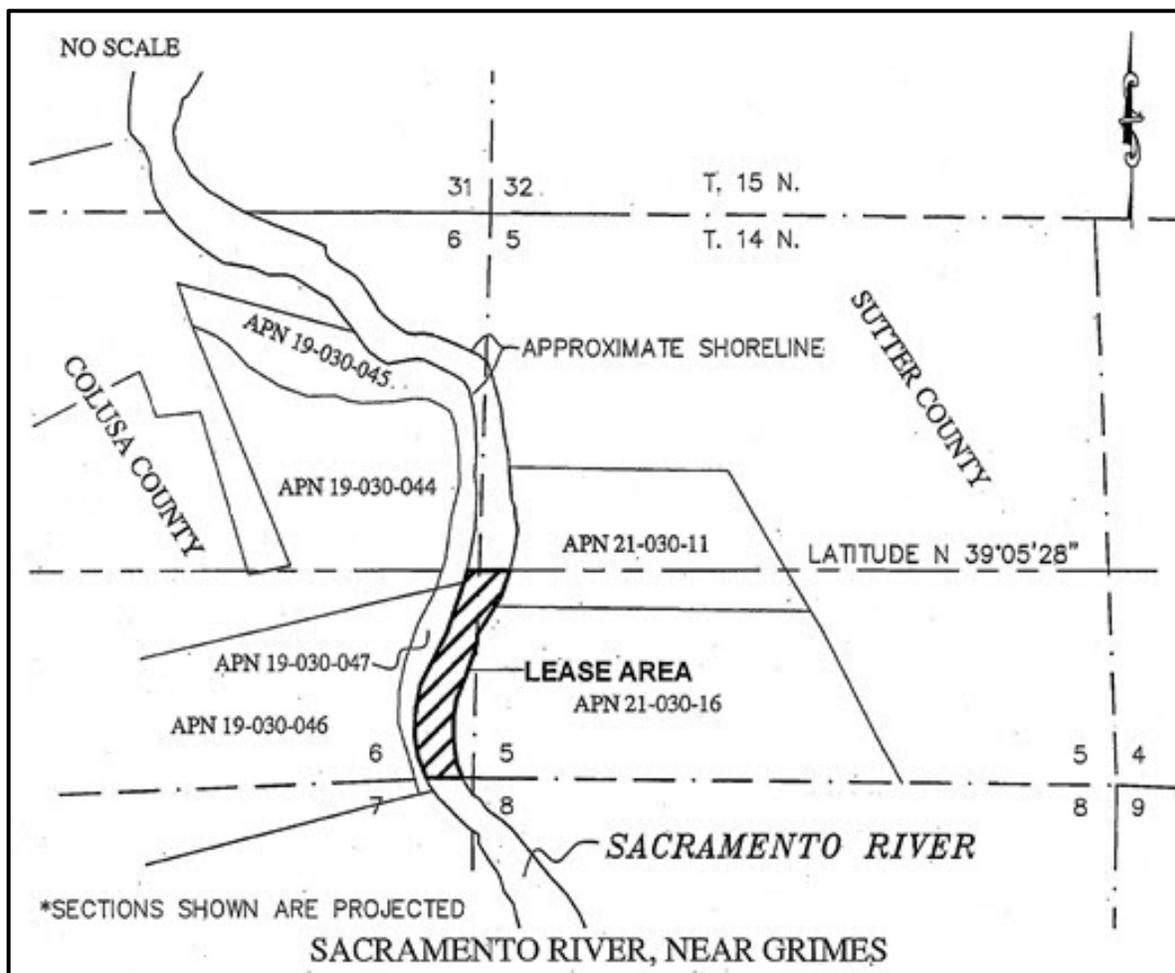


Exhibit C
PRC 8989.1
VENOCO, INC.
OIL & GAS LEASE
COLUSA & SUTTER
COUNTIES



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 D

PRC 8377.1

AMENDMENT OF STATE OIL AND GAS LEASE PRC 8377.1

This Amendment is entered into by and between the State of California, acting by and through the State Lands Commission, referred to as "State," and Vintage Production California LLC referred to as "VINTAGE."

The State and VINTAGE's predecessors in interest entered into State Oil and Gas Lease PRC 8377.1 dated January 30, 2002, which is referred to as the "Lease." VINTAGE is the lessee and operator of the Lease.

Whereas the State has determined that it is in its best interest to modify the terms of the Lease to include a Lease Management Fee to reimburse the State for the reasonable and necessary costs incurred for the administration and implementation of the terms and conditions of the Lease; and,

Whereas, the Lease may be amended by mutual consent of the parties to them,

NOW THEREFORE, VINTAGE and the State agree as follows:

1. VINTAGE, as lessee, shall execute a State Standard Reimbursement Agreement for the Lease, subject to a five thousand dollar (\$5,000) per annum cap to start on _____, with automatic annual renewals increasing the cap five percent (5%) per year. Pursuant to the terms of State Standard Reimbursement Agreement, the lessee shall be billed for reimbursement of staff time incurred for the reasonable and necessary costs of the administration and implementation of the terms of the Lease, including, but not limited to, engineering review, royalty verification and/or audit, reservoir and geologic review, annual lease reviews and any other staff time or expenditures to ensure lease operations conform to all the terms of the Lease and to the rules and regulations of the State currently in effect and those promulgated or amended after the effective date of this Amendment applicable to drilling and production operations in or on the Lease. Notwithstanding the foregoing, all costs incurred for environmental mitigation monitoring required to be performed pursuant to the terms of the Lease and costs and expenses of the State that are reimbursable under or funded by the Lempert-Keene-Seastrand Oil Spill Prevention and Response Act (Pub. Resources Code § 87850 et seq.) are excluded from the provisions of this paragraph and not subject to the cap, unless and until such funding is insufficient to cover these costs and expenses. Lessee may request reasonable back-up support for all such charges.
2. The effective date of this Amendment is _____.

This Amendment will be binding on the State only after it is duly executed on behalf of the State Lands Commission of the State of California.

IN WITNESS WHEREOF, the parties have executed this Amendment to State Oil and Gas Lease PRC 8377.1.

LESSEE
VINTAGE PRODUCTION CALIFORNIA LLC

STATE OF CALIFORNIA
STATE LANDS COMMISSION

By _____

By _____

Name _____

Name _____

Title _____

Title _____

Dated _____

Dated _____

All Signatures must be acknowledged.