

**CALENDAR ITEM  
C103**

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09/20/13  
PRC 8349.1  
N. Heda  
M. LeClair

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**CONSIDER APPROVAL OF A LEASE AMENDMENT AND  
AN ASSIGNMENT OF TOWNE EXPLORATION COMPANY, LP'S  
100 PERCENT (100%) INTEREST IN  
STATE OIL AND GAS LEASE NO. PRC 8349.1 TO  
VINTAGE PRODUCTION CALIFORNIA LLC,  
UNDERLYING THE BED OF THE MOKELUMNE RIVER,  
SACRAMENTO AND SAN JOAQUIN COUNTIES**

**ASSIGNOR:**

Towne Exploration Company, LP  
Attn.: Mr. Jim Lynn, Land Manager  
P.O. Box 192930  
San Francisco, CA 94119-2930

**ASSIGNEE:**

Vintage Production California LLC  
Attn.: Mr. Shannon W. Martin, Manager  
9600 Ming Avenue, Suite 300  
Bakersfield, CA 93311

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

Negotiated subsurface (no surface use) Oil and Gas Lease No. PRC 8349.1 involving a 58.59 acre parcel of State owned submerged land in Section 5, 6, 7 and 8, T3N, R4E, MDM, located in the bed of the Mokelumne River, Sacramento and San Joaquin Counties, California (see attached Exhibit A).

**BACKGROUND:**

The California State Lands Commission (Commission) issued State Oil and Gas Lease No. PRC 8349.1 to Towne Exploration Company LP (Towne) on November 8, 2001. The lease contained a three-year drilling term and requires the lessee to pay an annual rental of \$25 per acre (\$1,464.75 for 58.59 acres), pay a royalty of 20 percent (20%) on gas, to furnish a performance bond or other security in the sum of \$5,000 and to carry a commercial liability insurance policy with a liability limit of at least \$2 million per occurrence and a general aggregate limit of \$5 million.

CALENDAR ITEM NO. **C103** (CONT'D)

Towne has drilled two productive natural gas wells, "Tyler Island Farms 5-1" and the "Tyler Island Farms 6-1," in upland parcels adjacent to the State lands covered by the lease. Towne proposed to protect the State by forming the "Tyler Island Farms 6-1 Unit" (6-1 Unit) for the production of natural gas and associated hydrocarbon substances (excluding oil). The 6-1 Unit is comprised of 160 acres (including 32 acres of State land) and covers all depths and horizons lying below a depth of 3,819 feet beneath the surface. The Commission approved this pooling agreement, effective the same date as the Lease, on November 8, 2001. As a result of the unitization of a portion of the leased lands, the drilling term of the lease has been deemed satisfied as to the 32 acres included in the Unit.

On June 20, 2005, the Commission approved an additional pooling of the leased lands, pursuant to Negotiated State Oil and Gas Lease No. PRC 8349.1, with lands located under State Oil and Gas Lease No. E-415.1, leased to Calpine Natural Gas Company (now leased by Vintage Petroleum California LLC (Vintage), under the Georgiana Slough and Mokelumne River, Sacramento and San Joaquin Counties. This unit is called the "Tyler Island Farms 5-2 Unit." The operating unit consists of 9.351 acres of leased lands under PRC 8349.1 and 9.888 acres of leased lands under PRC. E-415.1. The total of 19.239 acres represents approximately 69.337 percent (69.337%) of the unit's 27.747 acres. Royalties are calculated and paid upon that percentage of Unit Production allocated to state owned lands.

**PROPOSED ACTION:**

Commission staff received a request on July 24, 2013, containing an application for the Commission's approval of the assignment of Towne's entire undivided 100 percent (100%) interest in the aforementioned Lease to Vintage, a Delaware limited liability corporation. 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 Beach (Contractor/Operator of the Long Beach Unit and the West Wilmington Tidelands). Vintage is a current lessee of several State Oil and Gas Leases, and has been consistent in its payment of rental and royalties. Vintage will continue to maintain the bonding and insurance required by the Lease and will be the party responsible for the payment of all rental and royalties due under the Lease. Staff has established that no defaults exist on the Lease and that Towne has complied with all applicable lease provisions and paid all rentals pursuant to the lease terms.

**STATUTORY AND OTHER REFERENCES:**

- A. Public Resources Code section 6804
- B. Lease Paragraph 28.

CALENDAR ITEM NO. **C103** (CONT'D)

**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. Upon approval of the assignment, State Oil and Gas Lease No. PRC 8349.1 shall be amended in a form substantially similar to the Amendment document attached as Exhibit B.
3. Execute Reimbursable Agreement of \$3,000 per annum cap with three percent (3%) increase annually.

**EXHIBITS:**

- A. Site and Location Map
- B. Proposed Lease Amendment

**RECOMMENDED ACTION:**

It is recommended that the Commission:

**CEQA FINDING:**

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 activities are not projects as defined by Public Resources Code section 21065 and California Code of Regulations, Title 14, section 15378.

**AUTHORIZATION:**

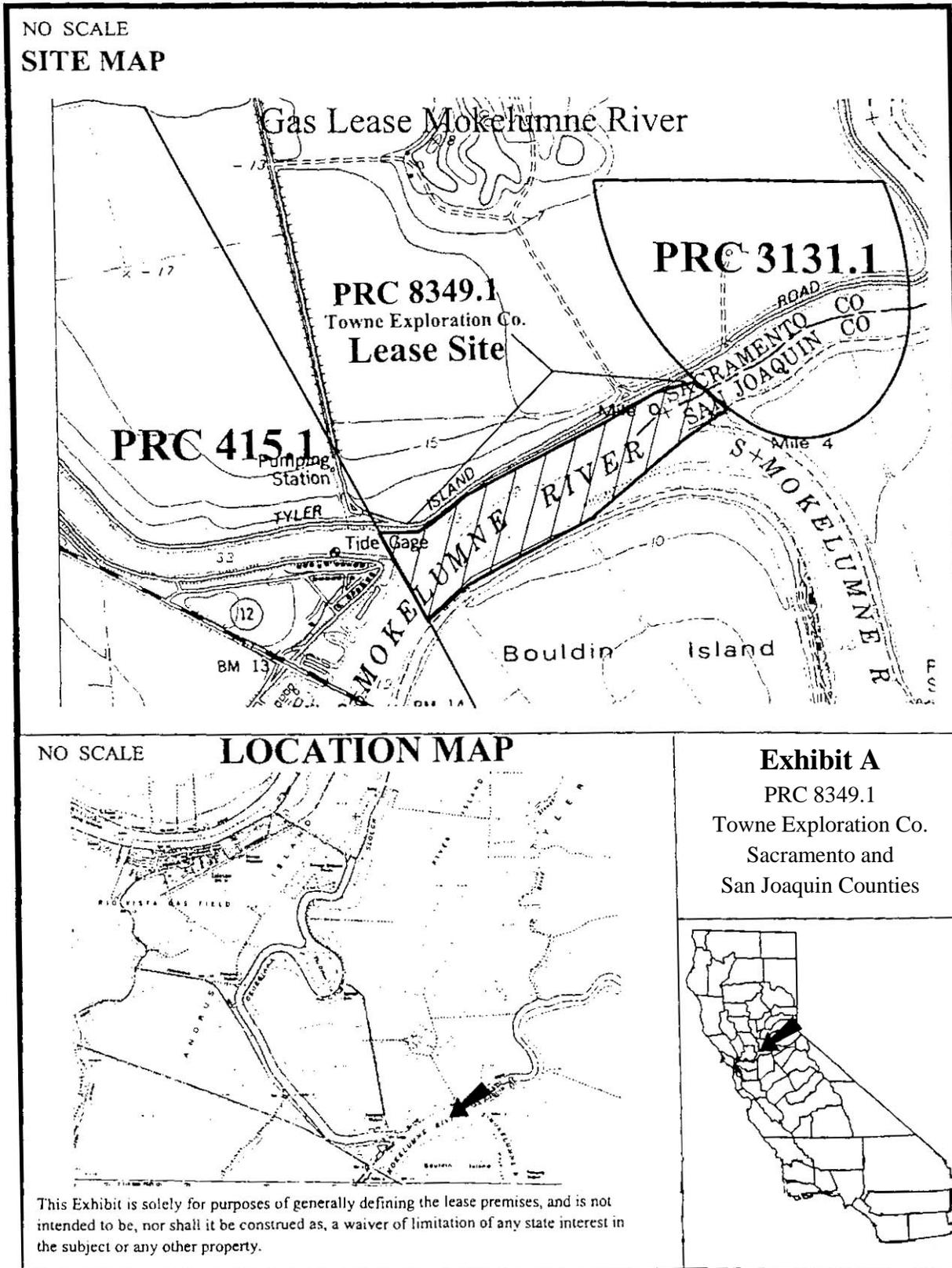
1. Consent to the assignment of an undivided hundred percent (100%) interest of State Oil and Gas Lease PRC 8349.1 from Towne Exploration Company, LP to Vintage Production California LLC, and approve Vintage Production California LLC as operator of the lease and with Vintage Production California LLC to be bound by all the terms and conditions of the Lease.

CALENDAR ITEM NO. **C103** (CONT'D)

2. Approve the Lease Amendment for State Oil and Gas Lease No. PRC 8349.1 in a form substantially similar to the set forth in Exhibit B.
3. Authorize the Executive Officer or her designee to execute any documents necessary to implement the Commission's action.

# Exhibit A

PRC 8349.1



**AMENDMENT OF STATE OIL AND GAS LEASE PRC 8349.1**

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 8349.1 dated November 8, 2001, 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 three thousand dollar (\$3,000) per annum cap to start on September 1, 2013 with automatic annual renewals increasing the cap three percent (3%) per year. 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.
2. The effective date of this Amendment is \_\_\_\_\_, 2013.

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 8349.1.

LESSEE  
VINTAGE PRODUCTION CALIFORNIA LLC

STATE OF CALIFORNIA  
STATE LANDS COMMISSION

By \_\_\_\_\_

By \_\_\_\_\_

Name \_\_\_\_\_

Name \_\_\_\_\_

Title \_\_\_\_\_

Title \_\_\_\_\_

Dated \_\_\_\_\_

Dated \_\_\_\_\_

**All Signatures must be acknowledged.**