

**CALENDAR ITEM
C105**

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09/20/13
PRC 8694.1

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N.Heda
M. LeClair

**CONSIDER APPROVAL OF A LEASE AMENDMENT AND
AN ASSIGNMENT OF TOWNE EXPLORATION COMPANY, LP'S
60 PERCENT INTEREST IN
STATE OIL AND GAS LEASE NO. PRC 8694.1 TO
VINTAGE PRODUCTION CALIFORNIA LLC,
UNDERLYING THE BED OF GEORGIANA SLOUGH,
SACRAMENTO COUNTY**

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 8694.1 (Lease) is located within the River Island Gas Field area. The lease includes approximately 13.86 acres in the bed of Georgiana Slough, Section 19 and 30, T4N, R4E, MDM, Sacramento County (Exhibit A, attached hereto).

BACKGROUND:

The California State Lands Commission (Commission) issued Lease PRC 8694.1 to Towne Exploration Company, LP (Towne) on June 26, 2006. The Lease prohibits any surface use. The lease is part of a pooled unit (North Isleton 30-1 Unit) currently producing natural gas from a well bore located on private land adjacent to the State property. The lease requires the lessee to pay an annual rental of \$35 per acre (\$490 for approximately 13.86 acres), to pay a royalty of 20 percent (20%) on gas, and to furnish a performance bond or other security in the sum of \$10,000.

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The Commission, on May 10, 2007, approved a partial assignment of an undivided 40 percent (40%) interest in the Lease to Capitol Oil Corporation. Capitol Oil Corporation is an exploration and production company that entered into an Area of Mutual Interest (AMI) agreement with Towne. The AMI is not part of this assignment to Vintage. Towne retained an undivided 60 percent (60%) ownership interest in the Lease and continued to be the operator responsible for payment of all rentals and royalties.

PROPOSED ACTION:

On July 24, 2013, Commission staff received an application for the Commission's approval of the assignment of 100 percent (100%) of Towne's undivided 60 percent (60%) interest in Lease PRC 8694.1 to Vintage Production California LLC (Vintage), a Delaware Limited Liability Company. 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 has a strong and consistent history as a good lessee of the State. Vintage will continue to maintain the bonding and insurance required by the Lease and will be the party responsible for the payment of all rent 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 due pursuant to the lease terms.

In addition, on February 2, 2004, the Commission accepted two quitclaims from Towne for Negotiated Subsurface Oil and Gas Leases PRC 714.1 and PRC 729.1 located in Sacramento and San Joaquin Counties (Calendar Items C47 and C48). The Authorization released Towne from all obligations under Leases PRC 714.1 and PRC 729.1 accruing after October 18, 2003, except for the payment of future production, if any, from the following three wells:

1. The Annie D. Ganahl #1, (now named the "Mello et al" 1; API# 06700230) currently active,
2. The Capitol Company D3, (API# 06700229) now abandoned (DOGGR 01/17/07),
3. The Gardiner Improvement #1, (API# 06720159) now abandoned (DOGGR 01/17/07).

A portion of the production from these wells was allocated to the State for royalty payment under the leases. Towne submitted a written stipulation to its obligation to pay royalty as provided in the leases on any produced gas from these wells.

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That stipulation survives the surrender of the leases as an accrued obligation for as long as these wells continue to produce. As these wells (located on private lands) will also be assigned to Vintage, the lease amendment will require that Towne's stipulation be honored until all the wells are abandoned. Currently only the Annie D. Ganahl #1 (now named the "Mello et al" 1; API# 06700230) is subject to the stipulation as the remaining two wells have been abandoned .

STATUTORY AND OTHER REFERENCES:

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

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 8694.1 shall be amended in a form substantially similar to the Amendment document attached as Exhibit B.
3. Vintage Production California LLC shall uphold the precedent dictated by Towne Exploration's Stipulation of paying royalty on any gas production from the following well: Annie D. Ganahl #1 (now named "Mello et al" 1; API# 06700230) until such time the well has been properly abandoned.
4. 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.

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RECOMMENDED ACTION:

It is recommended that the Commission:

CEQA FINDING:

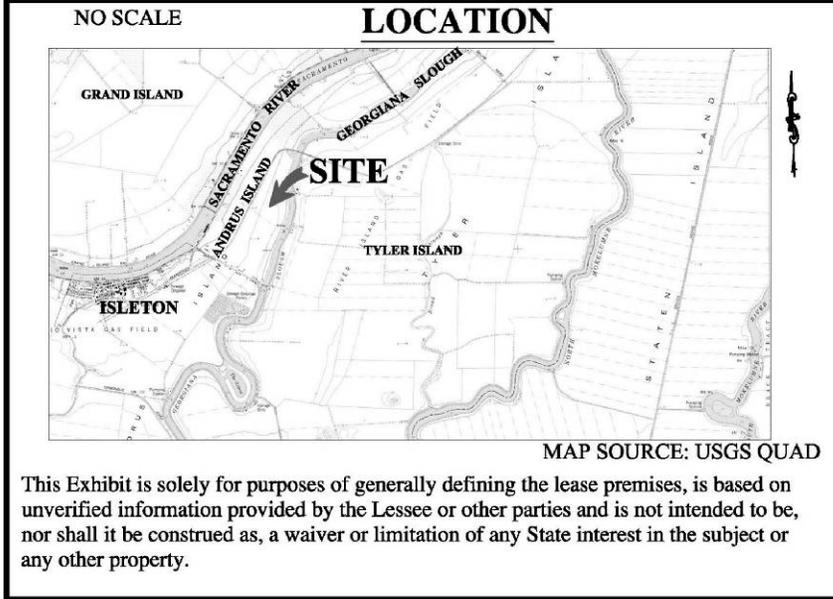
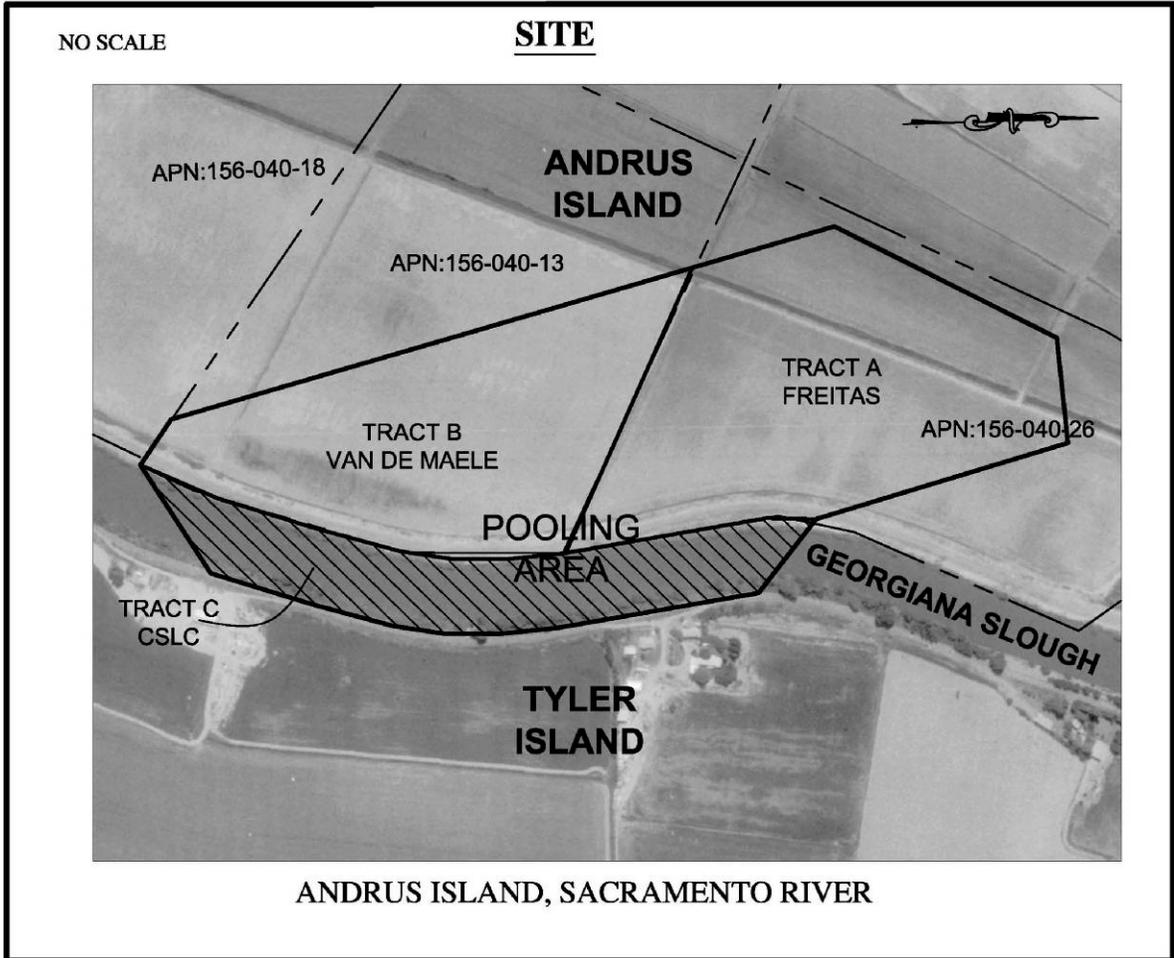
1. Find that the subject lease amendment and assignment are not subject to the requirements of CEQA pursuant to California Code of Regulations, Title 14, section 15060, subdivision (c)(3), because the activities are not a project as defined by Public Resources Code section 21065 and California Code of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

AUTHORIZATION:

1. Consent to the assignment of 100 percent (100%) of Towne Exploration, LP's undivided 60 percent (60%) interest in State Oil and Gas Lease No. PRC 8694.1 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.
2. Approve the Lease Amendment for State Oil and Gas Lease No. PRC 8694.1 in a form substantially similar to that set forth in Exhibit B, attached hereto.
3. Authorize the Executive Officer or her designee to execute any documents necessary to implement this assignment.

Exhibit A

PRC 8694.1



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.

AMENDMENT OF STATE OIL AND GAS LEASE PRC 8694.1

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 8694.1 dated June 26, 2006, 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 8694.1.

LESSEE
VINTAGE PRODUCTION CALIFORNIA LLC

STATE OF CALIFORNIA
STATE LANDS COMMISSION

By _____

By _____

Name _____

Name _____

Title _____

Title _____

Dated _____

Dated _____

All Signatures must be acknowledged.