

**CALENDAR ITEM
C104**

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09/20/13
PRC 8573.1

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N. Heda
M. LeClair

**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 8573.1
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 8573.1 involving an approximate 10.65 acre parcel of State owned submerged land in Section 9, 10, 15 and 16, T4N, R4E, MDM, in Sacramento County, California (see attached Exhibit A). This lease also participates in a pooled unit, the Mello 3-10 Unit, which contains a total of 124.27 acres.

BACKGROUND:

The California State Lands Commission (Commission) issued State Oil and Gas Lease No. PRC 8573.1 to Towne Exploration Company LP (Towne) on October 6, 2004. This negotiated subsurface (no surface use) Lease originally involved 8.99 acres, more or less, of sovereign land in the bed of Georgiana Slough in Sacramento County, California. The lease requires the lessee to pay an annual rental of \$20 per acre (\$180 for 8.99 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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On April 26, 2005, the Commission approved an amendment to the lease documents to acknowledge the additional 1.66 acres within the lease area and consent to the pooling of the leased lands. Towne drilled and completed the Mello 3-10 well, which was capable of commercial natural gas production. Towne then formed an operating unit, called the "Mello 3-10 Unit," containing approximately 124.37 acres of State and private leased land. The entire 10.65 acre parcel that makes up PRC 8573.1 is included in the unit which represents approximately 8.56 percent (8.56 %) of the unit.

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 Lease PRC 8573.1 to Vintage Production California LLC (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). 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 and timely payment of rental and royalties and its proactive approach addressing lease issues. 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 due pursuant to the lease terms.

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.

CALENDAR ITEM NO. **C104** (CONT'D)

2. Upon approval of the assignment, State Oil and Gas Lease No. PRC 8573.1 shall be amended in a form substantially similar to the Amendment document attached as Exhibit B.
3. Execute Reimbursable Agreement for lease management 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 subject 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 No. PRC 8573.1 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.
2. Approve the Lease Amendment for State Oil and Gas Lease No. PRC 8573.1 in a form substantially similar to that 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 8573.1

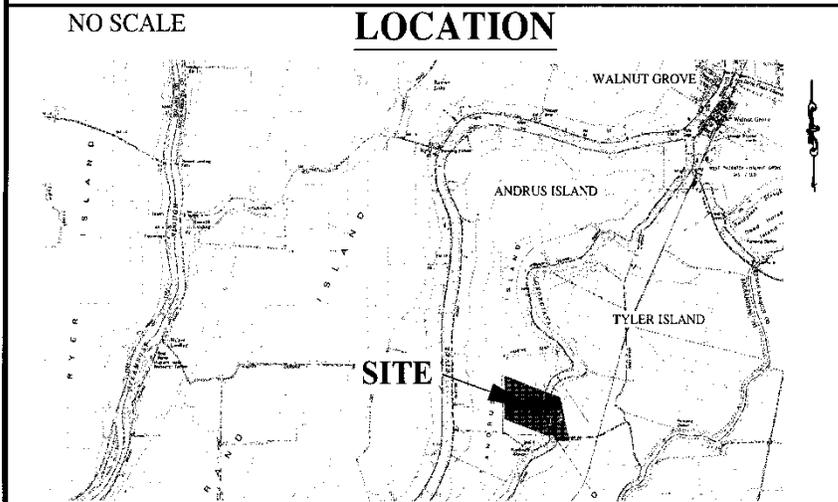
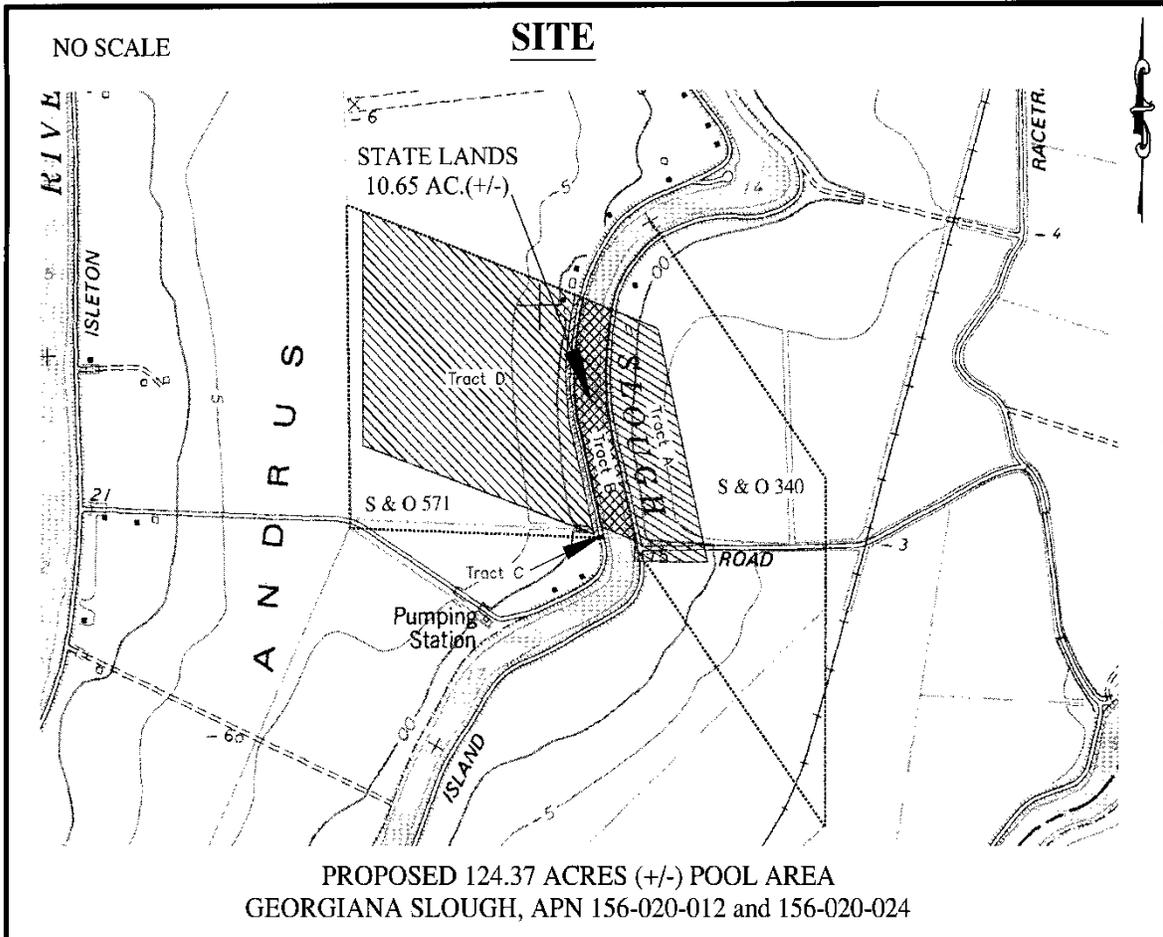


Exhibit A
PRC 8573
TOWNE EXPLORATION
COMPANY
OIL AND GAS LEASE
SACRAMENTO COUNTY



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.

MAP SOURCE: USGS QUAD

EXHIBIT B

AMENDMENT OF STATE OIL AND GAS LEASE PRC 8573.1

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 8573.1 dated October 6, 2004, 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 8573.1.

LESSEE
VINTAGE PRODUCTION CALIFORNIA LLC

STATE OF CALIFORNIA
STATE LANDS COMMISSION

By _____

By _____

Name _____

Name _____

Title _____

Title _____

Dated _____

Dated _____

All Signatures must be acknowledged.