

12. REQUEST FOR APPROVAL, "FIRST AMENDMENT AND MODIFICATION OF STATE OIL AND GAS LEASE PRC 3120.1, AND STATE OIL AND GAS LEASE PRC 3242.1 (SECONDARY RECOVERY)", SOUTH ELWOOD OFFSHORE FIELD, SANTA BARBARA COUNTY; ATLANTIC RICHFIELD COMPANY AND MOBIL OIL CORPORATION - W 9327.

After consideration of Calendar Item 14 attached, and upon motion duly made and carried, the following resolution was adopted:

THE COMMISSION:

1. FINDS THAT A COOPERATIVE PLAN FOR OPERATION OF STATE OIL AND GAS LEASES PRC 3120.1 AND PRC 3242.1 IS NECESSARY OR ADVISABLE IN THE PUBLIC INTEREST INsofar AS THE SAME COVERS OIL AND GAS PRODUCED FROM THE RINCON SAND FORMATION.
2. PURSUANT TO SECTION 6330.2 OF THE PUBLIC RESOURCES CODE, DETERMINES THAT IT IS IN THE BEST INTEREST OF THE STATE THAT THE PROPOSED AMENDATORY AGREEMENT BE ENTERED INTO; AND
3. AUTHORIZES THE EXECUTION AND ISSUANCE OF A "FIRST AMENDMENT AND MODIFICATION OF STATE OIL AND GAS LEASE PRC 3120.1 AND STATE OIL AND GAS LEASE PRC 3242.1 (SECONDARY RECOVERY)," A COPY OF WHICH IS HEREBY MADE A PART HEREOF BY REFERENCE TO THE OFFICIAL FILES OF THE COMMISSION.

ALL OTHER TERMS AND CONDITIONS OF STATE OIL AND GAS LEASES PRC 3120.1 AND PRC 3242.1 SHALL REMAIN IN FULL FORCE AND EFFECT.

Attachment:

Calendar Item 14 (2 pages)

CALENDAR ITEM

10/71
W 9327
ADW

14.

REQUEST FOR APPROVAL, "FIRST AMENDMENT AND MODIFICATION OF STATE OIL AND GAS LEASE PRC 3120.1, AND STATE OIL AND GAS LEASE PRC 3242.1 (SECONDARY RECOVERY)", SOUTH ELWOOD OFFSHORE FIELD, SANTA BARBARA COUNTY; ATLANTIC RICHFIELD COMPANY AND MOBIL OIL CORPORATION - W 9327.

State Oil and Gas Leases PRC 3120.1 and PRC 3242.1 were issued April 29, 1964, and April 8, 1965, respectively, to Richfield Oil Corporation and Socony Mobil Oil Company, Inc., pursuant to competitive bid. Both leases cover State tide and submerged lands located within the South Elwood Off-shore Oil and Gas Field (see Exhibit "A").

The leases are now held by Atlantic Richfield Company, which resulted from the merger of Richfield Oil Corporation into Atlantic Refining Company on January 3, 1966. Socony Mobil Oil Company, Inc., underwent a name change to Mobil Oil Corporation on May 18, 1966.

Atlantic Richfield Company, as operator of the two leases, has submitted to the Commission for approval a proposed form of "First Amendment and Modification of State Oil and Gas Lease PRC 3120.1 and State Oil and Gas Lease PRC 3242.1 (Secondary Recovery)," which provides for secondary recovery operations in the Rincon Sand Formation. The proposed Amendment and Modification also provides for unitization and pooling of the two leases only insofar as the same covers oil produced from the Rincon Sand Formation. Sections 6830.3 and 6832 of the Public Resources Code provide for such agreements upon approval by the Commission.

The leases now provide for the payment by the lessees to the State of graduated royalties, dependent upon average daily production from the wells. The required capital investment and additional operating costs for a secondary recovery program could not be justified by the lessee if the calculation of graduated royalty rates was also applicable to augmented production resulting from a secondary recovery program. Sections 6830.1, 6830.2, and 6830.3 of the Public Resources Code authorize lease modifications, with the approval of the Commission, for calculation of royalties on "primary" oil at the same rates that would have been applicable under the unmodified lease, and for establishing a royalty rate for the "secondary" oil at not less than the minimum royalty rate provided for in the leases (in this instance 16-2/3%).

Complete calculated economic projections of the royalty rate on remaining primary production have been made by the staff and concurred in by the lessees, and have been incorporated in the proposed "First Amendment and Modification of State Oil and Gas Lease PRC 3120.1 and State Oil and Gas Lease PRC 3242.1 (Secondary Recovery)". The estimated average royalty rate on the remaining primary production is 19.131% (if secondary recovery operations are initiated by December 1, 1971), which rate is proposed to be established for all secondary production.

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The Office of the Attorney General has reviewed the proposed Modification and Amendment and has advised that it is in compliance with the applicable statutes of the Public Resources Code.

The proposed waterflood operations can be initiated without drilling or re-drilling any additional wells. Two existing wells are proposed to be converted to water injection by remedial well work. There will be no additional impact on the environment inasmuch as the proposed operations will not require additional drilling.

IT IS RECOMMENDED THAT THE COMMISSION:

1. FIND THAT A COOPERATIVE PLAN FOR OPERATION OF STATE OIL AND GAS LEASES PRC 3120.1 AND PRC 3242.1 IS NECESSARY OR ADVISABLE IN THE PUBLIC INTEREST INsofar AS THE SAME COVERS OIL AND GAS PRODUCED FROM THE RINCON SAND FORMATION.
2. PURSUANT TO SECTION 6830.2 OF THE PUBLIC RESOURCES CODE, DETERMINE THAT IT IS IN THE BEST INTEREST OF THE STATE THAT THE PROPOSED AMENDATORY AGREEMENT BE ENTERED INTO; AND
3. AUTHORIZE THE EXECUTION AND ISSUANCE OF A "FIRST AMENDMENT AND MODIFICATION OF STATE OIL AND GAS LEASE PRC 3120.1 AND STATE OIL AND GAS LEASE PRC 3242.1 (SECONDARY RECOVERY)," A COPY OF WHICH IS HEREBY MADE A PART HEREOF BY REFERENCE TO THE OFFICIAL FILES OF THE COMMISSION.

ALL OTHER TERMS AND CONDITIONS OF STATE OIL AND GAS LEASES PRC 3120.1 AND PRC 3242.1 SHALL REMAIN IN FULL FORCE AND EFFECT.