

MINUTE ITEM

10/25/73
ADW

15. "AMENDMENT AND MODIFICATION OF STATE OIL AND GAS LEASE 426.1 PRC (SECONDARY RECOVERY)", HUNTINGTON BEACH, ORANGE COUNTY; SIGNAL OIL AND GAS COMPANY - W 9121, PRC 426.1.

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

THE COMMISSION:

1. DETERMINES THAT AN ENVIRONMENTAL IMPACT REPORT HAS NOT BEEN PREPARED FOR THIS PROJECT BUT THAT A NEGATIVE DECLARATION HAS BEEN PREPARED BY THE DIVISION.
2. CONSIDERS AND ADOPTS NEGATIVE DECLARATION EIR NO. 132.
3. DETERMINES THAT THE PROJECT WILL HAVE NO SIGNIFICANT EFFECT ON THE ENVIRONMENT.
4. PURSUANT TO SECTION 6830.2 OF THE PUBLIC RESOURCES CODE, DETERMINES THAT IT IS IN THE BEST INTEREST OF THE STATE THAT THE PROPOSED AMENDATORY AGREEMENT BE ENTERED INTO.
5. AUTHORIZES THE EXECUTIVE OFFICER TO EXECUTE AND ISSUE AN "AMENDMENT AND MODIFICATION OF STATE OIL AND GAS LEASE 426.1 PRC (SECONDARY RECOVERY)" A COPY OF WHICH IS ON FILE IN THE OFFICE OF THE COMMISSION AND BY REFERENCE MADE A PART HEREOF.

ALL OTHER TERMS AND CONDITIONS OF STATE OIL AND GAS LEASE 426.1 SHALL REMAIN IN FULL FORCE AND EFFECT.

Attachment:

Calendar Item 14 (2 pages)

CALENDAR ITEM

10/73
ADW
W 9121

14.

REQUEST FOR "AMENDMENT AND MODIFICATION OF
STATE OIL AND GAS LEASE 426.1 PRC (SECONDARY RECOVERY)",
HUNTINGTON BEACH, ORANGE COUNTY
SIGNAL OIL AND GAS COMPANY

Oil and Gas Lease PRC 426.1 was issued to Signal Oil and Gas Company on February 10, 1950, pursuant to competitive public bidding. On January 13, 1958, the State Lands Commission approved the amendment of Oil and Gas Lease PRC 426.1 in order that the lessee might take advantage of the more flexible operating and development conditions specified in Chapter 104, Statutes of 1957. On August 18, 1964, the State Lands Commission authorized the Executive Officer to execute and issue a new lease in exchange for Lease PRC 426.1 in a manner that modified the term of the lease, in accordance with the provisions of Section 6827 of the Public Resources Code. The present lessees are Signal Oil and Gas Company, Pauley Petroleum, Inc., Edwin W. Pauley, John B. Elliott, John C. Elliot, Henry H. Clock, John G. Clock, Maude H. Clock, and R. A. Waestman.

On May 28, 1959 (Minute Item 17, page 4860), the Commission approved a program submitted by the Signal Oil and Gas Company, providing for a pilot water-injection program on the adjacent Lease E 392, which was commenced on August 26, 1959. Evaluation of the resultant economic and engineering data indicated the desirability of expanding the pilot water-injection program into full-zone waterfloods, and on November 6, 1963 (Minute Item 21, page 9362), the Commission authorized the Executive Officer to execute and issue an "Amendment and Modification of Exchange Oil and Gas Lease 392.1 PRC (Secondary Recovery)" that provided for the full-scale secondary recovery operation on E 392.1. On July 2, 1965 (Minute Item 21, page 11383), the Commission approved the amendment and modification of State Oil and Gas Lease PRC 425.1 for secondary recovery operations. The commencement date of the full-scale Lower Main Zone flood on Leases E 392 and PRC 425.1 was February 1, 1971, and as of June 1, 1973, 241,631,899 barrels of water had been injected under the full-scale operation. It is estimated that 12,500,000 barrels of accelerated primary production have been produced in addition to the normal primary production of 14,700,000 barrels that was predicted would have occurred without the waterflood, indicating that the project is proving to be successful. The project is now proposed to be expanded into Lease PRC 426.1.

Lease PRC 426.1 requires oil royalty payments to the State based on the calculation of graduated royalty rates determined by formula from the rates of production of the wells. The required capital investment and additional operating costs for a waterflood program could not be justified by the lessee if the calculation of graduated royalty rates were also to be applicable to augmented production resulting from a waterflood program.

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Chapter 979, Statutes of 1961, which added Sections 6830.1, 6830.2, and 6830.3 to the Public Resources Code, authorizes lease modifications, with the approval of the Commission, for calculation of royalties on "primary" oil (i.e., that which would have been produced without a waterflood program) at the same rates that would have been applicable under the unmodified lease, and for establishment of the royalty rate for the "secondary" oil (i.e., production resulting from the waterflood operation) at not less than the minimum royalty provided by the prior lease (in this instance 16-2/3%). Complete economic projections, concurred in by lessee and staff, estimate the equivalent average royalty rate on remaining "primary" production at 17.09% (if secondary recovery operations are initiated during October 1973), which rate is proposed to be established for all "secondary" production.

The engineering and economic determinations required by Sections 6830.1, 6830.2, and 6830.3, Public Resources Code, have been made and incorporated in a proposed form of "Amendment and Modification of State Oil and Gas Lease 426.1 PRC (Secondary Recovery)". This document has been reviewed as to legality by the Office of the Attorney General, who has advised by informal opinion that the proposed amendment and modification is in compliance with the applicable statutes of the Public Resources Code.

Pursuant to the California Environmental Quality Act (CEQA), and the subsequent guidelines prepared for implementation of CEQA, Negative Declaration EIR No. 132 has been prepared and is on file in the office of the Commission, available for public review, and by reference made a part hereof. The declaration, covering amendment of certain leases for secondary recovery operations and the unit which is under consideration, concludes that the proposed plan of development will not have a significant effect on the environment.

EXHIBIT: A. Location Map.

IT IS RECOMMENDED THAT THE COMMISSION:

1. DETERMINE THAT AN ENVIRONMENTAL IMPACT REPORT HAS NOT BEEN PREPARED FOR THIS PROJECT BUT THAT A NEGATIVE DECLARATION HAS BEEN PREPARED BY THE DIVISION.
2. CONSIDER AND ADOPT NEGATIVE DECLARATION EIR NO. 132.
3. DETERMINE THAT THE PROJECT WILL HAVE NO SIGNIFICANT EFFECT ON THE ENVIRONMENT.
4. 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.
5. AUTHORIZE THE EXECUTIVE OFFICER TO EXECUTE AND ISSUE AN "AMENDMENT AND MODIFICATION OF STATE OIL AND GAS LEASE 426.1 PRC (SECONDARY RECOVERY)"

CALENDAR ITEM NO. 14. (CONTD)

A COPY OF WHICH IS ON FILE IN THE OFFICE OF THE COMMISSION AND BY REFERENCE MADE A PART HEREOF.

ALL OTHER TERMS AND CONDITIONS OF STATE OIL AND GAS LEASE 426.1 SHALL REMAIN IN FULL FORCE AND EFFECT.