

MINUTE ITEM

The Calendar Item No. 024
was approved as Minute Item
No. 024 by the State Lands
Commission by a vote of 12
to 0 at its 10/29/90
meeting.

CALENDAR ITEM

A 58

S 37

024

10/29/90
PRC 3033
PRC 3413
Willard

APPROVE FIRST AMENDMENT OF STATE OIL
AND GAS LEASES PRC 3033 AND PRC 3413
(SECONDARY RECOVERY),
HUNTINGTON BEACH OFFSHORE FIELD, ORANGE COUNTY

LESSEE:

Union Oil Company
Attn: Mr. Randal J. Shipley
2045 So. Santa Fe Springs
Santa Fe Springs, California 90670

State oil and gas lease PRC 3033 was issued on July 25, 1963,
pursuant to competitive bidding to Union Oil Company of
California for a period of twenty years and for so long
thereafter as oil and/or gas is produced in paying quantities
from the lease lands.

State oil and gas lease PRC 3413 was issued on December 1, 1965,
to Union Oil Company of California for a period of twenty years
and for so long thereafter as oil and/or gas is produced in
paying quantities from the leased lands (see attached location
map, Exhibit "A").

The Commission has previously approved amendments of the
adjacent leases, E 392, PRC 425 and PRC 426, currently operated
by Shell, providing for secondary recovery operations. Union
and Shell have reached an agreement to initiate a
Peripheral/Pattern Upper Main Zone Waterflood of the respective
leases. Prior to the Commission's consideration of the
waterflood project, an environmental impact report (EIR) must

CALENDAR ITEM NO. 324 (CONT'D)

be prepared assessing the project. However, before committing to reimburse the costs of environmental assessment and detailed design specifications, Union has requested modifications to the leases which would allow them to conduct secondary recovery operations. Unocal would not be able to exercise the modification and commence waterflood operations until the EIR has been certified by the Commission and the Commission has approved the proposed project.

Leases PRC 3033 and PRC 3413 each require oil-royalty payment to the State based on the calculation of graduated royalty rates determined by formula from the average production of oil per well per day. 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. Section 6830.2 et seq. of the P.R.C. authorizes lease modifications, with approval of the Commission, for calculation of royalties on "primary" oil (i.e., that which would have been produced without a secondary recovery, waterflood program) at the same rates that would have been applicable under the unmodified lease, and for establishment of the royalty rate for secondary oil (i.e., production resulting from waterflood operations) at not less than the minimum royalty provided by the leases (in this instance, 16 $\frac{2}{3}$ percent in both leases). Complete economic projections for both leases, concurred in by the lessee and staff, estimate the weighted average royalty rate on the remaining primary production after January 1, 1990, at 17.20 percent. A fixed royalty rate of 17.26 percent is proposed to be established for all primary and secondary production and to be effective upon commencement of secondary recovery operations by the Lessee. The proposed modification providing for a fixed royalty rate will also simplify the royalty accounting procedures adopted in resolution of a royalty dispute concerning application of the sliding scale royalty calculations.

The engineering and economic determinations required by statute have been made and incorporated in a proposed form of "First Amendment of State Oil and Gas Leases PRC 3033 and PRC 3413 (Secondary Recovery)". The amendment provides that it will not become effective until the Commission has approved the "Joint Peripheral/Pattern Waterflood Project - Union Oil Company of California/Shell Western Exploration and Production Inc.". The amendment has been reviewed by the Office of the Attorney General, which has advised that the agreement is in compliance

CALENDAR ITEM NO. C 2 4 (CONT'D)

with applicable statutes. Union and Shell have further agreed to provide the Commission the detailed waterflood project description and an executed reimbursement agreement covering the cost of an EIR for the project.

AB 834: 01/30/91.

EXHIBIT: A. Location Map.

IT IS RECOMMENDED THAT THE COMMISSION:

1. FIND THAT THIS ACTIVITY (APPROVAL OF FIRST AMENDMENT OF LEASES) IS EXEMPT FROM THE REQUIREMENTS OF THE CEQA PURSUANT TO 14 CAL. CODE REGS. 15061 BECAUSE IT IS NOT A PROJECT AS DEFINED BY P.R.C. 21065 AND 14 CAL. CODE REGS. 15378.
2. PURSUANT TO P.R.C. 6830.2, DETERMINE THAT IT IS IN THE BEST INTEREST OF THE STATE THAT THE PROPOSED AGREEMENT BE ENTERED INTO.
3. AUTHORIZE THE EXECUTION AND ISSUANCE OF "FIRST AMENDMENT OF STATE OIL AND GAS LEASES PRC 3033 AND PRC 3413 (SECONDARY RECOVERY)", A COPY OF WHICH IS ON FILE IN THE OFFICIAL FILES OF THE COMMISSION.
4. AFFIRM THAT ALL OTHER TERMS AND CONDITIONS OF STATE OIL AND GAS LEASES PRC 3033 AND PRC 3413 SHALL REMAIN IN FULL FORCE AND EFFECT.

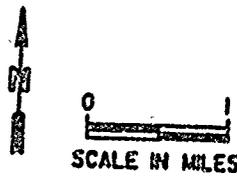
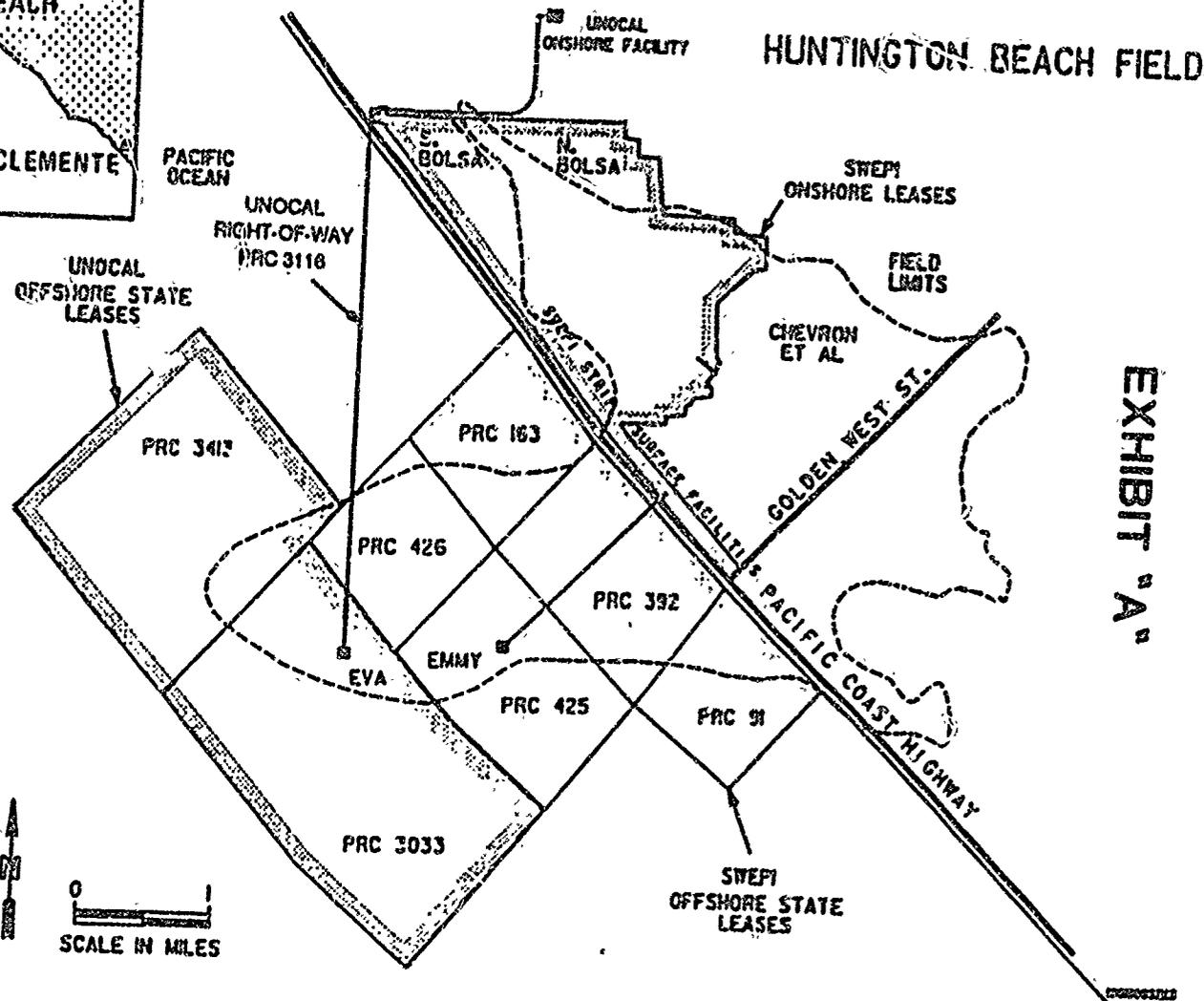
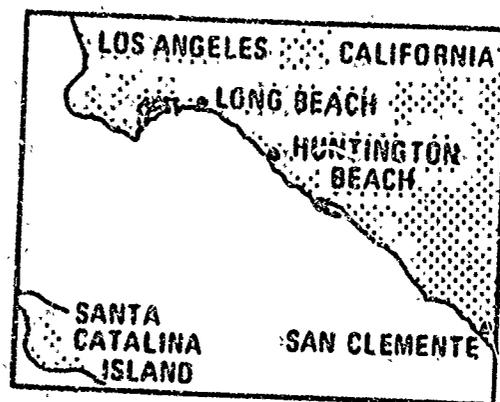


EXHIBIT "A"

CALENDAR PAGE 107.3
 MINUTE PAGE 3188

Location map.