

**MINUTE ITEM**

This Calendar Item No. C66 was approved as  
Minute Item No. 66 by the California State Lands  
Commission by a vote of 3 to 2 at its  
8-17-04 meeting.

**CALENDAR ITEM**

**C66**

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08/17/04  
PRC 3033.1  
PRC 3095.1  
PRC 3413.1  
PRC 3116.1  
PRC 3394.1  
PRC 6417.1

S 33, 37

J. Planck

**CONSIDER APPROVAL OF AMENDMENT OF PROVISIONS  
OF OIL AND GAS LEASE NOS. PRC 3033.1, PRC 3095.1 AND PRC 3413.1,  
AND RIGHT-OF-WAY LEASE NOS. PRC 3116.1, PRC 3394.1 AND PRC 6417.1,  
AND ASSIGNMENT OF RIGHT-OF-WAY LEASE NO. PRC 6417.1,  
OFFSHORE HUNTINGTON BEACH AND SEAL BEACH,  
ORANGE COUNTY**

**LESSEE/ASSIGNOR:**

Nuevo Energy Company  
5640 S. Fairfax Ave.  
Los Angeles, CA 90056

**ASSIGNEE:**

Plains Exploration & Production Company  
5640 South Fairfax Ave.  
Los Angeles, CA 90056

**AREA, LAND TYPE, AND LOCATION:**

All of these leases are located offshore Orange County, California.

- State Oil and Gas Lease No. PRC 3033.1 is an active producing lease containing approximately 2,113 acres. Platform Eva, built in 1964, is serviced by Right-of-Way Lease Nos. PRC 3116.1 (pipelines, water line, power cable) and PRC 6417.1 (two electric power cables and condensate pipeline).
- State Oil and Gas Lease No. PRC 3095.1 is an active producing lease containing approximately 3,360 acres. Platform Esther, originally an island built in 1965, and rebuilt in 1986 as a platform after the destruction

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of the island by a 1983 storm, is serviced by Right-of-Way Lease No. PRC 3394.1 (pipelines and power cable).

- State Oil and Gas Lease No. PRC 3413.1, containing approximately 1,871 acres, is contiguous with PRC 3033, and is currently used for waterflooding operations for both leases.

**BACKGROUND:**

**Transfer of the Leases**

The California State Lands Commission (Commission) previously issued 12 leases that, through a series of assignments, came to be held by Nuevo Energy Company (Nuevo). Three of the leases are offshore oil and gas leases and are the subject of this item. The remaining nine are right-of-way (R/W) leases covering pipelines and power cables serving offshore operations, three of which are also the subject of this item.

The oil and gas leases were issued in the mid-1960s pursuant to Cunningham-Shell legislation. Each lease contains a provision, embodying the language of Public Resources Code section 6804, prohibiting the assignment, transfer or sublease of the lease without the approval of the Commission. None of these leases contains a provision stating that a transfer of a controlling interest in the lessee, or its merger with another entity, constitutes an assignment.

In mid-May (2004), following a vote of the shareholders of Nuevo and Plains Exploration & Production Company (PXP), the Boards of Directors of each corporation approved the acquisition and merger plan of Nuevo into PXP. The plan called for the transfer of all of the stock of Nuevo in exchange for stock of PXP. At the close of the transaction, Nuevo became a wholly owned subsidiary of PXP. Subsequently, Nuevo has been "rolled up" into PXP resulting in Nuevo being merged out of existence.

As a consequence of the merger, the three oil and gas leases and seven of the nine pipeline right of way and industrial use leases, which do not explicitly require Commission approval of mergers or transfer of controlling interest, have become assets of PXP. However, two leases, PRC 5967.1 (industrial use) and PRC 6417.1 (right of way), require Commission approval for this transfer to be effective. The assignment of PRC 6417.1, which serves offshore oil and gas lease PRC 3033.1 in State waters, is the subject of this calendar item. The assignment of PRC 5967.1, which serves an offshore oil and gas lease in Federal waters (Platform Irene), is addressed in a separate calendar item.

**Amendment of "Assignment" Provisions**

As discussed above, R/W lease PRC 6417.1 provides that any dissolution, merger or transfer of a percentage of capital stock of the lessee, which results in a change of controlling persons, is deemed to be an assignment requiring Commission approval in order to be effective. The other two R/W leases, addressed in this calendar item, and the three oil and gas leases, do not contain the assignment language and Staff recommends that leases PRC 3033.1, PRC 3095.1, PRC 3413.1, PRC 3116.1, and PRC 3394.1 be amended to include a provision for Commission approval under this form of a corporate (or partnership) transaction.

**Amendment of Bonding Provision**

In an amendment effective June 1, 1996, the Commission required that the lessee of State Oil and Gas Lease Nos. PRC 3033.1 and PRC 3095.1 maintain two bonds in the sum of five million dollars (\$5,000,000) for a total of ten million dollars (\$10,000,000) to guarantee the faithful performance of the terms, covenants and conditions of the leases, and rules and regulations of the State, including the maintenance of all platforms and pipelines and the removal thereof, at the request of the State, upon expiration or sooner termination of these leases. This provision was subject to review and modification every three years based on the change of Bureau of Labor Statistics Index Code No. 0561, Crude Petroleum (Domestic Production), with January 1996 Index of 55.9. Commission staff and PXP have reviewed the security requirements, and staff has reviewed the MMS publication "The Politics, Economics, And Ecology of Decommissioning Offshore Oil and Gas Structure (MMS 2001-006) regarding PXP's estimated abandonment liability. The parties have agreed to amend Oil & Gas Leases PRC 3033.1, PRC 3095.1, and PRC 3413.1, and Right-of-Way leases PRC 3116.1, PRC 3394.1 and PRC 6417.1 to provide an initial blanket bond or other security acceptable to the State in the sum of eighteen million dollars (\$18,000,000.00). The amendment also provides for review and modification of the security requirements, at the request of either party, every five years.

**OTHER PERTINENT INFORMATION**

1. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines [Title 14, California Code of Regulations, section 15060(c)(3)], the staff has determined that this activity is not subject to the provisions of the CEQA because it is not a "project" as defined by the CEQA and the State CEQA Guidelines.

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2. Plains Exploration & Production Company (PXP) has submitted corporate and financial data, which were reviewed by Commission staff. Based on the results of the reviews, Commission staff has determined that PXP is a financially viable company that possesses the financial resources to meet the requirements and obligations under the oil and gas and right-of-way leases that are the subject of this transfer.

Authority: Public Resources Code section 21065 and Title 14, California Code of Regulations, sections 15060 (c)(3) and 15378.

**EXHIBITS:**

- A. Location Map for Right-of Way Lease No. PRC 6417.1
- A1. Location Maps for Oil and Gas Lease No. PRC 3033.1, PRC 3095.1 and PRC 3413.1 and Right-of-Way Lease Nos. PRC 3116.1, and PRC 3394.1

**PERMIT STREAMLINING ACT DEADLINE:**

N/A

**RECOMMEND ACTION:**

IT IS RECOMMENDED THAT THE COMMISSION:

**CEQA FINDING:**

FIND THAT THE ACTIVITY IS NOT SUBJECT TO THE REQUIREMENTS OF THE CEQA PURSUANT TO TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15060(c)(3) BECAUSE THE ACTIVITY IS NOT A PROJECT AS DEFINED BY PUBLIC RESOURCES CODE SECTION 21065 AND TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15378.

**AUTHORIZATION:**

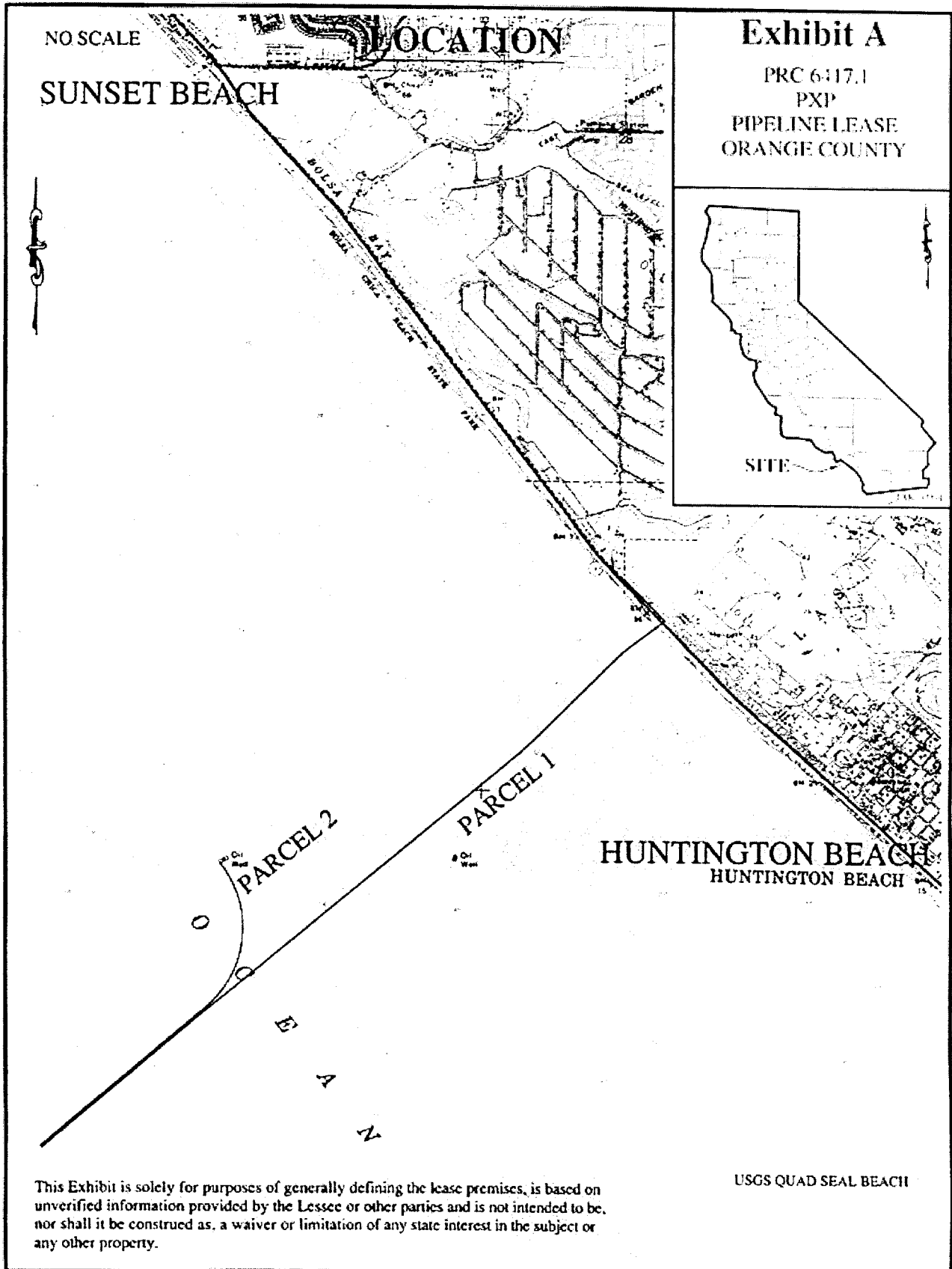
1. AUTHORIZE THE ASSIGNMENT FROM NUEVO ENERGY COMPANY (ASSIGNOR) TO PLAINS EXPLORATION & PRODUCTION COMPANY (ASSIGNEE) OF ALL OF NUEVO'S INTEREST IN STATE INDUSTRIAL LEASE PRC 6417.1, EFFECTIVE SEPTEMBER 1, 2004;
2. AUTHORIZE THE AMENDMENT OF OIL AND GAS LEASES PRC 3033.1, PRC 3095.1 AND PRC 3413.1, AND RIGHT-OF-WAY LEASE NOS. PRC 3116.1, PRC 3394.1, AND PRC 6417.1, TO MODIFY THE BOND REQUIREMENT OF EACH LEASE TO

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PROVIDE FOR A SINGLE BLANKET SURETY BOND, OR OTHER SECURITY ACCEPTABLE TO THE STATE, COVERING ALL SIX LEASES IN THE AMOUNT, OF EIGHTEEN MILLION DOLLARS (\$18,000,000.00).

3. AUTHORIZE THE AMENDMENT OF OIL AND GAS LEASES PRC 3033.1, PRC 3095.1, AND 3413.1, AND RIGHT-OF-WAY LEASES PRC 3116.1 AND 3394.1, TO ADD SPECIFIC LANGUAGE TO PROVIDE THAT FUTURE TRANSFERS OF A "CONTROLLING INTEREST" IN THE LESSEE, INCLUDING MERGERS, CONSOLIDATIONS AND DISSOLUTIONS, ARE DEEMED TO BE AN ASSIGNMENT OF THE LEASE, REQUIRING THE APPROVAL OF THE COMMISSION; ALL OTHER TERMS AND CONDITIONS OF THE LEASES WILL REMAIN IN EFFECT WITHOUT AMENDMENT.
4. AUTHORIZE THE EXECUTIVE OFFICER OR HIS DESIGNEE TO EXECUTE ANY DOCUMENTS NECESSARY TO IMPLEMENT THE COMMISSION'S ACTION.

EXHIBIT A



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PRC 3033.1  
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PRC 6417.1

### EXHIBIT A1

### Location Map

