Letter of Intent

This Letter of Intent is made by the California State Lands Commission (“State Lands”) and Exxon Mobil Corporation (“ExxonMobil”). State Lands and ExxonMobil shall each be referred to herein as a “Party” and together as “Parties.”

WHEREAS:

A. This Letter of Intent concerns wells and facilities, located onshore and offshore in Santa Barbara County, which were formerly part of, or used in association with, State Lands leases PRC 421.1, PRC 3120.1, and PRC 3242.1 (“the Leases.”) The specific wells addressed in this Letter of Intent are 30 wells on Platform Holly and 2 “onshore” wells at the Ellwood Beach Piers (the “32 Wells”) near the Ellwood Onshore Facility.

B. State Lands is the California commission responsible for the management and protection of resources on the public lands covered by the Leases, and is the former lessor under the Leases.

C. Venoco, LLC (“Venoco”) is the former lessee under the Leases and the current owner of all improvements on the former Leases. Following the transition of operations from Venoco to State Lands, State Lands will be responsible for the improvements on the former Leases.

D. Under the Leases, Mobil Oil Company was the predecessor lessee to Venoco. As set forth below, ExxonMobil contends that Mobil Oil Company was not the previous operator of 8 of the 32 Wells, which ExxonMobil contends were drilled and permitted after Venoco became the lessee under the Leases.

E. State Lands contends that Mobil Oil, as the predecessor lessee to Venoco, was the previous operator of all 32 Wells, including the contested 8 Wells, but that liability for the abandonment of these wells may be mitigated because some portion of the said 8 Wells were drilled, altered and permitted after Venoco became the lessee under the Leases.

F. Venoco served a quitclaim of the Leases effective April 17, 2017 and, on the same day, Venoco filed a petition for relief under Chapter 11 of the Bankruptcy Code.

G. On May 15, 2017, the California Department of Conservation Division of Oil, Gas, and Geothermal Resources (DOGGR) issued an Order requiring Venoco to plug and abandon the 32 Wells.

H. The Parties anticipate that Venoco will not comply with the DOGGR Order.

NOW, without creating any binding obligations on the Parties, or either of them, State Lands and ExxonMobil execute this Letter of Intent, as follows:

1. The Parties intend to discuss in good faith entering into a binding written agreement regarding the plugging and abandonment of the 32 Wells. Said agreement shall be referred to herein as the “Phase 1 Engagement Agreement.”
2. The Parties intend and anticipate that the Phase 1 Engagement Agreement will include, but not be limited to, terms and conditions that conform to the following general principles:

(a) State Lands, or its agents, is seeking to safely and expeditiously plug and abandon the 32 Wells on its former Leases to the satisfaction of DOGGR and all other applicable State or Federal authorities.

(b) State Lands, or its agents, will be responsible for ensuring that daily operations and maintenance of Platform Holly and any associated structures on state sovereign land are executed safely and in compliance with all local, State and Federal authorities.

(c) ExxonMobil to be engaged by State Lands to secure all of the 32 Wells. The 30 offshore wells to be abandoned without removing well conductors. The 2 wells onshore to be completely plugged and abandoned. The remaining well conductors for the 30 wells to be removed and the wells completely plugged and abandoned as part of the later decommissioning effort and subject to further negotiations.

(d) By agreeing to undertake the plugging and abandonment of the 32 Wells, ExxonMobil shall not, and shall not be deemed, have responsibility as owner or operator of the 32 Wells and shall not be deemed, in any respect, a lessee under the Leases.

(e) During and at all times until completion of the plugging and abandonment of the 32 Wells, State Lands, or its agent, will be responsible for overseeing and managing the continuing operations of Platform Holly and the Ellwood Onshore Facility; during such period, ExxonMobil shall not be responsible for the operations of Platform Holly and the Ellwood Onshore Facility.

(f) ExxonMobil to prepare, and provide to State Lands for submission to DOGGR and/or other required agencies, technical design permits and/or applications related to the plugging and abandonment. As the former lessor of the 32 Wells, State Lands, or its contractor/agent to act as the lead party to secure and obtain of all necessary applications for any and all permits required to carry out the plugging and abandonment operations, including any and all DOGGR or other State or required Federal permits. Additionally, State Lands, or its contractor/agent to act as the lead party using its authority as a governmental agency to obtain access via public or private lands to facilitate the plugging and abandonment of the 32 Wells.

(g) The Parties to agree upon a procedure for determining, reporting, verifying, and accounting for the cost of plugging and abandonment operations.

(h) The parties understand that bond money exists, as do monies that may accrue by reason of claims made in the Venoco bankruptcy. The parties agree to negotiate in good faith at the end of Phase I as to the proper allocation of those monies after the payment of the costs of Operations and Maintenance of Platform Holly and the Ellwood Onshore Facility. In the event that any surplus of money is available, State Lands agrees to allocate available funds, obtained through the Venoco bankruptcy or remaining bond money, to ExxonMobil’s decommissioning effort, subject to the Parties’ final negotiation of liability. With regard to the Phase 1 Engagement Agreement, ExxonMobil’s financial responsibility to be limited to the costs to
perform plugging and abandonment of the 32 Wells after exhaustion of the available bond funds and any funds obtained from the Venoco bankruptcy, provided that ExxonMobil reserves its rights that ExxonMobil shall not be required to pay the cost of plugging and abandoning 8 wells, to be specifically identified in the Engagement Agreement, that ExxonMobil contends were not previously operated by Mobil Oil Corporation. The parties understand that the available bond funds and/or funds from the Venoco bankruptcy may not be immediately forthcoming. As such, upon agreement to this Letter of Intent, ExxonMobil will immediately commence planning for and eventual performance of the plugging and abandonment of the 32 Wells at its own expense subject to reimbursement from available bond funds, funds from the Venoco bankruptcy and from State Lands for those 8 wells not previously operated by Mobil Oil Corporation.

(i) ExxonMobil to reserve all its rights to challenge, in whole or in part, any order issued to ExxonMobil by DOGGR regarding plugging and abandoning any of the 32 Wells or any other wells on the lands covered by the Leases, or regarding the decommissioning of any facilities or equipment on such lands or restoring the Leases.

(j) The Phase 1 Engagement Agreement to be subject to California law and to include all covenants, terms and conditions that are customary for agreements of this nature and are commercially reasonable.

3. By entering into this Letter of Intent, ExxonMobil does not waive, and hereby preserves and retains, all its rights to challenge, in whole or in part, any order issued to ExxonMobil by DOGGR regarding plugging and abandoning any of the 32 Wells or any other wells on the lands covered by the Leases, or regarding the decommissioning of any facilities or equipment on such lands or restoring the Leases.

4. Nothing in this Letter of Intent shall constitute an admission by ExxonMobil that it is liable, in whole or in part, to plug and abandon any of the 32 Wells or decommission any facilities located on the lands covered by the Leases and ExxonMobil fully reserves all its rights with respect to such liability.

5. The Parties shall use all reasonable efforts to conclude discussions and negotiations regarding the proposed Phase 1 Engagement Agreement.

6. During the discussions and negotiations regarding the proposed Phase 1 Engagement Agreement, ExxonMobil intends that certain of its technical, operations, and engineering personnel will informally contact, cooperate, and coordinate with appropriate State Lands personnel regarding planning for the plugging and abandonment operations.

7. Subject to conducting and satisfactorily concluding further due diligence, ExxonMobil and State Lands agree to enter into good faith discussions at a later date to address a potential agreement regarding the decommissioning of Platform Holly and any associated structures on the former Leases (a “Decommissioning Agreement”).

8. Unless and until a later Decommissioning Agreement is executed, ExxonMobil shall not be responsible for the operation or decommissioning of Platform Holly, the Ellwood Onshore Facility and any improvements on the former Leases, and shall not be liable for any of the costs of such operation or decommissioning.
9. The Parties agree that nothing contained in this Letter of Intent shall constitute a waiver by the State Lands Commission, or any other agency of the State of California, of any legal rights or claims under applicable law, state or federal, or any other laws whose applicability is not permitted to be contractually waived.

10. Either Party may publicly disclose the fact that it has entered into this Letter of Intent.

This Letter of Intent is hereby executed by Exxon Mobil Corporation:

Dated: August 21, 2017 

Exxon Mobil Corporation

By: 

Name: Mark D. Taylor

Title: Manager, USP Joint Interest (L48)