

STAFF REPORT

98

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06/28/19
PRC 3133.1
PRC 4000.1
PRC 7911.1
S. Blackmon
J. Fabel

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**CONSIDER TERMINATION OF STATE OIL AND GAS LEASE NOS.
PRC 3133.1, PRC 4000.1, AND PRC 7911.1,
SANTA BARBARA COUNTY**

LESSEES:

Carone Petroleum Corporation (PRC 4000.1 and PRC 7911.1)
ExxonMobil (PRC 3133.1)¹

AREA, LAND TYPE, AND LOCATION:

State Oil and Gas Lease Nos. PRC 3133.1 (2,113 acres), PRC 4000.1 (204 acres), and PRC 7911.1 (1,541 acres) comprising tide and submerged lands within the Carpinteria Oil Field, offshore Carpinteria, Santa Barbara County (see Exhibit A).

SUMMARY:

Staff recommends the termination of State Oil and Gas Lease Nos. PRC 3133.1, PRC 4000.1, and PRC 7911.1 (collectively, the Leases). The Leases have not produced oil and gas in over 25 years. The last infrastructure capable of producing oil or gas on these lands was decommissioned in 1996 by the Chevron Corporation. Carone Petroleum Corporation (Carone) became the Lessee in 1996 under the condition that Carone would diligently develop the State's resources from wells drilled off Platform Hogan, located in federal waters. More than 20 years have passed since Carone submitted its initial development proposal. Over the past 5 years all discernible progress by Carone to seek project approval has ceased. The Leases persist only so long as oil or gas is produced in commercial quantities or so long as the Lessee works diligently toward production. Failure to meet these requirements within any reasonable timeframe is a violation of the conditions to Carone's original assignment and ends the primary and secondary terms of the leases. The absence of any production over a quarter century and the failure to undertake meaningful work towards production of oil and gas from the Leases provides the bases for the Commission to end these entitlements, if they have not expired on their own terms.

¹ See, Other Pertinent Information, paragraph 1, below.

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In addition to the failure to diligently produce the resources, Carone has failed to pay annual rent since 2015 despite notice of that failure which allows for a 90-day period to cure. Failure to pay rent is a fundamental requirement of the Leases. Consequently, staff recommends terminating the Leases.

BACKGROUND:

Leasehold History

PRC 3133.1 was issued on May 28, 1964, to Humble Oil and Gas Company (later known as ExxonMobil) ([Item 2, May 28, 1964](#)). PRC 4000.1 was issued on August 28, 1968, to Standard Oil Company of California (later known as Chevron Corporation) and the Atlantic Richfield Company (later known as ARCO). PRC 7911.1 was issued on November 1, 1996, to Carone and consisted of the southern portion of former Lease No. PRC 3150, issued on July 28, 1964, to the Atlantic Richfield Company. ([Item 29, July 28, 1964](#)).

Platforms Hope and Heidi, installed in State waters in 1964 were used to produce oil and gas from the Leases and were operated by agreement between Chevron, ARCO, and ExxonMobil. By 1992, declining oil reserves and high operating costs caused production to cease on platforms Hope and Heidi in June of that year. The platforms were removed, along with two others located in State waters (the 4H Platforms) by the summer of 1996. Removal of the platforms also involved plugging all oil wells that produced from the Leases.

By October 1996, Carone obtained the original lessee's interests through private purchase agreement and the Commission approved assignment of PRC 4000.1 and PRC 7911.1 (subdivided from PRC 3150.1) ([Item 55, October 28, 1996](#)). After the assignment, Carone provided the Commission with a \$100,000 security to cover lease obligations (\$50,000 for each lease). Of note, ExxonMobil sold its interest in PRC 3133.1 to Carone through private purchase agreement, but the parties did not apply to the Commission for assignment. Since 1996, effective operational control over PRC 3133.1 and all lease-related interactions between staff have been with Carone, although ExxonMobil remains the official lessee of record. Carone agreed to apply for an assignment after the Commission's consideration of a future development plan. Carone operates a federal OCS production platform called Platform Hogan, from which it intended to directionally drill into reservoirs on state sovereign lands within State Oil and Gas Leases PRC 4000.1, PRC 7911.1, and PRC 3133. No surface infrastructure would have been placed on sovereign lands as part of Carone's proposed development plan.

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Carone's Development Plan

In addition to lease requirements obligating Carone to exercise reasonable diligence in the development of these Leases, the assignment of PRC 4000.1 and PRC 7911.1 was subject to an agreement between Carone and the Commission, through which the Commission imposed various conditions on the assignment. Among those conditions is the requirement that Carone "submit to the Commission within two years of the effective date of the assignments of the leases [by November 1, 1998] a plan for the development of both leases" and "begin drilling operations on both leases within three years of the effective date of the assignments of the leases [by November 1, 1999]." (See Exhibit B.)

After several extensions of these deadlines, Carone submitted a development plan application on October 25, 1999. On November 23, 1999, staff found the application incomplete. Upon continued urging by staff to provide the materials needed to complete the application, Carone provided some but not all of the requested materials on or about October 23, 2000. That response was supplemented with more materials on October 24, November 3, and November 21, 2000. On December 11, 2000, staff responded with a second incomplete letter stating that Carone had still failed to provide a complete application. Carone finally provided all materials required to make the application complete on or about January 14, 2001.

The Commission, as the lead agency under the California Environmental Quality Act (CEQA), determined that an Environmental Impact Report (EIR) would be necessary to analyze the impacts of the proposed project. A notice of preparation was issued on June 6, 2001. The scoping meeting, bid review, and interviews of the prospective environmental consultants occurred between June 6 and July 31, 2001. After the consultant was selected, work began on the EIR on March 27, 2002.

On October 29, 2002, work on the EIR was suspended for 180 days in order to allow Carone to perform and analyze results of an American Petroleum Institute level 3 structural survey to determine if any major work would be required to strengthen Platform Hogan, and if such work were required, whether this work had to be considered in the EIR. Carone requested an additional 120-day extension because the analysis of the survey was not yet available. The analysis of the survey showed that although some maintenance and repair work was required, no major modifications of the platform would be needed. However, additional seismic analysis was required by the State to a 1,000-year event using new site-specific standards and also a structural requalification by the U.S.

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Minerals Management Service (MMS).

Carone requested further suspensions of the EIR work on June 10, 2003, and October 24, 2003, in order to finish the expensive maintenance and repair work on its two federal platforms, Platforms Hogan and Houchin.

In February 2004, after continued requests by staff, Carone reaffirmed its commitment to the development project and represented that it would authorize resumption of work on the EIR no later than May 1, 2004, and if it failed to do so, it would quitclaim the leases. On May 1, 2004, Carone directed staff to resume work on the EIR. An administrative draft of the EIR was completed for staff review in January 2005.

The federal review process, requiring, among other matters, an expanded structural analysis of Platform Hogan and finalization of the State seismic analysis, caused further delays and requests from Carone for suspension of the EIR process. By March 2009, 8 years after the environmental review process started, Carone had not sought resumption of the EIR which had stalled at the administrative draft phase.

The Commission Considers Finding Carone in Default

On April 9, 2009, the Commission considered whether Carone was in default of the Leases based on the unreasonable delay in prosecuting development (Item 41, April 9, 2009, action deferred). After considering the staff report and public testimony, the Commission continued the matter to its June 1, 2009 meeting. The Commission instructed Carone to complete the following before that meeting:

- 1) To complete the structural evaluation of Platform Hogan pursuant to federal requirements regarding platform requalification with the use of an independent third party, to report the results of the evaluation, and, if incomplete, to have the third party testify to the Commission on June 1, 2009, as to why the report was not complete;
- 2) To file, in sufficient form and content, an application with the MMS for approval of a Right of Use and Easement agreement to procure the right to drill from platform Hogan into the State leases; and,
- 3) To execute and fully fund a reimbursement agreement in the amount of \$650,000 with the Commission to cover the costs of finishing the EIR and processing and considering the application on file to develop the Leases.

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At the June 1, 2009 meeting, the Commission found that Carone had made sufficient progress towards meeting the listed requirements and postponed finding Carone in default ([Item 66, June 1, 2009](#)).

The EIR and Development Plan is Indefinitely Stalled

In 2011, Carone resubmitted approval for its development plan to the U.S. Bureau of Ocean Energy Management (BOEM; successor agency to MMS) to develop 25 wells from Platform Hogan and both BOEM and the Commission agreed to develop the EIR into a joint EIR/Environmental Impact Statement (EIS) to fulfill BOEM's requirements under the National Environmental Policy Act for its approval of the project. By August 2013, work on the joint EIR/EIS was permanently halted when staff and consultant costs exceeded the deposit held by the Commission to pay such costs.

During meetings with staff in early 2015, Carone indicated that it could not afford to restart the EIR/EIS process unless the price of oil on its other operations increased. As of 2019, nearly 20 years after the project to drill 25 wells off Platform Hogan into the Leases was first proposed, staff does not believe any further progress to achieve the approvals needed for the project by either BOEM or the Commission can or will be made.

Carone Failed to Pay Rent

Carone failed to pay its annual rental payments for PRC 3133.1, PRC 7911.1, and PRC 4000.1, beginning on May 28, 2015, July 28, 2015, and August 28, 2015, respectively. The 2016 annual rent due date for each Lease also passed, without payment. On December 9, 2016, Commission staff sent a letter of default to Carone indicating that \$17,826.29 in rent, penalties, and interest were owed; demanded immediate payment, and indicated staff's belief that the Leases had expired by the failure to produce oil and gas (see Exhibit C).

The Leases provide a 90-day period to cure the material breaches. Carone submitted a payment on April 14, 2017, for \$14,560—126 days after the notice of breach and \$3,266.29 less than required. The Commission held but did not deposit Carone's check payment. No further payments have been received by Carone.

In February 2018, staff met with Carone to discuss payment of its outstanding rent and other issues, including a failure to maintain a \$50,000 bond on Right-of-Way Lease No. PRC 3914.1 that authorizes infrastructure connecting Carone's federal operations to shore. On February 20, 2018, Carone sent a letter to staff proposing to cover its

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payment shortfall on the Leases and PRC 3914.1 and its failure to maintain bonding on PRC 3914.1 by making partial monthly payments and transferring the bond held on PRC 3133.1 to the Right-of-Way Lease No. PRC 3914.1 (see Exhibit D). Carone's letter also stated that it has no plans to complete the project EIR/EIS or drill into the Leases.

Staff acknowledges that Carone has invested a significant amount of capital to develop portions of the joint EIR/EIS. The project proposed by Carone was very complex and involved numerous challenges, from engineering, safety, and regulatory aspects. Drilling 25 new, long-reach wells from an aging Platform Hogan, installed in 1967, would have added significant weight and stress to the platform requiring extensive structural analysis before approvals could be granted, along with significant structural modifications afterwards. The necessity for approval by both federal and State agencies also increased the complexity and costs to analyze the project. These challenges were exacerbated by the numerous delays and work stoppages requested or required by Carone or by their inability to financially support the project. The reimbursed staff costs paid by Carone from 1999 through 2013 (for staff and consultant costs) are about \$750,000. The estimated remaining cost to complete the EIR/EIS, as of 2014, was \$324,622.

STAFF ANALYSIS AND RECOMMENDATION:

Authority:

Public Resources Code sections 6301, 6827, and 6829.

Public Trust and State's Best Interests Analysis:

Lease compliance is essential to the Commission's obligations to the people of California and to ensure that lands subject to the Public Trust are being used responsibly, equitably, and in the best interests of the State. The recommended termination of State Oil and Gas Leases PRC 3133.1, PRC 4000.1, and PRC 7911.1, for Lessee's failure to pay rent as required by the Leases, is in the best interests of the State because the very core of the Commission's authority to lease sovereign lands obligates the Commission to terminate when a Lessee breaches the material terms of a lease. The termination of these Leases is an administrative action that does not directly impact or interfere with Public Trust resources, uses, and values. However, the effective management and enforcement of the Commission's leases serves the Public Trust by holding lessees accountable for all aspects of the Lease, from payment of rent to prevention of environmental harm that may result when a lessee fails to fulfill their obligations under the lease and under the law of California.

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Basis for Termination:

Despite the difficulties described above, staff believes that 20 years is significantly more time than a responsible, diligent, and financially capable operator would need to seek approval for any similar project. Since no development project is anticipated, no oil and gas has been produced or is capable of being produced, and annual rent has remained unpaid for years, staff recommends terminating the Leases.

Carone has failed to diligently develop the State's oil and gas resources, as required by the Leases and the approval of assignment, and has failed to pay annual rent since 2015. Under the terms of the Leases and the common law the Leases are expired and Carone persists as a tenant at sufferance. As such, the Leases may be terminated without further notice by the Commission.

Failure to Produce Oil and Gas in Paying Quantities and Failure to Diligently Pursue a Development Program

Due to the failure to produce any oil or gas for over 25 years, the primary and secondary terms of the Leases, by operation of law, have expired. In this circumstance, the Commission may end the Leases. Additionally, development and eventual production was made an express requirement of the original assignment to Carone. The failure of this condition is a violation of the material terms of the assignment and a basis for termination.

State oil and gas leases are distinguishable from traditional surface leases. The traditional lease contemplates the use and preservation of the property with compensation for such use, while a natural resources lease contemplates the extraction of the valuable resources of the property with compensation for that extraction. The purpose and intent of the leases are to grant the lessee the exclusive right to develop minerals on sovereign land in exchange for royalty payments. The terms of each lease reflect this expectation; the lessee's failure to produce means the State is no longer receiving the benefit of the bargain. Each lease consists of a primary term of years with which the lessees were given to commence drilling and a secondary term which extends for so long as oil and gas is produced from the leased lands in "paying quantity." This secondary term (also known as the habendum clause) has been interpreted by courts to persist so long as there is sufficient oil and gas produced to yield a return in excess of operating costs.² The secondary term expires and terminates in the event

² *Renner v. Huntington-Hawthorne Oil & Gas Co.* (1952) 39 Cal.2d 93, 98.

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that the lease is no longer producing oil or gas in paying quantities. This expiration occurs automatically as a matter of law and requires neither notice nor a claim of forfeiture to the lessee.³

The Leases ceased commercial production in 1992 and all infrastructure necessary to extract oil and gas was removed in 1996. Although the end of oil production caused the Leases to expire, the Commission approved the assignment to Carone in October 1996. A condition of assignment was for Carone to commence drilling new wells from Platform Hogan by November 1, 1999. Even if this assignment constituted an agreement by the Commission to extend the term of the Leases, numerous deadlines passed, conditions went unmet, and signs of progress stalled over the following 20 years. By 2013, all work ceased on the EIR/EIS for the development project and Carone's February 2018 letter made clear it has no intention or capacity to develop the Leases as is required, both by the Commission's 1996 approval of assignment and the Leases themselves. Under these facts, the extension of the primary term to November 1, 1999, passed without satisfying the drilling obligation and the failure to produce any oil and gas has ensured that any extended term of the Leases has expired.

Because the purpose of the Leases (i.e., the extraction of oil and gas) ended in 1992 and never resumed, the term of the Leases expired by operation of law. The Leases persist as a tenancy at sufferance that can be ended by the Commission without further notice.

Failure to Pay Rent

The payment of rent, in full and on time, is a fundamental and statutory⁴ requirement of the Leases. The failure to pay rent is the failure of the primary consideration given by Carone to the State to utilize the State's sovereign lands and, therefore, is a material breach of the Leases, justifying termination.

As stated above, Carone failed to make annual rental payments required by the Leases since 2015. The Commission sent a default letter and a payment was received, but not deposited, well after the breach cure period and for less than what was owed. Carone has not made any subsequent payment; therefore, annual rental payments for 2017 through 2019 are also unpaid. Carone was noticed of the default on December 9, 2016, and had ample time to cure, which it failed to do. On this basis, the Commission may terminate the Leases without further notice.

³ *Valer Oil Co. v. Souza* (1960) 182 Cal.App.2d 790, 798.

⁴ Pub. Resources Code, § 6827.

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Effect of Terminating the Leases:

Under the California Coastal Sanctuary Act of 1994, once the Leases are terminated, the lands currently under lease will become part of the California Coastal Sanctuary. (Pub. Resources Code, § 6242.) Future oil and gas extraction will not be permitted on the subject parcels without an act by the California Legislature.

There are no known improvements on the leased lands that require decommissioning and no wells that require plugging. Because no physical changes will result from a termination of the Leases, termination would be an administrative action with no added risk to public safety or the environment.

OTHER PERTINENT INFORMATION:

1. ExxonMobil sold Carone its commercial rights to operate PRC 3133.1 in 1996. ExxonMobil remains listed as the Commission's lessee because an application to assign PRC 3133.1 was never submitted. Under the Leases and by statute all assignments affecting Commission-managed lands must be approved by the Commission. However, in the intervening decades, staff has informally dealt with Carone as the de facto lessee for purposes of the development plan, and until 2015, accepted rental payments from Carone for PRC 3133.1. Due to the lack of any remaining infrastructure on the Leases and because ExxonMobil plugged its wells on PRC 3133.1 by 1996, no abandonment obligations or liability will accrue by the termination of PRC 3133.1. Staff will seek to recover lost rent and penalty and interest.
2. Authorizing the termination of the Leases is not a project as defined by CEQA because it is an administrative action that will not result in direct or indirect physical changes in the environment.

Authority: Public Resources Code section 21065 and California Code of Regulations, title 14, section 15378, subdivision (b)(5).

3. This proposed termination of the Leases is consistent with Strategy 1.5 of the Commission's Strategic Plan to ensure the highest level of environmental protection and public safety in the production and transportation of oil and gas resources and Strategy 2.2 to ensure timely receipt of revenues and royalties from the use and development of State lands and minerals.
4. Termination of the Leases is a discretionary action by the Commission. Each time the Commission approves or rejects a use of sovereign land, it exercises legislatively delegated authority and responsibility as trustee of

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the State's Public Trust lands as authorized by law. Upon expiration or prior termination of the lease, the lessee also has no right to a new lease or to renewal of any previous lease.

EXHIBITS:

- A. Site and Location Map
- B. Approval of Assignment of State Oil and Gas Lease Nos. PRC 4000.1 and PRC 3150.1
- C. Notice of Default, dated December 9, 2016
- D. Letter from Carone, dated February 20, 2018

RECOMMENDED ACTION:

It is recommended that the Commission:

PUBLIC TRUST AND STATE'S BEST INTERESTS:

Find that the proposed termination will not substantially interfere with the Public Trust needs and values at this location, at this time; is consistent with the common law Public Trust Doctrine; and is in the State's best interests.

AUTHORIZATION:

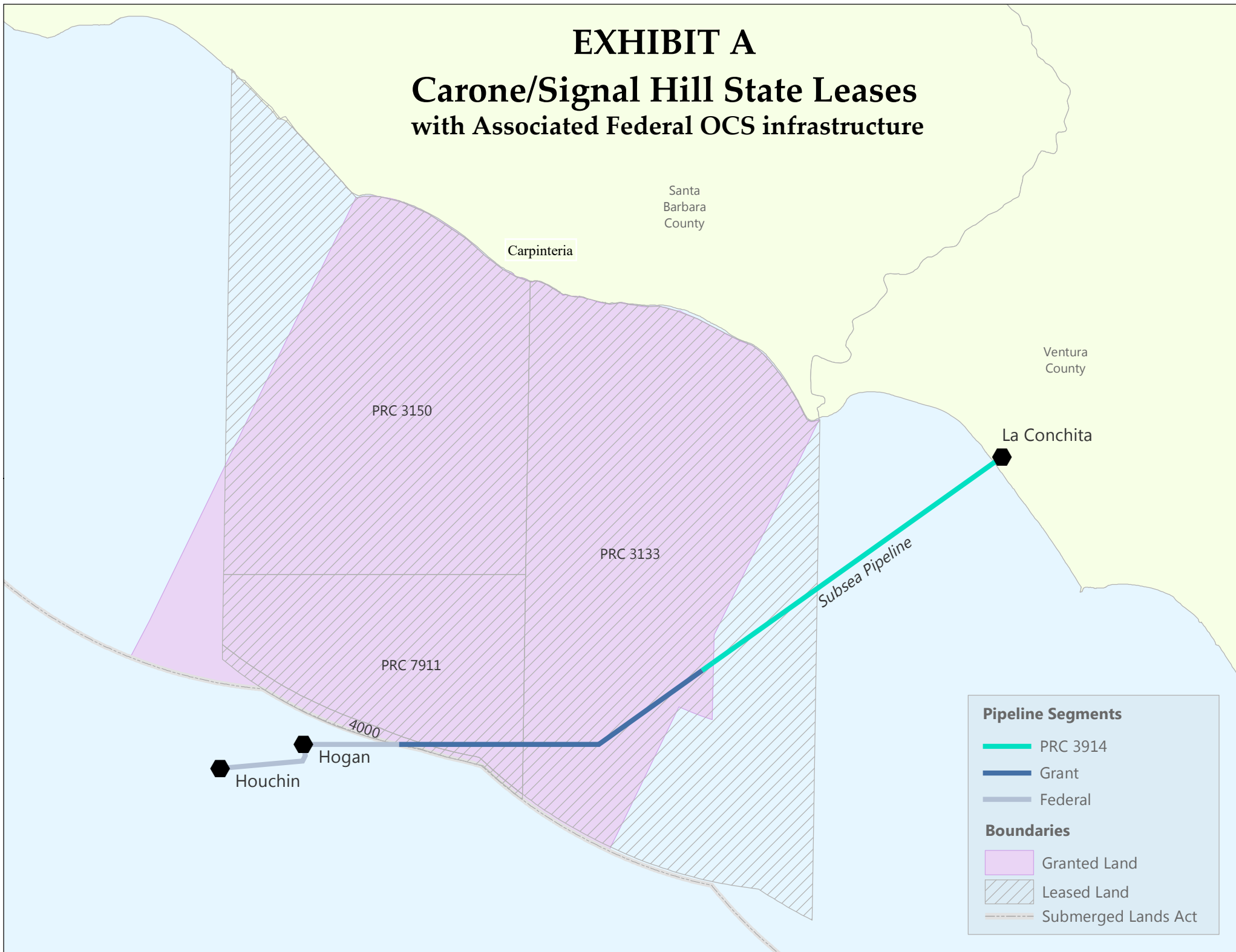
1. Find that Carone was provided with 90 calendar days to cure the deficiencies noted in the December 9, 2016, Notice of Default, as required under the Leases.
2. Find that Carone, under State Oil and Gas Lease Nos. PRC 3133.1, PRC 4000.1, and PRC 7911.1, has not produced oil and gas in paying quantities nor conducted activities sufficient to hold those Leases and that the primary and secondary terms of those Leases expired, by their terms, in August 2013, if not earlier.
3. Find that, as a result of the defaults under the Leases described above, both individually and collectively, State Oil and Gas Lease Nos. PRC 3133.1, PRC 4000.1, and PRC 7911.1 are terminated.
4. Direct staff to cooperate, as needed, with federal, state, and local agencies in any activity necessary to enforce the termination of the Leases.
5. Authorize the Executive Officer or her designee to recover any outstanding rental amounts owed by Carone, either by Carone directly or through performance bonds held to ensure rental payment obligations.

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6. Authorize the Executive Officer or her designee, in cooperation with the Office of the Attorney General and, if reasonably necessary, retain outside counsel, to take all steps reasonably necessary, including litigation, to enforce the termination of State Oil and Gas Lease Nos. PRC 3133.1, PRC 4000.1, and PRC 7911.1 against Carone, and any agents, successors, or assigns; to access the Leases to ensure the health and safety of the people of California and the surrounding environment; to eject trespassers that occupy the Leases; to remove improvements, if any, from State sovereign land overlying the Leases; to restore the sovereign land at this location to the satisfaction of the Commission; and to recover the Commission's damages and costs.

EXHIBIT A

Carone/Signal Hill State Leases with Associated Federal OCS infrastructure



CALIFORNIA STATE LANDS COMMISSION
APPROVAL OF ASSIGNMENTS OF
STATE OIL AND GAS LEASES PRC 4000.1 AND PRC 3150.1

Chevron U.S.A. Inc. ("Chevron") is the holder of a 50% interest in State Oil and Gas Leases PRC 3150.1 and PRC 4000.1 covering tide and submerged lands offshore Carpinteria in Santa Barbara County. Atlantic Richfield Company ("ARCO") is the holder of the other 50% interest in State Oil and Gas Leases PRC 3150.1 and PRC 4000.1. Both Chevron and ARCO have assigned all of their interest in all of the lands encompassing State Oil and Gas Lease PRC 4000.1 and all of their interest in a portion of the lands encompassing State Oil and Gas Lease PRC 3150.1, which portion is described in Exhibit "A" to this Approval of Assignments, to Carone Petroleum Corporation ("Carone"). Chevron and ARCO are retaining their interests in the remainder of State Oil and Gas Lease PRC 3150.1. These assignments are subject to the approval of the California State Lands Commission ("Commission"). The Commission is willing to approve these assignments provided that Carone agrees to certain conditions. This Approval of Assignments provides for Commission's approval and Carone's agreement to the conditions upon which that approval is given.

1. The Commission, acting pursuant to Minute Item No. C55 adopted by it at its meeting on October 28, 1996, approves the assignments to Carone of Chevron's and ARCO's interests in all of the lands encompassing State Oil and Gas Lease PRC 4000.1 and in the portion of the lands described in Exhibit "A" of State Oil and Gas Lease PRC 3150.1. These assignments will be effective November 1, 1996, in accordance with section 6804 of the Public Resources Code.

2. The portion of State Oil and Gas Lease PRC 3150.1 assigned by Chevron and ARCO to Carone will be renamed for administrative purposes State Oil and Gas Lease PRC 7911.1. The unassigned portion will continue to be referred to as State Oil and Gas Lease PRC 3150.1.

3. Chevron and ARCO will not be released from any obligation to the Commission under State Oil and Gas Lease PRC 4000.1 and the assigned portion of State Oil and Gas Lease PRC 3150.1 that has been incurred by them prior to the effective date of the assignment of these leases, any conditions in any assignment agreement between them and Carone or in any other agreement to the contrary notwithstanding.

4. The rental under State Oil and Gas Lease PRC 7911.1 will be \$1,541 per year, or \$1.00 per acre for 1,541 acres, the number of acres in the portion of State Oil and Gas Lease PRC 3150.1 assigned to Carone. The rental under State Oil and Gas Lease PRC 4000.1 will continue to be \$204 per year, or \$1.00 per acre for 204 acres. The rental for each lease will due do on or before the anniversary date of the lease.

5. In accepting the assignment of these leases, Carone agrees to perform in the manner provided in the leases, all of the terms, covenants and conditions to be kept and performed by Chevron and ARCO and to be bound by all of the terms, covenants and conditions in the leases, as well as modifications of and collateral agreements relating to the leases, to the same extent as Chevron and ARCO, anything in any other agreement to the contrary notwithstanding.

6. Carone will provide to the Commission a performance bond in the amount of \$50,000 for each lease or \$100,000 blanket bond for both leases. Carone may provide, in lieu of a bond, other security that is acceptable to the Commission, such as a certificate of deposit.

7. Carone will not use for any purpose the surface of the lands of the leases to a depth of 500 feet below the ocean floor. All development of the leases by Carone will be from platforms or other structures on federal lands adjacent to or in proximity to the leases.

8. Carone will submit to the Commission within two years of the effective date of the assignments of the leases a plan for the development of both leases and will begin drilling operations on both leases within three years of the effective date of the assignments of the leases.

Dated: 10/31, 1996.

CARONE PETROLEUM CORPORATION

By R. L. Carone

Dated: 11/14, 1996.

CALIFORNIA STATE LANDS COMMISSION

By Paul B. Mount II
Paul B. Mount II, Chief,
Mineral Resources Management Division

FILE COPY	
APPROVED:	
Section Head	<u>[Signature]</u>
Legal AVH/	<u>[Signature]</u>
	<u>[Signature]</u>

CALIFORNIA STATE LANDS COMMISSION
 100 Howe Avenue, Suite 100-South
 Sacramento, CA 95825-8202



Established in 1938

JENNIFER LUCCHESI, Executive Officer
 (916) 574-1800 Fax (916) 574-1810
 California Relay Service TDD Phone 1-800-735-2929
 from Voice Phone 1-800-735-2922

Contact Phone: (916) 574-0964
Contact Fax: (916) 574-1855

December 9, 2016

File Ref: PRC 3133
 PRC 4000
 PRC 7911

Via Certified Mail

Mr. Robert Carone
 Mr. Charles W. Cappel
 Carone Petroleum Corporation
 1145 Eugenia Place, Suite 200
 Carpinteria, CA 93013

SUBJECT: FINAL PAST DUE NOTICE – URGENT

Dear Mr. Carone and Mr. Cappel:

Our accounting records indicate that full payment for State oil and gas leases PRC 3133, PRC 4000, and PRC 7911 (Leases) have not been received for rental years 2015 and 2016. Our records also indicate that prior past due notices have been sent without response; therefore, your default has been referred to the Commission's Legal office. Without immediate payment of the rent, including penalties and accrued interest, the Leases may be subject to discontinuation.

The following balances are outstanding as of November 30, 2016:

Lease/Invoice#	Rent AMOUNT	DUE DATE	PENALTY (5%)	INTEREST (18%/yr)	Amount Due (Rent + Penalty/Interest)
3133/36988	\$5,535.00	5/28/15	\$276.75	\$1,506.73	\$7,318.48
3133/39396	\$5,535.00	5/28/16	\$276.75	\$507.70	\$6,319.45
4000/37517	\$204.00	8/28/15	\$10.20	\$46.28	\$260.48
4000/40021	\$204.00	8/28/16	\$10.20	\$9.46	\$223.66
7911/37329	\$1,541.00	7/28/15	\$77.05	\$373.13	\$1,991.18
7911/39757	\$1,541.00	7/28/16	\$77.05	\$94.99	\$1,713.04
Total					\$17,826.29

Carone Petroleum Corporation
December 9, 2016
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These calculations only reflect interest accrued as of November 30, 2016; additional interest charges accrue daily. Please remit all past due amounts and reference the **lease numbers** and **invoice numbers** on your payment and mail to:

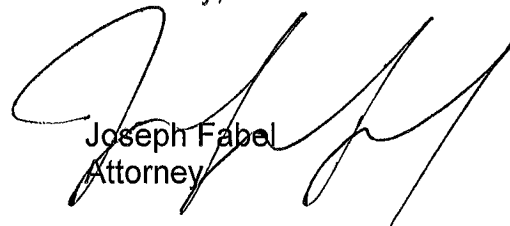
California State Lands Commission
ATTN: Accounting
100 Howe Ave, Suite 100-South
Sacramento, CA 95825-8202

To pay by Visa, MasterCard, or Discover, please contact our payment desk at (916) 574-0397.

Further, our records indicate that oil and gas production was shut in on leases PRC 3133, PRC 4000, and PRC 7911 in 1992 and production in paying quantities has not occurred since that time. We acknowledge that Carone has applied to the Commission for a development project on the Leases; however, Carone has taken no actions to continue its application since the Commission staff stopped work on an Environmental Impact Report in early 2013 for lack of applicant funding. For these reasons, staff believe that the primary and secondary terms of the Leases have expired and consider the Leases to continue on a periodic tenancy basis.

The California State Lands Commission appreciates your prompt attention to this matter. If you have any questions, feel free to contact me at (916) 574-0964 or at joseph.fabel@slc.ca.gov.

Sincerely,



Joseph Fabel
Attorney

cc: Mr. Steve Coombs
Pacific Operators Offshore LLC
P.O. Box 5565
Oxnard, CA 93031



PACIFIC OPERATORS OFFSHORE, LLC

February 20, 2018

California State Lands Commission
Land Management Division
100 Howe Avenue, South 100-South
Sacramento CA 95825

Re: PRC 3914.1 - Signal Hill Service, Inc. ROW Lease from OCS Platform to Carpinteria

Dear Mr. Lucien,

First, on behalf of Pacific Operators Offshore LLC ("Pacific"), we wish to thank you and the State Lands participants on the call for working with us during these unprecedented difficult times. Not only has the oil price collapse, but the Thomas Fire and resulting mudslides has created challenges that we have never experienced. We are fortunate that State Lands, our trade and employees have worked with us during this extended period.

As we discussed on the February 14th conference call, this is to memorialize Pacific's proposal for your consideration and hopeful approval. This specifically is in regards to the subject pipeline as transverses State Sovereign Waters.

PRC-3133 Bond Requirement

POOLLC requests the Commission consider amending the existing Chevron State Lease bond requirement. There is no permit for production, equipment or structures, nor any no plans to complete the EIR or request a drilling permit. As such, there exists no reasonable justification for the imposition of a bond requirement at this time. Moreover; Pacific requests that the Bond be transferred to the pipeline lease where it is a requirement of the lease.. Elimination of the \$50,000 bond on Chevron lease will provide bonding for the pipeline lease and avoid the cancellation of the Chevron lease which, were it to be cancelled outright, would prove highly unlikely to be ever revived.

Arrears Payment Plan

Pacific proposes the following payment plan for the Commission's consideration:

- Six months at \$3,000/month (March thru August 2018)
- Six months at \$5,000/month (September 2018 thru February 2019)
- Six months at \$8,000/month (March 2019 thru August 2019)
- Commencing September 2019; \$10,000 per month | arrears are current

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PRC 3914.1 - Signal Hill Service, Inc. ROW Lease from OCS Platform to Carpinteria

Penalties and Interest on Arrears

Pacific requests that the Commission either waive or reduce the interest and penalties on existing arrears.

Sale of Equity

Upon the closing of the sale of equity and repayment of outstanding secured bank debt, the monthly payment will increase to \$10,000 per month

Lucien, we look forward to working with you and the staff and will support any efforts required that may be needed for senior management and the Commission to approve our proposal.

Regards,

A handwritten signature in black ink, appearing to read 'C. Alberts', with a long, sweeping flourish extending to the right.

Clement M. Alberts
Environmental Coordinator