

11/21/68

42. "FIRST AMENDMENT AND MODIFICATION OF STATE OIL AND GAS LEASE P.R.C. 3095.1 (SECONDARY RECOVERY)", BELMONT OFFSHORE OIL AND GAS FIELD, ORANGE COUNTY; STANDARD OIL COMPANY OF CALIFORNIA -- W.O. 6305.

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

THE COMMISSION:

1. PURSUANT TO SECTION 6830.2 OF THE PUBLIC RESOURCES CODE, DETERMINES THAT IT IS IN THE BEST INTEREST OF THE STATE THAT THE PROPOSED AGREEMENT BE ENTERED INTO; AND
2. AUTHORIZES THE EXECUTION AND ISSUANCE OF "FIRST AMENDMENT AND MODIFICATION OF STATE OIL AND GAS LEASE P.R.C. 3095.1 (SECONDARY RECOVERY)" IN THE FORM REFERRED TO AS EXHIBIT "2", W.O. 6305, A COPY OF WHICH IS HEREBY MADE A PART HEREOF BY REFERENCE TO THE OFFICIAL FILES OF THE COMMISSION.

ALL OTHER TERMS AND CONDITIONS OF STATE OIL AND GAS LEASE P.R.C. 3095.1 SHALL REMAIN IN FULL FORCE AND EFFECT.

Attachment

Calendar Item 14 (2 pages)

REQUEST FOR "FIRST AMENDMENT AND MODIFICATION OF STATE OIL AND GAS LEASE P.R.C. 3095.1 (SECONDARY RECOVERY)", BELMONT OFFSHORE OIL AND GAS FIELD, ORANGE COUNTY; STANDARD OIL COMPANY OF CALIFORNIA - W.O. 6305.

State Oil and Gas Lease P.R.C. 3095.1 (location map, Exhibit "1") was issued January 30, 1964, pursuant to competitive bidding, to Standard Oil Company of California, for a period of twenty (20) years and for so long thereafter as oil and gas is produced in paying quantities from the leased lands.

A pilot water-injection program was commenced in November 1966. Evaluation of the resultant economic and engineering data indicates the desirability of expanding the pilot water-injection program into full-zone water floods.

The existent lease requires 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 water-flood 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 water-flood program. Ch. 979/1961, which added Sections 6830.1, 6830.2 and 6830.3 to the Public Resources Code (Ch. 979/1961, as amended by Ch. 7/1966, 2nd E.S., effective October 7, 1966), 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 water-flood program) at the same rates that would have been applicable under the unmodified lease, and for the establishment of the royalty rate for the "secondary" oil (i.e., production resulting from the water-flood operation) at not less than the minimum royalty provided by the present lease (in this instance, 16-2/3%). Section 6830.1 provides further that the Commission may apply the "multiple completion definition" (separately measured average daily production from each zone produced through a separate string of tubing or through casing which is not in communication with any other zone) to oil produced from lands leased prior to October 7, 1966 (effective date of "multiple completion definition") if a lease is amended for secondary recovery operations. Complete economic projections, concurred in by the lessee and the Division, estimate the weighted average royalty rate on the remaining "primary" production after January 1, 1969, at 18.0911%, which rate was determined without using the "multiple completion definition". The equivalent royalty rate using the "multiple completion definition" is 16.8839%, and 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 "First Amendment and Modification of State Oil and Gas Lease P.R.C. 3095.1 (Secondary Recovery)" (Exhibit "2" attached). This document has been reviewed by the Office of the Attorney General, which has advised by informal opinion (Exhibit "3") that the proposed amendment and modification are in compliance with the applicable statutes.

CALENDAR ITEM 14. (CONTD.)

IT IS RECOMMENDED THAT THE COMMISSION:

1. PURSUANT TO SECTION 6830.2 OF THE PUBLIC RESOURCES CODE, DETERMINE THAT IT IS IN THE BEST INTEREST OF THE STATE THAT THE PROPOSED AGREEMENT BE ENTERED INTO; AND
2. AUTHORIZE THE EXECUTION AND ISSUANCE OF "FIRST AMENDMENT AND MODIFICATION OF STATE OIL AND GAS LEASE P.R.C. 3095.1 (SECONDARY RECOVERY)" IN THE FORM REFERRED TO AS EXHIBIT "2", W.O. 6305, A COPY OF WHICH IS HEREBY MADE A PART HEREOF BY REFERENCE TO THE OFFICIAL FILES OF THE COMMISSION.

ALL OTHER TERMS AND CONDITIONS OF STATE OIL AND GAS LEASE P.R.C. 3095.1 SHALL REMAIN IN FULL FORCE AND EFFECT.