

MINUTE ITEM

30

11/29/84
PRC 9871
Smith

Expiration of Lease and
Abandonment of Well Davis - 11
Huntington Beach Oil Field
Los Angeles County

Calendar Item 30, attached, was pulled from the agenda prior to the meeting.

Attachment: Calendar Item 30.

CALENDAR PAGE

MINUTE PAGE

2729

CALENDAR ITEM

A 58, 69

S 37

30

11/29/84
PRC 987.1
Smith

EXPIRATION OF LEASE PRC 987.1
AND ABANDONMENT OF WELL DAVIS-11
HUNTINGTON BEACH OIL FIELD
LOS ANGELES COUNTY

State Oil and Gas Lease PRC 987.1 is a one-well lease owned and operated by Ocean Front Oil Company. The well was drilled in 1927 from privately-owned land, trespassing into State tidelands. After court action (State v. Ocean Front Oil Company, Orange County Superior Court Case No. 454667) and payment of a \$5,000 fine, the State granted Easement 289 to the operator in 1934. The easement was subsequently renewed in 1954 as State Oil and Gas Lease PRC 987.1.

The royalty formula is price sensitive. The royalty rate from 1959 to the latter part of 1973 varied 19 percent to 23 percent when the price of oil was between \$2 and \$3 per barrel. After 1973, when the price of oil increased, the royalty rate increased to 100 percent (when prices reached \$12.00/barrel) where it now stands.

In 1972 the 91 Main Zone Unit was formed for the purpose of increasing oil recovery from the Lower Main Zone through secondary recovery operations. At that time the State renegotiated royalty rates with well owners that joined in the project. However, the Ocean Front Oil Company, lessee under lease PRC 987.1 elected not to participate in the project.

The lessee had requested in November 1976 that the royalty rate be renegotiated at a lower rate and since April 23, 1974, the Ocean Front Oil Company has been paying royalty under protest. The Staff reviewed the request and recommended that the royalty rate be adjusted, as was done for other "trespass" well lessees participating in the 91 Main Zone Unit.

In October 1979 at a meeting with Ocean Front Oil Company's representative, Staff reached an agreement in principal to recommend to the Commission that a 62 1/2 percent royalty rate be applied to the value of oil, for which royalties were paid under protest since September 1973. A recalculation of royalties resulted in an agreement to recommend to the

CALENDAR ITEM NO. 3 (CONT'D)

Commission that \$17,000 was a Fair refund to Ocean Front Oil Company. An additional oil shipment made in 1981 increases the refund to \$21,300. The well has not produced any oil since then and is only capable of flowing water.

The aforementioned agreement was contingent on the following action by the lessee:

1. Proper abandoning of well "State PRC 987" Davis No. 11.
- or-
2. Proper equipping of the well with safety shut-down equipment (because of its flowing status the well presents a potential hazard); increasing the bond to cover future cost of proper abandonment of the well; and providing evidence that the lease is capable of producing oil and gas in paying quantities.

During 1980 and 1981 Ocean Front Oil Company had taken some steps to minimize potential pollution impact and had increased the gross production rate hoping to improve the oil production rate, but without success.

The well originally drilled in 1927, was redrilled by Ocean Front in 1933 and initially produced at 285 BOPD. By 1956 production had declined to 25 BOPD and then declined to less than one BOPD by 1979. The last oil shipment was in April 1981. Since then the well has produced only water with no significant oil or gas.

In 1983, Ocean Front Oil Company proposed to plug back the Lower Main Zone in Well Davis-11 and recomplete in the shallow TM Zone still within State Lease PRC 987 (a 24-inch diameter cylinder surrounding the well bore). The proposal was denied by the SLC staff for the following reasons:

1. Well Davis-11 passes between two other wells which produce from the "TM" Zone and which are part of a Steam Flood Pilot Project, belonging to Aminoil Inc. in surrounding State Lease PRC 91. Well Davis-11's well-bore is less than 200 feet from one of these two wells. To permit recompletion of Well Davis-11 in the "TM" Zone without consent of Aminoil would be a violation

CALENDAR ITEM NO. 30 (CONT'D)

of the rules and regulations of the State Lands Commission (Cal. Adm. Code Title 2, Division 3, Chapter 1, Sec 2115.)

2. Aminoil with approval of Staff in 1980, established three "TM" Zone Steam Flood Pilot Projects, which they are currently evaluating. The impact of this pilot/test project on future oil production from the entire "TM" Zone is significant and should benefit the State substantially. Completing the well in the middle of the project could substantially effect the pilot.

Position of Staff is that (1) Ocean Front Oil Company has been unable to prove, during nearly four years, that Well Davis No. 11 is capable of producing oil and gas in paying quantities, (2) the proposal to recompleate the well in the shallow "TM" zone is not in the best interest of the State and (3) the well should be abandoned as a pollution hazard. Staff believes that the refund of a portion of protested royalties represents fair and consistent treatment.

Pursuant to the Commission's delegation of authority and the State guidelines (14 Cal. Adm. Code 15061), the Staff has determined that this activity is exempt from the requirements of the CEQA as a categorical exemption under class 1, existing facilities abandonment, 14 Cal Adm. Code 2905(a)(1).

AB 884: N/A.

IT IS RECOMMENDED THAT THE COMMISSION:

1. FORMALLY TAKE NOTICE THAT STATE OIL AND GAS LEASE PRC 987.1 HAS TERMINATED, ACCORDING TO THE LEASE AGREEMENT DATED MARCH 1, 1954 CHAPTER 303, STATUTE OF 1921.
2. DIRECT THE LESSEE, OCEAN FRONT OIL COMPANY, TO ABANDON WELL "STATE PRC 987.1" DAVIS-11, AS REQUIRED UNDER THE LEASE AND ACCORDING TO AN APPROVED ABANDONMENT PROGRAM CONSISTENT WITH THE RULES AND REGULATIONS OF THE STATE LANDS COMMISSION, AND THE DIVISION OF OIL AND GAS.
3. AUTHORIZE PAYMENT TO THE LESSEE OF \$21,300, WITHOUT INTEREST, OF THE DISPUTED OIL ROYALTY (\$58,903) PAID UNDER PROTEST TO THE STATE. THIS REFUND TO BE MADE AFTER PROPER ABANDONMENT OF WELL DAVIS-11.

CALENDAR ITEM NO. 3.0 (CONT'D)

4. FIND THAT THE ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF THE CEQA PURSUANT TO 14 CAL. ADM. CODE 15061 AS A CATEGORICAL EXEMPT PROJECT, CLASS 1 EXISTING FACILITIES ABANDONMENT 14 CAL. ADM. CODE 2905(a)(1).