

**MINUTE ITEM**

This Calendar Item No. C19  
was approved as Minute Item  
No. 19 by the State Lands  
Commission by a vote of 3  
to 0 at its 3/26/87  
meeting.

**CALENDAR ITEM.**

**C19**

A 35

S 18

03/26/87  
PRC 3314  
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**DEFERMENT OF DRILLING OPERATIONS  
STATE OIL AND GAS LEASE PRC 3314**

**LESSEE:** Shell Western E&P, Inc.  
Attn: R. L. Avery  
P. O. Box 527  
Houston, Texas 77001

**OPERATOR:** Chevron U.S.A., Inc.  
P. O. Box 6917  
Ventura, California 93006

**AREA, TYPE LAND AND LOCATION:**

State oil and gas Lease PRC 3314, issued on July 1, 1965 contains approximately 5,430 acres of tide and submerged lands located west of Oxnard in Ventura County. Current lessee of PRC 3314 is Shell Western E&P, Inc. (SWEPI); Chevron U.S.A., Inc. (Chevron) is operator of the lease.

**SUMMARY:**

Resumption of drilling operations was authorized by the State Lands Commission (SLC) on April 29, 1981. Exploratory drilling of up to six wells from a floating vessel, as well as drilling of nearshore prospects from an upland drillsite operated by Chevron, were authorized by the SLC. The lease provides for a 120-day drill string obligation. Only one well has been drilled on the lease since resumption was authorized. The 3314 #1 well was drilled for SWEPI by Chevron from an onshore location which is referred to as the Patterson Ranch drillsite.

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On November 21, 1985 the SLC approved a request for a one-year deferment of the drilling obligation for State Lease PRC 3314. This deferment was requested to enable Shell and its operator:

- (1) to evaluate further the 3314 #1 well by placing it on production;
- (2) to obtain approvals to consolidate two existing drillsites located in the Mandalay State Beach area into one larger, more efficient drillsite, and obtain appropriate permits to conduct drilling operations from that site; and
- (3) to evaluate gas production potential and the economics of installing a gas processing plant.

This deferment extended the drilling obligation date from February 8, 1986 through February 7, 1987.

During 1986 the oil and gas industry reduced their activities as a result of the drop in the price of oil. The posted price for Montalvo (Colonia) oil dropped from \$18.55/bbl (February 1, 1986) to a low of \$7.05/bbl (April 1, 1986), which is a 62 percent decline in less than 60 days. The posted price has recently risen to \$10.05/bbl (January 19, 1987) as a result of the stabilization of the world oil market brought on by OPEC's current curtailment agreement. This recovery in price, while positive, still yields a net loss of 46 percent, from the 1986 high, which still negatively affects the economics of the existing operation as well as the economics of continued development of the subject lease.

In addition, the existing well 3314 #1, subsequent to being placed on production, suffered a steep decline in its production rate and was also hampered by mechanical problems. This further hampered its economic viability.

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This production decline in combination with the future uncertainty of oil prices has resulted in the curtailment by Shell/Chevron of existing operations and suspension of all but critical expenditures.

Efforts to establish a consolidated drillsite were suspended as result of the uncertainty associated with this lease development's economics.

Chevron reports that gas production was evaluated and currently does not justify the installation of a gas processing plant. In December 1985, gas was priced at \$3.25/mcf. Negotiating a long term gas purchase contract in January 1987 (Southern California Gas Company) would require the price to be calculated at 80 percent of system average price, thus yielding  $\pm$ \$1.80/ mcf. This results in a 45 percent drop which negates the viability of a gas processing plant. Should gas prices stabilize and forecasts improve, the operator would again consider a gas plant.

As a result of the above, Chevron, as operator for PRC 3314, and on behalf of SWEPI, the lessee, has requested a two-year drilling deferment on State Lease PRC 3314.

During the proposed two-year deferment the operator proposed to continue to study alternatives which may increase the viability of continued development and which will decrease daily operating costs. Alternatives currently being evaluated include, but are not limited to, the following:

- (1) Reducing the transportation costs of getting produced oil to market. Presently the cost of trucking production to a suitable refinery is approximately \$1.72/ bbl. Should the operator be able to develop a less expensive alternative, the overall economics of the project would improve.

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- (2) Reducing the operating costs of sustaining daily flow rates with down-hole pumps. The well mechanics require some method of artificial lift to maintain production, yet the costs of operating and maintaining different types of submersible pumps vary greatly, as does the efficiency. If efficiency can be improved while reducing the operating costs, the economics would improve.

With improved economics resulting from studies and price improvements, the operator feels the lease could be further developed.

AB 884: N/A.

**OTHER PERTINENT INFORMATION:**

1. Under an approved deferment of drilling operations the lessee and its operator will be required to report bi-monthly on the status of other permits required for both the consolidated onshore drillsite and the authorized offshore exploratory wells.
2. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines (14 Cal. Adm. Code 15061), the staff has determined that this activity is exempt from the requirements of the CEQA because the activity is not a "project" as defined by CEQA and the State CEQA Guidelines.

Authority: P.R.C. 21065 and 14 Cal. Adm. Code 15378.

**EXHIBIT:** A. Location Map.

**IT IS RECOMMENDED THAT THE COMMISSION:**

1. FIND THAT THE ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF THE CEQA PURSUANT TO 14 CAL. ADM. CODE 15061 BECAUSE THE ACTIVITY IS NOT A PROJECT AS DEFINED BY P.R.C. 21065 AND 14 CAL. ADM. CODE 15378.

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2. APPROVE A DEFERMENT OF THE DRILLING OBLIGATION UNDER STATE OIL AND GAS LEASE PRC 3314 FROM FEBRUARY 8, 1987 THROUGH AUGUST 7, 1987, ALL OTHER TERMS AND CONDITIONS OF THE LEASES TO REMAIN IN FULL FORCE AND EFFECT. PROVIDED FURTHER THAT AS A CONDITION OF THIS DEFERMENT THAT LESSEE AND ITS OPERATOR PROCEED DILIGENTLY TO CONSOLIDATE THE EXISTING DRILL SITES AT MANDALAY STATE BEACH AND OBTAIN APPROPRIATE PERMITS TO CONDUCT FURTHER DRILLING OPERATIONS, AND AS A FURTHER CONDITION, THAT LESSEE AND ITS OPERATOR PROCEED DILIGENTLY TO OBTAIN ALL PERMITS NECESSARY TO DRILL THE AUTHORIZED EXPLORATORY WELLS. LESSEE AND OPERATOR SHALL REPORT BI-MONTHLY TO COMMISSION STAFF ON THE STATUS OF ABOVE PERMITS AND SHALL PROVIDE COPIES OF ALL APPLICATIONS AND COMMUNICATIONS WITH OTHER PERMITTING AGENCIES.

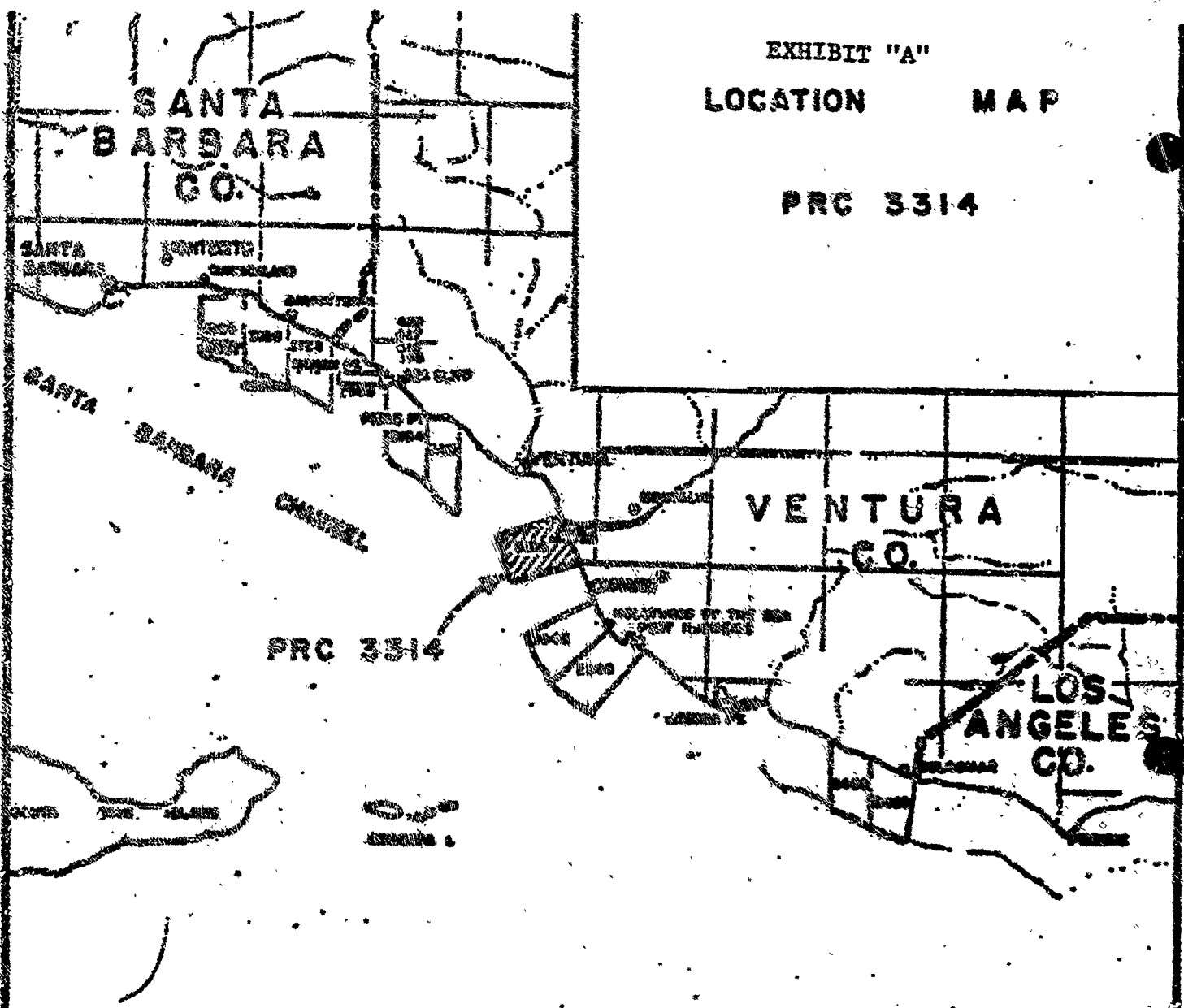
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EXHIBIT "A"  
LOCATION MAP

PRC 3314



NORTH

