

MINUTE ITEM
This Calendar Item No. 37
was approved as Minute Item
No. 37 by the State Lands
Commission by a vote of 2
to 0 at its 9/14/88
meeting.

CALENDAR ITEM

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09/14/88
PRC 3314
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DEFERMENT OF DRILLING OBLIGATION
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.
Attn.: Mr. John Dowling
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 in 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.

On November 21, 1985, the SLC granted a
one-year deferment of the drilling obligation

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for State Lease PRC 3314 through February 7, 1987. The purpose of the deferment was to allow 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 constructing a gas processing plant.

In January, Chevron requested an additional two-year deferment on economic grounds, citing (1) a steep decline in production of the well, (2) a steep decline in the price of crude oil, (3) a decline in gas prices making a gas processing plant uneconomical, thus necessitating burning the gas, and (4) the high cost of transporting the crude oil by truck to the refinery.

On March 26, 1987, the Commission granted an additional six-month deferment of the drilling obligation.

On November 19, 1987, the State Lands Commission approved a one-year deferment of the drilling obligation for State Lease PRC 3314.1 in response to Chevron's request of August 5, 1987. The approval of this one year drilling deferment extended the drilling obligation date for PRC 3314.1 from August 8, 1987 through August 7, 1988. The deferment was granted so Chevron could pursue the necessary right-of-ways and permits for the gas sales pipeline, as well as continue to study alternatives to decrease the operating expenses, so as to improve the economics of further development.

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Since the deferment was approved on November 19, 1987, Chevron has obtained right-of-ways and permits and the gas pipeline was installed in February 1988. Gas sales began at an average rate of 300 MCFPD at \$2.48/MCF to the Unocal Mandalay Processing Plant July 10, 1988. This additional income, while improving the economics of continued development, has been offset by a substantial drop in oil price. The posted price for Montalvo Colonia Oil dropped from \$14.15/BBL (August 4, 1987) to \$8.64/BBL (July 1, 1988), a forty-two percent (42%) decline.

Chevron has also found the daily operating expenses continue to remain high. The Oxnard Refinery has refused to take additional production thereby forcing the produced oil to be trucked to the Northam/La Mirada Terminal in Los Angeles at a cost of \$1.72/BBL.

Chevron has indicated mechanical difficulties are a continuous problem with the downhole hydraulic pumps. Average run life before failure is approximately 80 days. Each failing pump is disassembled and inspected for cause. Modifications to pump design are made periodically in an effort to increase their efficiency and run life.

In a letter dated July 27, 1988, Chevron requests a one year drilling deferment of State Lease PRC 3314.1 from August 9, 1988 to August 9, 1989. During this deferment, Chevron proposes to continue investigations into reducing the operating expense for the above-mentioned reasons.

AB 884:

N/A.

OTHER PERTINENT INFORMATION:

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

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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.
2. APPROVE A DEFERMENT OF THE DRILLING OBLIGATION UNDER STATE OIL AND GAS LEASE PRC 3314 FROM AUGUST 9, 1988 THROUGH AUGUST 9, 1989. ALL OTHER TERMS AND CONDITIONS OF THE LEASE TO REMAIN IN FULL FORCE AND EFFECT, PROVIDED THAT AS A CONDITION OF THIS DEFERMENT, LESSEE AND OPERATOR SHALL REPORT QUARTERLY TO COMMISSION STAFF THE LEASE OPERATING ECONOMICS.

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LOCATION

MAP

PRC 3314

SANTA BARBARA CO.

VENTURA CO.

LOS ANGELES CO.

SANTA BARBARA

SANTA BARBARA CHANNEL

VENTURA

MONTALVO

OXNARD

HOLLYWOOD BY THE SEA
PCAT N-ENEME

LAGUNA PT

SOLIDMAR

PT. DUME

SANTA CRUZ ISLAND

ANACAPA I.

PRC 3314

NORTH

