MINUTE ITEM
This Calendar Item No. C73
was approved as Minute Item
No. 73 by the State Lands
Commission by a vote of 3
to 0 at its 9/23/92
meeting.

CALENDAR ITEM

C 7 3

A 36

S 18

09/23/92
PRC 735
Willard

APPROVE THE ASSIGNMENT OF 100 PERCENT INTEREST AND AMENDMENT OF STATE OIL AND GAS LEASE PRC 735 WEST MONTALVO OIL FIELD (OFFSHORE AREA) VENTURA COUNTY

ASSIGNOR:

Chevron U.S.A. Inc.
Attn: J. P. Harrington
Assistant Secretary
P.O. Box 5050
San Ramon, California 94583-0905

ASSIGNEE:

Berry Petroleum Company
Attn: Harvey Bryant, CEO
Post Office Bin X
Taft, California 93268

BACKGROUND:

State oil and gas lease PRC 735 was awarded to Standard Oil Company of California (now Chevron U.S.A. Inc.) on June 30, 1952, pursuant to competitive public bidding. The lease contained approximately 960 acres of tide and submerged lands located in the West Montalvo Oil Field area of Ventura County. The lease currently contains about 220 acres.

In May 1990, Berry Petroleum Company purchased the West Montalvo Oil Field from Chevron. Included in the purchase were ten lease wells (all drilled from onshore locations) of which only well D2B is productive.

Oil production from the leased lands has been declining and is reaching its economic limit under the present terms of the lease. Significant additional expense is required to increase production and the operator cannot justify the additional expense under the existing sliding scale royalty formula provision. Both the operator and the State recognize there would be mutual benefit if oil production from the leased lands were maximized.

Staff has evaluated all of the well records and has proposed a program to increase lease production. Under the proposed program Berry would undertake an extensive workover/redrill plan on the lease wells. The State in turn would amend the lease and allow Berry to forego royalty oil payments on the lease wells (except well "D2B") until Berry recovered 100 percent of the capital costs of approved plan costs. After recovery, the State would receive 16 2/3 percent flat rate royalty on oil and gas produced from the leased lands. With regard to well "D2B", Berry has agreed to pay royalty of 16 2/3 percent of a negotiated decline rate, as outlined in the lease amendment.

Under P.R.C. Section 6827.2, the Commission may modify the lease terms to prevent the premature lease abandonment if it finds that the continued production is in the best interests of the State and that such production is economically unfeasible under the present terms of the lease.

Chevron U.S.A. Inc. has submitted a request for approval of the assignment of all of its interest in State oil and gas lease PRC 735, Ventura County, to Berry Petroleum Company.

Paragraph 4 of the lease provides that the lessee, with Commission approval, may assign any portion of the lease to a corporation that possesses the qualifications described within P.R.C. 6801. The lease also specifies that approval of the assignment will not release the assignor from continued liability for compliance with all terms and conditions of the lease for the term of the lease.

Staff has reviewed the documents and lease files and has found that: (1) Berry will be a responsible and financially sound operator; (2) Berry is qualified under P.R.C. 6801 to hold the lease; (3) Chevron has complied with all lease provisions and no default exists; and (4) all filing fees, processing costs and required documentation are on file in the Commission's Long Beach office.

STAFF RECOMMENDATIONS:

Staff recommends that the lease be assigned from Chevron to Berry and that the lease be amended as follows: increase the bond or security requirement from $25,000 to $500,000, and eliminate the sliding scale royalty provision and replace it with a flat rate royalty of 16-2/3 percent for all production. However, royalty payments will be suspended, except for a negotiated royalty for well "D2B", to allow Berry to recover its capital improvement costs. All other provisions will remain unchanged.

AB 884:

N/A.

OTHER PERTINENT INFORMATION:

1. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines (14 Cal. Code Regs. 15061), the staff has determined that this activity is exempt from the requirements of the CEQA because it is not a "project" as defined by CEQA and the State CEQA Guidelines.

EXHIBIT:

A. Lease Amendment.

IT IS RECOMMENDED THAT THE COMMISSION:

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

2. APPROVE THE ASSIGNMENT OF STATE OIL AND GAS LEASE PRC 735, VENTURA COUNTY, FROM CHEVRON U.S.A. INC. TO BERRY PETROLEUM COMPANY. COMMISSION APPROVAL OF THIS ASSIGNMENT IS GIVEN ON THE CONDITIONS THAT THIS ASSIGNMENT SHALL NOT RELEASE THE ASSIGNOR FROM ANY OBLIGATIONS TO THE STATE UNDER THE LEASE, ANY CONDITIONS IN THE ASSIGNMENT AGREEMENT TO THE CONTRARY NOTWITHSTANDING, AND THAT THE ASSIGNEE WILL BE BOUND BY THE

LEASE, INCLUDING ANY MODIFICATIONS AND COLLATERAL AGREEMENTS, TO THE SAME EXTENT AS THE ASSIGNOR, ANY CONDITIONS IN THE ASSIGNMENT AGREEMENT TO THE CONTRARY NOTWITHSTANDING. PURSUANT TO P.R.C. 6804 AND PARAGRAPH 4 OF THE LEASE, THIS ASSIGNMENT WILL TAKE EFFECT ON OCTOBER 1, 1992.

3. PURSUANT TO P.R.C. 6827.2, FIND THAT THE CONTINUED PRODUCTION UNDER STATE OIL AND GAS LEASE PRC 735 IS IN THE BEST INTERESTS OF THE STATE AND THAT SUCH PRODUCTION IS ECONOMICALLY UNFEASIBLE UNDER THE PRESENT LEASE TERMS.

4. APPROVE AND AUTHORIZE EXECUTION OF THE AMENDMENT TO STATE OIL AND GAS LEASE PRC 735 EFFECTIVE OCTOBER 1, 1992, ATTACHED AS EXHIBIT "A" AND BY REFERENCE MADE A PART HEREOF.

AMENDMENT TO STATE OIL AND GAS LEASE PRC 735

State oil and gas lease PRC 735 was awarded to Standard Oil Company of California on June 30, 1952, pursuant to competitive public bidding. The lease contained approximately 960 acres of tide and submerged lands located in the West Montalvo Oil Field area of Ventura County.

On March 25, 1959, Standard Oil Company of California quitclaimed 740 acres of undeveloped leased area leaving approximately 220 acres under lease.

On October 28, 1976, Standard Oil Company of California assigned all of its lease interest to Chevron U.S.A. Inc.

In May 1990, Berry Petroleum Company purchased the West Montalvo Oil Field from Chevron. Included in the purchase was State oil and gas lease PRC 735.

Paragraph 2 of the lease requires the Lessee to pay to the State in money a royalty on oil produced and saved from each lease well. The royalty would be calculated using a sliding scale formula with a minimum royalty of sixteen and two-thirds percent (16-2/3%) on the daily average production.

Paragraph 13 of the lease requires the Lessee to furnish and maintain a bond in the sum of $25,000 to guarantee the faithful performance of the terms, covenants and conditions of the lease.

Oil production from the leased lands has been declining and is reaching its economic limit under the present lease terms. Additional expense is required to increase production. However, because of the sliding scale formula provision the Lessee cannot justify the additional expense. Both the Lessee and State recognize there would be mutual benefit if the Lessee attempted to maximize oil production from the leased lands.

On September 23, 1992, the Commission approved the assignment of an undivided 100 percent interest in State oil and gas lease PRC 735 from Chevron U.S.A. Inc to Berry Petroleum Company and approved amendments to the lease. The Commission also found, in accordance with P.R.C. Section 6827.2, that continued production from the lease is in the best interests of the State and such production is economically unfeasible under the present lease terms. Therefore, in order to prevent the premature lease abandonment, the State agrees to modify its royalties and the Lessee agrees to maximize oil production from the leased lands and increase the bond amount of the lease.

State oil and gas lease PRC 735, Paragraph 2, first paragraph, is amended to read:

> The Lessee shall pay to the State annually in advance rental of nine hundred sixty dollars ($960.00).

In addition to the rental, the Lessee shall account for and pay to the State in money as royalty on oil sixteen and two-thirds percent (16 2/3%) of the current market price of all oil removed or sold from the lands subject to this lease. The current market price shall be determined by the State and shall include any premium, bonus or additional consideration in any form received by the Lessee for the oil. The current market price shall not be less than the highest price posted for like oil in the Montalvo field, or in the nearest field if there is no posting in the Montalvo field, by a major oil company buying substantial quantities of oil in that field. Money royalty on oil shall be due no later than the twenty-fifth day of the calendar month following the calendar month in which the oil is produced and shall be paid in accordance with procedures prescribed by the State. The State may elect to receive its royalty in kind instead of in money. In such event and on demand from the State, the Lessee shall deliver to the State sixteen and two-thirds percent (16 2/3%) of the oil removed or sold from the lands subject to this lease. The Lessee shall provide at Lessee's shipping tanks, without charge to the State, tankage of sufficient capacity to store the State's royalty share of oil during any continuous forty-eight (48) hours.

The Lessee also shall account for and pay to the State in money as royalty on dry gas, natural gasoline and other products extracted and saved from the gas produced from the lands subject to this lease, sixteen and two-thirds percent (16 2/3%) of the gross market value in the Montalvo field of such products. The gross market value shall be determined by the State based on the current market price for such products in the Montalvo field. However, if the dry gas, natural gasoline and other products are sold by the Lessee under a contract approved by the State, their gross market value shall be the price provided by such contract.

The Lessee's obligation to pay royalty on oil and gas to the State as provided above shall be suspended, except for production from well D2B, until Berry recovers 100 percent of approved capital costs of the project expended over the next 36 months. Royalty on both oil and gas production from well D2B during this period shall be sixteen and two-thirds percent (16 2/3%) of the well's production that is based on an established decline rate agreed upon by the State and Lessee and attached as Exhibit "A" to this amendment.

State oil and gas lease PRC 735, Paragraph 13 is amended to read:

The Lessee shall, at the time of execution of this lease, furnish and thereafter maintain a good and sufficient bond or other security in favor of the State of California in the sum of $500,000 to guarantee the faithful performance by the Lessee of the terms, covenants and conditions of this lease and of the provisions of Division 6 of the P.R.C., Statutes of California, and of the rules and regulations promulgated thereunder.

All other terms and conditions of State oil and gas lease PRC 735 will remain unchanged and in full force and effect. The effective date of this amendment will be October 1, 1992.

LESSEE:	**LESSOR:**
BERRY PETROLEUM COMPANY	**STATE LANDS COMMISSION**
By:________________	By:________________
________________	________________
________________	________________
Date:________________	Date:________________
Attest	Attest

Exhibit 1

PRC 735

9% YEARLY
EXPONENTIAL DECLINE

MONTH	BBLS/DAY	BBLS/MO	@16.67% ROYALTY BBLS
1	55.0	1673	279
2	54.6	1660	277
3	54.2	1648	275
4	53.8	1636	273
5	53.4	1623	271
6	53.0	1611	269
7	52.6	1599	267
8	52.2	1587	265
9	51.8	1575	263
10	51.4	1564	261
11	51.0	1552	259
12	50.6	1540	257
13	50.3	1529	255
14	49.9	1518	253
15	49.5	1506	251
16	49.1	1495	249
17	48.8	1484	247
18	48.4	1473	245
19	48.1	1462	244
20	47.7	1451	242
21	47.3	1440	240
22	47.0	1429	238
23	46.6	1418	236
24	46.3	1408	235
25	45.9	1397	233
26	45.6	1387	231
27	45.3	1377	229
28	44.9	1366	228
29	44.6	1356	226
30	44.2	1346	224
31	43.9	1336	223
32	43.6	1326	221
33	43.3	1316	219
34	42.9	1306	218
35	42.6	1296	216
36	42.3	1287	214
37	42.0	1277	213
38	41.7	1268	211
39	41.4	1258	210
40	41.1	1249	208
41	40.7	1239	207
42	40.4	1230	205
43	40.1	1221	203
44	39.8	1212	202
45	39.5	1203	200
46	39.2	1194	199
47	39.0	1185	197
48	38.7	1176	196
49	38.4	1167	195
50	38.1	1158	193
51	37.8	1150	192
52	37.5	1141	190
53	37.2	1133	189
54	37.0	1124	187
55	36.7	1116	186
56	36.4	1107	185
57	36.1	1099	183
58	35.9	1091	182
59	35.6	1083	180
60	35.3	1075	179
61	35.1	1067	178
62	34.8	1059	176
63	34.5	1051	175
64	34.3	1043	174
65	34.0	1035	173
66	33.8	1027	171
67	33.5	1020	170
68	33.3	1012	169
69	33.0	1005	167
70	32.8	997	166
71	32.5	990	165
72	32.3	982	164
73	32.1	975	162
74	31.8	968	161
75	31.6	960	160
76	31.3	953	159
77	31.1	946	158
78	30.9	939	157
79	30.6	932	155
80	30.4	925	154
81	30.2	918	153
82	30.0	911	152
83	29.7	904	151
84	29.5	898	150
85	29.3	891	148
86	29.1	884	147
87	28.9	878	146
88	28.6	871	145
89	28.4	865	144
90	28.2	858	143
91	28.0	852	142
92	27.8	845	141
93	27.6	839	140
94	27.4	833	139
95	27.2	827	138
96	27.0	820	137
97	26.8	814	136
98	26.6	808	135
99	26.4	802	134
100	26.2	796	133
101	26.0	790	132
102	25.8	784	131
103	25.6	778	130
104	25.4	773	129
105	25.2	767	128
106	25.0	761	127

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