MINUTE ITEM
This Calendar Item No. 39
was approved as Minute Item
No. 39 by the State Lands
Commission by a vote of 2
to Ø at its 3/25/93
meeting.

MINUTE ITEM

39

A 35

S 18

02/25/93
PRC 421 PRC 3242
PRC 3120 PRC 3904
PRC 5515
Willard
A. Scott
R. Ludlow

CONSIDER APPROVING ASSIGNMENT FROM
ATLANTIC RICHFIELD COMPANY TO MOBIL OIL CORPORATION
OF LEASE PRC 3904 (ELLWOOD MARINE TERMINAL)
AND LEASE PRC 5515 (ELLWOOD PIER) AND
APPROVING ASSIGNMENT AND AMENDMENT OF ROYALTY PROVISIONS
OF OIL AND GAS LEASES PRC 421, PRC 3120, AND PRC 3242
SOUTH ELLWOOD OFFSHORE FIELD, SANTA BARBARA COUNTY

Calendar Item 39 was approved on a yes vote of 2 and 1 abstain.

CALENDAR PAGE
MINUTE PAGE 267

CALENDAR ITEM

39

A 35

S 18

02/25/93
PRC 421 PRC 3242
PRC 3120 PRC 3904
PRC 5515
Willard
A. Scott
R. Ludlow

CONSIDER APPROVING ASSIGNMENT FROM
ATLANTIC RICHFIELD COMPANY TO MOBIL OIL CORPORATION
OF LEASE PRC 3904 (ELLWOOD MARINE TERMINAL)
AND LEASE PRC 5515 (ELLWOOD PIER) AND
APPROVING ASSIGNMENT AND AMENDMENT OF ROYALTY PROVISIONS
OF OIL AND GAS LEASES PRC 421, PRC 3120, AND PRC 3242
SOUTH ELLWOOD OFFSHORE FIELD, SANTA BARBARA COUNTY

ASSIGNOR:

Atlantic Richfield Company
Attn: Mr. Don Cohen
P.O. Box 147
Bakersfield California 93302

ASSIGNEE:

Mobil Oil Corporation
Attn: Mr. Ken Miner
P.O. Box 9989
Bakersfield California 93389-9989

BACKGROUND

State oil and gas leases PRC 421 (68 acres), PRC 3120 (3,324 acres) and PRC 3242 (4,290 acres) are located on tide and submerged lands in the Santa Barbara Channel, west of Goleta Point, Santa Barbara County. Lease PRC 3904 (11.84 acres) is the marine terminal from which oil produced from these leases is shipped by barge to refineries. Lease PRC 5515 (2.2 acres) accommodates a pier used to support the oil operation. Atlantic Richfield Company (ARCO) is the current lessee of the marine terminal and pier. It is also the lessee of oil and gas lease PRC 421 and is a joint lessee with Mobil Oil Corporation (Mobil) of PRC's 3120 and 3242. ARCO, who is the operator, proposes to assign all of its interest in each of these leases to Mobil.

CALENDAR PAGE 168
MINUTE PAGE 267.1

PRESENT SITUATION

Presently oil and gas is produced from Platform Holly which is located in State waters about two miles offshore the Ellwood area of Santa Barbara County. Oil from the Platform is transported to shore by pipeline, treated at the Ellwood processing facility and then delivered to refineries, by barge, from the marine terminal. Almost 47 million barrels of oil have been produced from these leases since Platform Holly was built in 1966 and oil and gas revenues to the State have totaled approximately $244 million.

The leases provide for a flat 16 2/3 percent royalty on gas and a sliding scale royalty on oil based on the rate of production. The minimum oil royalty is 16 2/3 percent with a maximum of 50 percent. At present the effective oil royalty is approximately 26 percent.

Although significant oil reserves remain (staff estimates over 20 million barrels), production has been declining and is presently approximately 4,400 barrels per day. Overall, production, processing and transportation costs have been increasing and are extremely expensive. At the same time the price of Ellwood crude has been depressed for years, occasionally dipping below ten dollars per barrel. In 1992, the average price was $10.55 per barrel. Today the price is approximately $9.60 per barrel. No significant price increases are anticipated. In short, there is not enough production at today's low price to support the costs. In order to arrest and reverse the decline in production, significant capital investment and expenditures will have to be made.

ARCO, co-lessee with Mobil, and the operator of these leases, has advised the Commission's staff that, in its view, these leases are uneconomical and has requested permission to assign its interest to Mobil. Mobil concurs with ARCO that the leases are uneconomical under present operating conditions. Mobil contends that in order to make the leases economic, production must be increased and costs that can be reduced, without jeopardizing safety, environmental protection and oil spill prevention, need to be lowered. Therefore, Mobil, as a condition of accepting the assignment of the leases and making the necessary capital investments to improve production, has requested that the oil royalty provisions be modified to provide for a flat 16 2/3 percent royalty, applicable to all production subsequent to the effective date of the assignment.

STAFF RECOMMENDATION
In order to prevent the premature abandonment of a lease the Commission may, pursuant to Public Resources Code Section 6827.2, renegotiate the terms of a lease, including the royalty provisions, if it finds that continued production from the lease is in the best interests of the people of California and that such production is economically unfeasible under existing lease terms.

Staff has evaluated the leases and the proposed royalty modification and concurs with ARCO and Mobil that a reduction in the royalty rate is necessary in order to maintain the economic viability of these leases and prevent their premature abandonment with the resulting loss of significant remaining oil and gas resources. At the present royalty rate of approximately 26 percent, staff analysis indicates that the lessee has been losing significant amounts of money for over a year. Even with the proposed royalty reduction, the leases will be only marginally economic unless there is an increase in production and an increase in the price of oil. Therefore, staff recommends that the royalty provision of the leases be amended to provide for a flat 16 2/3 percent.

Mobil, as a major oil company and one of the largest corporations in the country, is well qualified both financially and technically to operate these leases in a environmentally safe and profitable manner. Mobil, in accepting the assignment, will become responsible for all lease obligations and liabilities. ARCO in turn, as of the effective date of the assignment, will be released from its obligations and liabilities with the exception of the obligation to pay its share of accrued rents and royalties.

If approved by the Commission, the lease assignment will become effective, pursuant to Public Resources Code Section 6804, on the first day of the month following receipt by the Commission of the executed assignment documents. The anticipated effective date is April 1, 1993. All lease amendments would also be effective at the same time.

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 CEQA because the

activity is not a "project" as defined by CEQA and the State CEQA Guidelines. (P.R.C. 21065 and 14 Cal. Code Regs. 15378.)

AB 884:
N/A

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. CODE REGS. 15061 BECAUSE THE ACTIVITY IS NOT A PROJECT AS DEFINED BY P.R.C. 21065 AND 14 CAL. CODE REGS. 15378.

2. APPROVE THE ASSIGNMENTS FROM ATLANTIC RICHFIELD COMPANY (ARCO) TO MOBIL OIL CORPORATION (MOBIL) OF ALL OF ARCO'S INTEREST IN LEASES PRC 421, PRC 3120, PRC 3242, PRC 3904 AND PRC 5515 AND, UPON THE EFFECTIVE DATE OF THE ASSIGNMENT, RELEASE ARCO FROM ANY AND ALL OBLIGATIONS AND LIABILITIES UNDER THE TERMS OF THE LEASES, INCLUDING BUT NOT LIMITED TO ABANDONMENT OBLIGATIONS AND LIABILITIES. PROVIDED, HOWEVER, THAT ARCO SHALL REMAIN LIABLE FOR PAYMENT OF ARCO'S SHARE OF ROYALTY AND RENTAL ACCRUING PRIOR TO THE EFFECTIVE DATE OF THE ASSIGNMENT. THE EFFECTIVE DATE OF THE ASSIGNMENT SHALL BE DETERMINED BY THE PROVISIONS OF P.R.C. SECTION 6804.

3. FIND THAT CONTINUED PRODUCTION FROM OIL AND GAS LEASES PRC 421, PRC 3120 AND PRC 3242 IS IN THE BEST INTEREST OF THE PEOPLE OF CALIFORNIA AND THAT SUCH PRODUCTION IS ECONOMICALLY UNFEASIBLE UNDER EXISTING LEASE TERMS.

4. APPROVE THE AMENDMENT OF THE ROYALTY PROVISIONS OF OIL AND GAS LEASES PRC 421, PRC 3120 AND PRC 3242 TO PROVIDE FOR A FLAT 16 2/3 PERCENT ROYALTY ON OIL PRODUCED FROM THESE LEASES WITH THE EFFECTIVE DATE OF THE AMENDMENT TO BE THE EFFECTIVE DATE OF THE ASSIGNMENT.

EXHIBIT "A"

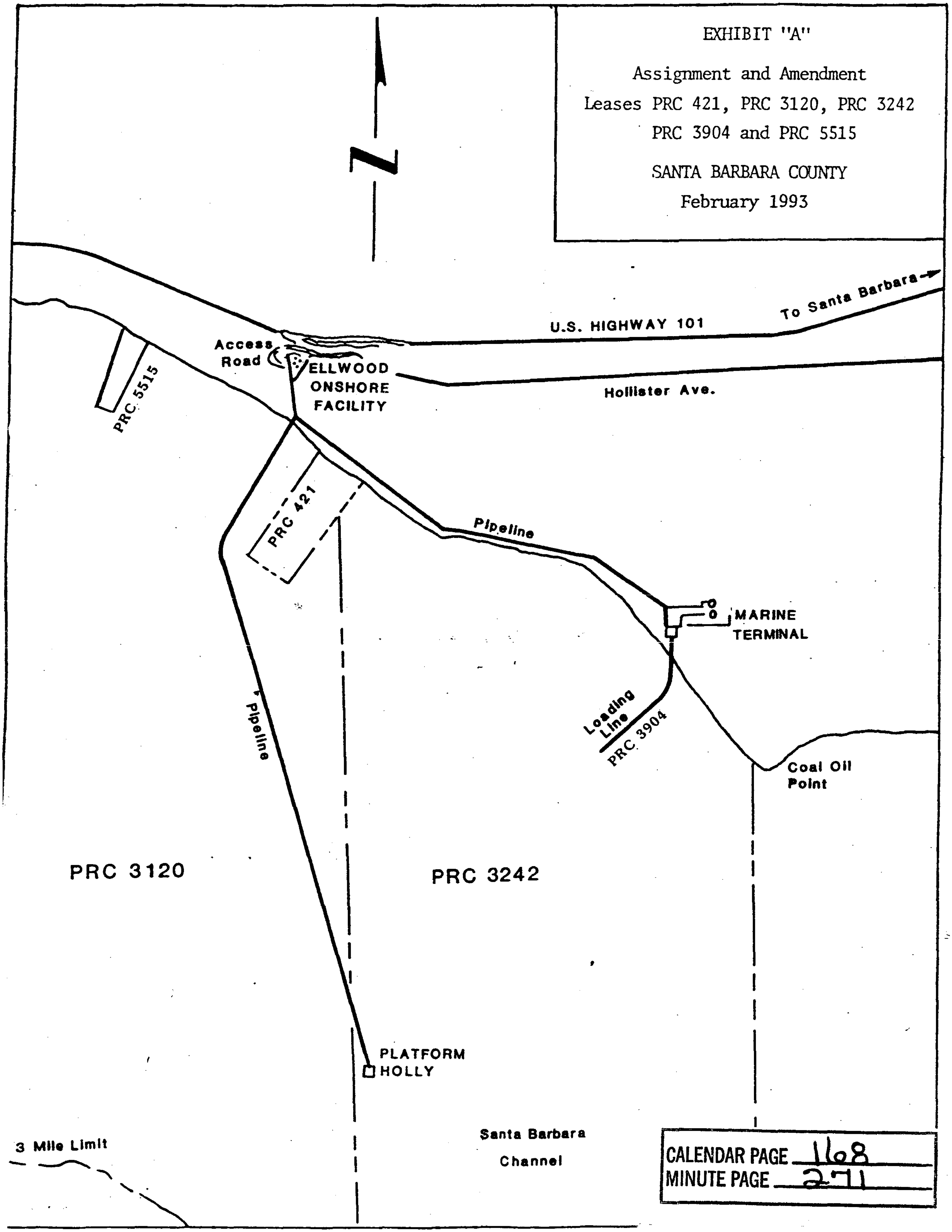
Assignment and Amendment

Leases PRC 421, PRC 3120, PRC 3242

PRC 3904 and PRC 5515

SANTA BARBARA COUNTY

February 1993



CALENDAR PAGE 1608

MINUTE PAGE 271