

MINUTE ITEM
This Calendar Item No. C44 was approved as
Minute Item No. 44 by the California State Lands
Commission by a vote of 9 to 0 at its
10/30/07 meeting.

**CALENDAR ITEM
C44**

A 35

10/30/07
PRC 3314.1
PRC 735.1
J. Planck

S 18

**CONSIDER REQUEST FOR AN ASSIGNMENT OF
ALL INTERESTS IN, AND AMENDMENT OF, OIL AND GAS
LEASES NOS. PRC 3314.1 AND PRC 735.1,
WEST MONTALVO FIELD,
OFFSHORE VENTURA COUNTY**

ASSIGNOR:

Berry Petroleum Company
Attn: Mr. Ken Frost
5201 Truxtum Ave., Suite 300
Bakersfield, CA 93309-0640

ASSIGNEE:

Venoco, Inc.
Attn: Mr. Stephen A. Greig
6267 Carpinteria Ave., Suite 100
Carpinteria, CA 93013

AREA, LAND TYPE, AND LOCATION:

Oil and Gas Lease No. 3314.1 contains approximately 5,430 acres, and Oil and Gas Lease No 735.1 contains approximately 220 acres, of tide and submerged lands in the "Montalvo" Oil and Gas Field offshore Ventura County.

BACKGROUND:

Oil and Gas Lease No. PRC 3314.1 was issued to Shell Oil Company in 1965. Through a series of assignments, the present lessee and operator is Berry Petroleum Company (Berry). Oil and Gas Lease No. PRC 735.1 was issued to Standard Oil Company of California in 1952. Through a series of assignments, the present lessee and operator is Berry.

Oil and Gas Lease No. PRC 3314.1 had one well drilled into it since resumption of drilling was authorized for that lease in 1981. The well, drilled by Chevron

PULLED

**Minute Item
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**10/30/07
PRC 8513
B. Dugal
J. Frey**

**ROBERT L. HULBERT
(LESSEE)**

**Item 45 was removed from the agenda to be
heard at a subsequent meeting.**

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from an onshore drillsite in 1985, still produces oil and gas today, averaging about 80 barrels of oil per day, and 150 MCF gas per day. Berry has completed drilling the first of two redrill wells authorized by the California State Lands Commission (Commission) in 2006 from idle onshore wells.

Oil and Gas Lease No. PRC 735.1 was assigned to Berry in 1992. An aggressive program of well work and redrills increased the production in that field significantly, but production has been declining over the years and currently averages between 130 and 200 barrels of oil per day, and 250 MCF gas per day.

Venoco, Inc. (Venoco) has purchased Berry's entire operation in the West Montalvo Field, both the onshore (private) operation and the State lease operations. Berry has submitted a request for approval of the assignment of all of its interest (100%) in both PRC 3314.1 and PRC 735.1 leases. Paragraph 4 of both leases provides that the lessee, with Commission approval, may assign any portion of the lease to a corporation that possesses the qualifications described within Public Resource Code section 6801. The assignment consent documents specify that approval of the assignment will not release the assignor from continued liability for compliance with all terms and conditions of the lease.

Staff has reviewed the documents and lease files and has determined that (1) Venoco is a responsible and financially sound operator; (2) Venoco is qualified under Public Resources Code section 6801 to hold the lease; (3) Berry has complied with all lease provisions and no known default exists; and (4) all filing fees, processing costs and required documentation are on file in the Commission's office.

STATUTORY AND OTHER REFERENCES:

- A. Section 4 of the Leases.
- B. Public Resources Code sections 6801 and 6804

OTHER PERTINENT INFORMATION

1. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines [Title 14, California Code of Regulations, Section 15060(c)(3)], the staff has determined that this activity is not subject to the provisions of the CEQA because it is not a "project" as defined by the CEQA and the State CEQA Guidelines.

Authority: Public Resources Code Section 21065 and Title 14, California Code of Regulations, Sections 15060(c)(3) and 15378.

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2. Assignment forms have been executed and prerequisite filing fees have been paid by Berry and/or Venoco.
3. Staff performed a recent financial audit of the leases during Berry's tenure. All items found in that audit have been cleared and Berry has complied with all rent and royalty provisions of the leases.
4. Staff performed a safety audit of Berry's operations on the leases involved. Staff found no significant safety items outstanding from the preliminary safety audit conducted at the McGrath Berry Petroleum Leases. There are no safety concerns impacting the approval of the Lease transfer from Berry Petroleum to Venoco, Inc.
5. Upon approval of the transfer, Leases PRC 3314.1 and PRC 735.1 shall each be amended to incorporate the language attached herewith as Exhibit B. The proposed amendments provide that: 1) the transfer of a controlling interest in the Lessee will be deemed to be an assignment of the lease for which the approval of the Commission is required; 2) the Lessee shall comply with all valid laws, rules and regulations of the United States and its political subdivisions, including the applicable provisions of Divisions 3 and 6 of the Public Resources Code and the regulations now in effect or hereafter promulgated by the Division of Oil, Gas and Geothermal Resources and the State Lands Commission; 3) the waiver and indemnity provisions of the leases are broadened; and 4) the amount of bond required under the leases has been increased from \$500 thousand to \$900 thousand for PRC 735.1 and from \$50 thousand to \$300 thousand for PRC 3314.1, as more particularly set forth in Exhibit B to this Calendar Item; 5) the Lessee shall execute a State Standard Reimbursement Agreement subject, however, to a fifty thousand dollar (\$50,000) per annum cap to start on Lease PRC 3314.1, and subject to a twenty-five thousand dollar (\$25,000.00) per annum cap to start on lease PRC 735.1, with automatic annual renewals increasing the cap three percent (3%) per year per lease, to reimburse staff time for the reasonable and necessary costs for the administration and implementation of the lease terms, including but not limited to, engineering review, royalty verification and/or audit, reservoir and geologic review, annual lease reviews, and for any other staff time or expenses expended to ensure such operations conform to the terms of the Lease and to the State's rules and regulations, now or hereafter promulgated,

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covering drilling and production operations on State leases.

EXHIBITS:

- A. Location Map
- B. Proposed amendments to Oil & Gas Lease Nos. PRC 735.1 and PRC 3314.1

PERMIT STREAMLINING ACT DEADLINE:

N/A (not a "development project" subject to the Act).

RECOMMENDED ACTION:

IT IS RECOMMENDED THAT THE COMMISSION:

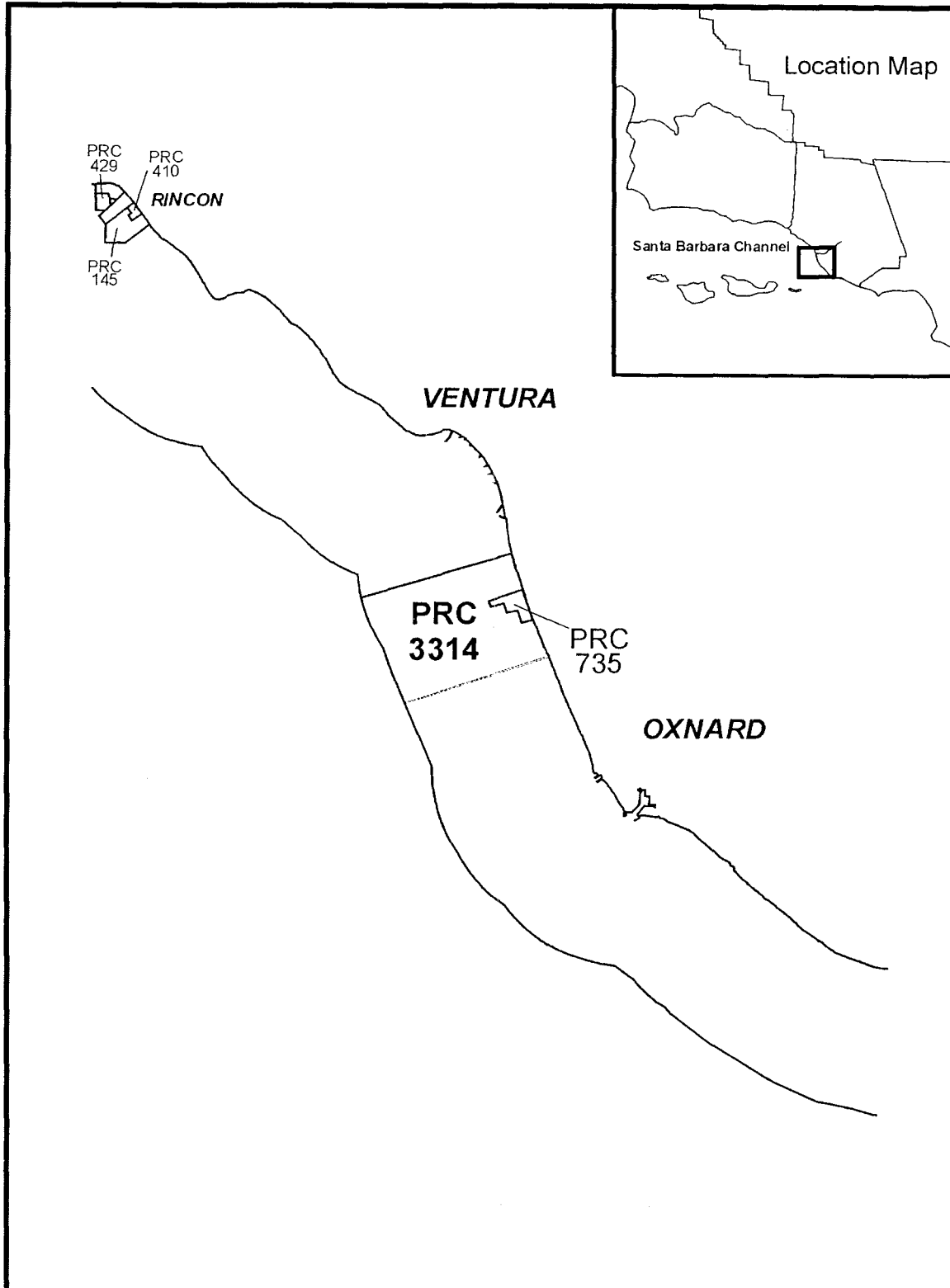
CEQA FINDING:

FIND THAT THE ACTIVITY IS NOT SUBJECT TO THE REQUIREMENTS OF THE CEQA PURSUANT TO TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15060(c)(3) BECAUSE THE ACTIVITY IS NOT A PROJECT AS DEFINED BY PUBLIC RESOURCES CODE SECTION 21065 AND TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15378.

AUTHORIZATION:

1. APPROVE THE AMENDMENTS TO OIL AND GAS LEASE NOS. PRC 3314.1 AND PRC 735.1, AS DETAILED IN EXHIBIT B OF THIS CALENDAR ITEM.
2. CONSENT TO THE ASSIGNMENT OF 100 PERCENT INTEREST IN OIL AND GAS LEASE NOS. PRC 3314.1 AND PRC 735.1, FROM BERRY PETROLEUM COMPANY TO VENOCO, INC., WITH THE ASSIGNEE TO BE BOUND BY ALL THE TERMS AND CONDITIONS OF THE LEASE, INCLUDING THE AMENDMENTS TO THOSE LEASES ATTACHED HEREWITH.
3. AUTHORIZE THE EXECUTIVE OFFICER OR HIS DESIGNEE TO EXECUTE ANY DOCUMENT NECESSARY TO IMPLEMENT THIS ASSIGNMENT.

EXHIBIT A



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EXHIBIT B

**AMENDMENT OF STATE OIL AND GAS LEASES
PRC 3314.1 AND PRC 735.1**

The State of California, acting by and through the State Lands Commission, leased certain lands located in Ventura County pursuant to State Oil and Gas Lease PRC 3314.1 to Shell Oil Company of California on July 2, 1965 and, through assignment, to Berry Petroleum Company (Berry) effective October 1, 1992.

The State of California, acting by and through the State Lands Commission, leased certain lands located in Ventura County pursuant to State oil and gas lease PRC 735.1 to Chevron USA Inc. (formerly Standard Oil Company of California) on June 30, 1952, and through successive assignments to Berry effective October 1, 1992.

Berry has requested that the State Lands Commission approve the assignment of both lease PRC 3314.1 and PRC 735.1 to Venoco, Inc. (Venoco).

The State Lands Commission has determined that it is in the State's best interest to make certain modifications to the terms of each of the leases in connection with its approval of the assignments.

VENOCO and the State therefore agree as follows:

1. State Oil and Gas Leases PRC 3314.1 and 735.1, are hereby amended to add the following paragraph to the existing provisions in Paragraph 4 of each lease:

"A change of control of Lessee shall be deemed an assignment or transfer of the lease for which State approval is required. For purposes of this Paragraph, a "change of control" shall mean the acquisition of a direct or indirect controlling interest in the Lessee by any party that currently does not have a controlling interest in Lessee in any transaction or conveyance, or series of transactions or conveyances occurring within a period of six consecutive months, regardless of

form or structure. As used herein (a) a direct controlling interest in Lessee is Thirty-Five Percent (35%) or more of: (i) the voting stock of the Lessee if it is a corporation; (ii) the general partnership interest if the Lessee is a general or limited partnership; or (iii) the membership interest if the Lessee is a limited liability company and (b) an indirect controlling interest in Lessee is Fifty Percent (50%) or greater interest in an entity owning a controlling interest in Lessee.

2. State Oil and Gas Leases PRC 3314.1 and 735.1 are amended by deleting Paragraph 9 of each lease and inserting the following language therefore:

“Lessee shall comply with all valid laws, rules and regulations of the United States and the State of California and its political subdivisions applicable to the Lessee’s operations, including, but not limited to, the applicable provisions of Divisions 3 and 6 of the Public Resources Code and the regulations now in effect or hereafter promulgated by the Division of Oil, Gas and Geothermal Resources and/or the State Lands Commission, and any other valid rules, regulations and orders of any duly constituted regulatory body or agency of the United States or the State of California.”

3. Paragraph 12 of State Oil and Gas Lease PRC 735.1 and Paragraph 13 of State Oil and Gas Lease 3314.1 are hereby deleted and the following paragraph is inserted into each lease in place of the deleted provisions:

(a) The Lessee shall be liable to the State for all damage to any reservoir underlying the leased lands and any loss of oil, gas or other hydrocarbon substances to the extent that they are caused by the negligence of, breach of any provision of this lease by, or noncompliance with any applicable statutes or regulations by the Lessee, its employees, servants, agents or contractors. Nothing in this lease shall diminish any other rights or remedies that the State may have in connection with any such negligence or breach.

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(b) The Lessee shall indemnify the State of California, its officers, agents and employees against all claims, demands, causes of action or liabilities of any kind that may be asserted against or imposed upon the State of California, its officers, agents or employees, by any third person or entity arising out of or connected with the operations under the lease, or the use by Lessee, its agents, employees or contractors of the leased lands, except to the extent caused by an unlawful or willful act by the State.

(c) Lessee acknowledges that the site may be subject to hazards from natural geophysical phenomena including, but not limited to, waves, storm waves, tsunamis, earthquakes, flooding and erosion. In recognition of such potential hazards, Lessee agrees:

(i) To assume the risks to the Lessee and to the property that is the subject of any Coastal Development Permit (CDP) issued for development on the Leased Land, of injury and damage from such hazards in connection with the permitted development and use; and,

(ii) To waive unconditionally any claim or damage or liability against the State of California, its agencies, officers, agents, and employees for injury or damage from such hazards.

(iii) To indemnify, hold harmless and, at the option of Lessor, defend the State of California, its agencies, officers, agents, and employees, from and against any and all liability, claims, demands, damages, injuries or costs of any kind resulting from the effect such hazards have on the permitted development or use of the Leased Land.

4. The amount of the bond required pursuant to the terms of Paragraph 13 of PRC 735.1, as previously amended, is hereby increased from \$500 thousand dollars to

\$900 thousand dollars. The amount of the bond required pursuant to the terms of Paragraph 14 of PRC 3314.1 is hereby increased from \$50 thousand dollars to \$300 thousand dollars.

5. Paragraph 30 of State Oil and Gas Lease PRC 735.1 and Paragraph 31 of State Oil and Gas Lease 3314.1 are hereby added to the existing terms and conditions of said leases: Lessee shall execute a State Standard Reimbursement Agreement, subject to a fifty thousand dollar (\$50,000.) per annum cap to start on lease PRC 3314.1, and subject to a twenty-five thousand dollar (\$25,000.00) per annum cap to start on lease PRC 735.1, with automatic annual renewals increasing the cap 3% per year per lease, to reimburse staff time for the reasonable and necessary costs for the administration and implementation of the lease terms, including, but not limited to, engineering review, royalty verification and/or audit, reservoir and geologic review, annual lease reviews, and for any other staff time or expenses expended to ensure such operations conform to all the terms of this Lease and to the State's rules and regulations, now or hereafter promulgated, covering drilling and production operations on State leases. Notwithstanding the foregoing, all costs incurred for environmental mitigation monitoring required to be performed pursuant to the terms of this lease, and costs and expenses of the Lessor that are reimbursable under or funded by the Lempert-Keene-Seastrand Oil Spill Prevention and Response Act (PRC 8750, et seq.) are excluded from the provisions of this paragraph and not subject to the cap provided for herein.
6. All terms and conditions of the leases, as amended, remain in full force and effect.
7. The effective date of these amendments shall be November 1, 2007.

This Amendment will become binding on the State only when duly executed on behalf of the State Lands Commission of the State of California.

IN WITNESS HEREOF, the parties have executed this Amendment of Leases PRC 3314.1 and PRC 735.1.

LESSEE:

LESSOR:

VENOCO, INC.

**STATE OF CALIFORNIA
STATE LANDS COMMISSION**

By: _____

By: _____

Title: _____

Title: Chief, Mineral Resources Management.

Dated: _____

Dated: _____

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