

Commission Informational Hearing

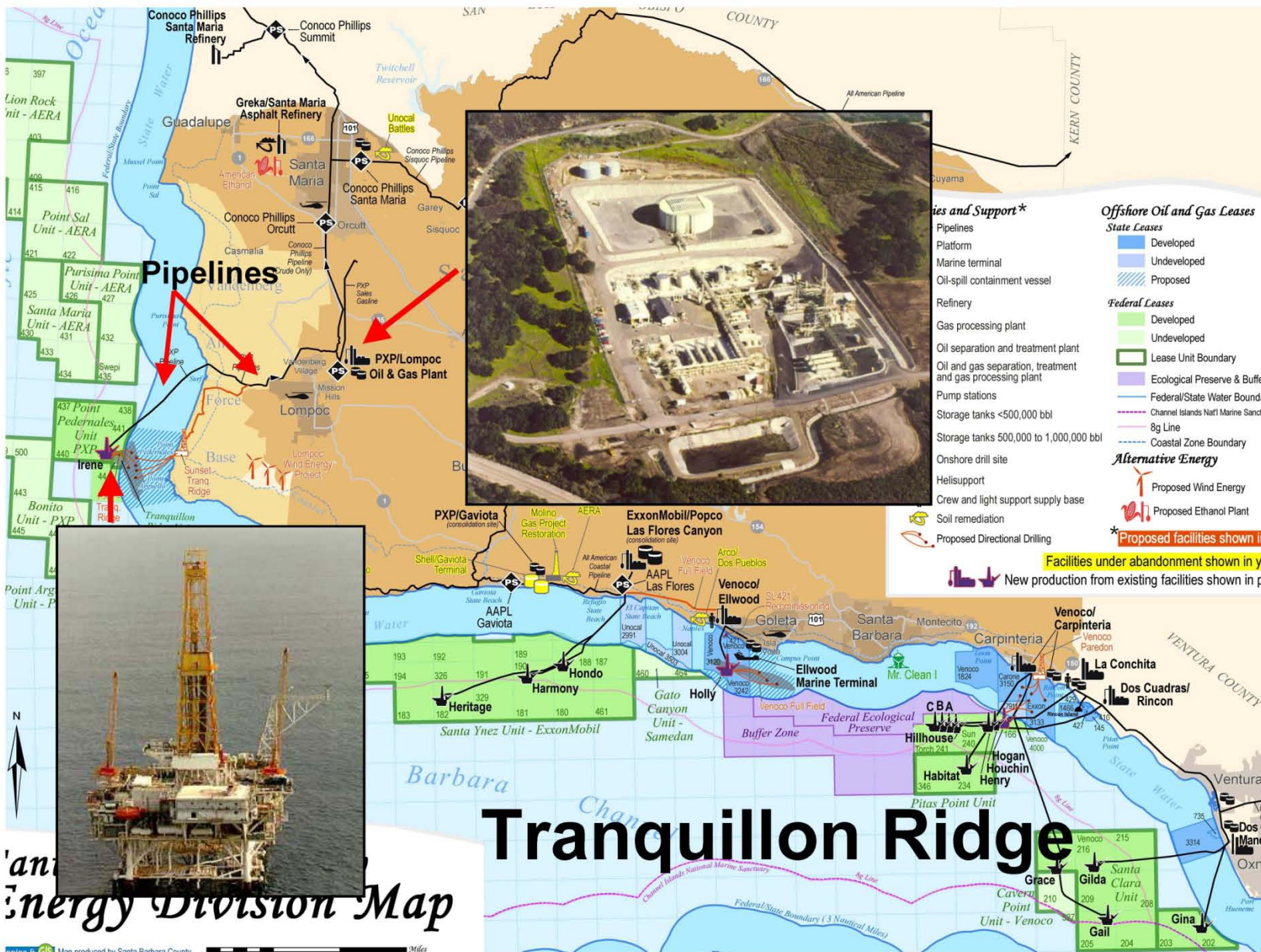
Tranquillon Ridge Field

Proposed Lease and Development Project

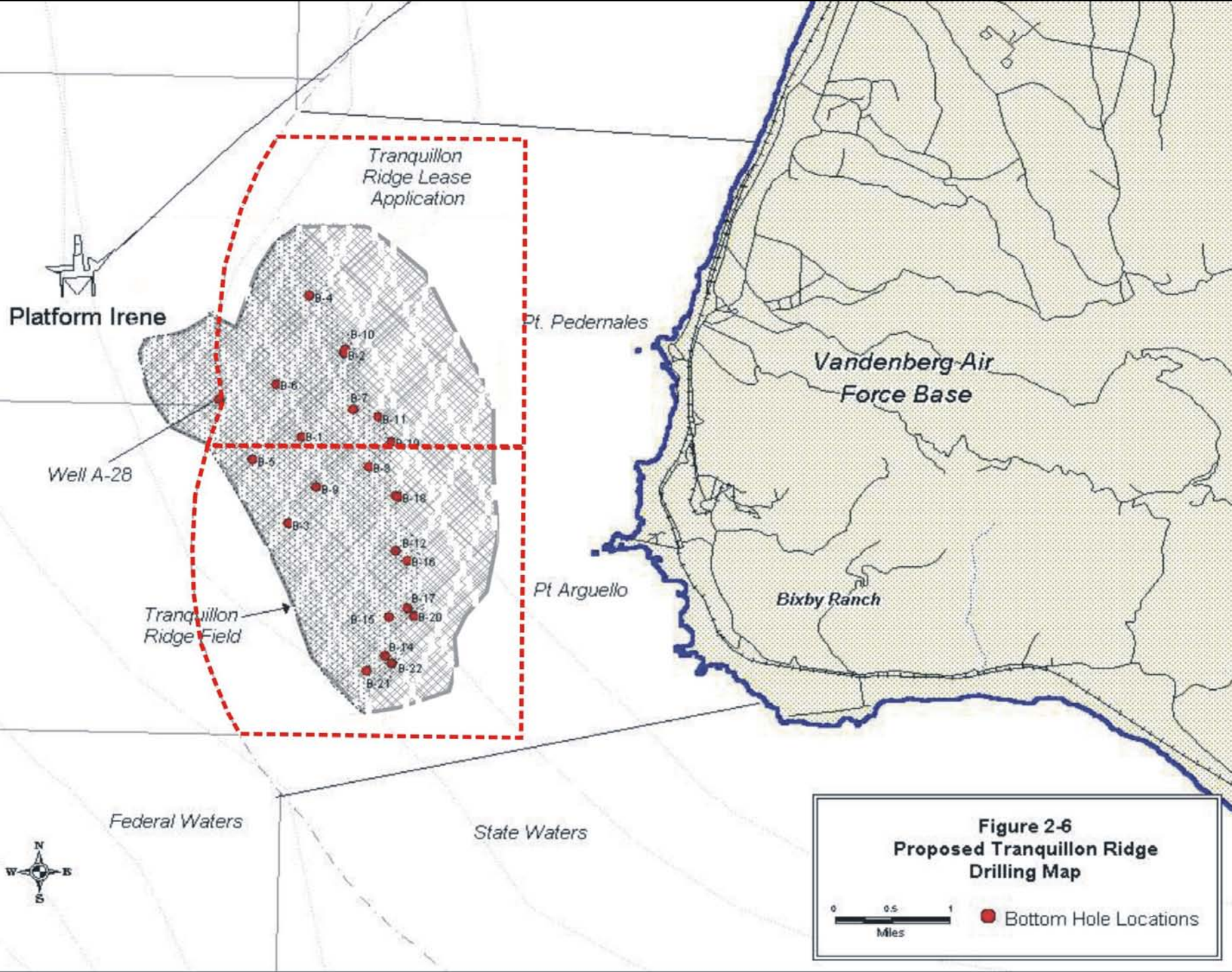
January 6, 2009

T-Ridge Project Area Map





Energy Division Map



**Figure 2-6
Proposed Tranquillon Ridge
Drilling Map**



● Bottom Hole Locations

T-Ridge Project Background

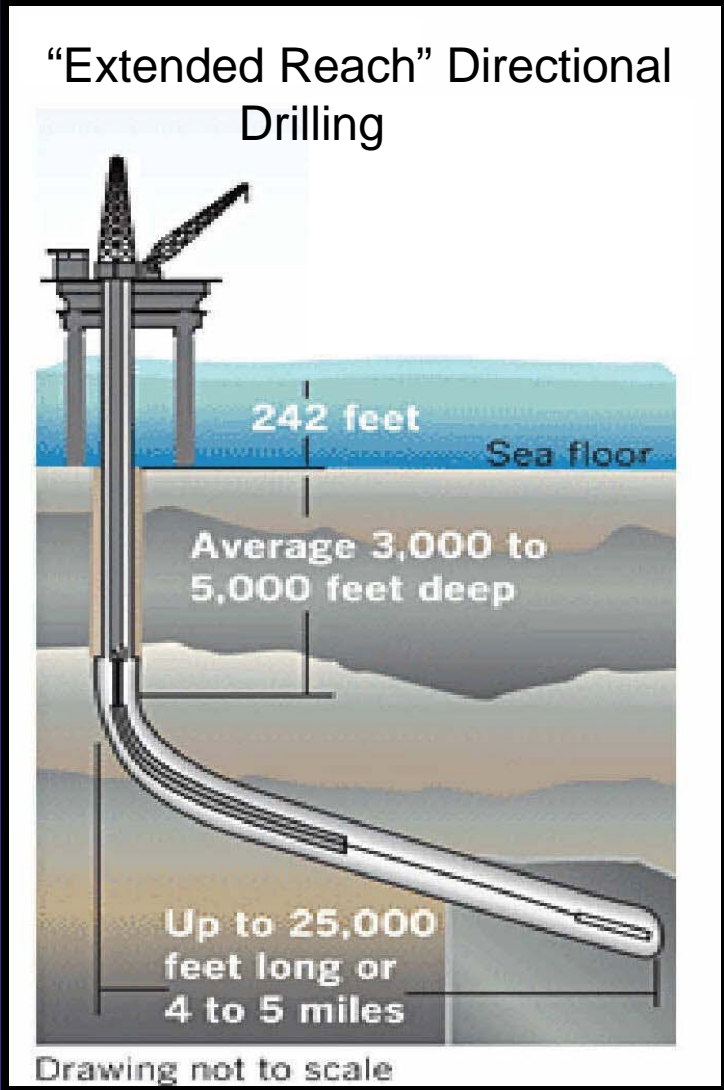
- Originally proposed in 1999 by PXP's predecessor Nuevo Energy
- Denied by Santa Barbara County in August 2002
- PXP resubmitted the project in October 2004
- EDC + GOO + other Env. NGOs negotiate deal with PXP
- EIR Certified and Project approved October 7, 2008 by Santa Barbara County Supervisors

Proposed Project Details

- T-Ridge projected peak production:
 - 30,000 barrels of oil per day
 - 7.5 million cubic ft gas per day
- PXP's Proposal to the State:
 - SLC estimates oil recovery approximately 90 million barrels
 - Number of wells: 17
 - Drilling period 5 to 6 years
 - Project life approximately 14 years

Platform Irene

Directional Drilling



PXP LOMPOC Oil & Gas Plant



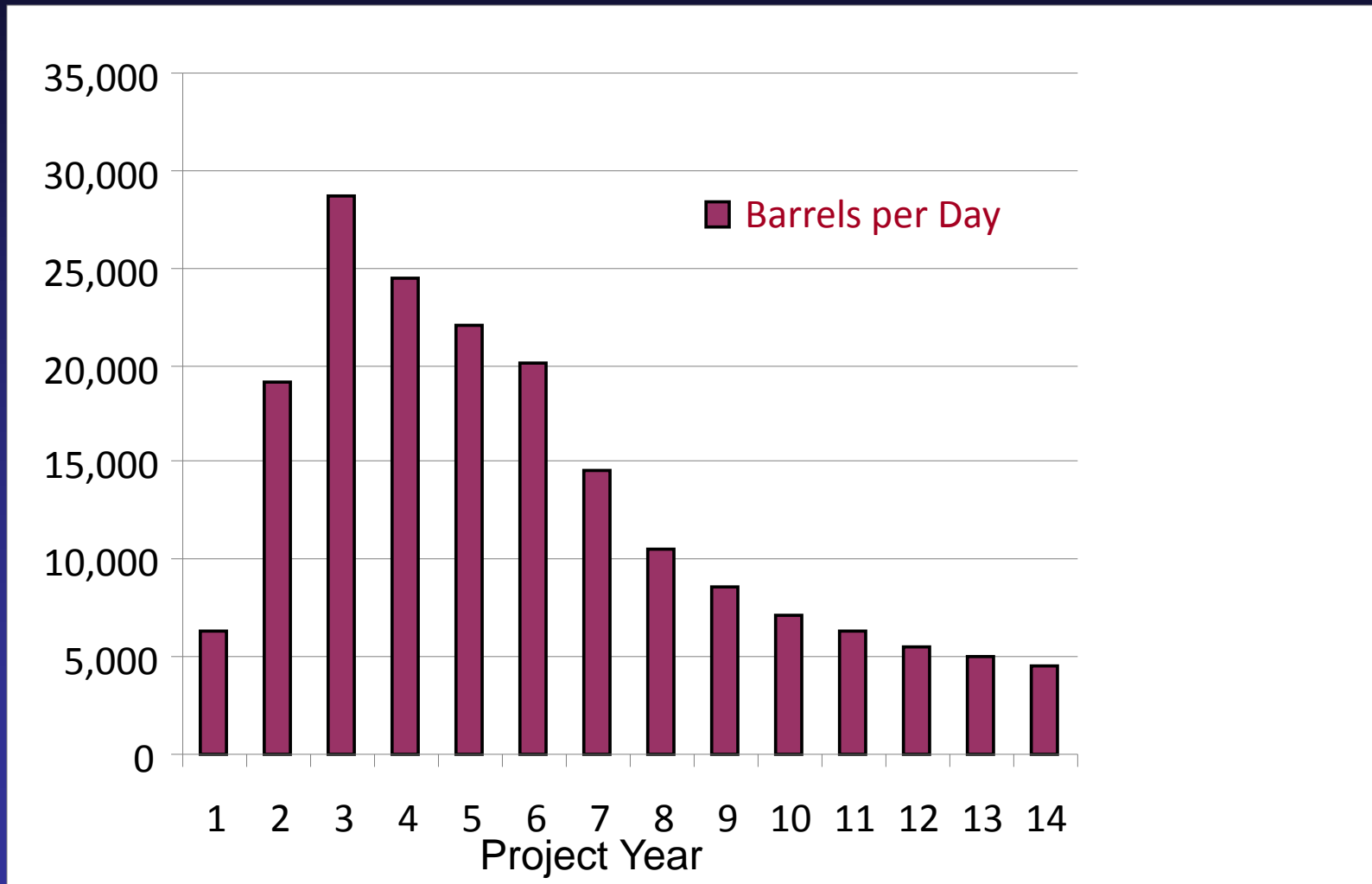
Authority to Lease

- **California Coastal Sanctuary Act of 1994** (PRC 6240 et seq.) created California Coastal Sanctuary putting all unleased tide and submerged lands in an oil production sanctuary with limited exceptions.
 - **PRC 6244** provides such an exception to allow the Commission to issue an oil & gas lease if it determines that (1) State oil & gas resources are being drained by production on adjacent federal lands, and that (2) the lease is in the best interest of the state.

Drainage

- A third party reservoir engineering consulting group was retained to perform an independent study.
- Their report concluded that federal Well A28, has drained and continues to drain state gas resources from the T-Ridge area, at a rate of 27 million cubic feet per year, and is causing reservoir energy reduction from water production.
- Lack of available information prevented the group from determining whether, or how much oil drainage may have occurred.

CSLC Oil Production Forecast 90 MMBOE



Benefits to the State

- Economic Benefits
 - Rent & Royalty (greater than \$1 billion depending on oil price)
- Prevention of Loss of State Resources
- Incorporated Environmental Lease Terms (If feasible)
 - End dates (State & Federal)
 - GHG offsets
 - Land conveyances
 - Onshore Facility Abandonments

Negotiated Lease Terms

- Lease Area
- Lease Acreage Rental Fee
- Initial Drilling Term
- Rent and Sliding Scale Oil Royalty Formula.
- Production Term to December 31, 2022

Unresolved Lease Terms

- Right of Use and Easement Conditions
- Environmental Benefits (If feasible)
- Gas Royalty Rate
- Muds and Cuttings Disposal
- Oil Market Pricing Language
- Severance Tax Offset to Royalty
- SLC Lease Management Fee
- Lease Security

Other Agency Involvement

- **Santa Barbara County (Lead CEQA Agency)**
 - Certified EIR on October 7, 2008
 - Approved Project
- **California Coastal Commission CCC**
 - Consistency Review if CSLC issues lease
- **Mineral Management Services MMS**
 - Review and approve revised Development and Production Plan (DPP)
 - Review and approve application for Right of Use and Easement (RUE) to drill & produce State leases from Platform Irene
 - Memorandum of Understanding:
 - Measurement & Allocation of commingled production (PXP, MMS, SLC)
 - Inspection & Regulation Protocols (MMS, SLC, DOGGR)

Tentative Timing of Actions

- SBC Approval October 7, 2008
- CSLC consideration of lease issuance: January 29, 2009
- CCC determination: February 2009
- MMS
 - Approve revised DPP
 - Issuance of RUE: March 2009
- PXP starts drilling by May 2009