

**CALENDAR ITEM
C50**

A	11	08/09/16 PRC 7318.1 PRC 7657.1
S	7	N. Heda S. Blackmon

**CONSIDER WAIVING PENALTY AND INTEREST
ON RENT AND ROYALTY FOR
OIL AND GAS LEASE NOS. PRC 7318.1 AND PRC 7657.1,
ON TIDE AND SUBMERGED LANDS IN THE
BEDS OF PIPER SLOUGH, FALSE RIVER, SERPENT
SLOUGH AND SHORT SLOUGH,
CONTRA COSTA COUNTY**

LESSEE:

Island Energy Partners, LLC

AREA, LAND TYPE, AND LOCATION:

Oil and Gas Lease No. PRC 7318.1 (PRC 7318.1) contains approximately 30 acres of tide and submerged lands in the bed of Piper Slough in Contra Costa County, California (see Exhibits A and B, attached). Oil and Gas Lease No. PRC 7657.1 (PRC 7657.1) contains approximately 140 acres of tide and submerged lands in the bed of False River, Serpent Slough and Short Slough in Contra Costa County, California (see Exhibits C and D, attached).

BACKGROUND:

Island Energy Partners, a limited liability company, acquired two state oil and gas leases through a bankruptcy action. Following that acquisition, the company was not aware of all its obligations under the leases and therefore failed to comply fully with their terms and conditions. Once the company became aware of its obligations, it quickly worked with Commission staff to come into compliance with its state oil and gas lease. The company has now met its obligations, and is requesting that penalty and interest be waived, based on the foregoing factors.

Negotiated subsurface (no surface use) Oil and Gas Lease No. PRC 7318.1 was issued to Tri-Valley Oil & Gas Company (Tri-Valley) on July 10, 1989, and Oil and Gas Lease No. PRC 7657.1 was assigned to Tri-Valley on September 9, 1993, from Sierra Energy Company. Lease No. PRC 7318.1 includes one gas well, the Martins-Severins #6, while Lease No. PRC 7657.1 includes two gas

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wells, the Webb Tract well #1 and Webb Tract well #2. All three wells produce oil and gas located under State sovereign land.

On August 28, 2012, the U.S. Bankruptcy Court approved the sale of Tri-Valley's assets, including Lease Nos. PRC 7318.1 and PRC 7657.1. The leases, including associated wells, were thereby acquired by Island Energy Partners, LLC (IEP), a California Limited Liability Company. The purchase through the bankruptcy court overrides the Commission's right to approve the ownership transfer. The effective date of the transfer and acquisition was September 6, 2013 (see Exhibit E, attached).

Under the terms of the leases, the lessee is required to pay an annual rental of \$750 (\$25 per acre) for PRC 7318.1 and \$4,200 (\$30 per acre) for PRC 7657.1. The royalty from oil and gas production for PRC 7318.1 and PRC 7657.1 is 25 percent and 20 percent, respectively.

Upon acquisition of the leases from bankruptcy, IEP continued to produce and sell gas from the subject wells. IEP was unaware of the lease obligations until Commission staff contacted them in October 2015. Once staff explained the lease terms and apprised IEP of its obligations for rent and royalty, IEP remitted full payment, as calculated by staff, of the total amounts due. Pursuant to the Commission's regulations, penalty and interest accrues on all delinquent payments of rent and royalty. However, the assessment of penalty and interest may be waived by the Commission when a negotiated settlement is approved by the Commission. In this instance, during the lengthy bankruptcy proceedings and subsequent transition period, rental invoices were sent to Tri-Valley, the lessee of record. IEP did not receive the invoices and was not aware of its obligations. Once staff became aware of the new owner and informed IEP of the amounts due, IEP paid the total sum due without delay. Therefore, staff considers it reasonable in this instance for the Commission to waive the penalty and interest for the period between September 2013 and May 2016 due to the circumstances of this case.

Staff calculated the penalty and interest (P and I; interest at 18 percent per year) for each lease as follows:

PRC 7318.1 RENT P and I - Total of \$843.72 as follows:

Fiscal Year 2013 penalty \$37.50 and interest \$378.74
Fiscal Year 2014 penalty \$37.50 and interest \$243.74
Fiscal Year 2015 penalty \$37.50 and interest \$108.74

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PRC 7318.1 ROYALTY P and I - There was no production or royalty due for Fiscal Years 2013, 2014, or 2015

PRC 7657.1 RENT P and I - Total of \$4,258.80 as follows:

Fiscal Year 2013 penalty \$210.00 and interest \$1,965.60

Fiscal Year 2014 penalty \$210.00 and interest \$1,209.60

Fiscal Year 2015 penalty \$210.00 and interest \$453.60

PRC 7657.1 ROYALTY P and I - Total of \$1059.06 as follows:

Fiscal Year 2013 penalty and interest are \$0.00

Fiscal Year 2014 penalty \$103.71 and interest \$771.90

Fiscal Year 2015 penalty \$50.90 and interest \$132.55

No production has been reported for either lease for Fiscal Year 2016. The total amount of penalty and interest for PRC 7318.1 and PRC 7657.1 is \$6,161.58, most of which was assessed on the delinquent rental payments of which IEP was unaware. Since IEP did not receive the invoices during the transition period and after the bankruptcy proceeding, and since once the amount was brought to IEP's attention it paid all outstanding amounts, staff believes it would be equitable to relieve IEP of the penalty and interest on the overdue payments of rent and royalty in the amount of \$6,161.58, pursuant to California Code of Regulations, title 2, section 1911 subdivision (c)(1)(A and B).

STATUTORY AND OTHER REFERENCES:

- California Code of Regulations, title 2, section 1911, as authorized by Public Resources Code sections 6108 and 6224
- Government Code section 11002
- PRC 7318 and PRC 7657, paragraph 16

OTHER PERTINENT INFORMATION

1. Staff recommends the Commission find that the subject penalty and interest waiver does not have a potential for resulting in either a direct or a reasonably foreseeable indirect physical change in the environment, and is, therefore, not a project in accordance with the California Environmental Quality Act (CEQA).

Authority: Public Resources Code section 21065 and California Code of Regulations, title 14, sections 15060, subdivision (c)(3), and 15378.

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2. This action is consistent with Strategy 2.2 of the Commission's Strategic Plan to ensure timely receipt of revenues and royalties from the use and development of State lands and minerals and Key Action 2.2.1 to provide consistent and accurate revenue billing and reporting.

EXHIBITS:

- A. Land Description PRC 7318.1
- B. Location Map PRC 7318.1
- C. Land Description PRC 7657.1
- D. Location Map PRC 7657.1
- E. Division of Oil, Gas, and Geothermal Resources, District 6, Report of Property/Well Transfer or Acquisition

RECOMMENDED ACTION:

It is recommended that the Commission:

CEQA FINDINGS:

Find that the subject penalty and interest waiver is not subject to the requirements of the CEQA pursuant to California Code of Regulations, title 14, section 15060, subdivision (c)(3), because the subject activity is not a project as defined by Public Resources Code section 21065 and California Code of Regulations, title 14, section 15378.

AUTHORIZATION:

Waive the penalty and interest for Oil and Gas Lease No. PRC 7318.1 in the amount of \$843.72 and for Oil and Gas Lease No. PRC 7657.1 in the amount of \$5,317.91 that was assessed on the annual rental and royalty for the period covering September 2013 through May 2016.

EXHIBIT A

PRC 7318.1

LAND DESCRIPTION

A parcel of tide and submerged land in the bed of Piper Slough in Contra Costa County, California described as follows:

That portion of the bed of Piper Slough bounded by the ordinary high water marks of said slough; bounded on the northwest by the easterly extension of the line of the southerly levee of Piper Slough from its confluence with Taylor Slough, said extension is produced through a point of approximate scaled zone 3 (1927) coordinates of N 568200 feet and E 1669500 feet, said coordinates scaled from Jersey Island, California Quad dated 1978; and bounded on the southeast by the northerly extension of the centerline of Bethel Island Road.

END OF DESCRIPTION

The above description revised by California State Lands Commission Boundary Unit on June 1, 2016. Original description prepared by California State Lands Commission on July 6, 1989 as found in PRC 7318 file, Calendar Item 50.



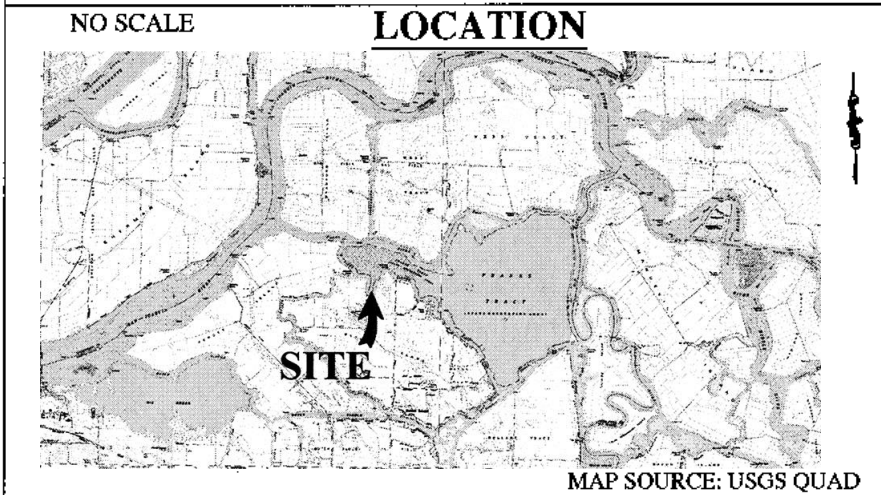
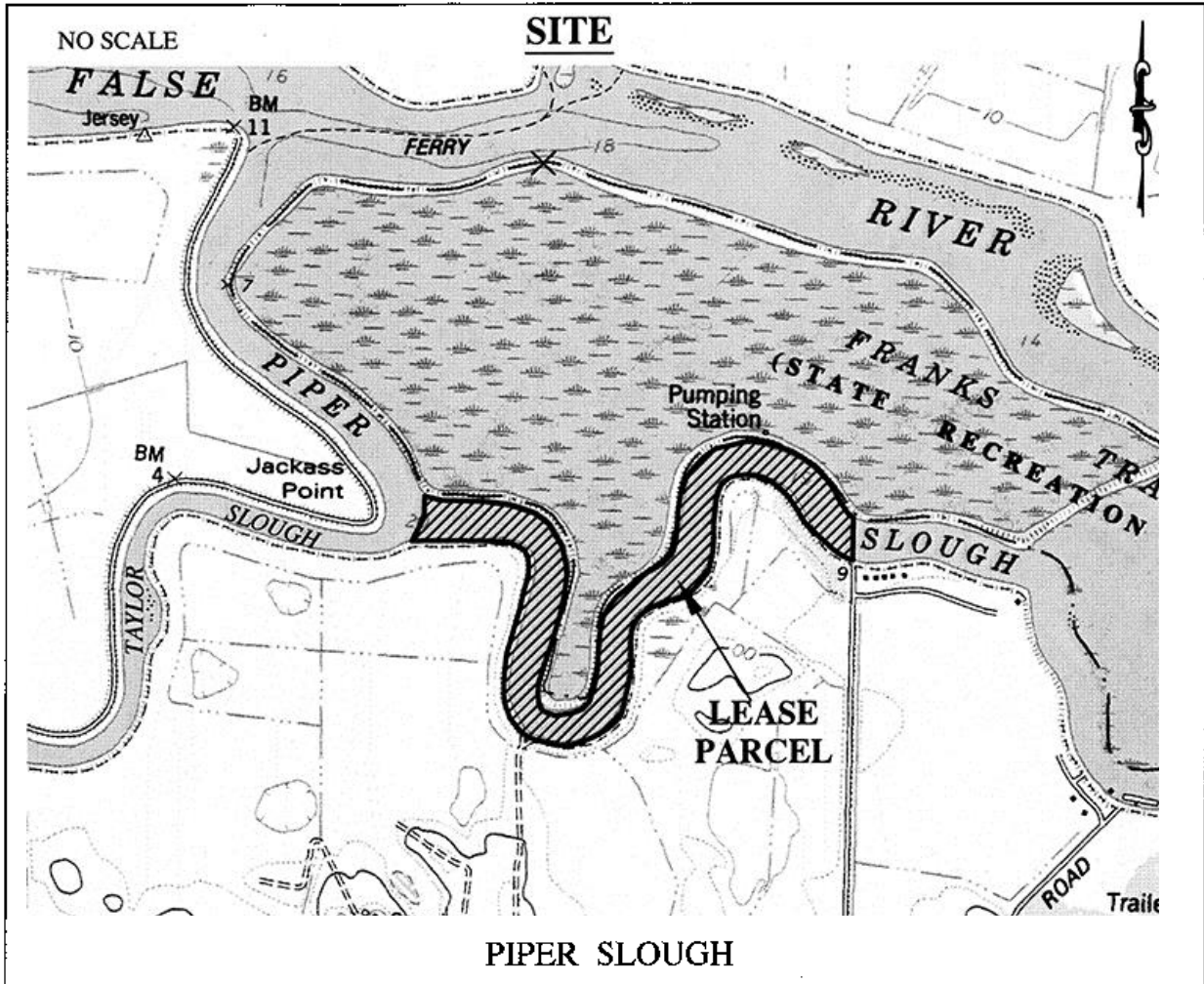


Exhibit B
 PRC 7318.1
 ISLAND ENERGY
 PARTNERS, LLC
 OIL AND GAS LEASE
 CONTRA COSTA COUNTY



This Exhibit is solely for purposes of generally defining the lease premises, is based on unverified information provided by the Lessee or other parties and is not intended to be, nor shall it be construed as, a waiver or limitation of any State interest in the subject or any other property.

EXHIBIT C

PRC 7657.1

LAND DESCRIPTION

A parcel of tide and submerged land in the beds of False River, Serpent Slough and Short Slough in Contra Costa County, California, more particularly described as follows:

BEGINNING at the intersection of the Ordinary High Water Mark on the north bank of False River with the common boundary between the lands described in that certain Grant Deed to Michael Skarry, et ux, recorded on February 12, 1987 in Book 13446 at page 266, and the lands described in that certain Quit Claim Deed to Peter L. Townsend, et ux, recorded on February 3, 1977 in Book 8189 at page 500; thence southerly along the southerly prolongation of the aforesaid common boundary to the intersection with the Ordinary High Water Mark on the south bank of false River, thence easterly along said Ordinary High Water Mark of said south bank of false River to a point at the northeasterly terminus of the common boundary between the lands granted to the State of California and described in Document No. 3482-522, recorded on October 27, 1959, and the lands granted to the State of California and described in Document No. 3900-486 recorded on June 30, 1961 Contra Costa Records; thence from said point crossing False River, N 35° E, to the Ordinary High Water Mark on the north bank of said river; thence westerly along said Ordinary High Water Mark on the north bank to the POINT OF BEGINNING.

TOGETHER WITH all those tide and submerged lands lying between the Ordinary High Water Mark in the historical bed of Short Slough.

ALSO TOGETHER WITH all those tide and submerged lands lying between the Ordinary High Water Mark in the historical bed of Serpent Slough.

EXCEPTING THEREFROM those parcels of land as shown on Exhibit D, on calendar page 333, approved in Calendar Item C66, by the California State Lands Commission on October 13, 2007 and filed under PRC 7657, in the Official Records of said Commission.

END OF DESCRIPTION

The above description revised by California State Lands Commission Boundary Unit on June 1, 2016.
Original description prepared by California State Lands Commission on June, 1992 as found in PRC 7657 file, Calendar Item 58.



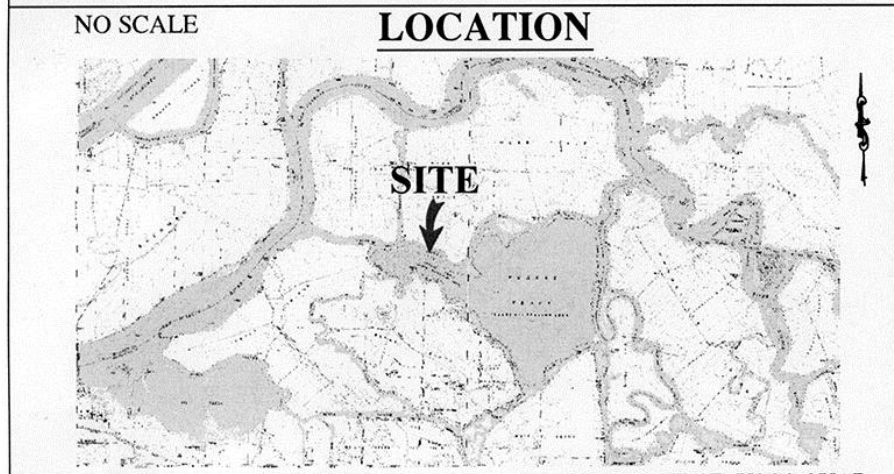
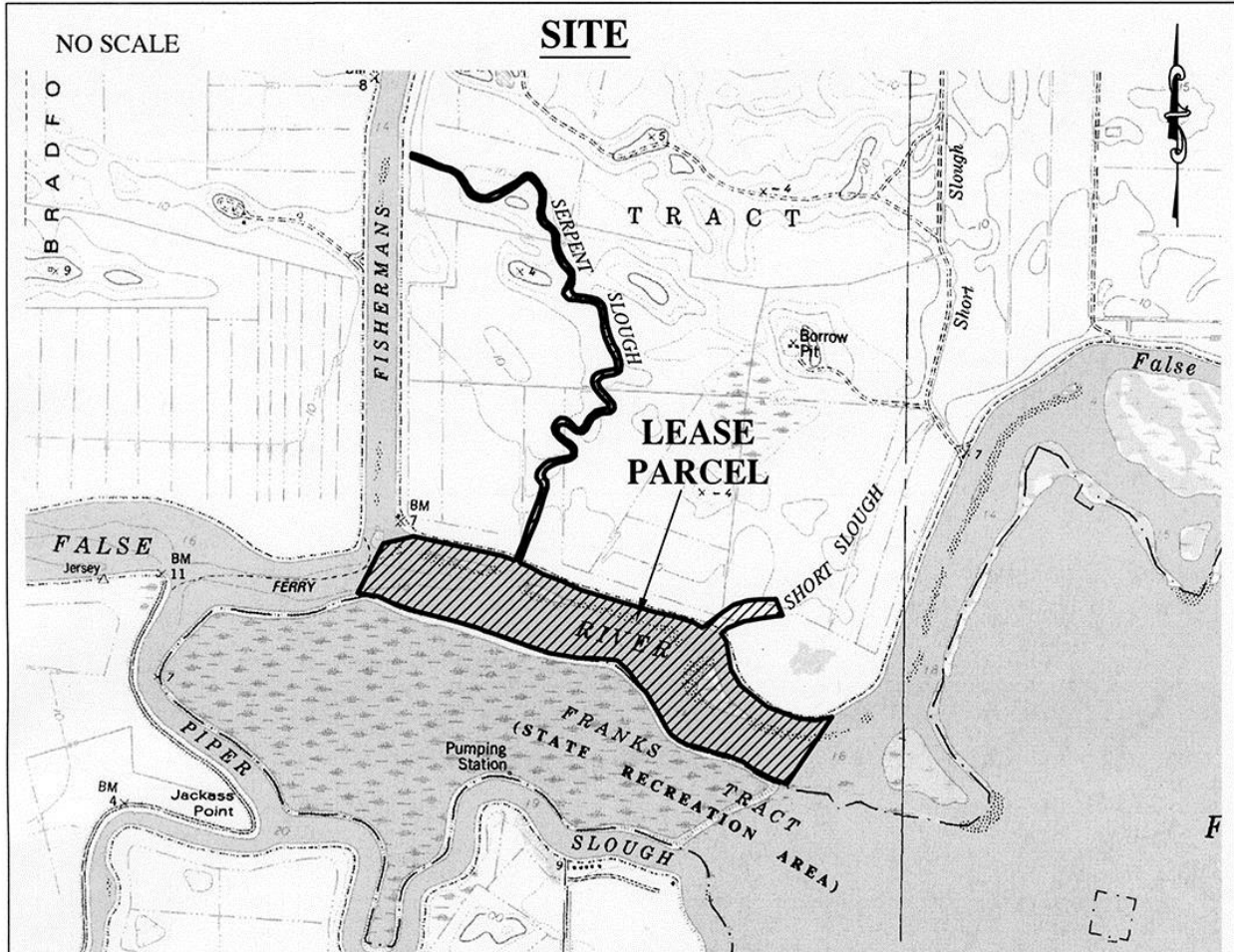


Exhibit D
 PRC 7657.1
 ISLAND ENERGY
 PARTNERS, LLC
 OIL AND GAS LEASE
 CONTRA COSTA COUNTY



This Exhibit is solely for purposes of generally defining the lease premises, is based on unverified information provided by the Lessee or other parties and is not intended to be, nor shall it be construed as, a waiver or limitation of any State interest in the subject or any other property.

EXHIBIT E

PRC 7657.1
PRC 7318.1

REPORT OF PROPERTY/WELL TRANSFER OR ACQUISITION

(To be completed by old and new operators)

Please complete and return this form to:

10/27/14
(date)

Division of Oil, Gas, and Geothermal Resources
District 6

Effective date of transfer / acquisition 9/6/2013, date of possession _____,
(date) (if different)
Tri-Valley Oil & Gas Co. transferred
(old operator)
the following wells to Island Energy Partners, LLC.
(new operator)

NOTE: Pursuant to Section 3202 of the Public Resources Code, before wells will be transferred, the new operator must provide proper bond coverage and well information for all transferred active, idle, and/or plugged and abandoned wells.

Well Designation	Field or County	Sec. T. R.	API Number
Web Tract Well #1	Rio Vista	34/3N/3E	01320328
Web Tract Well #2	Rio Vista	34/3N/3E	01320341
Martins-Severin Well #6	Dutch Slough	4/2N/3E	01320344

(If additional space is needed, use separate sheets.)

Legal description of the land where the well(s) is (are) located: _____

OLD OPERATOR	
<u>Tri-Valley Oil & Gas Co.</u> <small>(operator name)</small>	
_____ <small>(address)</small>	
Phone () _____	
By <u>[Signature]</u> <small>(signature)</small>	<u>(See Attached)</u> <small>(date)</small>
<u>Dero D. Parker Jr.</u> <small>(printed name)</small>	<u>Agent</u> <small>(title)</small>

NEW OPERATOR	
<u>Island Energy Partners, LLC</u> <small>(operator name)</small>	
<u>P.O. Box 520</u> <small>(address)</small>	
<u>Lincoln, CA. 95648</u>	
Phone (<u>916</u>) <u>759-9935</u>	
By <u>[Signature]</u> <small>(signature)</small>	<u>10/27/14</u> <small>(date)</small>
<u>Dero D. Parker Jr.</u> <small>(printed name)</small>	<u>Agent</u> <small>(title)</small>

Note: By signing this form, both the old operator and the new operator certify that the new operator owns the mineral interest, holds a valid and effective lease, or holds a valid and effective operating contract, giving the new operator the right to operate the well or wells being transferred.