

**CALIFORNIA STATE
LANDS COMMISSION***Established in 1938***EXECUTIVE OFFICE**
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November 14, 2017

File Ref: PRC 1466.1

PRC 410.1

PRC 145.1

Jason Searcy
Searcy & Searcy
446 Forest Square
Longview, TX 75605

Subject: *In re: Rincon Island Limited Partnership*, N. Dist. of Texas,
No. 16-33174

Dear Mr. Searcy:

This letter is to inform you, as the Chapter 11 Trustee appointed in the matter of *In re: Rincon Island Limited Partnership*, that, after reviewing proposals submitted by West Energy Offshore Ltd. (West) to operate state oil and gas leases PRC 1466.1, PRC 410.1, and PRC 145.1 (the Leases), staff of the California State Lands Commission cannot agree that West has the financial and operational abilities and resources to address the ongoing threats adequately and permanently that the Leases pose to public safety and the environment. Furthermore, to date, no other potential operator has presented a viable plan for acquiring and complying with the terms and conditions of the Leases. Consequently, Commission staff must object to the transfer of the Leases to West. The only viable option remaining for Commission staff is to enter and secure the Leases either through termination by the Commission following expiration of the court ordered stay or, to avoid unnecessary expenditures of time and resources, through a voluntary release, remise, and quitclaim by Rincon Island Limited Partnership.

Since July 2017, your office has worked under the authority of the bankruptcy court to market the Leases for sale. While Commission staff did not object to the process and has since cooperated with the court and your office, the Commission reserved all rights to object to a sale if all defaults were not timely cured. Commission staff further indicated that, even if an operator could be found to resolve the Commission's outstanding issues sufficient to produce a mutually agreeable lease amendment, the Commission would still object to an operator that is insufficiently capitalized, lacks experience operating offshore California, or reflects a history of imprudent operations. The purpose of these threshold requirements is to ensure that the Leases, if transferred by the Trustee, would be held by a responsible and fiscally sound operator that could adequately and permanently address the continuing regulatory violations and abandonment and oil spill liabilities associated with these Sovereign

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Public Trust lands. If the Leases are not transferred, then, once the automatic stay lifts, Commission staff intends to seek lease termination and secure the facilities to ensure public and environmental safety.

To this end, Commission staff has worked in good faith to allow your office to conduct an open and fair sales process. Staff consented, without objection, to the hiring of a facility operator and a second firm to market the Leases; provided all requested public records to your office; made technical and legal staff available to answer questions; and, on September 26, 2017, agreed to your office's request for a one-month extension of the court ordered deadline to lift the automatic stay. In addition, Commission staff kept open communication with West, meeting three times by phone prior to West's first proposal submission on October 23, 2017.

Commission staff and West also met in person at the Commission's Long Beach office to discuss West's return to production proposal on October 31, 2017. As a result of the conversation, and questions and concerns of staff, West indicated it would revise its proposal and resubmit.

As outlined in Commission staff's November 2, 2017, letter to West, staff required that West provide information addressing nine discrete issues before a future lease amendment could be negotiated. Foremost among these requests was the revised proposal addressing concerns voiced by Commission staff and clarifications regarding West's financial fitness to operate the Leases. The information requested included West's current assets, holdings, and income generated; identification of any other entities or person that seek to be lessees or have an interest in the Leases; information regarding the financial strength or capitalization of West, such as letters of credit or evidence of capital commitments; and detailed information on the nature and extent of any proposed carve-outs (liability reduction) West believes would be necessary to make operation of the Leases economical.

To date, Commission staff has not received the requested materials. As such, a lack of clarity continues to exist regarding West's status as a legal entity capable of holding the Leases, West's assets or property, and West's proposed corporate structure and parental associations. Commission staff is also very concerned that West plans to finance all initial lease operations and capital with third-party debt based on production levels that appear to Commission technical staff to be inflated, creating a very real potential that West's proposal is not economically feasible. These elements impact Commission staff's confidence in West's financial fitness to operate the Leases. As such, Commission staff are not inclined to wait and see what type of organization that West will develop to operate the Leases or to assess West's financial capabilities only after the Leases are transferred. Furthermore, Commission staff's significant concerns about decommissioning liabilities remain unresolved because West does not have sufficient capital either to meet more traditional bonding requirements or to establish or develop a satisfactory sinking fund.

Additionally, although the individual members of West have offshore oil field experience, West, as an organization, has no past record of regulatory compliance or operations. West has offered its principal's connection with Pacific Energy Resources Ltd. (PER) as an example of prior offshore experience. While PER did operate federal platforms in the Beta unit offshore Huntington Beach and Alaska, winning safety awards from the Minerals Management Service, PER operated for only three years before filing for Chapter 11 bankruptcy and ultimately seeking liquidation. More troubling is that the liquidation caused PER to abandon its Alaska state lands lease for Platform Osprey, which led Alaska to litigate to prevent the public from having to pay the decommissioning costs. Although staff understands that West's principals left PER shortly before that event occurred, the outcome is the exact event Commission staff seeks to avoid if and when consent were to be granted for a new operator.

Taken together, West's proposal requires that the State of California continue to carry a significant degree of liability with very little positive benefit accruing to the State. While West's team currently includes substantial talent and experience, it has little proven ability to withstand any financial setbacks or operational contingency if events do work against its plans. Commission staff's goal is to secure the Leases to ensure public and environmental safety and to assure that the Leases never again pose such a risk. Staff has concluded that, to protect the State's environment and resources, the only way to ensure such a result, based on the two options before the Commission, is for the Leases to end and for the State to commence abandonment and decommissioning activities itself. Accordingly, Commission staff, pursuant to its duties under the Public Trust to safeguard California's sovereign lands, must object to a proposed sale of the Leases to West and will recommend termination. Commission staff therefore requests that your office voluntary release, remise, and quitclaim Rincon Island Limited Partnership's interest in the Leases to the State.

Commission staff appreciates the work that West, your office, UBS AG, and other parties have invested in the sales process. If you have any questions, please feel free to contact the Commission's staff Attorney, Joseph Fabel, at (916) 574-0964 or at joseph.fabel@slc.ca.gov.

Sincerely,



JENNIFER LUCCHESI
Executive Officer