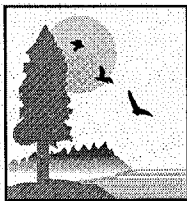


CALIFORNIA STATE LANDS COMMISSION

100 Howe Avenue, Suite 100-South
Sacramento, CA 95825-8202



Established in 1938

JENNIFER LUCCHESI, *Executive Officer*
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April 11, 2016

File Ref: PRC 145
PRC 410
PRC 1466

Mr. Alex Demitrijevic
President
Rincon Island Limited Partnership
P.O. Box 5489
Santa Maria, CA 93456

Ms. Susan Whalen
Sr. VP and General Counsel
Rincon Island Limited Partnership
P.O. Box 5489
Santa Maria, CA 93456

**Subject: Rincon Island Limited Partnership (RILP) Notice of Default on
State Oil and Gas Leases PRC 1466, PRC 145 and PRC 410.**

Dear Mr. Demitrijevic and Ms. Whalen:

This letter is to notify Rincon Island Limited Partnership ("RILP") that it is in default under its state oil and gas leases (PRC 1466, PRC 410, and PRC 145; hereafter "Leases"). The reasons for this finding include, but are not limited to, the failure to operate the Leases in a proper workmanlike manner, the failure to comply with Divisions 3 and 6 of the Public Resources Code and the applicable rules and regulations that have been issued pursuant thereto, and the failure to comply with the blanket bond requirements established by the Leases and modified by the November 1995 Amendment.

Pursuant to the Leases, RILP has sixty (60) days to cure the deficiencies identified in this letter and the enclosed attachments. If the identified deficiencies are not remedied in their entirety by June 10, 2016, Commission staff will recommend that the Commission authorize termination of these Leases at its next regularly scheduled public meeting, tentatively scheduled for June 28, 2016.

Commission staff has worked diligently with various RILP staff members to address ongoing and longstanding operational, environmental, and safety issues.

Mr. Alex Demitrijevic & Ms. Susan Whalen
Rincon Island Limited Partnership
April 11, 2016
Page 2

Despite these efforts, recent inspections by staffs of both the Commission and the California Department of Conservation's Division of Oil, Gas, and Geothermal Resources ("DOGGR") have revealed a failure to perform the required maintenance over a number of years on the wellheads, piping, tankage, and safety systems across the Leases. Among the most pressing concern is the lack of access to Rincon Island sufficient to address aging and degraded infrastructure necessary to operate the leases and to ensure the safety of the surrounding environment. The Commission staff's concerns about the lack of adequate access have risen substantially since the discovery that at least two wells on PRC 1466 are capable of flowing oil or gas without mechanical assistance. In addition, many of the valves and safety equipment at the wellheads have deteriorated to the point that they cannot be made operational and are unable to allow for monitoring and controlling wellhead pressures.

The following are identified categories of default that must be remedied by June 10, 2016.

Operation and Facility Violations

Under paragraph 11 of PRC 145 and PRC 1466 and paragraph 12 of PRC 410, "[a]ll operations hereunder shall be carried on in a proper and workmanlike manner in accordance with approved methods and with due regard for the protection of the safety and health of workmen." Additionally, failure in the performance or observance of federal, state, and local laws constitutes default of the Leases under paragraph 9 of PRC 1466 and paragraph 10 of PRC 145 and PRC 140. RILP's operation and facility violations include:

- 1) Firefighting systems – RILP is in violation of section 2132, subd. (g)(4) of Article 3.3, Title 2, California Code of Regulations ("CCR") because the primary firefighting system on PRC 1466 has been inoperable for months and the backup system does not have sufficient capacity to provide for operation of the lease. For offshore production facilities, "[a] firefighting system shall be installed and maintained in operating condition in accordance with the applicable standards of the National Fire Protection Association." (2 CCR, § 2132, subd. (g)(4)). RILP must ensure that Rincon Island has an operable fire suppression system at all times. Regular operation of these systems should be assessed during weekly fire drills.
- 2) Subsurface Safety Valves ("SSSV") – RILP is in violation of section 2132, subd. (a)(8), Article 3.3, Title 2, CCR. In July 2015, RILP performed flow tests on Rincon Island wells 8A and 50A that indicated that both wells on PRC 1466 were capable of natural flow resulting from reservoir pressure. The wells, however, lack an SSSV. "All wells capable of flowing oil or gas shall be equipped with a surface-controlled subsurface safety valve installed in the tubing string(s) at a

depth of 100 feet or more below the ocean floor, or ground level for upland wells." (See 2 CCR, § 2132, sub. (a)(8)). RILP must equip each well capable of natural flow with a SSSV. As recently as March 30, 2016, RILP staff requested, and received, approval to bleed down wells, 8A and 50A on PRC 1466, because of excessive well head pressures (900 psi and 1100 psi respectively). These wells must be equipped with SSSVs. RILP must also assess all other wells on the Leases and submit a plan to address ongoing pressurization that could result in uncontrolled flow, including but not limited to placement of SSSVs.

- 3) Critical Maintenance Violations – Commission inspection staff has identified violations of Article 3.3, Title 2, CCR, concerning critical maintenance on numerous wells across the Leases. A list of these violations can be found on Attachment 1, RILP must remediate each of these violations.
- 4) Tank & Facilities Violations – Commission inspection staff has identified thirty-two (32) structures and improvements that are not in compliance with Commission regulations. A list of these violations can be found in Attachment 2. RILP must remedy each of these violations.
- 5) Operations Manual Violations – RILP is in violation of California Public Resources Code section 8758 and Article 3.6 of Title 2, CCR, in that it has failed to operate pursuant to its Operations Manual. These failures concern both performance and documentation of basic maintenance and are identified in Attachment 3. Pursuant to California Public Resources Code section 8758, "Each operator of a marine facility shall prepare an operations manual describing equipment and procedures which the operator employs or will employ to protect public health and safety, and the environment and to prevent oil spills." RILP has an affirmative duty to update the Operations Manual as facility operations change (see Pub. Resources Code, § 8758, subd. (d)), and, once an Operations Manual is approved, RILP has an obligation to maintain equipment and perform operations in accordance with the approved manual. (See Pub. Resources Code, § 8758, sub. (f)). RILP must update its Operations Manual, subject to Commission staff approval, and once updated RILP must adhere to the approved procedures contained therein.

Violation of DOGGR's Regulations:

Pursuant to paragraph 9 of state leases PRC 1466 and PRC 145 and paragraph 10 of PRC 410:

The Lessee shall comply with all valid laws of the United States and of the State of California and with all valid ordinances of cities and counties, applicable to the Lessee's operations hereunder, including without limitation by

Mr. Alex Demitrijevic & Ms. Susan Whalen
Rincon Island Limited Partnership
April 11, 2016
Page 4

reason of the specification thereof, the Lessee's compliance with Divisions 3 and 6 of the Public Resources Code, Statutes of California, and such applicable rules and regulations as have been issued pursuant thereto.

DOGGR's regulations regarding oil field practices and operation are established pursuant to Division 3 of the Public Resources Code. Any violation of DOGGR's requirements constitutes default under the Leases.

Following a February 23, 2016 inspection of PRC 1466, DOGGR identified numerous violations of its operations and maintenance regulations by RILP. These violations are spelled out in DOGGR's ORDER TO REMEDIATE WELLS AND PRODUCTION FACILITIES TO PREVENT DAMAGE TO LIFE, HEALTH, PROPERTY, AND NATURAL RESOURCES, No. 1112, dated April 11, 2016.

DOGGR's companion ORDER TO INSPECT WELL AND ATTENDANT PRODUCTION FACILITIES TO PREVENT DAMAGE TO LIFE, HEALTH, PROPERTY, AND NATURAL RESOURCES, AND PREPARE AND SUBMIT REPORT, No. 1113, dated April 11, 2016, requires that RILP investigate and assess the current condition of Well 102 and the steps needed to abandon this aging well within the timeframes established herein.

RILP must come into compliance with DOGGR's regulations, as directed in the above Orders, to cure its default under the terms of its Leases with the Commission.

Bonding Increase:

The current bonding requirements for the Leases are specified in paragraph 5 of the November 1, 1995, Amendment ("Amendment") to State Oil and Gas Leases PRC 145.1, PRC 410.1, PRC 429.1 and PRC 1466.1 and Right of Way Leases PRC 1961.1 and 5968.1. Both parties are in agreement that paragraph 5 requires a Bond accompanying lease in the amount of \$4.6 million and a Guaranty in the amount of \$400,000.¹ Paragraph 5 also controls how the Commission shall increase the bond:

"...[T]he amount of the Bond shall be subject to review and modification every three years based on the change of Bureau of Labor Statistics Index Code No. 0561 Crude Petroleum (Domestic Production) **Base Year 1995, with May 1995 index of 56.1** and the amount of the Guaranty shall not change." (Emphasis added).

¹ Contrary to RILP's position in a recent Letter that Commission staff was incorrect about the \$5 million bond, please see the attached letter from November 4, 1996, acknowledging that RILP provided a \$5 million blanket bond in satisfaction of the Amendment. (See Attachment 4)

Mr. Alex Demitrijevic & Ms. Susan Whalen
Rincon Island Limited Partnership
April 11, 2016
Page 5

The Amendment gives the Commission the right to modify the bond unilaterally based on the conditions contained therein. RILP is bound by the Base Year of May 1995 and Producer Price Index ("PPI") of 56. On December 9, 2015, RILP was notified that, as of that date, the bond must be increased to \$10,448,571, in accordance with the formula specified in the lease.² In addition, RILP must immediately provide a Guaranty of \$400,000 consistent with the Amendment. In total, RILP is hereby required to provide a total of \$10,848,571 in coverage, consistent with paragraph 5 of the 1995 Amendment. Failure to comply with the terms of the 1995 Amendment constitutes a default of the subject Leases.

Conclusion

Given the numerous violations and deficiencies, Commission staff finds that RILP is in default of its state oil and gas Leases. RILP therefore has until June 10, 2016 to cure the deficiencies identified in this letter and its attachments. A partial cure will not be sufficient. If the deficiencies are not cured in their entirety within this timeframe, Commission staff will recommend termination of RILP's Leases at its next regularly scheduled public meeting tentatively scheduled for June 28, 2016. Any request seeking confirmation that specific deficiencies have been cured or that plans, if carried out, would constitute a cure of specific deficiencies must be made to Commission staff, in writing, and will not be considered complete until the Executive Office has approved the request.

If you have any questions, please contact me.

Sincerely,



Mark A. Meier
Chief Counsel

Cc: David Bunn, Director, Department of Conservation
Kenneth Harris, State Oil & Gas Supervisor, DOGGR
Thomas Gibson, General Counsel, California Natural Resources Agency
Mitchell Rische, Deputy Attorney General, Attorney General's Office

² The PPI tracks, over time, a commodity's rate of inflation or deflation. Pursuant to the Amendment, the required bond amount is determined by factoring the difference between the PPI at the time of a bond revision and the May 1995 base PPI multiplied by the original bond amount of \$4.6 million. (October 2015 PPI (127.2)/May 1995 PPI (56)) * \$4,600,000 = \$10.448 million.)

Attachment 1: CSLC Well Regulations Noncompliance

LEASE	WELL NO.	DEFICIENCY	CCR
PRC 145	1A	Wellhead incomplete assembly, no gauges	2132 (a)(4), (b)(4), (d) 2129 (b), (c)
PRC 145	2	Well bullplugged, no flow lines	2132 (a)(4), (b)(4) 2129 (b), (c)
PRC 145	3	Well bullplugged, no flow lines	2132 (a)(4), (b)(4) 2129 (b), (c)
PRC 145	4A	Well bullplugged, no flow lines, no gauges	2132 (a)(4), (b)(4) 2129 (b), (c)
PRC 145	5	Wellhead incomplete assembly, no gauges	2132(a)(4)(C), (d) 2129 (b), (c)
PRC 145	6A	Cellar uncovered, no gauge on tubing	2132 (a)(4), (d) 2129 (b), (c)
PRC 145	9	Bad gauges flowlines, well bullplugged	2132(a)(4), (d) 2129 (b), (c)
PRC 145	10	No gauges flowlines, well bullplugged	2132(a)(10), (a)(4), (d) 2129 (b), (c)
PRC 145	11	Oily soil around well	2123(g) 2132(a)(10) 2129 (b), (c)
PRC 145	12	Well bullplugged, no flow lines, no gauges	2132 (a)(4), (d) 2129 (b), (c)
PRC 145	15	Overgrown weeds	2129 (b), (c)
PRC 145	16	Flowlines disconnected	2129 (b), (c)
PRC 410	4	No flowlines, TBG bad, and CSG no gauge	2132 (a)(4), (d) 2129 (b), (c)
PRC 410	5	Oily soil Barrels on dirt.	2123(g) 2129 (b), (c)
PRC 410	6	Unused equipment on site, Oily soil, Well capable of production, Valves S/I	2123(g) 2129 (b), (c)
PRC 410	7	Wellhead has no gauges	2132 (a)(4), (d) 2129 (b), (c)
PRC 410	8	Well sign as wrong lease name on sign, Oily soil on ground, Well capable of production	2129 (b), (c)

LEASE	WELL NO.	DEFICIENCY	CCR
PRC 410	10	Incomplete wellhead assembly	2129 (b), (c) 2132(a)(4),
PRC 410	13	Wellhead incomplete assembly, no C- flange	2132(a)(4), 2129 (b), (c)
PRC 410	14	Wellhead incomplete assembly, no companion flange and no grating	2129 (b), (c)
PRC 410	15	Well sign as wrong lease name on sign	2129 (b), (c)
PRC 410	903	Overgrown weeds and cellar full of dirt and rocks Sign not attached. No piping to well	2132(a)(4), (d) 2129 (b), (c)
PRC 1466	Well Bay	Fluid in bay Drains (2) uncovered	2122(c) 2129 (b), (c)
PRC 1466	2	No well sign	2129 (b), (c)
PRC 1466	3	No well sign	2129 (b), (c)
PRC 1466	4	No well sign	2129 (b), (c)
PRC 1466	5	No well sign	2129 (b), (c)
PRC 1466	6	Corroded equip., Unused equipment on site	2132(a)(4), (b),(d) 2129 (b), (c)
PRC 1466	7	No well sign	2129 (b), (c)
PRC 1466	8	Corroded equipment	2129 (b), (c)
PRC 1466	9	Corroded equipment, Ball valve inoperable	2132(a)(4), (b), (d) 2129 (b), (c)
PRC 1466	10	Corroded equipment, Ball valve inoperable	2132(a)(4), (a)(9), (11) 2129 (b), (c)
PRC 1466	811	Valves and piping corroded	2132 (a)(4), (d) 2129 (b), (c)
PRC 1466	12	Corroded cover, No well sign	2129 (b), (c) 2132(d)
PRC 1466	13	No well sign	2129 (b), (c)
PRC 1466	14	No well sign	2129 (b), (c)
PRC 1466	15	Corroded equipment, Ball valve inoperable	2132 (a)(4), (d)2129 (b), (c)
PRC 1466	16	No well sign	2129 (b), (c)
PRC 1466	17	Corroded equipment, Ball valve inoperable	2132 (a)(4), (d)2129 (b), (c)
PRC 1466	19	Corroded equipment	2129 (b), (c) 2132(a)(4), (d)
PRC 1466	20	Corroded cover, No well sign	2129 (b), (c)
PRC 1466	21	Corroded equip., Ball V. inoper., No well sign	2132 (a)(4), (b)(4), (d) 2129 (b), (c)
PRC 1466	22	Corroded equipment	2129 (b), (c) 2132 (a)(4), (b)(4)

LEASE	WELL NO.	DEFICIENCY	CCR
PRC 1466	24	No gauges on wellhead, wellhead incomplete	2132 (a)(4), (b)(4), (d) 2129 (b), (c)
PRC 1466	25	Corroded equipment	2129 (b), (c) 2132 (a)(4), (b)(4), (d)
PRC 1466	26	Corroded equipment	2129 (b), (c)
PRC 1466	27	Corroded equipment, Ball valve inoperable	2132 (a)(4), (b)(4), (d) 2129 (b), (c)
PRC 1466	28	Corroded equipment	2129 (b), (c) 2132 (a)(4), (b)(4), (d)
PRC 1466	29	Corroded equipment	2129 (b), (c)
PRC 1466	30	Corroded equipment	2129 (b), (c) 2132 (a)(4), (b)(4)
PRC 1466	31	Corroded equipment	2129 (b), (c)
PRC 1466	32	Corroded equipment	2129 (b), (c) 2132 (a)(4), (b)(4)
PRC 1466	34	Corroded equipment	2129 (b), (c) 2132 (a)(4), (b)(4)
PRC 1466	36	No well sign	2129 (b), (c)
PRC 1466	38	No well sign	2129 (b), (c)
PRC 1466	39	Corroded equipment, Ball valve inoperable	2132(a)(4), 2129 (b), (c)
PRC 1466	40	Corroded equipment, Ball valve inoperable	2132 (a)(4), (b)(4), (d) 2129 (b), (c)
PRC 1466	42	Corroded equipment	2132 (a)(4), b(4), (d), 2129 (b), (c)
PRC 1466	43	Corroded equipment	2129 (b), (c)
PRC 1466	44	Corroded equipment, Ball valve inoperable	2132 (a)(4), (b)(4), (d)
PRC 1466	45	Corroded equipment, Ball valve inoperable	2132 (a)(4), (b)(4), (d) 2129 (b), (c)
PRC 1466	46	Corroded equipment, Ball valve inoperable	2132 (a)(4), (d) 2129 (b), (c)
PRC 1466	47	Corroded equipment, Ball valve inoperable	2132 (a)(4), (b)(4) 2129 (b), (c)
PRC 1466	48	Corroded equipment	2129 (b), (c) 2132(a)(4), (b)(4)
PRC 1466	49	Corroded equipment, Ball valve inoperable	2132 (a)(4), (b)(4) 2129 (b), (c)

LEASE	WELL NO.	DEFICIENCY	CCR
PRC 1466	50	Corroded equipment, Ball valve inoperable Leaking from top of master valve	2132 (a)(4), (b)(4) 2122(c) 2129 (b), (c)
PRC 1466	52	No well sign	2132 (a)(4),2129 (b), (c)
PRC 1466	53	Corroded equipment	2129 (b), (c) 2132 (a)(4), (b)(4), (d)
PRC 1466	54	W.F. injection well no companion flange, API ring grove and bolt threads to hold down BOPE are badly corroded	2132 (a)(4), (b)(4) 2129 (b), (c)
PRC 1466	55	Corroded cover, No well sign	2129 (b), (c) 2132(b)(4)
PRC 1466	56	Corroded cover, No well sign	2129 (b), (c) 2132 (a)(4), (b)(4)
PRC 1466	57	Corroded equipment	2132 (a)(4), (b)(4) 2129 (b), (c)
PRC 1466	58	Corroded cover, No well sign	2129 (b), (c)
PRC 1466	59	Corroded equipment, Ball valve inoperable	2132 (a)(4), (b)(4) 2129 (b), (c)
PRC 1466	60	Corroded equipment	2132 (a)(4), (d) 2129 (b), (c)
PRC 1466	61	Corroded equipment, Ball valve inoperable	2132 (a)(4), (b)(4)2129 (b), (c)
PRC 1466	62	Corroded equipment, Ball valve inoperable	2132(a)(4), (d)2129 (b), (c)
PRC 1466	63	Corroded equipment,	2132(a)(4), (b)(4), (d)2129 (b), (c)
PRC 1466	64	Corroded equipment, Ball valve inoperable	2132(a)(4), (b)(4), (d) 2129 (b), (c)
PRC 1466	65	Corroded equipment, Ball valve inoperable, Gauges inoperable	2132 (a)(4), (d)2129 (b), (c)
PRC 1466	66	Corroded equipment ,Ball valve inoperable	2132 (a)(4), (b)(4), (d) 2129 (b), (c)
PRC 1466	67	Corroded equipment, Ball valve inoperable	2132 (a)(4), (b)(4)2129 (b), (c)
PRC 1466	68	Corroded equipment	2132(a)(4), 2129 (b), (c)
PRC 1466	69	Corroded equipment, Fluid in cellar, Cellar uncovered, Gas in cellar fluid.	2132(a)(4), 2122(c) 2129 (b), (c)

LEASE	WELL NO.	DEFICIENCY	CCR
PRC 1466	941	Corroded equipment, Ball valve inoperable	2132(a)(4), (b)(4). (d)2129 (b), (c)

Attachment 2: CSLC Tank Condition & Facility Noncompliance

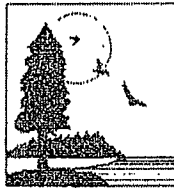
Lease	Equipment	DEFICIENCY	CCR
PRC 145	145 Wash Tank	No hazard placard. One pipe not disconnected. No OOS date	2103(b) 2129 (b), (c)
PRC 145	1483	No OOS date	2123(e) 2129 (b), (c)
PRC 145	1484	No OOS date	2123(e) 2129 (b), (c)
PRC 145	1917	No OOS date	2123(e) 2129 (b), (c)
PRC 145	No ID Tank	No ID No tank type No hazard placard	2103(b) 2129 (b), (c)
PRC 145	No ID Tank	No OOS date. No ID. No tank type. No hazard placard. Sample box open with fluid.	2103(b) 2129 (b), (c)
PRC 145	No ID Tank	No OOS date. No ID. No tank type.. No hazard placard	2103(b) 2129 (b), (c)
PRC 145	Old tank farm	Old oil spill on the ground that needs to be cleaned up.	2129 (b), (c)
PRC 145	Rain Pit	Contains fluid and fence is not secure	2129 (b), (c)
PRC 145	Rejection Tank	No OOS date No ID No tank type No hazard placard	2103(b) 2129 (b), (c)
PRC 145	Tank Setting	Weeds No lease name on sign	2129 (b), (c)
PRC 145	WashTank	No hazard placard. No OOS date	2103(b) 2129 (b), (c)
PRC 410	1223	No hazard placard	2129 (b), (c)
PRC 410	1224	No hazard placard	2129 (b), (c)
PRC 410	1225	No hazard placard	2129 (b), (c)
PRC 410	1679	No hazard placard	2129 (b), (c)
PRC 410	1680	No hazard placard Leaking from valve	2129 (b), (c)
PRC 410	2045	No hazard placard	2129 (b), (c)
PRC 410	410	No hazard placard	2129 (b), (c)
PRC 410	Lease grounds	26 drums with content on ground. Bin with fluid and cover has holes.	2129 (b), (c)
PRC 410	Tank Setting	Weeds	2129 (b), (c)
PRC 1466	1037	Tank needs internal inspection	2129 (b), (c)
PRC 1466	1038	Tank needs internal inspection	2129 (b), (c)
PRC 1466	1039	Not disconnected from all pipe or repaired	2129 (b), (c)
PRC 1466	LACT room	Sump in the LACT room has fluid in it	2123(g) 2129 (b), (c)

Lease	Equipment	DEFICIENCY	CCR
PRC 1466	Pressure vessels	All pressure vessels need internal inspection	2103(b) 2123(e) 2129 (b), (c)
PRC 1466	PVS	All PSV need to be tested	2129 (b), (c)
PRC 1466	Rejection Tank	Not disconnected from all pipe, No OOS date on tank, Manways not open & screened and Not emptied & degassed	2103(b) 2123(e) 2129 (b), (c)
PRC 1466	Rest room	Rest room is OOS. There needs to be something there to use	2122(d)
PRC 1466	South Flare Scrubber	Flare line corroded with holes	2129 (b), (c)
PRC 1466	Tank and Setting	Weeds, Unused equipment on site, Refuse on site.	2129 (b), (c)
PRC 1466	Vapor Compressor	Corroded equipment	2129 (b), (c)
PRC 1466	Waste Water	Not disconnected from all pipe, No OOS date on tank, Manways not open & screened and Not emptied & degassed	2103(b) 2123(e) 2129 (b), (c)

Attachment 3: Operations Manual Non-Compliance

Operations Manual Derivation	Operations Manual Reference Page
Failure to perform preventative maintenance	sec. 5(B), page 18
Failure to record all repairs in the operator's daily log book	sec. 5(B), page 18
Failure to promptly repair leaks and noting such repairs in the operator's daily log book	sec. 5(B), page 18
Failure to maintain proper housekeeping	sec. 5(B), page 19
Failure to paint equipment as needed to prevent corrosion	sec. 5(B), page 19
Failure to inspect and repair corroded electrical equipment	sec. 5(B), page 19
Failure to ensuring proper operation of the fire water system	sec. 5(B), page 20
Failure to promptly repair deficiencies identified in SLC's monthly inspection reports	sec. 5(B), page 20
Failure to provide immediate attention to valve, flange, fitting, and piping issues that are not in good condition and record the maintenance of such	Attach. B, page B-7
Failure to provide immediate attention to repairing tank maintenance issues	Attach. A, page B-3
Failure to repair excessive flow-line corrosion and replacing failed flow-lines	Attach. C, page B-10
Failure to inspect and repair well safety valves	sec. 7, page 46

ATTACHMENT 4

CALIFORNIA STATE
LANDS COMMISSIONMINERAL RESOURCES
MANAGEMENT DIVISION200 Oceangate, 12th Floor
Long Beach, CA 90802-4331

ALLEN D. WILLARD, Assistant Chief

Contact Phone: (310) 590-5207

Contact FAX: (310) 590-5210

California Relay Service From TDD Phone 1-800-735-2922

Voice Phone 1-800-735-2929

November 4, 1996

File Ref: PRC 145.1
PRC 410.1
PRC 429.1
PRC 1466.1
PRC 1961.1
PRC 5968.1Ms. Sue Ann Craddock
Torch Operating Company
1221 Lamar, Suite 1600
Houston, TX 77010-3039

Dear Sue Ann:

Effective November 1, 1996, the State consented to a change of operator under the above referenced leases, from Torch Operating Company to Rincon Island Limited Partnership. Torch had previously submitted certain security guaranteeing faithful performance of the terms and conditions of the leases, including a Bond and a Limited Guaranty in the amount of \$4.6 million and \$400,000, respectively. The security has been replaced by Rincon with a bond in the amount of \$5 million, and by separate letter dated November 4, 1996, Torch's bond was released from further liability. Enclosed, herewith, is your Limited Guaranty.

Should you have questions regarding this matter, please give me a call.

Sincerely,

A handwritten signature in black ink, appearing to read 'A. D. Willard', written over a faint circular stamp.

A. D. Willard, Assistant Chief
Mineral Resources Management Division

Enclosure

bcc: Paul Mount

H:\WPDOCS\WILLARD\TOR-BOND.ADW