

CALIFORNIA STATE LANDS COMMISSION

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Established in 1938

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April 19, 2017

File Ref: PRC 3120

PRC 3242

PRC 421

Kevin Gillen
Senior Vice President, Associate General Counsel
Surety Claims
Aspen Insurance
175 Capital Boulevard, Suite 100
Rocky Hill, CT 06067

RE: Formal Request for Payment of Venoco LLC's Bond's No. SU04557 and No. SU04578 to the California State Lands Commission due to Venoco's quitclaims and failure to perform material obligations under state oil and gas leases PRC 3120, PRC 3242, and PRC 421 by Venoco LLC.

Dear Mr. Gillen:

The State Lands Commission (Commission) was served with Venoco LLC's (Venoco) quitclaim for state oil and gas leases PRC 3120, PRC 3242, and PRC 421 ("the Leases") on Monday April 17, 2017. With the receipt of Venoco's quitclaims for the Leases, in addition to Venoco's April 12, 2017 communication from its COO Mike Wracher (attached hereto) stating that "*Venoco sees no economically viable future or market value for these assets, and the Company will soon be unable to continue meeting its obligations under the South Ellwood Field Leases,*" the Commission considers Venoco in material breach of its obligations under the Leases.

By law, Venoco's quitclaim is effective as of the date of filing and the Commission has no discretion to accept or deny the quitclaim. However, pursuant to title 2, section 2124, California Code of Regulations, Public Resources Code section 6804.1, and Paragraph 5 of leases PRC 3242 and PRC 3120, and Paragraph 5(a) and (b) of lease PRC 421, and the conditions of the prior assignments of those leases to Venoco, Venoco and *its surety* are subject to the continued obligations of the lease, including but not limited to abandonment and decommissioning of the wells, structures, fill, pipelines and all other manner of improvements associated with the operations of the lease prior to its quitclaim, with all costs borne by Venoco or *its surety*.

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With this default, Commission staff have no choice but to call upon Venoco's surety bonds and formally request that Aspen American Insurance Company commit to the payment of the bond amount to the California State Lands Commission as quickly as possible to ensure that the state has sufficient funding to staff and secure the Leases for plug and abandonment proceedings. Commission staff intend to file claims against Venoco, in their recently filed bankruptcy proceeding, for any and all costs incurred in excess of the bond amount which are improperly borne by the people of the State of California.

Sincerely,



Seth Blackmon
Senior Staff Counsel