MINUTE ITEM This Calendar Item No. <u>37</u> was approved as Minute Item No. <u>37</u> by the State Lands Commission by a vote of <u>2</u> to <u>at its</u> <u>3779988</u> COLEMDRE ITEM				
meeting.	. 115	CALENDAR ITEM		
A 36		37	09/14/88 PRC 3314 Nitsche	
S 18	C S	EFERMENT OF DRILLING OBLIGATION STATE OIL AND GAS LEASE PRC 3314		
LESSEE:	1	Ghell Western E&P, Inc. Attn.: R. L. Avery P. O. Box 527 Houston, Texas 77001		
OPERATO	R :	Chevron U.S.A., Inc. Attn.: Mr. John Dowling P. O. Box 6917 Ventura, California 93006		
AREA, 1	TYPE LAND	AND LOCATION: State Oil and Gas Lease PRC 3314, i July 1, 1965 contains approximately of tide and submerged lands located Oxnard in Ventura County. Current PRC 3314 in Shell Western E&P, Inc. Chevron U.S.A., Inc. (Chevron) is o the lease.	west of lessee of (SWEPI);	
SUMMAR	Υ:	Resumption of drilling operations we authorized by the State Lands Common on April 29, 1981 Exploratory dr to six wells from a floating vesse drilling of nearshore prospects from drillsite operated by Chevron, were by the SLC. The lease provides for drill string obligation. Only one been drilled on the lease since re authorized. The 3314 #1 well was SWEPI by Chevron from an onshore 1 is referred to as the Patterson Ra	illing of up 1, as well as om an upsand e authorized r a 120-day well has sumption was drilled for ocation which nch drillsite.	
		On November 21, 1985, the SLC gran one-year deferment of the drilling	obligation	

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MINU.T PAGE		

## CALENDAR ITEM NO. 37 (CONT'D)

for State Lease PRC 3314 through February 7; 1987. The purpose of the deferment was to allow Shell and its operator:

- (1) to evaluate further the 3314 #1 well by placing it on production;
- (2) to obtain approvals to consolidate two existing drillsites located in the Mandalay State Beach area into one larger, more efficient drillsite, and obtain appropriate permits to conduct drilling operations from that site; and
- (3) to evaluate gas production potential and the economics of constructing a gas processing plant.

In January, Chevron requested an additional two-year deferment on economic grounds, citing (1) a steep decline in production of the well, (2) a steep decline in the price of crude oil, (3) a decline in gas prices making a gas processing plant uneconomical, thus necessitating burning the gas, and (4) the high cost of transporting the crude oil by truck to the refinery.

On March 26, 1987, the Commission granted an additional six-month deferment of the drilling obligation.

On November 19, 1987, the State Lands Commission approved a one-year deferment of the drilling obligation for State Lease PRC 3314.1 in response to Chevron's request of August 5, 1987. The approval of this one year drilling deferment extended the drilling obligation date for PRC 3314.1 from August 8, 1987 through August 7, 1988. The deferment was granted so Chevron could pursue the necessary right-of-ways and permits for the gas sales pipeline, as well as continue to study alternatives to decrease the operating expenses, so as to improve the economics of further development.

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## CALENDAR ITEM NO. 37 (CONT'D)

Since the deferment was approved on November 19, 1987, Cheuron has obtained right-of-ways and permits and the gas pipeline was installed in February 1988. Gas sales began at an average rate of 300 MCFPD at \$2.48/MCF to the Unocal Mandalay Processing Plant July 10, 1988. This additional income, while improving the economics of continued development, has been offset by a substantial drop in oil price. The posted price for Montalvo Colonia Oil dropped from \$14.15/BBL (August 4,1987) to \$8.64/BBL (July 1, 1988), a forty-two percent (42%) decline.

Chevron has also found the daily operating expenses continue to remain high. The Oxnard Refinery has refused to take additional production thereby forcing the produced oil to be trucked to the Northam/La Mirada Terminal in Los Angeles at a cost of \$1.72/BBL.

Chevron has indicated mechanical difficulties are a continuous problem with the downhole hydraulic pumps. Average run life before failure is approximately 80 days. Each failing pump is disassembled and inspected for cause. Modfications to pump design are made periodically in an effort to increase their efficiency and run life.

In a létter dated July 27, 1988, Cheuron requests a one year drilling deferment of State Lease PRC 3314.1 from August 9, 1988 to August 9, 1989. During this deferment, Chéuron proposes to continue investigations into reducing the operating expense for the above-mentioned reasons.

AB 884: N/A.

OTHER PERTINENT INFORMATION: Pursuant to the Commission's delegation of authority and the State CEQA Guidelines (14 Cal. Adm. Code 15061), the staff has determined that this activity is exempt from

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## CALENDAR ITEM NO. 37 (CONT'D)

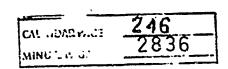
the requirements of the CEQA because the activity is not a "project" as defined by CEQA and the State CEQA Guidelines.

Authority: P.R.C. 21065 and 14 Cal. Adm. Code 15378.

EXHIBIT: A. Location Map.

IT IS RECOMMENDED THAT THE COMMISSION:

- 1. FIND THAT THE ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF THE CEQA PURSUANT TO 14 CAL. ADM. CODE 15061 BECAUSE THE ACTIVITY IS NOT A PROJECT AS DEFINED BY P.R.C. 21065 AND 14 CAL. ADM. CODE 15378.
- 2. APPROVE A DEFERMENT OF THE DRILLING OBLIGATION UNDER STATE OIL AND GAS LEASE PRC 3314 FROM AUGUST 9, 1988 THROUGH AUGUST 9, 1989. ALL OTHER TERMS AND CONDITIONS OF THE LEASE TO REMAIN IN FULL FORCE AND EFFECT, PROVIDED THAT AS A CONDITION OF THIS DEFERMENT, LESSEE AND OPERATOR SHALL REPORT QUARTERLY TO COMMISSION STOFF THE LEASE OPERATING ECONOMICS.



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