

MINUTE ITEM
This Calendar Item No. C46 was approved as
Minute Item No. 46 by the California State Lands
Commission by a vote of 3 to 0 at its
12/14/06 meeting.

**CALENDAR ITEM
C46**

A 33, 35

12/14/06
PRC 2920.1
M. Hamilton

S 19

**CONSIDER ACCEPTANCE OF FULL QUITCLAIM DEED
OF OIL AND GAS LEASE NO. PRC 2920.1
OFFSHORE GAVIOTA AREA,
SANTA BARBARA COUNTY**

LESSEE:

Harvest Natural Resources, Inc.
(fka Benton Oil and Gas Company)
Attn.: Mr. Kurt Nelson
1177 Enclave Parkway, Suite 300
Houston, TX 77077

AREA, LAND TYPE, AND LOCATION:

Oil and Gas Lease No. PRC 2920.1 contains approximately 4,250 acres of tide and submerged lands in the vicinity of Gaviota, Santa Barbara County.

BACKGROUND:

On August 28, 1962, the California State Lands Commission (Commission) awarded Oil and Gas Lease No. PRC 2920.1 to Shell Oil Company (50%) and Standard Oil Company of California (50%) for a cash bonus of \$14,080,713.82. On October 28, 1976, Standard Oil Company of California assigned its interest to Chevron U.S.A. Inc. (Chevron). On May 27, 1982, Shell Oil Company assigned its interest to Shell California Production, Inc., which changed its name to Shell Western E&P Inc. (SWEPI) in April 1987. The lease operator was SWEPI and the lease produced approximately 22,000 bbl of oil and 145 Bcf of gas for a cumulative royalty of about \$12.6 million.

Originally, Lease No. PRC 2920.1 was developed from wells completed by Shell on the seafloor of the leased lands. These subsea wells produced mainly gas directly into pipelines to onshore facilities. On December 16, 1982, the Commission approved Shell's abandonment of seafloor wells 1, 2, 3 and 4.

CALENDAR ITEM NO. C46 (CONT'D)

On August 3, 1994, the Commission approved the assignment of all of SWEPI's half interest in Lease No. PRC 2920.1 to Molino Energy Company (Molino). On July 11, 1997, the Commission first approved the assignment of all of Chevron's half interest to Molino (giving Molino 100% interest in Lease No. PRC 2920.1) and then approved the assignment of 40 percent (40%) of Molino's interest to Benton Oil and Gas Company (Benton) making Benton the lease operator.

On October 17, 1995 (Minute Item C85), the Commission approved the "SWARS" project, a comprehensive program for the abandonment and removal of oil field structures (wellheads, pipelines, etc.) located on numerous offshore State leases in the Santa Barbara Channel. Included in the SWARS project was the abandonment and removal of wells 5 and 8 on Lease No. PRC 2920.1.

In 1998, Benton and its partner Molino drilled extended reach well 2199 #7 from the onshore Santa Barbara County designated Consolidated Oil and Gas Planning Area at the reported cost of \$10,000,000. The drilling was difficult and expensive, and although tests showed the presence of gas and gas condensate, the well was unable to produce at economic levels. On September 3, 1999, the Commission granted Benton's request for a drilling deferment until November 14, 2000. Several months later, on April 24, 2001, the Commission approved the assignment of all of Molino's interest (60%) to Benton and granted Benton a two-year drilling deferment until December 31, 2002.

On May 21, 2002, Benton changed its name to Harvest Natural Resources, Inc. (Harvest). In a letter dated January 21, 2003, Harvest submitted quitclaim deeds for State Lease Nos. PRC 2920.1, PRC 2199.1 and PRC 2894.1 and requested that "...these quitclaims be held in abeyance until we have fulfilled all of our clean-up lease obligations." The letter further stated that Harvest was pursuing the immediate plugging and abandonment of onshore well Gaviota 2199 #7. This well was subsequently abandoned to current state standards and the Commission accepted quitclaims of Lease No. PRC 2894 on June 2, 2003, and Lease No. PRC 2199.1 on December 9, 2004.

After the SWARS project was completed, oil field debris was discovered on two offshore leases (Lease No. PRC 2920.1 and quitclaimed Lease No. PRC 2198.1). Shell accepted responsibility for the cleanup of the debris and contracted with Pacific Management Technologies Inc. (PMTI) for its removal. PMTI completed its work on October 7, 2006 (see letter dated October 24, 2006, attached as Exhibit C).

Even though Harvest (Molino-Benton) never drilled into Lease No. PRC 2920.1,

CALENDAR ITEM NO. C46 (CONT'D)

Harvest's quitclaim of August 29, 2002, could not be accepted until the debris described above was removed from the leased lands. Now that PMTI has completed its clean-up work, staff requests that the Commission accept Harvest's quitclaim of Lease No. PRC 2920.1 effective June 1, 2005, the date the quitclaim was accepted by the State.

Additionally, there are five General Leases - Right of Way Use that served PRC 2920.1. The leases are PRC 3014.1, 3015.1, 3016.1, 3017.1 and 3427.1. These leases were issued by the Commission for bundled flow lines that provided utilities and other services to the wells associated with PRC 2920.1. The flow lines have been partially removed and abandoned in place and the termination of these leases will be presented to the Commission at a future meeting.

Public Resources Code section 6804.1 and Lease Paragraph 5 permit the lessee to make at any time a written quitclaim of all rights under the lease or of any portion of the leased lands comprising a ten-acre parcel or multiple thereof in a compact form. The quitclaim will be effective when it is filed with the State subject to the continued obligation of the lessee and its surety to pay all accrued rentals and royalties and to abandon all wells drilled on the leased lands.

STATUTORY AND OTHER REFERENCES:

- A. Public Resources Code section 6804.1 and Lease Paragraph 5.

OTHER PERTINENT INFORMATION:

- 1. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines [Title 14, California Code of Regulations, section 15060(c)(3)], the staff has determined that this activity is not subject to the provisions of the CEQA because it is not a "project" as defined by the CEQA and the State CEQA Guidelines.

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

EXHIBITS:

- A. Location Map
- B. Executed Quitclaim Deed
- C. PMTI letter dated October 24, 2006

PERMIT STREAMLINING ACT DEADLINE:

N/A (not a "development project" subject to the Act)

CALENDAR ITEM NO. C46 (CONT'D)

RECOMMENDED ACTION:

IT IS RECOMMENDED THAT THE COMMISSION:

CEQA FINDING:

FIND THAT THE ACTIVITY IS NOT SUBJECT TO THE REQUIREMENTS OF THE CEQA PURSUANT TO TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15060(c)(3) BECAUSE THE ACTIVITY IS NOT A PROJECT AS DEFINED BY PUBLIC RESOURCES CODE SECTION 21065 AND TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15378.

AUTHORIZATION:

1. ACCEPT FROM HARVEST NATURAL RESOURCES, INC. (FKA BENTON OIL AND GAS COMPANY) THE FULL QUITCLAIM OF OIL AND GAS LEASE DATED JANUARY 24, 2003, WHEREIN THE LESSEE QUITCLAIMS BACK TO THE STATE ALL RIGHT, TITLE AND INTEREST IN THE LEASED LANDS DESCRIBED IN OIL AND GAS LEASE NO. PRC 2920.1 DATED AUGUST 28, 1962, SUBJECT HOWEVER TO THE CONTINUED OBLIGATION ON THE PART OF THE LESSEE AND ITS SURETY TO PAY ALL ACCRUED RENTALS AND ROYALTIES AND TO ABANDON ALL WELLS DRILLED ON THE LEASED LANDS.
2. RELEASE HARVEST NATURAL RESOURCES INC. (FKA BENTON OIL AND GAS COMPANY) FROM ALL OBLIGATIONS UNDER OIL AND GAS LEASE NO. PRC 2920.1 ACCRUING AFTER JUNE 1, 2005, SUBJECT HOWEVER TO THE CONTINUED OBLIGATION ON THE PART OF THE LESSEE AND ITS SURETY TO PAY ALL ACCRUED RENTALS AND ROYALTIES AND TO ABANDON ALL WELLS DRILLED ON THE LEASED LANDS.
3. AUTHORIZE THE EXECUTIVE OFFICER OR HIS DESIGNEE TO EXECUTE ANY DOCUMENTS NECESSARY TO IMPLEMENT THE COMMISSION'S ACTION.

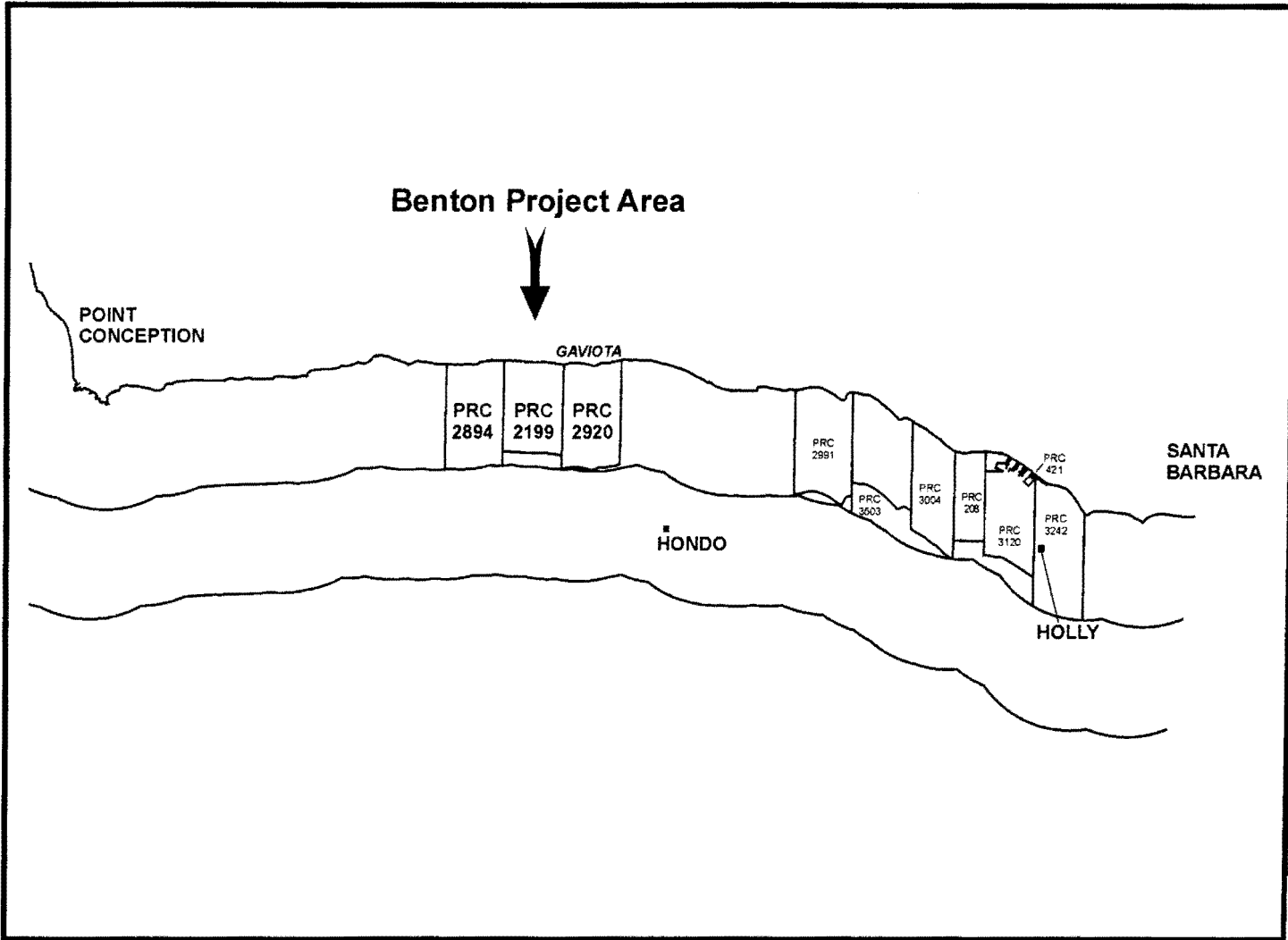


EXHIBIT A

PRC 2920.1

IN WITNESS WHEREOF, this Quitclaim Deed is executed this 24 day of January, 2003

LESSEE: _____

By: Kurt A. Nelson

(Signature)

KURT A. Nelson

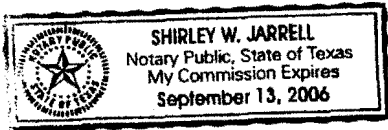
(Name of Officer)

VP + Controller

(Title)

State of Texas County of Harris

This instrument was acknowledged before me on January 24, 2003 by Kurt A. Nelson, Vice President and Controller of Harvest Natural Resources, Inc., a Delaware corporation, on behalf of said corporation.



Shirley W. Jarrell

Notary Public's Signature

Acknowledgement

000311
CALENDAR PAGE

002759
MINUTE PAGE

Exhibit "A"

DESCRIPTION OF THE PROPERTY

All of Harvest Natural Resources Inc.'s right, title and interest in and to those certain tracts of tide and submerged lands, situated in the County of Santa Barbara, State of California, being described as follows:

State Lease PRC 2920.1

That area of tide and submerged lands bounded on the West by California Coordinate System, Zone 5, grid line having an X value of 1,341,280; on the East by a grid line having an X value of 1,351,430; on the landward (northerly) boundary by the ordinary high water mark of the Santa Barbara Channel; on the seaward (southerly) boundary by a line parallel to the ordinary high water mark and seaward therefrom three nautical miles; containing 4,250.14 acres.

000312
CALENDAR PAGE

002760
MINUTE PAGE



October 24, 2006

Mr. Paul Mount
California State Lands Commission
200 OceanGate 12th Floor
Long Beach, CA 90802

Re: Final Compliance Report -- Shell Subsea Debris Removal Project -- PRC 2920 and 2198

Dear Paul:

Attached for your review is the final documentation for the Shell Subsea Debris Removal Project. Field work commenced at PRC 2920 SMSS Well #6 on September 27, 2006 and concluded at PRC 2198 Shell Refugio Well #1 on October 7, 2006. The well conductors were severed 1 – 2' below the mudline and all debris within 500 feet of each well site was recovered. There was no evidence of any leakage at either well. We are pleased to report that the work was completed without incident. The attached report includes:

- Regulatory Compliance Register;
- Final Anchor Plots;
- Project Execution Daily Reports;
- Regulatory Training Sign-in Sheets;
- Notice to Fishermen / Notice to Mariners
- ROV Survey Tapes of Final Well Condition.

We submit these materials on behalf of Shell Exploration & Production Company and in accordance with the State Lands Commission's August 24, 2006 approval of the project.

If you have any questions regarding the attached, please do not hesitate to call Tom Kennedy or myself at (805) 658-5600.

Sincerely,

A handwritten signature in black ink, appearing to read "Michelle Pasini".

Michelle Pasini
Regulatory Manager

cc w/attachmts: Ms. Niki Pasvantis, Shell Remediation Manager
Mr. Eric Gillies, California State Lands Commission – Sacramento (without tapes)

000313
CALENDAR PAGE

002751
MINUTE PAGE