

**CALENDAR ITEM
C106**

A 35
S 10

09/20/13
PRC 3242.1
M. LeClair

**CONSIDER APPROVAL OF A PARTIAL ASSIGNMENT OF
VENOCO, INC.'S INTEREST IN WELL NO. 3242-15,
STATE OIL AND GAS LEASE NO. PRC 3242.1,
TO VENOCO ENERGY PARTNERS OPERATING, LLC,
SANTA BARBARA COUNTY**

ASSIGNOR:

Venoco, Inc.
Attn.: Mr. Steve Greig, P.E.
6267 Carpinteria Ave., Suite 100
Carpinteria, CA 93013

ASSIGNEE:

Venoco Energy Partners Operating, LLC
Attn.: Mr. Steve Greig, P.E.
6267 Carpinteria Ave., Suite 100
Carpinteria, CA 93013

AREA, LAND TYPE, AND LOCATION:

Sovereign lands in the Pacific Ocean, offshore Santa Barbara County (Exhibit A, attached hereto).

AUTHORIZED USE:

Venoco, Inc., (Venoco) is currently the lessee and operator of State Oil and Gas Lease No. PRC 3242.1. On July 12, 2013, the California State Lands Commission (Commission) approved assignment of 22 percent (22%) of Venoco's interest in the specific wellbores Nos. 4, 7, 9, 12, and 18, on Lease No. PRC 3242.1, to Venoco Energy Partners Operating, LLC (VEPO) the operating company for Venoco Energy Partners, LP (i.e. the master limited partnership [MLP]).

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BACKGROUND:

Venoco proposes to assign 22 percent (22%) of its interest in a specified well bore, commonly known as Well 3242-15, on lands governed by State Oil and Gas Lease No. 3242.1 (offshore Santa Barbara County), to VEPO asserting that the newly drilled well is in communication with the wells that are included in the original assignment request (i.e., it is producing oil from the same area as other wells being transferred to the MLP). The communication among wells means that the production from Well 3242-15 is capable of reducing the productivity of the wells to be assigned to the MLP and sets the stage for a serious conflict between Venoco and VEPO if Well 3242-15 is not included in the assignment.

Well 3242-15 was not included in the Commission's July 12, 2013 assignment authorization because the well was not yet drilled and it was unclear whether the well would be a commercially viable asset that would benefit the MLP. Upon completion of the well, Venoco determined that Well 3242-15 was capable of commercial production. Further tests then indicated that Well 3242-15 was in communication with one or more wells included in the prior assignment request in July, and Venoco has requested that this subsequent assignment be approved. Staff has reviewed the available information on the field production and well tests of Well 3242-15 and agrees that there is sufficient evidence that the Well 3242-15 is reducing the production of certain wells, in significant quantities, in the July 2013 assignment authorization.

The interest assigned would be a working interest; i.e., the assignee would participate in both profits and production costs, but would have no role to play in actual production. Venoco would be the sole party having an operating interest in the lease and it would be the entity having responsibility for all operations.

Transfer of the 22 percent (22%) interest in the specified well bore would not affect the State's interest in, nor would it change Venoco's liability for, the lease. Venoco would continue as owner of all the remaining interest in the lease, Platform Holly, the onshore drilling and production site associated with PRC 3120.1 and PRC 3242.1, and all associated pipelines and other production, processing and transportation equipment and facilities would remain the property and responsibility of Venoco which would also be responsible for all operations.

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Liability for obligations under the two leases would not be affected by the assignment. Upon approval by the Commission of the prior assignment, and as required by the Commission pursuant to that approval, Venoco has increased its bond on the Elwood leases (PRC 3242.1, PRC 3120.1, and PRC 421.1) to \$10 million and has agreed to increase that bond annually by \$4 million each year until it reaches \$30 million. The agreement also allows for adjusting the bond amount after it attains the full coverage required by the Commission. Further, Venoco carries in excess of \$250 million in insurance, and all oil from Platform Holly is now transported to market by pipeline.

It is staff's understanding that Venoco is still awaiting approval of its MLP by the Securities and Exchange Commission (SEC). Before the assignment can be completed, a registration statement relating to the public offering and sale of partnership units must be declared effective by the SEC under the Securities Act of 1933. If the Commission were to approve the proposed assignment, staff recommends that it should include the same condition as it did on July 12, 2013, which is that the approval would not become effective unless and until the SEC declares the registration statement effective.

STATUTORY AND OTHER REFERENCES:

- A. Section 4 of State Oil and Gas Lease No. PRC 3242.1.
- B. Government Code section 8670.1 et seq.
- C. Public Resources Code section 6801 et seq.

OTHER PERTINENT INFORMATION

1. The staff recommends that the Commission find that the subject partial lease well assignment does not have a potential for resulting in either a direct or a reasonably foreseeable indirect physical change in the environment, and is, therefore, not a project in accordance with the California Environmental Quality Act (CEQA).

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

2. Venoco, Inc. has agreed to pay all royalties due the State for production from all its leases on behalf of both itself and VEPO.

EXHIBIT:

CALENDAR ITEM NO. **C106** (CONT'D)

A. Location Map

RECOMMENDED ACTION:

It is recommended that the Commission:

CEQA FINDING:

Find that the subject partial lease well assignment is not subject to the requirements of CEQA pursuant to California Code of Regulations, Title 14, section 15060 subdivision (c)(3), because the activity is not a project as defined by Public Resources Code section 21065 and California Code of Regulations, Title 14, section 15378.

AUTHORIZATION:

1. Consent to the assignment of a 22 percent (22%) working interest in the specific well bore, identified as Well 3242-15 on Lease No. PRC 3242.1, with the Assignee to be bound by all the terms and conditions of the Lease; conditioned upon the registration statement, to be filed with the SEC by the Venoco Energy Partners, LP (VEPLP) under the Securities Act of 1933, as amended (Securities Act) relating to the public offering and sale of partnership units in VEPLP, becomes effective under the Securities Act.
2. Authorize the Executive Officer or her designee to execute any documents necessary to implement the Commission's action.

EXHIBIT A

Location Map

PRC 3242.1

