

**CALENDAR ITEM  
C103**

A 8, 11, 15

12/02/13  
PRC E-415.1  
S. Meshkati  
P. Nabavi

S 2, 5, 7

**AUTHORIZE FINAL SETTLEMENT WITH ROSETTA RESOURCES OPERATING LP  
OF THE AUDIT CLAIM AND ALL OTHER MATTERS PERTAINING TO OIL AND GAS  
LEASE NO. PRC E-415.1, PREVIOUSLY HELD BY ROSETTA RESOURCES  
OPERATING LP AND ASSIGNED TO VINTAGE PETROLEUM LLC,  
CONTRA COSTA, SAN JOAQUIN, SACRAMENTO,  
AND SOLANO COUNTIES**

**PARTIES:**

Rosetta Resources Operating LP  
1111 Bagby, Suite 1600  
Houston, TX 77002

California State Lands Commission

**AREA, LAND TYPE, AND LOCATION:**

Oil and Gas Lease No. PRC E-415.1 contains approximately 2,827 acres, more or less, of State land that encompasses portions of the beds of the Sacramento, San Joaquin, Mokelumne, Old, and False Rivers and other tide and submerged lands within the area designated by Agreement for Easement No. 415 dated June 3, 1940 (Location Map, attached as Exhibit A), in Contra Costa, San Joaquin, Sacramento, and Solano Counties.

**BACKGROUND:**

Initially, an Agreement for Easement No. 415 was issued to Standard Oil Company of California ("Standard", presently Chevron Corporation) on June 3, 1940. On December 20, 1963, the California State Lands Commission ("Commission") approved Standard's request for a new lease designated as PRC E-415.1 (Lease) in exchange for Agreement for Easement No. 415. Through a series of conveyances and transactions, Rosetta Resources Operating LP, a Delaware limited partnership ("Rosetta"), succeeded to the interest of the lease and acquired Commission approval in October 30, 2007. At the June 23, 2011, Commission meeting, the Commission approved the assignment of PRC E-415.1 from Rosetta to Vintage Petroleum, LLC (Calendar Item 130). As part of the assignment, Rosetta agreed that Commission staff will conduct an exit financial

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audit to ensure that all amounts due from Rosetta have been paid. Rosetta also agreed to increase its lease performance bond in order to secure payment of any amount found by the audit to be owed to the State.

**PROPOSED FINAL SETTLEMENT AGREEMENT:**

The Commission retained Hurewitz, Boschan & Co., LLP (“HBC”) in October 2011 to perform the exit financial audit. Beginning in early 2013, Commission staff and Rosetta had a series of discussions regarding the draft findings of the exit financial audit. There was significant disagreement as to the amounts owed and interpretation of the Lease, its related documents and applicable case law. After much discussion, Commission staff and Rosetta have agreed on the terms of a proposed settlement agreement (“Agreement”) that is on file at the Commission’s Sacramento Office. Under the proposed Agreement, Rosetta agrees to pay \$450,000 to the Commission and release the Commission from any claims. In exchange, the Commission agrees to release the performance bonds totaling \$4.085 million, assist Rosetta in obtaining the release of any other bonds connected with the lease, and release Rosetta from any claims.

Commission staff has reviewed in-house documents, case law and other information submitted for the proposed Agreement. Since litigation of this matter would likely be extremely protracted and costly with uncertain results, the parties to the Agreement consider it expedient, necessary, and in the best interests of both parties to resolve this dispute through a settlement thereby avoiding the anticipated substantial costs, time requirements, and uncertainties of litigation.

Staff therefore recommends that the Commission approve the Agreement, in substantially the form on file at the Commission’s Sacramento Office, and authorize its execution.

**OTHER PERTINENT INFORMATION:**

The staff recommends that the Commission find that the subject Agreement 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.

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**EXHIBIT:**

- A. Location Map PRC E-415.1

**RECOMMENDED ACTION:**

It is recommended that the Commission:

**CEQA FINDINGS:**

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

**AUTHORIZATION:**

Approve the Final Settlement Agreement and authorize the execution and acknowledgement of the Final Settlement Agreement, and any related documents necessary to effectuate the Final Settlement Agreement, on behalf of the Commission, in substantially the form of the copy of such Agreement on file with the Commission, including the release of the bond(s).

**EXHIBIT "A"**  
**LEASE MAP**

