



Agenda Report

Date: May 8, 2012
To: Honorable Mayor and City Council
From: Jeffrey W. Collier, City Manager
Subject: Matrix Oil Mineral Lease Amendment No. 2

RECOMMENDATION

Staff recommends that the City Council approve an amendment (Amendment No. 2) to the Whittier Main 2008 Mineral Extraction Oil, Gas and Mineral Lease and authorize the City Manager to execute the lease amendment.

BACKGROUND

On October 28, 2008, the City awarded a lease to Matrix Oil Corporation (Matrix) that could permit resumption of oil and gas extraction within the Whittier Hills. The agreement leases the City's mineral rights underlying the Whittier Main Oil Field to Matrix and provides that, subject to a conditional use permit and numerous contractual provisions, Matrix could have certain rights, including drilling exploratory oil wells and extracting oil, gas, and other hydrocarbons from the land.

On April 12, 2011, the City Council approved Amendment No. 1 to the Agreement, extending the term of the lease and addressing rental payments during this period.

In compliance with the terms of the lease agreement, Matrix submitted a CUP application to the City of Whittier in April 2009 to drill, explore, and produce the remaining recoverable oil and gas reserves at the site. That application proposed drilling operations from three sites within the Preserve. In October 2010, a Draft EIR was released to the public for a 60-day public comment period. The Draft EIR identified an Environmentally Superior Alternative to the Project that would consolidate all drilling operations into a single site.

Then, in April of 2011, prior to completion and review of the Final EIR, Matrix amended its CUP application to establish a new project that conformed to the Central Consolidated Site Alternative detailed in the Draft EIR. The amended application proposed the consolidation of all drilling operations into a single site. A new Draft EIR was prepared to evaluate the potential environmental impacts associated with the new Oil Field Project and it was circulated for public review and comment from June 6, 2011 to July 21, 2011.

Upon receipt of public comments a Final EIR was prepared and the CUP and Final EIR were considered at noticed public hearings before the Planning Commission and then the City Council. Upon completion of 32 hours of public hearing on the project, the City Council approved the Conditional Use Permit and certified the Final Environmental Impact Report on November 28, 2011 on a vote of 5-0.

Agenda Item: 16.A

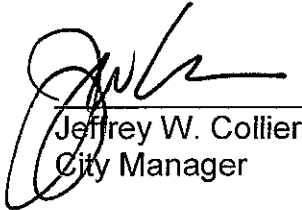
DISCUSSION

The proposed amendment to the lease agreement addresses two provisions, Paragraphs 6.1 and 6.6. The proposed amendments remove provisions within the lease that call for the Lessor to obtain a release from protected area status from the County Proposition A District. The amendment also removes reference to a provision that references the issuance of a Conditional Use Permit from the Los Angeles County Proposition A District. The County Proposition A District does not have a Conditional Use Permit process hence this specific approval is not necessary.

FISCAL IMPACT

The proposed amendment to the lease will not change the fiscal terms of the Mineral Lease.

Submitted by:



Jeffrey W. Collier
City Manager

Attachment: A – Matrix Mineral Lease Amendment No. 2

**SECOND AMENDMENT TO WHITTIER MAIN 2008
MINERAL EXTRACTION OIL, GAS AND MINERAL LEASE**

This Amendment is entered into effective this ____ day of _____, 2012 by and between the City of Whittier, a charter municipality of the State of California (hereinafter called "Lessor") and Matrix Oil Corporation, a California corporation (as to an undivided 25%) and Clayton Williams Energy, Inc., a Delaware corporation (as to an undivided 75%) (hereinafter collectively called "Lessee") in consideration of the covenants hereinafter set forth.

RECITALS:

- A. Reference is made to that certain Oil, Gas and Mineral Lease dated October 28, 2008 by and between Lessor and Lessee (the "Lease").
- B. The Lease was amended effective April 12, 2011 so as to extend the Primary Term for three (3) to six (6) years, with related changes to the rental paragraph
- C. Lessor and Lessee desire to further amend the Lease in the manner hereinafter set forth.

NOW, THEREFORE, IT IS AGREED AS FOLLOWS:

- 1. Paragraph 6.1 of the Lease is hereby amended to read as follows:

"6.1 No Surface Entry Unless and Until Conditional Use Permit Obtained and CEQA Complied With. Lessee shall not be entitled to make any surface entry on the Leased Land (other than for visual inspection or surveying purposes in support of an application for a Conditional Use Permit) unless and until: (i) a Conditional Use Permit has been applied for at the City of Whittier for up to three drill and well sites, for use for drilling and production support facilities including waste water reinjection, of not more than 7 acres in total, combined size and in reasonably compact shape and routes of ingress and egress thereto and for pipeline and utility purposes and, if desired by Lessee, for the conduct of a seismic survey, (ii) environmental review under the California Environmental Quality Act ("CEQA") has been conducted and paid for by Lessee, and (iii) a Conditional Use Permit has been issued by the City of Whittier, in its sole and absolute discretion; and accepted in writing by Lessee within a period of ten (10) days of the date of its issuance. The terms and conditions of any Conditional Use Permit which may be issued by the City of Whittier, including any mitigation measures and monitoring plans which may arise in the cause of any CEQA review thereunder, shall be deemed incorporated into this Lease as terms and conditions thereof."

- 2. Paragraph 6.6 of the Lease is hereby amended to read as follows:

"6.6 Request for Additional Sites. In the event that Lessee has drilled six wells on the Leased Lands, then Lessee shall have the right to request from Lessor one or more additional drill sites, subject to Lessee applying for and obtaining a

Conditional Use Permit therefor. Lessor may in its sole discretion and for any reason deny or grant Lessee the right to construct any such additional site.”

3. The Lease remains in full force and effect and unmodified except as expressly amended herein.

4. This Amendment may be executed in multiple counterparts, all of which, taken together shall constitute one single Amendment to the Lease.

LESSEE:

MATRIX OIL CORPORATION

By: _____
Signature (title)

Printed Name

CLAYTON WILLIAMS ENERGY, INC.

By: _____
Signature (title)

Printed Name

LESSOR:

CITY OF WHITTIER

By: _____
Jeffrey W. Collier, City Manager

APPROVED AS TO FORM:

By: _____
City Attorney

Date: _____