



CITY OF

NEWPORT BEACH

City Council Staff Report

Agenda Item No. 3
July 23, 2013

TO: HONORABLE MAYOR AND MEMBERS OF THE CITY COUNCIL

FROM: City Manager's Office
Dave Kiff, City Manager
949-644-3001, dkiff@newportbeachca.gov

PREPARED BY: Rob Houston, Assistant to the City Manager

APPROVED:

TITLE: Resolution Declaring the City's Intention to Enter Into an Operating Agreement for the Management of the City's Oil, Gas and Other Hydrocarbon Resources

ABSTRACT:

The City of Newport Beach ("City") may pursue an operating agreement with a third party company to manage the City's oil, gas and other hydrocarbon resources ("Oil Operations"). Under state law, the City is required to adopt a resolution expressing its intent to do so. The attached resolution was approved by the State Lands Commission and is presented for adoption to begin the process of executing an agreement with a third party company.

RECOMMENDATION:

Adopt the attached Resolution No. 2013- 62 entitled a Resolution of the City Council of the City of Newport Beach Declaring its Intention to Enter Into an Operating Agreement for the Management of the City's Oil, Gas and Other Hydrocarbon Resources.

FUNDING REQUIREMENTS:

No funding is required for this action.

DISCUSSION:

The City manages the tidelands within its boundaries on behalf of the State of California pursuant to the provisions of the Beacon Bay Bill (Chapter 74 of the Statutes of 1978, as amended). As part of that responsibility, the City manages oil and gas resources

located in West Newport Beach at 5810 West Coast Hwy. The resources located at this site include 16 oil wells that were drilled between 1953 and 1958. The wells are slant drilled under property within the city, into the area under the ocean which is called the Newport Offshore Oil Field. Oil production at the site has declined since the 1980s (when the City acquired the oil wells) from approximately 60,000 barrels per year to 30,000 barrels per year in 2009. In recent years, the City has been averaging approximately \$1.5 to \$1.8 million in Oil Operations revenue a year with operation and maintenance expenditures of approximately \$800,000 to \$900,000 a year. Oil Operations revenue from this site are deposited into the Tidelands Fund. The Tidelands Fund may be used only for eligible expenditures that support and maintain the tidelands, such as improvements to tidelands property including dredging Lower Newport Bay, maintenance of the tidelands, and more.

The City may wish to pursue a long term operating agreement with an experienced third party company to maximize the Oil Operations revenue. As the funds derived from the Oil Operations are tidelands revenues, the City is required to follow all applicable State codes and regulations. California Public Resources Code Section 7060 requires the State Lands Commission to review and approve a resolution prior to the City entering into an operating agreement. The State Lands Commission reviewed and approved the attached resolution at its Special Meeting held on Friday, July 12, 2013.

Following the approval by the State Lands Commission, the City needs to adopt the attached resolution declaring its intention to enter into an operating agreement with a third-party for the management of the City's Oil Operations.

Consistent with California Public Resources Code Section 7058.5, the attached resolution specifies that in any operating agreement with a third party company the City will:

- Receive the minimum consideration for an operating agreement of not less than the net revenue derived from Oil Operations in Fiscal Year 2012, minus any future costs for improvements, operations or maintenance. This revenue may also be adjusted based upon the dwindling availability of, and fluctuating price of, oil, gas and other hydrocarbon resources.
- Agree to an agreement term of the operating agreement that shall not exceed thirty-five (35) years.
- Seek to guarantee its current level of return on production, adjusted for future investment, operating and maintenance costs, and future oil and gas price changes. The third-party company may also share with the City the return on production

generated by the third-party company's additional investment to maximize production.

- Ensure that one (1) biddable factor used is the ability of a third-party company to maximize oil production. Other variables and factors, including, but not limited to, a combination of financial viability of the third-party company, ability to maximize revenue, and prior urban drilling experience will be used to determine if the third-party company is qualified.

If adopted, the resolution provides that the City Council will consider proposals from third party companies at its regularly scheduled meeting on September 10, 2013, at 7:00 p.m., or as soon thereafter as this matter may be heard. The City Council may reject any and all proposals.

ENVIRONMENTAL REVIEW:

City staff recommends the City Council find the adoption of the attached resolution is not subject to the California Environmental Quality Act ("CEQA") pursuant to Sections 15060(c)(2) (the activity will not result in a direct or reasonably foreseeable indirect physical change in the environment) and 15060(c)(3) (the activity is not a project as defined in Section 15378) of the CEQA Guidelines, California Code of Regulations, Title 14, Chapter 3, because it has no potential for resulting in physical change to the environment, directly or indirectly.

NOTICING:

This agenda item has been noticed according to the Brown Act (72 hours in advance of the meeting at which the City Council considers this item).

Submitted by:



Dave Kiff
City Manager

Attachments: Resolution No. 2013- 62

RESOLUTION NO. 2013- __

**A RESOLUTION OF THE CITY COUNCIL OF
THE CITY OF NEWPORT BEACH
DECLARING ITS INTENTION TO ENTER
INTO AN OPERATING AGREEMENT FOR
THE MANAGEMENT OF THE CITY'S OIL,
GAS AND OTHER HYDROCARBON
RESOURCES**

WHEREAS, the City of Newport Beach ("City") manages much of the tidelands within its boundaries on behalf of the State of California pursuant to the provisions of the Beacon Bay Bill (Chapter 74 of the Statutes of 1978, as amended);

WHEREAS, as part of its tidelands management responsibilities and consistent with the Newport Beach City Charter Section 1401, the City manages oil, gas and other hydrocarbon resources ("Oil Operations");

WHEREAS, the income earned from the City's Oil Operations is deposited into the City's tidelands funds as required by the Beacon Bay Bill to finance the improvement, maintenance and operation of the tidelands;

WHEREAS, the City desires to seek proposals and enter into an operating agreement with a third party experienced in the management of Oil Operations to further increase efficiency and income derived from the City's Oil Operations;

WHEREAS, prior to entering into an operating agreement with a third party for the management of the City's Oil Operations, the City is required by California Public Resources Code Section 7058.5 to adopt this resolution declaring its intent to enter into said operating agreement; and

WHEREAS, pursuant to California Public Resources Code Section 7060, the State Lands Commission has reviewed and approved this resolution at its Special Meeting held on Friday, July 12, 2013.

NOW, THEREFORE, the City Council of the City of Newport Beach resolves as follows:

Section 1: The City Council declares its intent to enter into an operating agreement to manage the City's Oil Operations. Pursuant to California Public Resources Code Section 7058.5 the City provides the following information:

- (1) Consistent with Charter Section 1401, exploration, drilling, production or processing of oil, gas or other hydrocarbon substances by vertical, slant or other drilling method will originate from the land surface within

the approximately twenty (20) acres of territory depicted and specifically described in Exhibits "A" and "B", which are attached hereto and incorporated by this reference.

- (2) The minimum consideration for an operating agreement shall not be less than the net revenue derived from Oil Operations in Fiscal Year 2012, minus any future costs for improvements, operations or maintenance. This revenue may also be adjusted based upon the dwindling availability of, and fluctuating price of, oil, gas and other hydrocarbon resources.
- (3) The term of the operating agreement shall not exceed thirty-five (35) years, or as otherwise allowed by law.
- (4) The City is seeking an operating agreement with a third party to conduct oil field drilling, development and production operations for the City. Through the operating agreement, the City will seek to guarantee its current level of return on production, adjusted for future investment, operating and maintenance costs, and future oil and gas price changes. The third party will also share with the City the return on production generated by the third-party's additional investment to maximize production.
- (5) The one (1) biddable factor the City Council will utilize is the ability of a third party to maximize Oil Production. Other variables and factors, including, but not limited to, a combination of financial viability of the third party, ability to maximize revenue, and prior urban drilling experience will be used to determine if the third party is qualified.
- (6) The City Council shall consider proposals at its regularly scheduled meeting on September 10, 2013, at 7:00 p.m., or as soon thereafter as this matter may be heard. The meeting shall occur in the City Council Chambers located at 100 Civic Center Drive, Newport Beach, California, or at such other location as may be designated and noticed by the City. The City Council may reject any and all proposals.

Section 2: Pursuant to California Public Resources Code Section 7058.5, this resolution shall be published once a week for four (4) successive weeks in one (1) or more newspapers prior to the September 10, 2013 City Council meeting.

Section 3: The recitals provided in this resolution are true and correct and are hereby incorporated into the substantive portion of this resolution.

Section 4: This resolution shall take effect immediately upon its adoption by the City Council, and the City Clerk shall certify the vote adopting this resolution.

ADOPTED this 23rd day of July, 2013.

Keith D. Curry,
Mayor

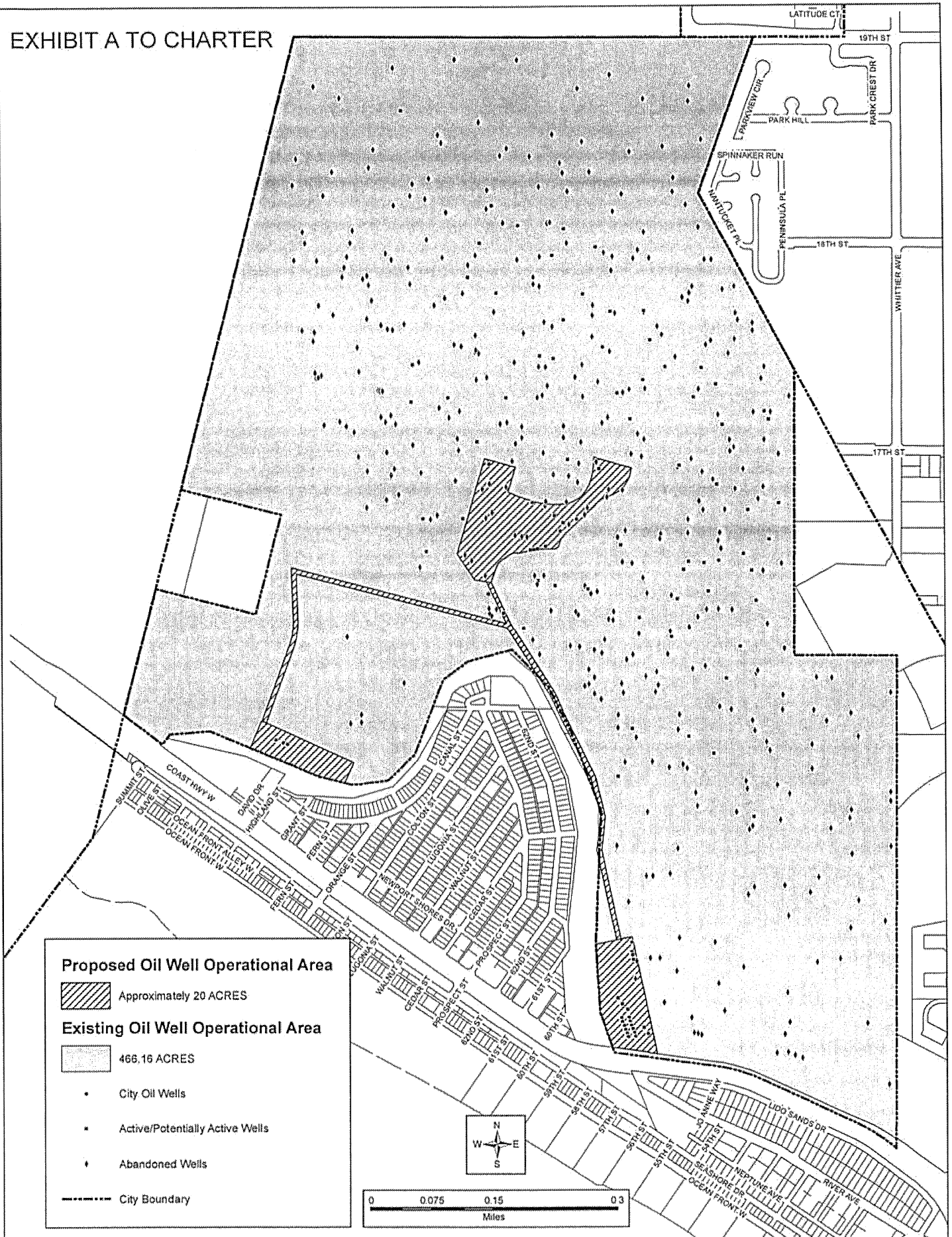
ATTEST:

Leilani I. Brown,
City Clerk

Attachments: Exhibits "A" and "B"

Exhibit "A"

EXHIBIT A TO CHARTER



**EXHIBIT A
LEGAL DESCRIPTION**

ALL THOSE CERTAIN LANDS SITUATED PARTLY IN THE CITY OF NEWPORT BEACH AND PARTLY IN THE UNINCORPORATED TERRITORY OF ORANGE COUNTY, STATE OF CALIFORNIA, MORE PARTICULARLY DESCRIBED AS FOLLOWS:

PARCEL 1:

BEGINNING AT A POINT IN THAT CERTAIN COURSE IN THE EXISTING NEWPORT BEACH CITY BOUNDARY SHOWN AS "SOUTH 68°22'45" EAST 756.00 FEET" ON A MAP FILED IN BOOK 65, PAGES 31 THROUGH 36 OF RECORDS OF SURVEYS IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY, DISTANT THEREON SOUTH 68°22'45" EAST 280.00 FEET FROM THE NORTHWESTERLY TERMINUS THEREOF; THENCE ALONG SAID NEWPORT BEACH CITY BOUNDARY SOUTH 68°22'45" EAST 476.00 FEET TO AN ANGLE POINT THEREIN; THENCE CONTINUING ALONG SAID BOUNDARY SOUTH 76°51'00" EAST 171.96 FEET; THENCE LEAVING SAID BOUNDARY NORTH 23°17'40" EAST 144.41 FEET; THENCE NORTH 66°42'20" WEST 650.57 FEET TO A LINE WHICH BEARS NORTH 21°37'15" EAST FROM THE POINT OF BEGINNING; THENCE SOUTH 21°37'15" WEST 188.68 FEET TO THE POINT OF BEGINNING.

CONTAINING 113,953 SQUARE FEET OR 2.616 ACRES MORE OR LESS.

AS SHOWN ON EXHIBIT B-PARCEL 1 ATTACHED HERETO AND BY THIS REFERENCE MADE A PART HEREOF.

PARCEL 2:

BEGINNING AT THE NORTHERLY TERMINUS OF THAT CERTAIN COURSE IN THE EXISTING NEWPORT BEACH CITY BOUNDARY SHOWN AS "SOUTH 4°31'33" EAST 439.65 FEET" ON SAID RECORD OF SURVEY, SAID POINT ALSO BEING ON THE NORTHWESTERLY LINE OF PARCEL "A" AS DESCRIBED IN QUITCLAIM DEED TO THE CITY OF NEWPORT BEACH, RECORDED APRIL 12, 1983 AS INSTRUMENT NO. 83-151675

**EXHIBIT A
LEGAL DESCRIPTION**

OF OFFICIAL RECORDS OF ORANGE COUNTY;
THENCE ALONG SAID CITY BOUNDARY SOUTH 4°31'33" EAST 439.65 FEET AND
SOUTH 20°11'42" EAST 233.33 FEET TO A POINT IN THE NORTHERLY LINE OF
PARCEL 73170-1 IN THAT CERTAIN FINAL DECREE OF CONDEMNATION, SUPERIOR
COURT CASE NO. 667539, A CERTIFIED COPY OF WHICH WAS RECORDED
JANUARY 14, 1994 AS INSTRUMENT NO. 94-0032786 OF OFFICIAL RECORDS OF
ORANGE COUNTY; THENCE ALONG SAID NORTHERLY LINE SOUTH 83°25'55" EAST
241.16 FEET, SOUTH 6°42'45" WEST 5.00 FEET AND SOUTH 83°17'15" EAST 54.65 FEET
TO THE INTERSECTION WITH THE NORTHEASTERLY LINE OF SAID PARCEL "A";
THENCE ALONG SAID NORTHEASTERLY LINE AND ITS NORTHWESTERLY
PROLONGATION NORTH 12°59'57" WEST 770.26 FEET TO ITS INTERSECTION WITH
WITH THE NORTHEASTERLY PROLONGATION OF SAID NORTHWESTERLY LINE OF
PARCEL "A";
THENCE ALONG SAID PROLONGATION AND NORTHWESTERLY LINE
SOUTH 77°00'03" WEST 241.44 FEET TO THE POINT OF BEGINNING.

CONTAINING 200,487 SQUARE FEET OR 4.603 ACRES MORE OR LESS.

AS SHOWN ON EXHIBIT B-PARCEL 2 ATTACHED HERETO AND BY THIS REFERENCE
MADE A PART HEREOF.

PARCEL 3:

COMMENCING AT THE SOUTHEASTERLY TERMINUS OF THAT CERTAIN COURSE IN
THE CENTERLINE OF A 30.00 FOOT EASEMENT FOR SEWER AND ROAD PURPOSES PER
SUPERIOR COURT CASE NO. 24763 SHOWN AS "NORTH 76°32'23" WEST 1596.18 FEET"
ON SAID RECORD OF SURVEY;
THENCE NORTH 28°40'56" WEST 325.82 FEET TO THE POINT OF BEGINNING;
THENCE SOUTH 82°37'16" EAST 43.30 FEET TO A POINT ON A NON-TANGENT CURVE
CONCAVE SOUTHEASTERLY, HAVING A RADIUS OF 231.91 FEET, A RADIAL LINE TO

**EXHIBIT A
LEGAL DESCRIPTION**

SAID POINT BEARS NORTH 76°16'11" WEST;
THENCE NORTHEASTERLY ALONG SAID CURVE 118.37 FEET, THROUGH A CENTRAL ANGLE OF 29°14'39" TO A POINT OF NON-TANGENCY WITH A CURVE CONCAVE SOUTHEASTERLY, HAVING A RADIUS OF 194.00 FEET, A RADIAL LINE FROM THE CENTER OF SAID 194.00 FOOT RADIUS CURVE BEARS NORTH 48°19'12" WEST;
THENCE NORTHEASTERLY ALONG SAID CURVE 53.36 FEET, THROUGH A CENTRAL ANGLE OF 15°45'35" TO A POINT OF REVERSE CURVE, HAVING A RADIUS OF 258.00 FEET, A RADIAL LINE TO SAID POINT BEARS SOUTH 32°33'37" EAST;
THENCE NORTHEASTERLY 36.46 FEET ALONG SAID CURVE THROUGH A CENTRAL ANGLE OF 08°05'52" TO THE BEGINNING OF A REVERSE CURVE, HAVING A RADIUS OF 40.00 FEET, A RADIAL LINE TO SAID POINT BEARS NORTH 40°39'29" WEST;
THENCE EASTERLY 36.09 FEET ALONG SAID CURVE THROUGH A CENTRAL ANGLE OF 51°41'45" TO THE BEGINNING OF A REVERSE CURVE, HAVING A RADIUS OF 73.00 FEET, A RADIAL LINE TO SAID POINT BEARS SOUTH 11°02'16" WEST;
THENCE EASTERLY 39.00 FEET ALONG SAID CURVE THROUGH A CENTRAL ANGLE OF 30°36'35" TO THE BEGINNING OF A REVERSE CURVE, HAVING A RADIUS OF 432.00 FEET, A RADIAL LINE TO SAID POINT BEARS NORTH 19°34'19" WEST;
THENCE EASTERLY 161.89 FEET ALONG SAID CURVE THROUGH A CENTRAL ANGLE OF 21°28'18" TO THE BEGINNING OF A REVERSE CURVE, HAVING A RADIUS OF 245.00 FEET, A RADIAL LINE TO SAID POINT BEARS SOUTH 01°53'59" WEST;
THENCE EASTERLY 52.80 FEET ALONG SAID CURVE THROUGH A CENTRAL ANGLE OF 12°20'51" TO THE BEGINNING OF A COMPOUND CURVE, HAVING A RADIUS OF 54.00 FEET, A RADIAL LINE TO SAID POINT BEARS SOUTH 10°26'52" EAST;
THENCE NORTHEASTERLY 60.21 FEET ALONG SAID CURVE THROUGH A CENTRAL ANGLE OF 63°53'17" TO THE BEGINNING OF A REVERSE CURVE, HAVING A RADIUS OF 170.00 FEET, A RADIAL LINE TO SAID POINT BEARS NORTH 74°20'09" WEST;
THENCE NORTHEASTERLY 89.85 FEET ALONG SAID CURVE THROUGH A CENTRAL ANGLE OF 30°16'57";
THENCE NORTH 45°56'48" EAST 203.87 FEET TO THE BEGINNING OF A CURVE CONCAVE NORTHWESTERLY, HAVING A RADIUS OF 740.00 FEET;

**EXHIBIT A
LEGAL DESCRIPTION**

THENCE NORTHEASTERLY 70.14 FEET ALONG SAID CURVE THROUGH A CENTRAL ANGLE OF 05°25'51" TO THE BEGINNING OF A REVERSE CURVE, HAVING A RADIUS OF 86.00 FEET, A RADIAL LINE TO SAID POINT BEARS NORTH 49°29'03" WEST;
THENCE NORTHEASTERLY 39.86 FEET ALONG SAID CURVE THROUGH A CENTRAL ANGLE OF 26°33'32";
THENCE NORTH 67°04'29" EAST 61.05 FEET TO THE BEGINNING OF A CURVE CONCAVE NORTHWESTERLY, HAVING A RADIUS OF 211.00 FEET;
THENCE NORTHEASTERLY 191.51 FEET ALONG SAID CURVE THROUGH A CENTRAL ANGLE OF 52°00'11";
THENCE NORTH 15°04'18" EAST 50.45 FEET;
THENCE NORTH 75°09'09" WEST 274.42 FEET TO A POINT ON A NON-TANGENT CURVE CONCAVE WESTERLY, HAVING A RADIUS OF 475.00 FEET, A RADIAL LINE TO SAID POINT BEARS NORTH 87°35'07" EAST;
THENCE SOUTHERLY 159.68 FEET ALONG SAID CURVE, THROUGH A CENTRAL ANGLE OF 19°15'41" TO THE BEGINNING OF A COMPOUND CURVE, HAVING A RADIUS OF 211.00 FEET, A RADIAL LINE TO SAID POINT BEARS SOUTH 73°09'12" EAST;
THENCE SOUTHWESTERLY 261.71 FEET ALONG SAID CURVE THROUGH A CENTRAL ANGLE OF 71°03'58" TO THE BEGINNING OF A COMPOUND CURVE, HAVING A RADIUS OF 615.00 FEET, A RADIAL LINE TO SAID POINT BEARS SOUTH 02°05'14" EAST;
THENCE WESTERLY 258.77 FEET ALONG SAID CURVE THROUGH A CENTRAL ANGLE OF 24°06'29";
THENCE NORTH 67°58'45" WEST 85.44 FEET;
THENCE NORTH 14°50'32" EAST 165.94 FEET;
THENCE NORTH 75°09'09" WEST 204.52 FEET;
THENCE SOUTH 15°18'26" WEST 640.52 FEET;
THENCE SOUTH 34°59'06" EAST 199.12 FEET;
THENCE SOUTH 82°37'16" EAST 65.32 FEET TO THE POINT OF BEGINNING.

CONTAINING 400,572 SQUARE FEET OR 9.196 ACRES MORE OR LESS.

AS SHOWN ON EXHIBIT B-PARCEL 3 ATTACHED HERETO AND BY THIS REFERENCE MADE A PART HEREOF.

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7/6/2010

**EXHIBIT A
LEGAL DESCRIPTION**

PARCEL 4:

STRIP 1:

A STRIP OF LAND 30.00 FEET IN WIDTH, THE CENTERLINE OF SAID STRIP BEING DESCRIBED AS FOLLOWS:

**BEGINNING AT A POINT IN THAT CERTAIN COURSE IN THE CENTERLINE OF A 30.00 FOOT EASEMENT FOR SEWER AND ROAD PURPOSES PER SUPERIOR COURT CASE NO. 24769 SHOWN AS "NORTH 76°32'23" WEST, 1596.18 FEET" ON SAID RECORD OF SURVEY, DISTANT THEREON SOUTH 76°32'23" EAST 148.00 FEET FROM THE NORTHWESTERLY TERMINUS THEREOF;
THENCE ALONG SAID CENTERLINE SOUTH 76°32'23" EAST 20.16 FEET TO A POINT HEREINAFTER REFERRED TO AS POINT "A";
THENCE CONTINUING ALONG SAID CENTERLINE THE FOLLOWING COURSES:**

**SOUTH 76°32'23" EAST 1428.02 FEET,
SOUTH 32°55'45" EAST 521.40 FEET,
SOUTH 27°15'15" EAST 595.00 FEET,
SOUTH 14°36'45" EAST 264.00 FEET,
SOUTH 5°33'45" WEST 217.00 FEET AND
SOUTH 12° 59' 57" EAST 585.03 FEET TO THE NORTHWESTERLY LINE OF THE
HEREINABOVE DESCRIBED PARCEL 2.**

**THE SIDELINES OF SAID STRIP SHALL BE LENGTHENED OR SHORTENED TO
TERMINATE SOUTHERLY ON SAID NORTHWESTERLY LINE OF PARCEL 2.**

CONTAINING 108,918 SQUARE FEET OR 2.500 ACRES MORE OR LESS.

**EXHIBIT A
LEGAL DESCRIPTION**

STRIP 2:

A STRIP OF LAND 30.00 FEET IN WIDTH, THE CENTERLINE OF SAID STRIP BEING DESCRIBED AS FOLLOWS:

BEGINNING AT HEREINBEFORE MENTIONED POINT "A";

THENCE SOUTH 03° 18' 27" EAST 303.61 FEET TO THE BEGINNING OF A CURVE CONCAVE WESTERLY, HAVING A RADIUS OF 515.00 FEET;

THENCE SOUTHERLY ALONG SAID CURVE 202.03 FEET THROUGH A CENTRAL ANGLE OF 22° 28' 37";

THENCE SOUTH 19° 10' 10" WEST 507.25 FEET TO THE NORTHEASTERLY LINE OF HEREINBEFORE DESCRIBED PARCEL 1.

THE SIDELINES OF SAID STRIP OF LAND SHALL BE LENGTHENED OR SHORTENED TO TERMINATE NORTHERLY IN THE SOUTHWESTERLY LINE OF SAID 30.00 FOOT EASEMENT FOR SEWER, AND SOUTHERLY IN THE NORTHEASTERLY LINE OF SAID PARCEL 1.

CONTAINING 29,917 SQUARE FEET OR 0.687 ACRES, MORE OR LESS.

AS SHOWN ON EXHIBIT B-PARCEL 4 ATTACHED HERETO AND BY THIS REFERENCE MADE A PART HEREOF.

PARCEL 5:

STRIP 1:

A STRIP OF LAND 20.00 FEET IN WIDTH, THE SOUTHWESTERLY LINE OF SAID STRIP LYING 15.00 FEET NORTHEASTERLY OF THE FOLLOWING DESCRIBED LINE:

BEGINNING AT THE INTERSECTION OF THE NORTHWESTERLY LINE OF PARCEL "A" AS DESCRIBED IN QUITCLAIM DEED TO THE CITY OF NEWPORT BEACH RECORDED APRIL 12, 1983 AS INSTRUMENT NO. 83-151675, OF OFFICIAL RECORDS OF ORANGE COUNTY, WITH THE CENTERLINE OF A 30.00 FOOT EASEMENT FOR SEWER AND ROAD

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7/6/2010

**EXHIBIT A
LEGAL DESCRIPTION**

PURPOSES PER SUPERIOR COURT CASE NO. 24763 AS SHOWN ON SAID RECORD OF SURVEY;

THENCE ALONG SAID CENTERLINE THE FOLLOWING COURSES:

NORTH 12°59'57" WEST 585.03 FEET,
NORTH 5°33'45" EAST 217.00 FEET,
NORTH 14°36'45" WEST 264.00 FEET,
NORTH 27°15'15" WEST 595.00 FEET AND
NORTH 32°55'45" WEST 521.40 FEET TO A POINT HEREINAFTER REFERRED TO AS
POINT "B".

THE SIDELINES OF SAID STRIP SHALL BE LENGTHENED OR SHORTENED TO
TERMINATE SOUTHERLY IN THE NORTHWESTERLY LINE AND THE NORTHEASTERLY
PROLONGATION OF THE NORTHWESTERLY LINE OF SAID PARCEL "A" AND
NORTHERLY IN A LINE HAVING A BEARING OF
NORTH 57°04'15" EAST AND PASSING THROUGH SAID **POINT "B"**.

CONTAINING 43,823 SQUARE FEET OR 1.006 ACRES MORE OR LESS.

STRIP 2:

A STRIP OF LAND 30.00 FEET IN WIDTH, THE SOUTHWESTERLY LINE OF SAID STRIP
LYING 5.00 FEET NORTHEASTERLY FROM THE FOLLOWING DESCRIBED LINE:

BEGINNING AT HEREINBEFORE MENTIONED POINT "B";
THENCE NORTH 28°40'56" WEST 325.82 FEET TO A POINT HEREINAFTER REFERRED TO
AS POINT "C".

THE SIDE LINES OF SAID STRIP SHALL BE LENGTHENED OR SHORTENED TO
TERMINATE NORTHWESTERLY IN A LINE HAVING A BEARING OF
SOUTH 82°37'16" EAST AND PASSING THROUGH SAID **POINT "C"**, AND
SOUTHEASTERLY IN A LINE HAVING A BEARING OF NORTH 57°04'15" EAST AND

**EXHIBIT A
LEGAL DESCRIPTION**

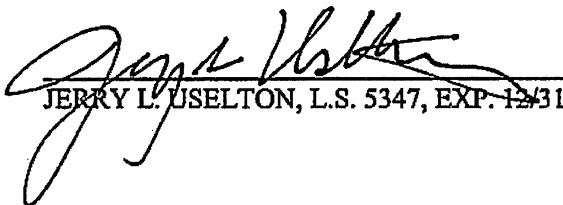
PASSING THROUGH SAID POINT "B".

EXCEPT THEREFROM THAT PORTION LYING WITHIN PARCEL 4, STRIP 1 AS
DESCRIBED ABOVE.

CONTAINING 9,190 SQUARE FEET OR 0.211 ACRES MORE OR LESS.

AS SHOWN ON EXHIBIT B-PARCEL 5 ATTACHED HERETO AND BY THIS REFERENCE
MADE A PART HEREOF.

DATED THIS 6th DAY OF July, 2010.


JERRY L. USELTON, L.S. 5347, EXP. 12/31/11

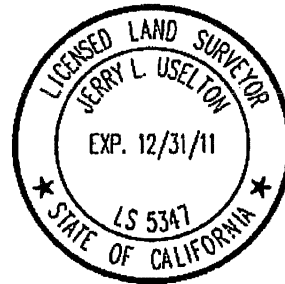
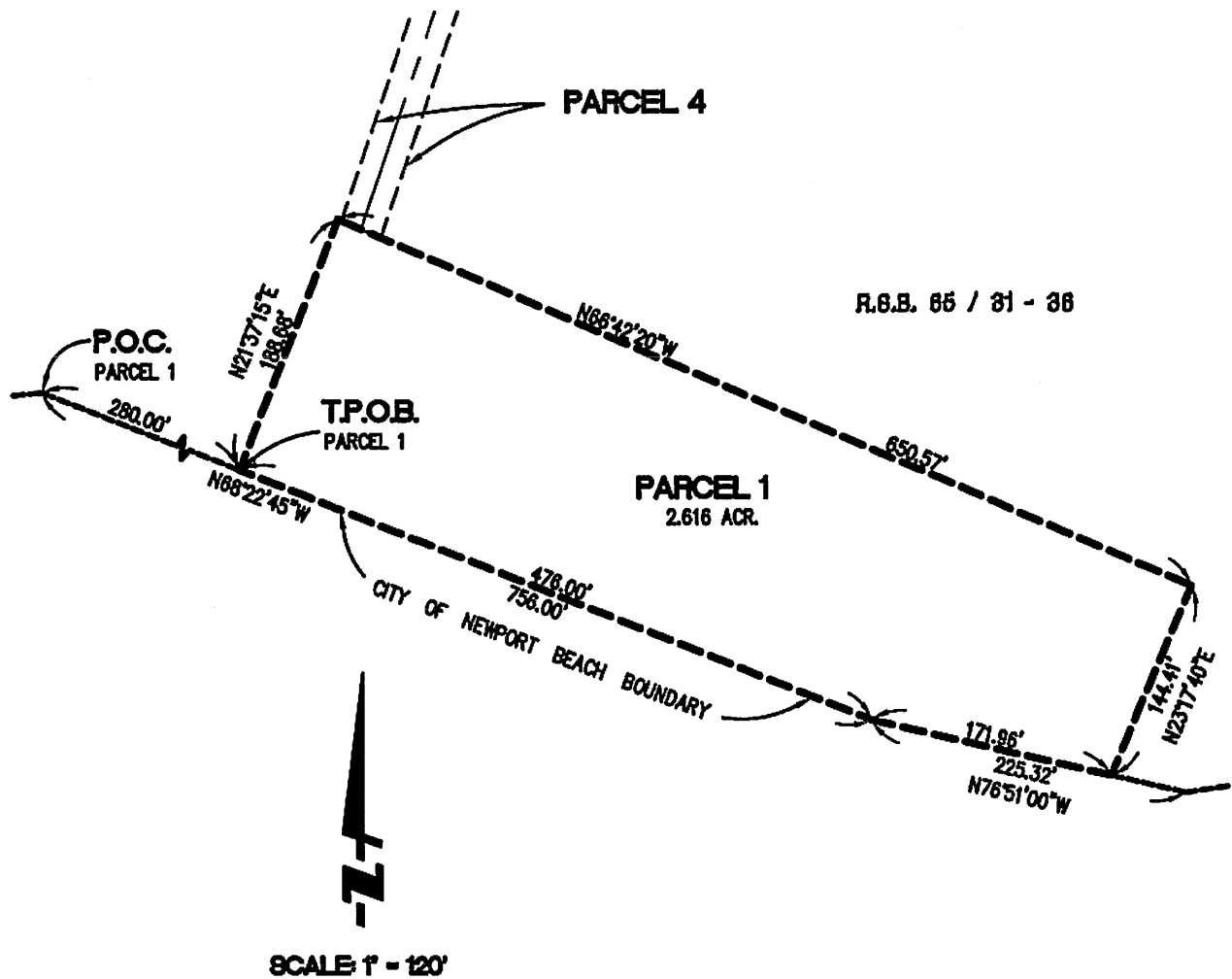


Exhibit "B"



DENOTES PARCEL 1 AREA

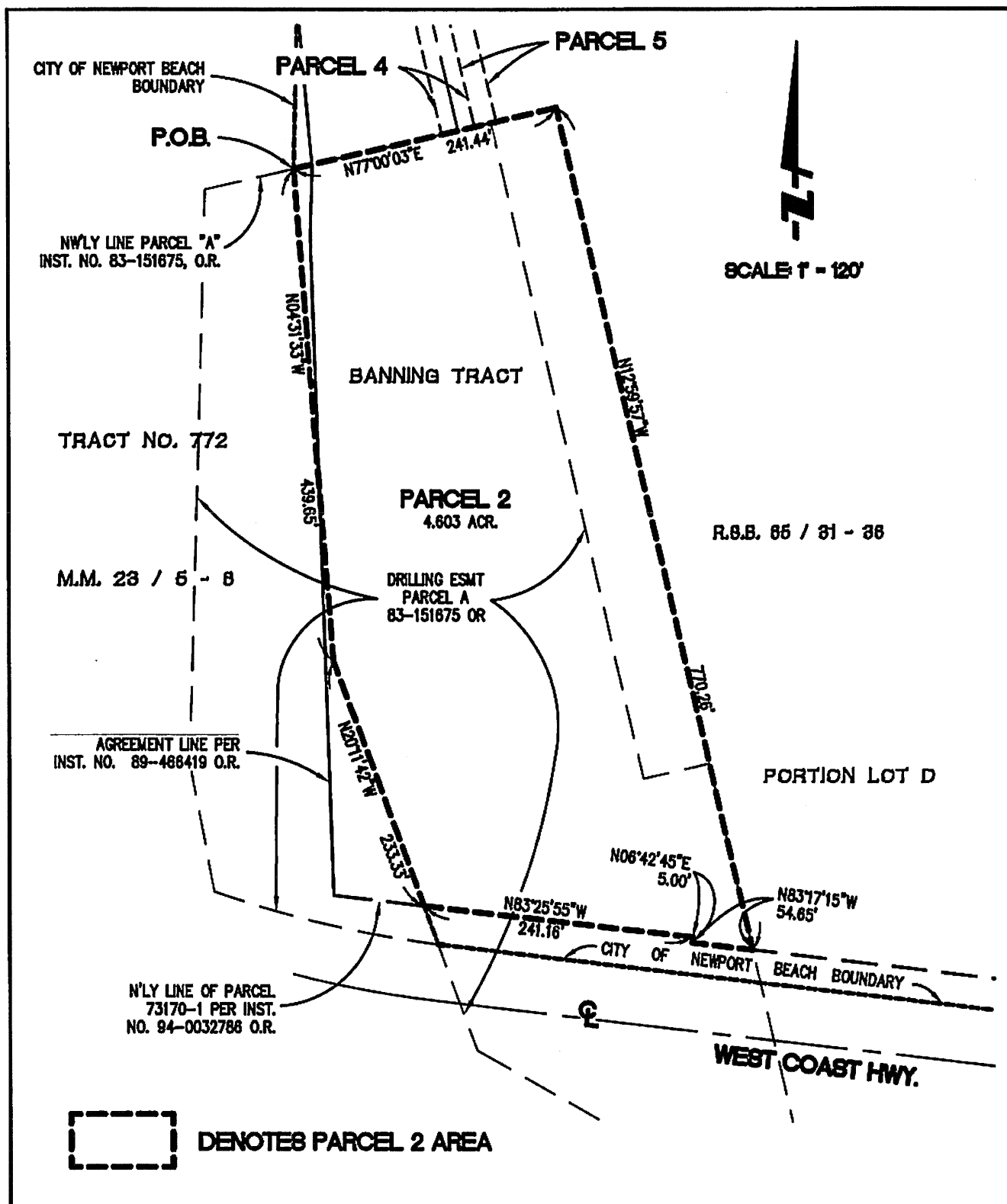


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EXHIBIT B-PARCEL 1
OIL WELL OPERATIONAL AREA
CITY OF NEWPORT BEACH &
UNINCORPORATED TERRITORY OF ORANGE COUNTY,
CALIFORNIA

DATE: 07/01/10
SCALE: 1"=120'
JN: 821.0102
1 OF 5



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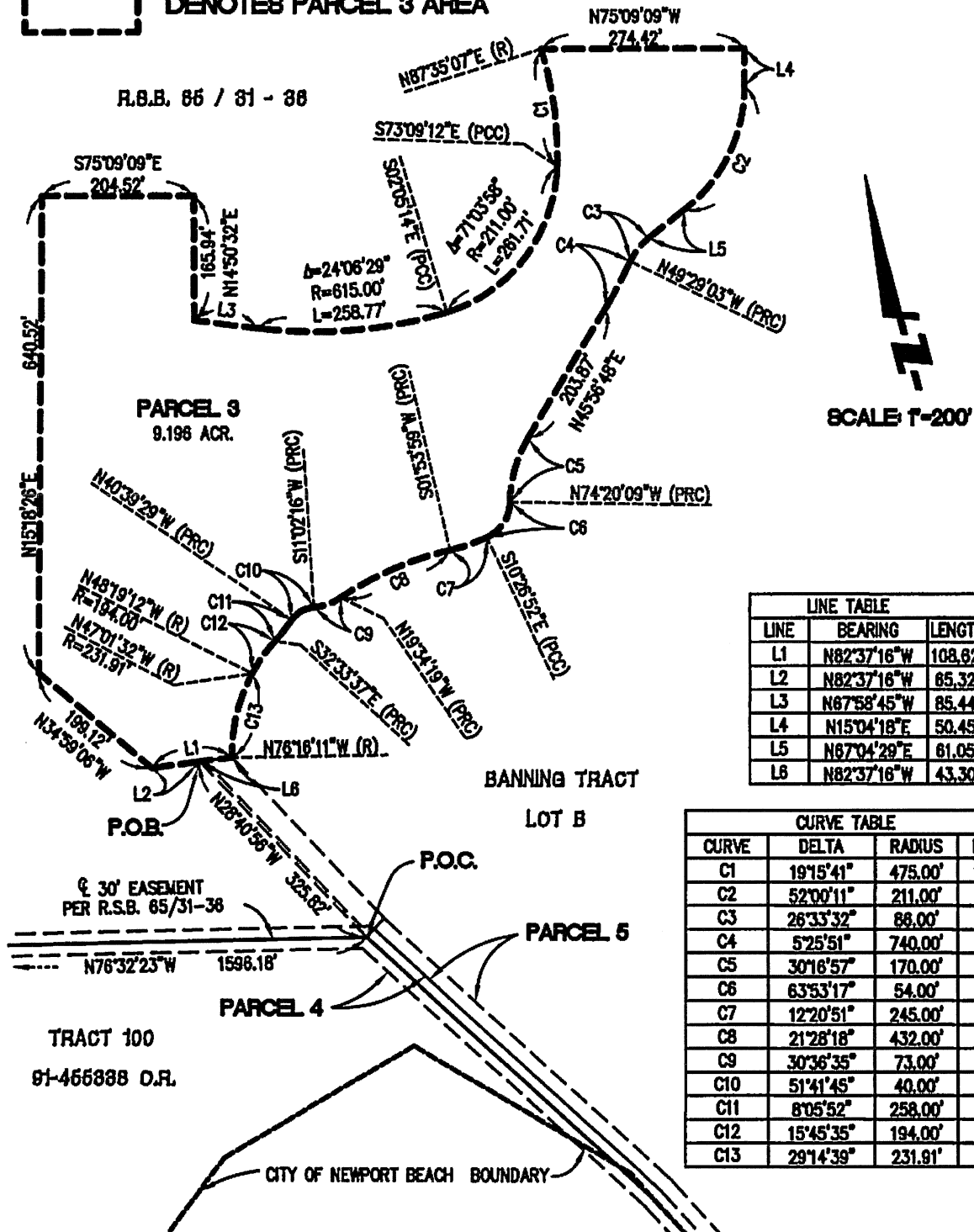
EXHIBIT B-PARCEL 2
OIL WELL OPERATIONAL AREA
CITY OF NEWPORT BEACH &
UNINCORPORATED TERRITORY OF ORANGE COUNTY,
CALIFORNIA

DATE: 07/01/10
SCALE: 1"=120'
JN: 821.0102

2 OF 5



DENOTES PARCEL 3 AREA



LINE TABLE		
LINE	BEARING	LENGTH
L1	N82°37'16"W	108.62'
L2	N82°37'16"W	65.32'
L3	N87°58'45"W	85.44'
L4	N15°04'18"E	50.45'
L5	N87°04'29"E	61.05'
L6	N82°37'16"W	43.30'

CURVE TABLE			
CURVE	DELTA	RADIUS	LENGTH
C1	19°15'41"	475.00'	159.68'
C2	52°00'11"	211.00'	191.51'
C3	26°33'32"	88.00'	39.86'
C4	5°25'51"	740.00'	70.14'
C5	30°16'57"	170.00'	89.85'
C6	63°53'17"	54.00'	60.21'
C7	12°20'51"	245.00'	52.80'
C8	21°28'18"	432.00'	161.89'
C9	30°36'35"	73.00'	39.00'
C10	51°41'45"	40.00'	36.09'
C11	8°05'52"	258.00'	36.46'
C12	15°45'35"	194.00'	53.36'
C13	29°14'39"	231.91'	118.37'

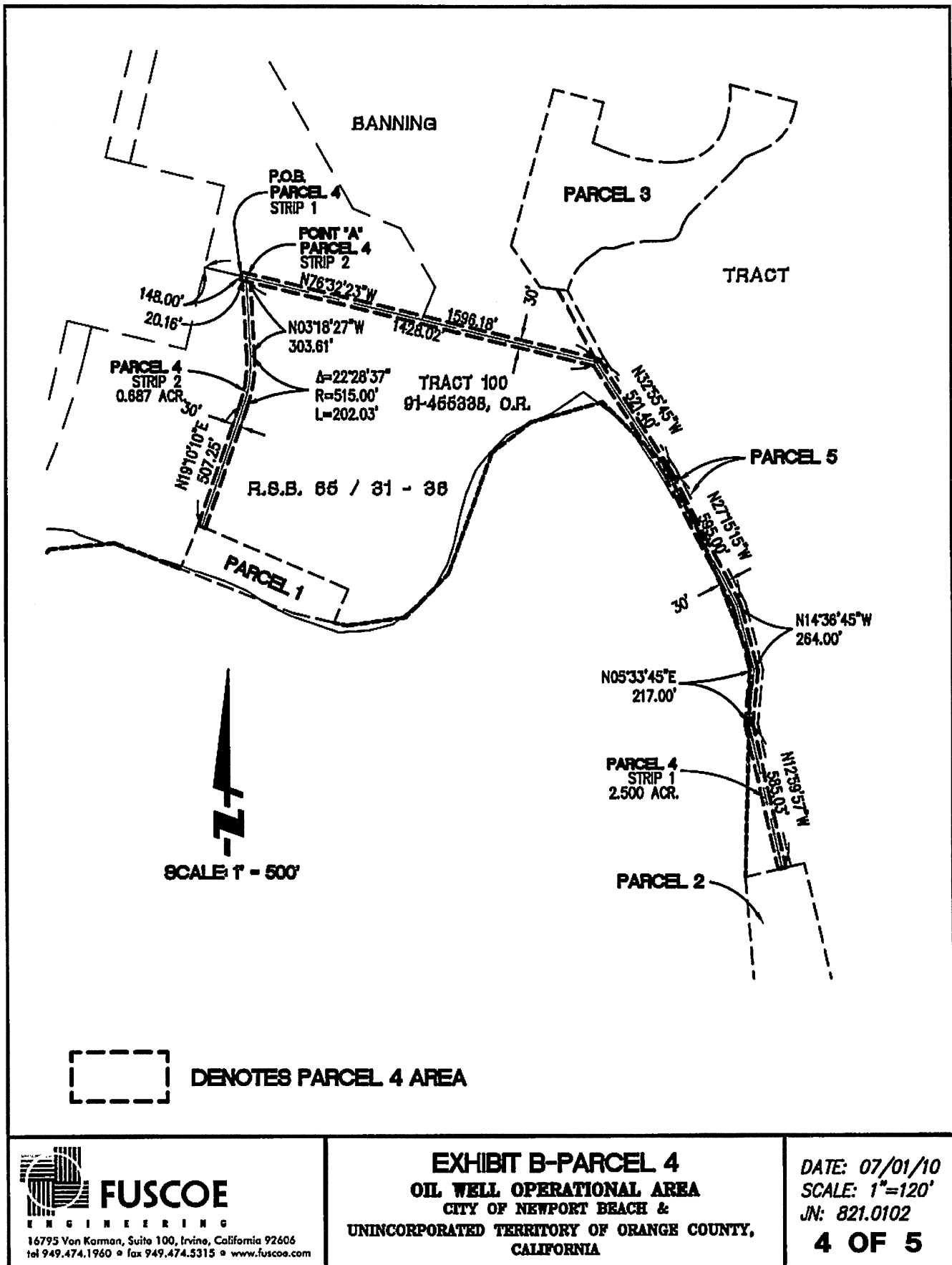


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ENGINEERING

16795 Van Karman, Suite 100, Irvine, California 92606
tel 949.474.1960 • fax 949.474.5315 • www.fusco.com

EXHIBIT B-PARCEL 3
OIL WELL OPERATIONAL AREA
CITY OF NEWPORT BEACH &
UNINCORPORATED TERRITORY OF ORANGE COUNTY,
CALIFORNIA

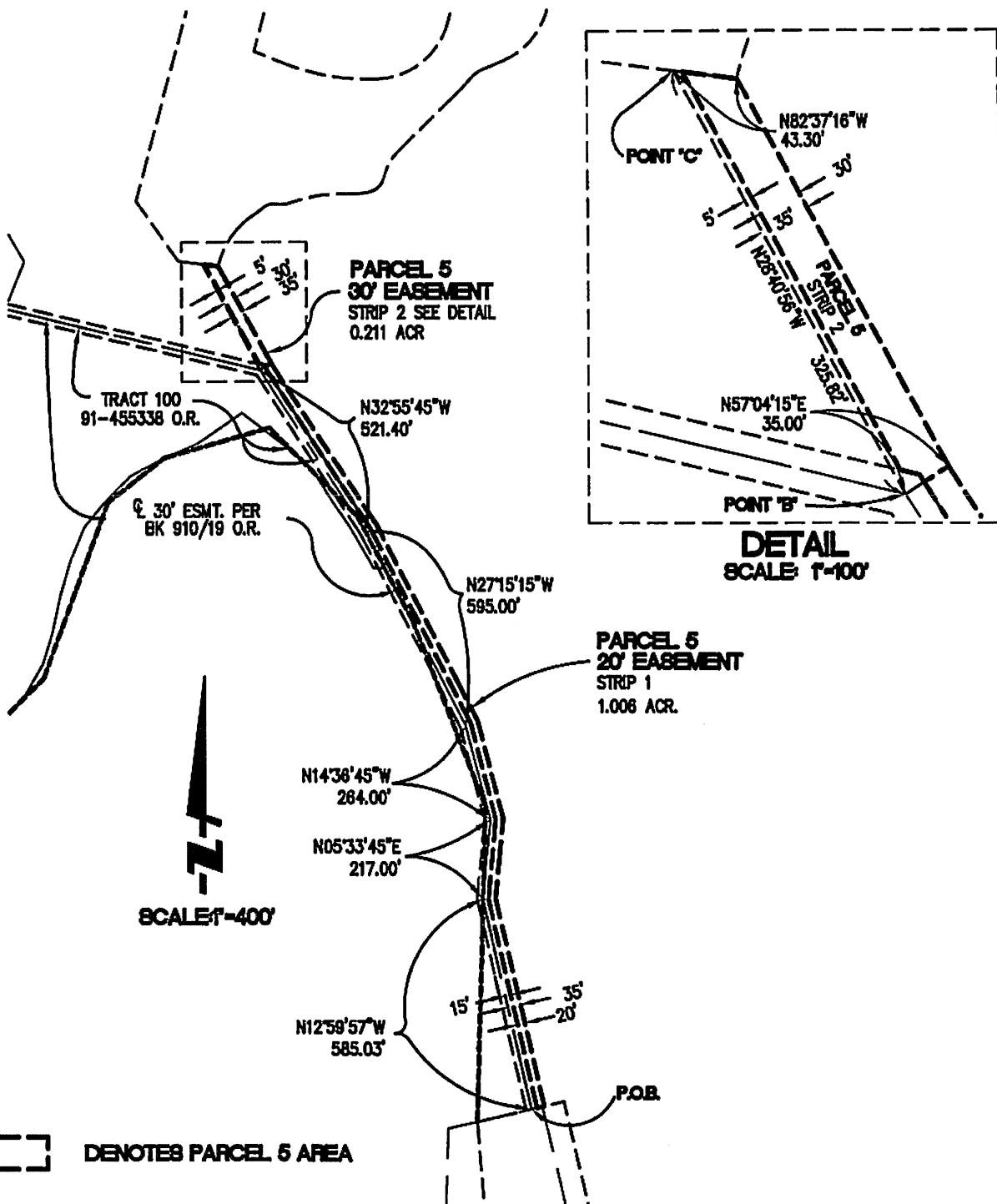
DATE: 07/01/10
SCALE: 1"=200'
JN: 821.0102
3 OF 5



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EXHIBIT B-PARCEL 4
OIL WELL OPERATIONAL AREA
CITY OF NEWPORT BEACH &
UNINCORPORATED TERRITORY OF ORANGE COUNTY,
CALIFORNIA

DATE: 07/01/10
SCALE: 1"=120'
JN: 821.0102
4 OF 5



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EXHIBIT B-PARCEL 5
OIL WELL OPERATIONAL AREA
CITY OF NEWPORT BEACH &
UNINCORPORATED TERRITORY OF ORANGE,
CALIFORNIA

DATE: 07/01/10
SCALE: 1"=400'
JN: 821.0102

5 OF 5