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November 4, 1998

Mr. Robert D. Kase
Operations Integrity Manager
Exxon Company, U.S.A.
P.O. Box 5025
Thousand Oaks, CA 91359-5025

Re: Sacate Field Development
Heritage Extended Reach Drilling
Santa Ynez Unit

Dear Mr. Kase:

By letters dated March 25, and August 7, 1998, you submitted a proposal to us to develop the Santa Ynez Unit Sacate Field by drilling extended reach wells from Platform Heritage. This letter hereby approves your proposal and describes the background and details the conditions of this approval.

Exxon Proposal

You request approval to drill extended reach wells from Platform Heritage to develop the Sacate Field which were originally planned to be developed from Platform Heather. You do not propose to remove Platform Heather from the approved SYU Development and Production Plan at this time pending the results from the extended reach drilling program.

You consider this proposal to be a minor revision of the approved SYU DPP; it is the result of an updated reservoir development evaluation together with recent technology advances in the drilling of extended reach wells. You believe this development approach will enable the Heather Platform Area reserves (Sacate Field) to be developed in an efficient and timely manner.

Your proposal is for the drilling of ten wells, including one, as yet to be defined, outpost well from Platform Heritage. The final number of development wells will depend upon reservoir performance, resolution of geologic uncertainties, and economic conditions. If more than ten wells are required to ultimately develop Sacate reserves, some slots on Heritage may be reused when either Pescado or Sacate wells deplete.

Minor topsides modifications to accommodate the Sacate production will also be needed. These modifications include an upgrade of the electrical systems to supply power for electric submersible pumps and installation of an electric drive pump and associated piping to enable downhole injection of diluent. To accommodate this equipment, one or two small deck extensions may be

required. Other minor changes will also be required on the platform. The extended reach wells will require the use of oil-based drilling muds. You propose to modify the mud handling equipment aboard Heritage to handle oil-based muds and cuttings and will dispose of the oil-based muds and cuttings down a Pescado Field well or transport them to shore for disposal in accordance with EPA requirements.

Wastewater produced by the extended reach program will be treated and disposed of through the wastewater disposal system approved for the SYU platforms. Discharges will not vary in volume or discharge location from those authorized under the original SYU DPP.

Also included with your August 7, 1998 letter were revised pages to the most recent revision of the SYU DPP (1988) to reflect development of the Sacate Field from Platform Heritage. The revisions are mainly narrative changes that update the geologic and reservoir performance data used to assess the Sacate Field and the proposed drilling and completion programs.

DPP History

The SYU DPP was approved September 20, 1985 after a Joint Environmental Impact Statement/Report was prepared by the Minerals Management Service, the California State Lands Commission and the County of Santa Barbara, and after the California Coastal Commission concurred with Exxon's consistency certifications for both the OCS and onshore portions of the project.

In 1987, Exxon proposed revisions to the SYU DPP. A summary of these revisions was sent out for review and comment to other agencies, including the CCC. These revisions were reviewed technically and environmentally by the MMS including the preparation of an Environmental Assessment. In January 1988, the CCC agreed with its Executive Director's determination that no additional consistency review of these revisions was needed. The MMS approved these DPP revisions on April 4, 1988. Both the original 1985 DPP and 1988 approved revisions to the DPP included the eventual installation of a Platform Heather on Lease OCS-P 0193.

MMS Review and Approval

The MMS mailed copies of the proposal for review to several Federal, State and local government agencies and other parties, including the CCC, Santa Barbara County Energy Division and Santa Barbara County Air Pollution Control District. Questions were raised by SBC and the CCC which were addressed by subsequent correspondence, or have been incorporated into MMS conditions of approval for this project. This includes a No Effects Determination made by the CCC that the proposal does not warrant further federal consistency review under the Coastal Zone Management Act.

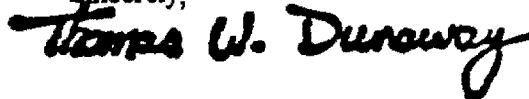
The MMS conducted an environmental review of your proposal and found that it is categorically excluded. This determination is based on the proposal according to the exception criteria [516 DM 2.3. A (3)] set forth in the Departmental Manual pursuant to regulations at 40 CFR 1508.4

established by the Council on Environmental Quality under the National Environmental Policy Act.

In addition to our environmental review, an in-depth technical, regulatory and safety review of your proposal was conducted. Our review concludes that your proposal is based upon sound engineering and scientific principles and meets MMS regulations at 30 CFR 250 and other applicable regulations and requirements. Based upon our review of your proposal, we have also determined that the Sacate Field can be properly developed using extended reach drilling from Platform Heritage and that the proposed changes do not represent a significant modification to the approved SYU DPP.

Therefore, based upon our technical, regulatory, environmental and safety review, your proposal to develop the Sacate Field using extend reach drilling from Platform Heritage is hereby approved subject to the enclosed conditions of approval. Your proposed revised pages to the SYU DPP are also approved. You are also reminded that pursuant to 30 CFR 250.1300 and Section 7 of the Santa Ynez Unit Agreement, prior to commencement of production from the Sacate Field Participating Area II (PA II), you will need to submit to the Regional Supervisor, Resource Evaluation, an updated PA II for review and approval. We will review the new PA and tract allocation percentage per Exhibit "C" of the Santa Ynez Unit Agreement to ensure that the new PA established will properly develop the Sacate Field.

Sincerely,



Thomas W. Dunaway
Regional Supervisor
Development, Operations and Safety

Enclosure

cc: Ms. Susan Hansch
California Coastal Commission
Energy and Ocean Resources Unit
45 Fremont Street, Suite 2000
San Francisco, CA 94105

Ms. Michelle Gasperini, Energy Specialist
Santa Barbara County Energy Division
1226 Anacapa Street, 2nd Floor
Santa Barbara, CA 93101-2010

Mr. Ray D. McCaffrey, Project Manager
Santa Barbara County Air Pollution Control District
26 Castilian Drive, B-23
Goleta, CA 93117

Mr. Michael P. Darden
Vice President, Business Development
Nuevo Energy Company
1331 Lamar, Suite 1650
Houston, TX 7

bcc: File: 1703-02a1 - SYU DPP Corresp. (Platform Heritage)
RD
Chron
RS/OEE
RS/ORE
DS/C
C/PPPS
C/EAS Attn: Dave Panzer
C/OSES
C/PDS
G. Shackell
A. Shareghi
H. Syms
A. Voskarian
C. Hoffman

OFO: GCS/EAS:bh:Wperf:ltr:SACATE.WPD:11-04-98

**Conditions of Approval
Extended Reach Drilling
Sacate Field Development**

1. Exxon shall assume sole responsibility for complying with applicable Federal, State and local laws and requirements and for obtaining all required permits related to this proposal prior to commencing Sacate extended reach drilling operations or activities on the OCS.
2. Exxon shall meet with the Regional Supervisor for Operations, Development and Safety following the completion of the first and second extended reach well from Platform Heritage to discuss the success of each well; what changes (if any) you will make to the reservoir models; and to discuss if the information obtained from drilling the wells will change your future drilling plans.
3. Exxon shall submit to the Camarillo District Supervisor for review and approval any proposed topside modifications, including any proposed processing, P & ID and SAFE chart or other changes prior to implementation. Any proposals for structural changes (including any new proposed deck extensions) shall be submitted to the RS/ODOS for review and approval prior to implementation.
4. Exxon shall submit to the RS/ODOS for review and approval, modifications to the SYU Measurement and Allocation manual which describes meter systems and methods used to measure oil and gas production and diluent injection and to allocate oil, gas, and water volumes back to the Participating Area. This shall be approved prior to producing Sacate Field production from the extended reach drilling from Platform Heritage.