

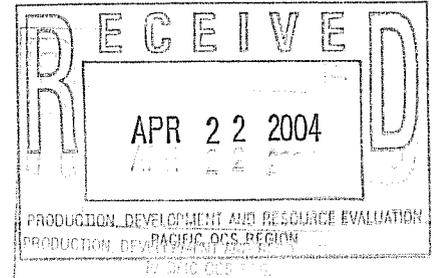
# PXP

## ARGUELLO INC.

April 20, 2004

from the desk of:  
Robert E. Huguenard  
Project Manager

Ms. Joan Barminski  
Chief, Reservoir Evaluation  
Pacific OCS Region  
Minerals Management Service  
770 Paseo Camarillo  
Camarillo, California 93010



note: Fax received  
4/20/04

Subject: Update to Rocky Point Unit Suspension Request

Dear Ms. Barminski:

This letter is in response to your letter of March 10, 2004, requesting that we update our August 2, 2001 suspension request for leases OCS P-0452 and 0453 (the Rocky Point Unit).

This letter along with the attached Gantt chart and "Discussion of Activities," provide both a chronology of key events and activities that have occurred since our last request and a revised schedule of work to account for the time we estimate will be needed to complete the remaining required activities leading to commencement of lease production.

### A. Discussion of Key Events and Activities

Arguello Inc. has been working for four years on the development of the Rocky Point Unit. Arguello Inc. has expended considerable time and funds on its own behalf and that of the Rocky Point partners. Additionally, a number of governmental agencies have been aggressively working on the permitting of this project.

Arguello, Inc. recognizes that one of the Rocky Point partners, Delta Petroleum Corporation, joined by other lessees, filed a breach of contract action against the United States in the U.S. Court of Federal Claims, *Amber Resources Co. v. United States*, No. 02-30C (the "Amber case"). Arguello Inc. submits this letter and the information herein without intending to waive any of the legal positions or rights of Delta Petroleum Inc. in the *Amber* case.

Arguello Inc. submitted to the MMS revisions to Point Arguello Field Development and Production Plans (DPP) in April of 2001 that covered the development of the Rocky Point Unit with no new platforms or pipelines and only minor changes to topside equipment within the Point Arguello Unit. In May of 2001 Arguello Inc. submitted an application to the County of Santa Barbara for a Final Development Plan (FDP) modification to cover the Rocky Point Unit Development. As a result of these applications the County of Santa Barbara and the MMS prepared a joint environmental document for the project. In May 2001, Arguello Inc. submitted to the California Coastal Commission (CCC) an application for consistency determination for the Rocky Point Unit Development.

All of these applications were moving through the process, and the project was on track to have all final permits by the end of 2001. In June 2001 the *California v. Norton (Norton)* decision was issued, which effectively stopped all permit processing work on the Rocky Point Unit development since two of the three Rocky Point leases (OCS P-0452 and OCS P-0453) were involved in the *Norton* suit. With the Department of Interior's subsequent appeal of the *Norton* decision, development of the Rocky Point Unit, as originally proposed by Arguello Inc., was not able to move forward at that time.

In order for the development of Rocky Point to begin without having to wait until after a final decision on the *Norton* appeal, and because the OCS P-0451 lease was held by production (and hence not affected by the *Norton* lawsuit), in August of 2002, Arguello Inc. submitted a new DPP revision request that contained a modified Rocky Point field development project that only included the development of the E/2 OCS P-0451 lease. Concurrently, Arguello also submitted the same modified project application to the county of Santa Barbara. In March of 2003 the MMS contracted the Rocky Point Unit to remove the E/2 OCS P-0451 lease from the unit. In August of 2003 the MMS approved Arguello's proposed revisions to the Point Arguello field DPP to include development of the E/2 OCS P-0451 lease. The California Coastal Commission also approved these DPP revisions in August of 2003. Santa Barbara County approved the project in September of 2003. We are currently mobilizing the drilling equipment to begin drilling the first of the E/2 OCS 0451 wells.

## **B. Proposed Strategy for Development of the Rocky Point Unit**

Several of the previously identified work elements have been completed as shown on the attached Gantt chart. None of these elements were previously considered as critical path items so their completion does not substantially shrink the overall estimated time from our earlier request. Some of the other previously identified work elements have been completed for the E/2 0451 lease development and can be modified or reviewed to make them applicable to the

development of the now contracted Rocky Point Unit. For this reason, we have kept our earlier time estimates the same.

Once the suspension of production is approved, we would move forward as quickly as possible and may be able to complete some or all of the listed work elements sooner than estimated. If this occurs, we would begin production of the Rocky Point Unit sooner than estimated. Furthermore, if the permitting time line happens to become aligned with our drilling progress on the E/2 OCS P-0451 we might be able to utilize the same drilling rig that is currently being mobilized for the E/2 OCS P-0451 drilling program to begin drilling into the Rocky Point Unit. This would allow for an earlier spud date without having to wait for mobilization of a rig capable of handling these extended reach wells.

After the start of the new suspension, we would initiate permitting activities for the Rocky Point Unit as soon as we are able to review and modify our project description, prepare the new data necessary for the DPP revision, and prepare for submission any other required application materials. The project description would retain most if not all of the attributes from our previous submission. Namely, we would develop the Rocky Point Unit with existing Point Arguello platforms and pipelines.

Regarding the three items we mentioned in our August 2, 2001 request (i.e. drilling technology report, petro-physical analysis report, and mapping based on 3-d seismic reinterpretation), we have already provided your office with these items.

If you have any questions or comments, please contact me at (805) 567-1634.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert E. Huguenard". The signature is fluid and cursive, with a large initial "R" and "H".

Robert E. Huguenard  
Project Manager

Enclosure(s)

REH/als



# **Rocky Point Unit**

Santa Barbara Channel  
California

Discussion of Activities

August 01 – March 04

Arguello Inc.

<b>October 15, 2001</b>	Geophysical interpretation of reprocessed seismic data complete.
<b>November 8, 2001</b>	Rincon Energy, LLC retained to reinterpret reprocessed seismic data. Includes additional processing (i.e. depth migration).
<b>November 14, 2001</b>	GeoSystems submits final report on Rocky Point and Point Arguello reservoir characteristics (core study and comparative analysis).
<b>January 18, 2002</b>	Preliminary seismic reinterpretation completed by Rincon Energy, LLC
<b>January 31, 2002</b>	Arguello Inc. manually planimetered preliminary maps by Rincon Energy and calculated preliminary volumetrics.
<b>February 14, 2002</b>	Revised preliminary well locations based on seismic reinterpretation.
<b>March 2002</b>	Seismic reinterpretation of the three horizons contracted by Rincon complete.
<b>April 2002</b>	Arguello Inc. created 3D model of Rincon interpretation in Earthvision.
<b>May 2002</b>	Completed integrating RP DST, PAU DST, PAU production log, PAU production, and nodal analysis data. Result was ranged and expected production schedule estimates for RP wells.
<b>May 22, 2002</b>	Volumetrics generated in Earthvision and compared to manual calculations.
<b>August 2002</b>	Arguello Inc. submitted revised DPP revision request to MMS and revised project application to County of Santa Barbara.
<b>October 7, 2002</b>	GeoSystems performed tests on Rocky Point and Point Arguello core samples to determine effects of acid on reservoir rocks (potential damage or efficiency of wellbore clean-up and stimulation).
<b>March 2003</b>	MMS demanded contraction of the Rocky Point Unit to exclude the E/2 of OCS P-0451 lease.
<b>August 2003</b>	MMS and California Coastal Commission approved the Point Arguello Unit DPP revision to include development of the E/2 of OCS P_0451 using existing Point Arguello field platforms and pipelines.
<b>September 2003</b>	County of Santa Barbara approved development of the E/2 OCS P-0451 using existing Point Arguello field platforms, pipelines and onshore facility.