

Exhibit 3

OPERATING ASSURANCES AGREEMENT

1 This Operating Assurances Agreement ("Agreement") is made
2 and entered into by and between the California State Lands
3 Commission (the "SLC") and CalResources LLC ("CalResources"),
4 collectively referred to as the "Parties."

5 WHEREAS, the SLC intends to purchase from the Signal Bolsa
6 Corporation certain real property located in the County of
7 Orange, California, as generally depicted on Exhibit A attached
8 hereto (hereinafter referred to as the "Signal Lowlands") and the
9 SLC already owns lands adjacent to the Signal Lowlands which are
10 commonly referred to as the State Ecological Reserve (the
11 "Ecological Reserve"), also depicted on Exhibit A; and

12 WHEREAS, CalResources conducts oil and gas field operations
13 on the Signal Lowlands and portions of the Ecological Reserve
14 pursuant to certain oil and gas leases and the SLC will take
15 title to the Signal Lowlands subject to, among other things, the
16 said oil and gas leases; and

17 WHEREAS, the SLC will also take title to the Signal Lowlands
18 subject to, among other things, the "Bolsa Surface Use Agreement"
19 dated September 2, 1971 (the "Original BSUA"), as amended by the
20 "Addendum to Bolsa Surface Use Agreement" dated April 29, 1975
21 (the "BSUA Addendum"), collectively referred to as the "BSUA";
22 and

23 WHEREAS, the SLC, in cooperation with seven other state and
24 federal agencies and pursuant to that certain agreement dated
25 October 4, 1996, as amended by the First Amendment dated December
26 13, 1996 (collectively, the "Bolsa Chica Lowlands Project
27 Agreement"), between the SLC, the other seven agencies, and the
28 Cities of Long Beach and Los Angeles, California, acting by and
29 through their respective Boards of Harbor Commissioners, intends
30 to undertake a project (the "Project") to restore the wetlands
31 and habitat areas found on portions of the Signal Lowlands,
32 Ecological Reserve, and certain other properties adjacent to the
33 Signal Lowlands, which lands are collectively hereafter referred
34 to as the "Project Lands"; and

1 WHEREAS, construction of the Project will require that
2 certain of the oil and gas field facilities operated by
3 CalResources on Project Lands be abandoned or relocated; and

4 WHEREAS, the Parties desire to enter into this Agreement in
5 order to specify who, as between the two of them, will be
6 responsible for the costs of such abandonments or relocations.

7 NOW THEREFORE, in consideration of the mutual covenants
8 hereinafter set forth, and other good and valuable consideration
9 the receipt of which is hereby acknowledged, the Parties covenant
10 and agree as follows.

11 DEFINITIONS

12 Article 1. Definitions

13 When used in this Agreement, the following terms shall have the
14 meanings ascribed to them herein:

15 A. "Full Tidal Area", "Managed Tidal Area", "Seasonal
16 Ponds", and "Future Full Tidal Area" mean the areas of the
17 Project Lands which are generally identified and so labeled on
18 Exhibit B hereto, as those areas may in the future be modified by
19 the Final Plan for the Project in accordance with Sections 3, 4,
20 5, and 6 of the Bolsa Chica Lowlands Project Agreement.

21 B. "Berms" means all or any portion of the berms which will
22 be constructed by the SLC for the Project around the Full Tidal
23 Area, including existing berms which will be increased in height
24 or used as they now exist, as those berms are generally depicted
25 on Exhibit B hereto.

26 C. "Whipstock Area" means the area generally identified and
27 so labeled as such on Exhibit B hereto.

28 D. "Tidal Inlet" means the new ocean inlet which is to be
29 constructed for the Project across Pacific Coast Highway 1 and
30 through the Whipstock Area, as generally depicted on Exhibit B
31 hereto.

1 RELOCATION OR ABANDONMENT OF WELLS, ROADS, AND OTHER FACILITIES

2 Article 2. Existing, Operable Wells in the Full Tidal Area

3 A. The Parties agree that there are 55 wells, as listed in
4 Exhibit C to this Agreement, in the Full Tidal Area, as that area
5 is identified in Exhibit B, which have not, as of the effective
6 date of this Agreement, been plugged and abandoned.

7 B. The Parties further agree that 17 of those 55 wells, as
8 identified in Exhibit C hereto, have ceased production in
9 quantities sufficient to pay the costs of operation of each such
10 well and are therefore, subject to Article 2.D. below, the
11 responsibility of CalResources to plug and abandon. The said 17
12 wells shall be plugged and abandoned in accordance with Paragraph
13 4 of the BSUA and paragraph numbered 3 of the "Deferral of Twelve
14 South Bolsa 'Tidal Channel' Wells" dated March 13, 1993,
15 notwithstanding the fact that the latter document does not
16 pertain to all 17 wells.

17 C. With respect to the remaining 38 wells, the Parties
18 agree as follows:

19 (1) Rather than making any further determinations as
20 to whether any given well is or is not now or in the future
21 idle, these 38 wells shall, subject to Article 2.D. below,
22 be plugged and abandoned, with the SLC paying for fifteen-
23 ninetieths (15/19ths) of the total cost of so plugging and
24 abandoning the said 38 wells and CalResources paying for the
25 balance of the total cost. CalResources agrees that this
26 arrangement will completely fulfill the SLC's obligations to
27 CalResources under Paragraph 8 of the BSUA for the
28 abandonment of the said 38 wells.

29 (2) The Parties agree that CalResources shall prepare
30 and submit a written plan and cost estimate to the SLC for
31 the plugging and abandonment of the said 38 wells by
32 CalResources. If the plan and cost estimate are acceptable
33 to the SLC, as originally submitted or as they may be
34 revised by mutual agreement of the Parties, then
35 CalResources shall proceed to perform the necessary work and
36 the SLC shall promptly reimburse CalResources thereafter
37 based upon periodic billings from CalResources for work

actually performed. If the SLC prefers to perform or cause to be performed the necessary work, it shall have the option of doing so, in which event CalResources shall promptly reimburse the SLC based upon periodic billings from the SLC for work actually performed.

(3) The Parties agree that the cost of plugging and abandoning the said 38 wells shall, subject to Article 5 below, include the costs, less salvage value, for the removal of all wellbore equipment; the abandonment of the wellbore; the removal and abandonment of the well cellar, well pad and well site materials; the removal of the wellbore casing to the depth required by the California Department of Oil and Gas Regulation, considering the depths to which the Full Tidal Area is to be dredged; the removal of all wellhead/casing piping, valves, and flowlines back to the production manifold; the removal of all electrical wiring, motors, panels, and individual well poles/equipment; the removal of all artificial lift surface equipment and foundations; the removal of any other equipment, piping, wiring, or material related to the production and maintenance of the individual well; and any grading or surface contouring of the ground in the area of the above activity which is required by the SLC.

(4) With respect to the said 38 wells, the Parties further agree that, for the purposes of establishing the fair market value of the total production of oil, gas, and other hydrocarbon substances pursuant to Paragraph 8 of the BSUA:

(a) The price premise shall be the highest of the average gravity corrected daily postings for the Huntington Beach Oil Field which occurs between the day on which the SLC gives written notice to CalResources to abandon the 55 wells in the Full Tidal Area (pursuant to Article 2.D. below) and within 180 days thereafter, inclusive; Provided, however, until March 1, 2000, that the price premise shall not be higher than \$21.00 per barrel of oil nor lower than \$15.00 per barrel of oil;

1 (b) Projections of future prices shall assume
2 real growth of one percent per annum;

3 (c) Projections of future annual inflation or
4 deflation shall be based upon the gross domestic
5 product or another mutually agreed upon forecast.

6 (d) CalResources' production costs shall be
7 determined in future negotiations between the Parties,
8 except that CalResources' indirect overhead costs shall
9 be computed at 12.5 percent of direct costs; and

10 (e) The reserves shall be determined in future
11 negotiations between the Parties, except that the
12 Parties agree that the reserves shall be determined for
13 all 38 wells in the aggregate, not on an individual
14 well basis.

15
16 The Parties further agree that should disputes between them
17 concerning fair market value arise with respect to matters
18 not specified in (a) through (e) above, then such disputes
19 shall be submitted to arbitration in accordance with
20 Paragraph 8 of the BSUA. CalResources may continue to
21 produce any of the 38 wells until it receives from the SLC
22 payment for the fair market value of the reserves associated
23 therewith.

24 D. With respect to all 55 wells, the Parties agree, any
25 provision of the BSUA to the contrary notwithstanding, that the
26 SLC will give a single written notice to CalResources to plug and
27 abandon all 55 wells not less than 18 months prior to the date
28 upon which the SLC requires the plugging and abandonment of these
29 wells to be completed. Nothing in this Agreement shall prevent
30 CalResources from plugging and abandoning any of these 55 wells
31 prior to receipt of such notice from the SLC.

32 Article 3. Wells Outside of the Full Tidal Area

33 Notwithstanding Paragraph 4 of the BSUA, the SLC agrees that
34 it will not give CalResources any notifications of idle or
35 inactive wells, nor require CalResources to act on any notice
36 given prior to the effective date of this Agreement by the
37 previous owner of the Signal Lowlands, for wells located outside

1 of the Full Tidal Area, except for wells which the SLC requires
2 to be abandoned for the Project, until after December 31, 2001,
3 so that CalResources may have sufficient time to assess its
4 remaining oil field operations. On and after January 1, 2002,
5 the SLC may resume giving notices of idle or inactive wells
6 pursuant to the said Paragraph 4.

7 Article 4. Reabandonment of Previously Abandoned Wells in the Full
8 Tidal Area

9 The Parties agree that if any abandoned wells in the Full
10 Tidal Area need to be reabandoned because they are exposed by the
11 dredging, excavation, and/or grading being done for the Project,
12 then the SLC will be responsible for paying for any such required
13 reabandonments of any previously abandoned wells; Provided,
14 however, that if a well had been abandoned by CalResources but
15 had not been abandoned to the California Department of Oil and
16 Gas Regulation's then existing abandonment standards, then
17 CalResources shall be responsible for reabandoning such well
18 within 120 days of being notified by the SLC of the same and for
19 bearing all costs associated with such reabandonment.

20 Article 5. Contaminated Soils from Wellbores, Well Pads, and
21 Roads

22 A. If the SLC determines, in consultation with the other
23 State and Federal agencies which are parties to the Bolsa Chica
24 Lowlands Project Agreement, that any soils from wellbores, or on
25 or in a well pad, associated with one of the 55 wells identified
26 in Exhibit C hereto or that any soils on or in any roadway for
27 which the SLC requires early removal, relocation, or contouring
28 in the Full Tidal Area are contaminated and therefore cannot be
29 left in place or dredged for ocean disposal, then an effort will
30 be made by the SLC to use all such materials in the construction
31 of the Berms to the maximum extent possible, consistent with
32 Project needs and environmental considerations. If the SLC
33 determines, in consultation with the other State and Federal
34 agencies which are parties to the Bolsa Chica Lowlands Project
35 Agreement and for whatever reason, that such soils cannot be used
36 in the Berms, but if such soils can be used for offsite road or
37 construction fill under the then applicable standards of the
38 Santa Ana Regional Water Quality Control Board, then 80 percent
39 of the cost of removing such soils and disposing of them in an

1 approved road or construction fill shall be borne by the SLC and
2 20 percent by CalResources. If any portion of such soils are so
3 contaminated that they cannot be used for road or construction
4 fill, then CalResources shall bear all costs of removing and
5 properly disposing of such portion off of the Project Lands,
6 except that such soils may be temporarily stockpiled on Project
7 Lands outside of the Full Tidal Area and Managed Tidal Area for
8 future soil blending or other treatment.

9 B. If a wellbore, well pad, or road or road segment which
10 is subject to Article 5.A. above is located within one of the
11 areas which CalResources is responsible for cleaning up pursuant
12 to that certain "Clean-Up Agreement and Release" between the SLC,
13 CalResources, and Koll Real Estate Group entered into
14 concurrently with this Agreement, and if, pursuant to the
15 processes and procedures for which the said Clean-Up Agreement
16 and Release calls, it is determined that an area for which
17 CalResources is responsible need not be cleaned up except for the
18 soils from such a wellbore, well pad, or road or road segment,
19 then the provisions of Article 5.A. above, rather than the
20 provisions of the said Clean-Up Agreement and Release, shall
21 govern and clean-up costs shall be allocated between the SLC and
22 CalResources in accordance with Article 5.A. above. On the other
23 hand, if it is determined pursuant to the said Clean-Up Agreement
24 and Release that an area for which CalResources is responsible
25 needs to be cleaned up not only because of the soils in a
26 wellbore, well pad, or road or road segment which is located
27 within such an area, then the said Clean-Up Agreement and Release
28 shall govern and the costs of cleaning up the entire area,
29 including the soils from the wellbores, well pads, and roads or
30 road segments located within such an area, shall be the
31 responsibility of CalResources and Article 5.A. above shall not
32 apply.

33 Article 6. Oil Field Facilities Other Than Wells and Roads

34 A. Pursuant to, and subject to the limitations of,
35 Paragraph 7 of the BSUA, the Parties agree that the SLC is
36 responsible for the cost of:

(1) Relocating or abandoning electrical service cables, conduits, and associated electrical equipment necessitated by the construction of the Project;

(2) Relocating or abandoning pipelines and associated facilities necessitated by construction of the Project;

(3) Constructing a suitable structure to carry pipelines and electrical cables and conduits across the Tidal Inlet; and

(4) Providing access for oil field vehicles to the portion of the Whipstock Area which will be isolated by the construction of the Tidal Inlet, either by a new exit off of Pacific Coast Highway 1 or by a bridge across the Tidal Inlet capable of supporting a 100-ton Link Belt crane or a well workover rig.

B. With respect to production support facilities which are removed and relocated at the SLC's request, the design, materials, and construction used in the relocated facilities shall be of no lesser quality and standards, as determined by the SLC in consultation with CalResources, than are typically required of the California oil industry at this time considering the environmental resources which need to be protected from, insofar as is reasonably possible, catastrophic oil spills. If CalResources desires to have production support facilities of higher quality and standards than that specified by the SLC, then the incremental cost of such facilities as compared to the cost of the facilities required by the SLC shall be borne by CalResources.

C. The SLC agrees that the cost of any additional noise abatement measures on wells or other oil field equipment which the SLC requires for the benefit of the Project will be the responsibility of the SLC.

D. CalResources agrees that, pursuant to the ESUA, it is responsible for removing and disposing of all power poles from the Project Lands. Notwithstanding this fact, the SLC agrees to remove and dispose of, at its expense whatever that expense may be, all power poles which it desires to remove from the Project Lands in consideration of CalResources paying to the SLC, not

1 later than May 1, 1997, the sum of Thirty-Seven Thousand Dollars
2 (\$37,000.00). Upon receipt of said payment to the SLC by
3 CalResources, CalResources will be relieved of any responsibility
4 for removing and disposing of any power poles pursuant to the
5 BSUA.

6 DESIGN, CONSTRUCTION, AND OPERATION OF THE PROJECT

7 Article 7. Design of the Project

8 The SLC agrees to use its best efforts, consistent with its
9 obligations pursuant to the Bolsa Chica Lowlands Project
10 Agreement, to ensure that the Project, including elements thereof
11 which are intended to create habitat for and attract threatened
12 and endangered species, is designed to minimize to the extent
13 reasonably practicable the potential detrimental impacts of the
14 Project on CalResources' oil field operations. CalResources
15 agrees to cooperate in good faith with the SLC during the design
16 of the Project to identify ways in which the Project can avoid
17 causing the relocation of CalResources facilities and incurring
18 costs therefore pursuant to the BSUA and this Agreement.

19 Article 8. Location of Berms

20 A. Unless CalResources gives its permission to do
21 otherwise, the Berms shall be located so that any berm's outboard
22 toe is no closer than ten (10) feet from any existing or
23 relocated electrical cable, conduit, pipeline, pipe support, or
24 other oil field facilities.

25 B. The Berms shall be located so that they will not
26 encroach into the one hundred (100) foot by one hundred fifty
27 (150) foot well site easements described in Exhibit B to the BSUA
28 Addendum; Provided, however, that this limitation shall not apply
29 to any easement for a well which is located along a road and on
30 the side of the road across from, rather than adjacent to, the
31 outboard toe of the Berms.

32 Article 9. Requirements for New Fencing

33 The SLC shall, at its expense, construct fencing or other
34 appropriate barriers along and around any viewing area or

1 platform, trail, visitors' center, parking lot, road or other
2 facility which is used or constructed by the SLC for the purpose
3 of allowing the public to view or gain access to the Project
4 Lands, which fencing or barriers shall be sufficient to isolate
5 all of CalResources' continuing oil field activities from such
6 areas and facilities. The SLC shall have no obligation to
7 provide a perimeter fence around the outside boundary of the
8 Project Lands or to fence or gate roads leading onto the Project
9 Lands which are used by CalResources in its operations, except
10 that the SLC shall bear the costs of all fencing and gates
11 associated with the access called for by Article 6.A. (4) above.

12 Article 10. Construction of the Project

13 A. During the construction of the Project, the SLC shall,
14 at its expense, install and maintain temporary construction
15 fencing or other appropriate barriers around all pipelines,
16 wellheads, and other critical equipment which are located within
17 fifty (50) feet of earth-moving operations or earth-moving access
18 roads, said fencing or barriers to be located an appropriate
19 distance from such pipelines, wellheads, and equipment.

20 B. During the construction of the Project, the SLC shall
21 obtain liability waivers from its contractors and establish
22 contractor access and staging areas which do not interfere with
23 CalResources' oil field operations.

24 C. During the construction of the Project, the SLC shall
25 notify the residents of the surrounding area of the Project and
26 provide a contact who residents can contact with questions or
27 concerns about the Project.

28 D. In preparation for and during construction of the
29 Project, the Parties agree that they shall cooperate with each
30 other fully and in good faith to ensure appropriate safety plans,
31 response plans in the event that construction activities cause
32 oil spills or other emergencies, and coordination of construction
33 activities with CalResources' operations, and to address any
34 other matters of mutual interest to the Parties during
35 construction.

1 Article 11. Operation and Maintenance of the Project

2 A. In the operation of the completed Project, the SLC
3 agrees that it will, at its expense:

4 (1) Prevent, to the extent reasonably practicable,
5 percolation of tidal waters through the Berms,

6 (2) Maintain the Berms, and

7 (3) Maintain all fencing or other barriers constructed
8 pursuant to the requirements of Article 10 above.

9 B. The Parties agree to enter into good faith negotiations
10 to develop a mutually agreeable water management plan for the
11 Project Lands, which plan shall address protection of
12 CalResources' assets and recognize CalResources' requirements in
13 conducting its oil field operations. The said plan shall also
14 address any allocation of the costs for pumping water out of the
15 Project Lands, processes for consultation on a periodic basis
16 about management of water on the Project Lands, and such other
17 matters as the Parties may agree to.

18 C. In the operation and maintenance of the Project, the SLC
19 agrees to use its best efforts, consistent with its obligations
20 pursuant to the Bolsa Chica Lowlands Project Agreement, to ensure
21 that operation and maintenance activities, including elements
22 thereof which are intended to manage habitat for threatened and
23 endangered species, are scheduled and carried out in a manner
24 which minimizes to the extent reasonably practicable the
25 potential detrimental impacts of the Project on CalResources' oil
26 field operations. Even if the SLC enters into an agreement with
27 a third party for the management of the Project Lands in
28 accordance with Section 7 of the Bolsa Chica Lowlands Project
29 Agreement, the SLC will remain actively involved and shall be
30 CalResources' contact regarding all Project issues, consistent
31 with its obligations pursuant to the Bolsa Chica Lowlands Project
32 Agreement, in the management of the Project Lands outside of the
33 Full Tidal Area as long as oil producing operations continue.

34 D. CalResources agrees to cooperate in good faith with the
35 SLC and any third party which manages the Project Lands to

1 coordinate its oil field operations with fish and wildlife
2 management efforts.

3 Article 12. Whipstock Area

4 The SLC agrees that the surface of the entire Whipstock Area
5 shall be owned and managed by the SLC to support oil operations
6 for the duration of oil operations there, subject, however, to
7 the construction, operation, and maintenance of the Tidal Inlet
8 in accordance with the Bolsa Chica Lowlands Project Agreement.

9 Article 13. Other Matters

10 A. The Parties agree that they shall, within 30 days of the
11 effective date of this Agreement, enter into good faith
12 negotiations to develop an agreement which will: (i) detail how
13 CalResources' "... direct costs, plus engineering design and
14 field supervision ..." costs pursuant to Paragraph 7 of the BSUA
15 will be computed for the purposes of the SLC reimbursing
16 CalResources when called for by the said Paragraph 7, and (ii)
17 specify how and when the SLC shall reimburse CalResources for its
18 expenses (salary, other direct expenses, and overhead) if and
19 when the SLC asks CalResources, and CalResources agrees to,
20 provide assistance to the SLC relative to the Project above and
21 beyond that covered by the said Paragraph 7.

22 B. The SLC, and its contractors, consultants, or agents,
23 shall comply with all of CalResources' safety requirements
24 (including H₂S) while visiting or working within the operating
25 oil field and, when visiting the oil field for purposes of the
26 restoration project, shall give CalResources reasonable advance
27 notice of all visits to or work within the operating oil field.

28 C. During the construction of the Project, and in the
29 operation and maintenance of the Project, the SLC shall plan and
30 coordinate all work with CalResources in a manner that minimizes
31 production downtime. Likewise, CalResources will, in good faith,
32 cooperate with the SLC and any third party which is managing the
33 construction, operation, and maintenance of the Project.

1 MISCELLANEOUS PROVISIONS

2 Article 14. Successors and Assigns

3 This Agreement shall be binding upon, and shall inure to the
4 benefit of, the Parties and their respective legal
5 representatives, successors, and assigns.

6 Article 15. Rule of Ambiguities

7 The Parties acknowledge that this Agreement is a negotiated
8 agreement reviewed by counsel for both Parties and that the rule
9 of construction providing that ambiguities in an agreement shall
10 be construed against the party drafting the same shall not apply
11 to this Agreement.

12 Article 16. Addresses for Notices

13 Any notices, other communications, or payments required by
14 or necessary to effect this Agreement shall be sent to the
15 following addresses:

16 Executive Officer
17 California State Lands Commission
18 100 S. Howe, Suite 100 South
19 Sacramento, CA 95825-8202

20 Asset Manager - Coastal
21 CalResources LLC
22 P. O. Box 11164
23 Bakersfield, CA 93389-1164
24

25 Article 17. Effective Date of This Agreement

26 This Agreement shall take effect on the later of the dates
27 upon which it is executed by each Party.

28 Article 18. Duplicate Originals

29 This Agreement is being executed in duplicate originals,
30 with one copy for each Party. It may also be executed in
31 counterparts, in which event all counterparts, taken together,
32 shall constitute one and the same instrument.

CalResources LLC:

Robert C. Night
signature

Signature _____

Robert C. Hight
Typed or Printed Name

J. C. Boyd
Typed or Printed Name

Executive Officer
Title

Attorney-in-Fact
Title

Date _____

Date _____

02/13/97