BEFORE THE PUBLIC UTILITIES COMMISSION OF THE
STATE OF CALIFORNIA

In the Matter of the Application of
SOUTHERN CALIFORNIA EDISON
COMPANY (U 338-E) for Authority to Lease
Subsurface Land and Mineral Rights to SIGNAL
HILL PETROLEUM, INC., a California
Corporation

APPLICATION OF SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E) FOR
AUTHORITY TO LEASE SUBSURFACE LAND AND MINERAL RIGHTS TO SIGNAL
HILL PETROLEUM, INC., A CALIFORNIA CORPORATION

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Dated: June 27, 2017
APPLICATION OF SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E) FOR AUTHORITY TO LEASE SUBSURFACE LAND AND MINERAL RIGHTS TO SIGNAL HILL PETROLEUM, INC., A CALIFORNIA CORPORATION

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I.
INTRODUCTION

Southern California Edison Company (SCE) respectfully requests an Order from the California Public Utilities Commission (Commission or CPUC), pursuant to California Public Utilities Code Section 851, authorizing SCE to lease to Signal Hill Petroleum, Inc., a California corporation (SHP), subsurface land and mineral rights located under SCE’s Hathaway Substation (Property). The Property is an approximate 2.0003 acre parcel located in the City of Long Beach. If the Commission authorizes SCE to enter into the proposed lease\(^1\), SHP will have the right to operate, prospect, explore, mine and drill for oil, gas and other hydrocarbons, and other commercially valuable substances at all depths below five hundred (500) feet beneath the surface of the Property (Site). SHP

\(^1\) The proposed lease is attached hereto as Appendix A.
will not have any right to enter upon the surface of the Property, nor will it have the right to use any of the Property’s land above the Site.

SHP will implement a directional drilling method which will allow it to access the Site while using a surface drill site approximately 2,272 feet away from the Property. The directional drilling in the Site will be at a depth of approximately 9,500 feet below the surface of the Property.

In accordance with the non-tariffed products and services categories listed in Attachment B to Advice 1286-E-A, SCE is offering SHP a lease for the secondary use of utility assets. Under the terms of the proposed lease and after review by SCE engineering, transmission and distribution, environmental services, grid operations, electric system planning, and geotechnical staff, SCE believes that the SHP use of the subsurface Site is compatible with SCE’s planned operation of the Hathaway Substation and the Property. Utility service is not expected to be affected as a result of Commission approval of this lease. The lease will generate Other Operating Revenue (OOR) for the benefit of ratepayers.

On January 30, 1998, SCE filed Advice 1286-E which set forth proposed categories of non-tariffed products and services offered for sale by SCE and provided descriptions for each category. This Advice filing was made pursuant to Rule VI.F of the Affiliate Transaction Rules contained in Appendix A of Decision No. 97-12-088 as subsequently modified by various decisions, including D. 06-12-029. On April 5, 2000, pursuant to Commission Resolution E-3639, SCE filed Advice 1286-E-A, which provides the current list of its non-tariffed products and services categories. Attachment B to Advice 1286-E-A identified the Secondary Use of Transmission Right of Ways and Land and the Secondary Use of Distribution Right of Ways, Land, Facilities and Substations as categories of existing non-tariffed products and services. Advice 1286-E-A was effective pursuant to Resolution E-3639 on May 15, 2000. Leasing mineral rights to SHP fits within one of these approved categories. This filing complies with the requirements of Rule VII for existing non-tariffed products and services categories.
The revenue from the proposed lease will be treated as OOR. In Decision No. 99-09-070, the Commission adopted SCE’s Gross Revenue Sharing Mechanism (GRSM) for certain of SCE’s OOR. The adopted GRSM applies to OOR, except revenues that: 1) derive from tariffs, fees, or charges established by the Commission or the FERC; 2) are subject to other established ratemaking procedures or mechanisms; or 3) are subject to the Demand-Side Management Balancing Account. Under the GRSM, all applicable gross revenues recorded from non-tariffed products and services subject to the GRSM will be split between shareholders and ratepayers after the Commission-adopted annual threshold level of gross revenues has been met. For those non-tariffed products and services categories deemed “active” by the Commission, the revenues in excess of the annual threshold will be split between shareholders and ratepayers on a ninety percent (90%) to ten percent (10%) basis. For those non-tariffed products and services categories deemed “passive” by the Commission, the revenues in excess of the annual threshold will be split between shareholders and ratepayers on a seventy percent (70%) to thirty percent (30%) basis. Products or services offered under the Secondary Use of Transmission Right of Ways and Land and the Secondary Use of Distribution Right of Ways, Land, Facilities and Substations categories have been deemed “passive” for revenue sharing purposes. Accordingly, the revenue from the proposed lease will be treated as “passive” and will be split between SCE’s shareholders and ratepayers on a seventy percent (70%) to thirty percent (30%) basis once the annual threshold of gross revenues has been met. In addition, all incremental costs associated with this activity will be paid for by shareholders.

II.

BACKGROUND

The Property is a 2.0003 acre (approximately) parcel located at 1850 Lakewood Boulevard in the City of Long Beach. It is located on the traffic circle where Lakewood Boulevard meets Pacific Coast Highway and is situated in a commercial area. The Property is located in the area

2 The GRSM is set forth in Part G of the Preliminary Statement to SCE’s tariffs.
known as the Long Beach Oil Field, which is a large oil field situated in the cities of Long Beach and Signal Hill.

The use of the Site underneath the Substation is compatible with the land’s primary use as an electric substation, as SHP’s subsurface operations will not disturb the Substation’s operations. Revenue from the proposed lease represents substantial OOR for the benefit of SCE’s ratepayers.

A. Agreement

The proposed lease, attached hereto as Appendix A, would, upon SCE’s execution, grant SHP a lease of the Site for the prospecting, exploring, mining, drilling and operating the Site for oil, gas and other hydrocarbons, and other commercially valuable substances which may be produced through wells whether or not similar to the above-mentioned substances (collectively, Royalty Substances), and substances produced in association with any of them (collectively, the SHP Uses). The lease also grants SHP (a) subsurface easements and rights-of-way in the Site for passage into, within and through the Leased Area in support of the SHP Uses and (b) the right to drill through the Site to conduct operations within other lands (Drill-Through Rights).

The lease is made for an initial “Primary Term” of five years, which can be extended for an additional five years at SHP’s election. During the Primary Term, SHP shall either (i) commence drilling operations on the Site or lands pooled or unitized with the Site, and thereafter continue its operations with reasonable diligence until Royalty Substances are found or a depth is reached at which SHP believes further drilling would be unprofitable, or (ii) quitclaim and surrender the lease. SHP will pay SCE $3,000 as rent for the primary term and $3,000 as rent for the extension of the Primary Term. The Primary Term can also be extended if the lease is suspended due to force majeure or market conditions as detailed in the lease.

If SHP finds Royalty Substances, the lease transitions into its “Secondary Term.” The lease continues in its Secondary Term in perpetuity for as long as SHP conducts development or producing operations on the Site, or lands pooled or unitized with the Site, without interruption for more than 180 days, or as permitted under the lease. SCE’s royalty share is 1/6th or 16.667%
of all substances produced from the drilling on the Site or lands pooled or unitized with the Site. If SHP continues to use its Drill-Through Rights after the termination of the lease, SHP shall pay SCE an annual payment of $1.00 per lineal foot of subsurface well bore through the Site.

The lease grants SHP the option to combine and pool the Site into one or more operating units with other parcels, which SHP plans to do. SHP shall sell the royalty share of the oil produced in operations under the proposed lease on the same terms and conditions as it sells its own oil and, subject to allowable deductions related to treating such oil to make it saleable, remit to SCE its share of the sales proceeds from such sale. All gas produced from operation under the lease shall be re-injected, consumed in operations, blended with crude oil production, transported by SHP to an outside facility to generate power for SHP operations or sold by SHP. SHP shall pay to SCE the royalty share from the sale of gas produced from the lease, but shall not owe any royalties for gas which is re-injected or consumed by operations under the lease. The costs of treating and transporting the gas shall be deducted from the proceeds of sale. SHP may suspend operation of any gas well(s) if there is no market for the gas produced. SHP shall also pay SCE the market value on the Site of the royalty share of any Royalty Substances which are not gas or oil.

SHP shall pay SCE the royalties on the production of Royalty Substances by the end of the month in which payment for the sale is received by SHP. SHP shall pay all taxes levied on its improvements on the Site and shall pay for all labor performed and materials used by SHP at the Site. SCE shall pay its royalty share of all taxes levied upon the mineral rights and minerals subject to the proposed lease. SHP must conduct its operations in accordance with good oil field practice, and in conformity with any conservation or curtailment program which may be imposed by law or by any appropriate governmental agency. SHP shall comply with all state, federal and local laws in its operations at the Site and with the rules and regulations of any governmental agency having jurisdiction with respect to the spacing, drilling or producing of wells, or other operations for oil and gas.
The lease also requires SHP to indemnify SCE for every lien, claim and demand arising out of SHP’s and its contractors’ operations. SHP and its contractors are required to maintain workers’ compensation, commercial general liability, and pollution liability insurance during the term of the lease.

The lease allows SHP to combine and pool the Site into one or more operating unit with any other land formation, in such size and shape as SHP may establish, by executing a “Declaration of Pooling,” which sets the boundaries of the unit. SCE shall receive written notice of the pool. The Site shall be allocated the proportion of pooled production from any operating unit on a net mineral acre basis and SCE shall be paid the royalties on that portion of production allocated to the Site.

The lease grants SHP a right of first refusal should SCE receive an offer from another party offering to acquire a lease covering any or all of the Royalty Substances and covering all or any of the Site, with the lease becoming effective upon the termination or expiration of this lease. SHP would have the option to purchase the lease on the same terms as the third party’s offer.

B. Determination of Best Secondary Use

The utility’s objective in selecting secondary uses of its utility property is to provide revenue to its ratepayers and shareholders while safeguarding the utility’s obligations to maintain the safety and reliability of its facilities. SHP approached SCE and asked SCE to agree to the lease of the Site for the SHP Uses. After reviewing the proposed drilling plans, SCE determined that leasing the Site for the SHP Uses offered a high level of potential revenues for this particular Site, while allowing SCE full use of the Property.

C. Valuation of Site

Under the proposed lease, SHP will pay SCE $3,000 as rent for the Site during the Primary Term. If Royalty Substances are produced from the Site, SCE will receive its royalty share of one-sixth (or 16.667%) of the sales proceeds received from SHP’s sale of such Royalty
Substances. SCE hired Edward Renwick, Esq., a preeminent Los Angeles oil and gas lawyer, to represent it in the negotiations with SHP in order to ensure that the proposed lease reflected terms believed to be reflective of current market conditions.

The future value of the proposed lease is difficult to quantify, as the benefit to SCE is dependent on successful extraction of Royalty Substances from the Site. If SHP locates and is able to extract the Royalty Substances in the amounts and with the pricing that they have predicted, SCE estimates that SCE could receive $1,405,000 in the first five (5) years of extraction of Royalty Substances from the Site.

D. Selection of Developer

SHP is a privately owned California-based energy company specializing in the sustainable exploration, development, and production of oil and gas in urban areas. During its three decades of operation, SHP has developed an expertise in urban oil and gas production operations and in urban drilling and seismic exploration.

SHP is the third largest oil producer in the Los Angeles Basin, with the majority of its production located within a two (2) square mile radius in the City of Signal Hill. SHP has daily production of oil of approximately 3400 barrels per day, producing over one million barrels of crude oil annually in Southern California.

SHP owns and operates approximately 95% of the wells in the Long Beach/Signal Hill Oilfield. The company’s assets in Long Beach and Signal Hill include more than 450 wells, one of them being the 90-year-old Discovery Well, and three major secondary recovery water-flood units.

E. Environmental Matters

In accordance with Section 15 of the proposed lease, SHP shall comply with all state, federal and local laws and with the rules, regulations and order of any federal, state or other
governmental agency having jurisdiction with respect to the spacing, drilling or producing of wells and other operations for oil and gas.

The City of Long Beach has approved oil drilling and production in certain defined areas within the city. The codification of such approval is in the Long Beach Oil Code (Code), which is Section 12 of the Long Beach Municipal Code. The well SHP will use to drill for oil on the Site is within a permitted area identified as Area 21 in the Code.

SHP shall obtain a permit from the City of Long Beach and from the California Department of Conservation, Division of Oil, Gas, & Geothermal Resources (DOGGR) for the well it will use for the Site. Both permits are deemed ministerial by those agencies and, therefore, are exempt from further California Environmental Quality Act (CEQA) review in accordance with CEQA §15268(a).

The Site is, and will continue to be, utility operating property. Thus, ratepayers will continue to have certain financial responsibilities for the operation and maintenance of utility facilities on the Site. Environmental claims arising out of utility operations are precisely the type of claims for which SCE should be allowed to seek cost recovery from ratepayers.

The Commission addressed this precise issue in Decision No. 01-05-004 and Decision No. 01-05-005. SCE does not object to Commission imposition of those same provisions which permit cost recovery from ratepayers for claims relating to utility operations and which preclude ratepayer liability for environmental claims related to the tenancy or activity of the lessee.

F. The Proposed Transaction Will Benefit the Public

Section 851 provides that no public utility “shall lease [property] necessary or useful in the performance of its duties to the public without first having secured from the commission an order authorizing it so to do.” The relevant inquiry for the Commission in Section 851 proceedings is whether the proposed transaction is “adverse to the public interest.”\(^2\) The proposed lease satisfies

\(^2\) See, e.g., Universal Marine Corporation, D.84-04-102, 1984 Cal. PUC LEXIS 962, *3, 14 CPUC 2d 644 (“[W]e have long held that the relevant inquiry in an application for transfer is whether the
this test. The public interest is not harmed since the lease is not expected to affect the utility’s planned operation of the substation on the Property. The Commission has determined that the public interest is served when utility property is used for other productive purposes without interfering with the utility’s operation or affecting service to utility customers.4 Because the proposed lease will provide revenues for the benefit of ratepayers with low risk to the ratepayers, SCE requests the Commission to authorize the lease.

III.

COMPLIANCE WITH RULE 2.1(C)

In compliance with Rule 2.1(c) of the Commission’s Rules of Practice and Procedure, SCE is required to state “the proposed category for the proceeding, the need for hearings, the issues to be considered including relevant safety considerations, and a proposed schedule.” SCE proposes to categorize this Application of Southern California Edison Company (U 338-E) for Authority to Lease Subsurface Land and Mineral Rights to Signal Hill Petroleum, Inc., a California corporation, as a ratesetting proceeding. SCE anticipates that hearings will not be necessary. The issue to be considered is as follows: Is the proposed lease of available subsurface land and mineral rights underneath an SCE fee parcel adverse to the public interest?

SCE technical staff has reviewed SHP’s plans of the Site and has determined that SHP Uses are compatible with SCE’s substation operations. The lease requires SHP to comply with all state, federal and local laws and with the rules, regulations and orders of any federal, state or other governmental agency having jurisdiction with respect to the spacing, drilling or producing of wells, or other operations for oil or gas.

transfer will be adverse to the public interest”); see also D.89-07-016, 1989 Cal. PUC LEXIS 582, *25, 32 CPUC 2d 233.

4 D.93-04-019, p. 3 (“Joint use of utility facilities has obvious economic and environmental benefits. The public interest is served when utility property is used for other productive purposes without interfering with the utility’s operation or affecting service to utility customers.”)
SCE suggests the following proposed schedule for this Application:

June 27, 2017 Application Filed
June 28, 2017 Application Accepted as Complete
July 28, 2017 Protests Due (if any) 30 Days After Notice in Daily Calendar
August 7, 2017 Reply to Protests (if any) 10 Days After Last Day for Protests
October 10, 2017 ALJ Proposed Decision
November 13, 2017 Commission Decision

IV. STATUTORY OR PROCEDURAL REQUIREMENTS

A. Applicant

The Applicant is Southern California Edison Company, an electric public utility organized and existing under the laws of the State of California. The location of SCE’s principal place of business is Post Office Box 800, 2244 Walnut Grove Avenue, Rosemead, California 91770. The name, title, and address of the persons to whom correspondence or communication in regard to this Application is to be addressed are as follows:

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Signal Hill, CA 90755
Telephone: (562) 326-5275
Facsimile: (562-595-1052
E-Mail: sbobbe@shpi.net

The parties consent to email service.

B. **Articles of Incorporation**

In compliance with Rule 2.2 of the Commission’s Rules of Practice and Procedure, a copy of SCE’s Certificate of Restated Articles of Incorporation, effective on March 6, 2006, and presently in effect, certified with the California Secretary of State, was filed with the Commission on March 14, 2006, in connection with Application No. 06-03-020, and is by reference made a part hereof.

A copy of SCE’s Certificate of Determination of Preferences of the Series D Preference Stock filed with the California Secretary of State on March 7, 2011, and presently in effect, certified by the California Secretary of State, was filed with the Commission on April 1, 2011, in connection with Application No. 11-04-001, and is by reference made a part hereof.

A copy of SCE’s Certificate of Determination of Preferences of the Series E Preference Stock filed with the California Secretary of State on January 12, 2012, and a copy of SCE’s Certificate of Increase of Authorized Shares of Series E Preference Stock filed with the California Secretary of State on January 31, 2012, and presently in effect, certified by the California Secretary of State, was filed with the Commission on March 5, 2012, in connection with Application No. 12-03-004, and is by reference made a part hereof.

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5 Rule 2.2 requires the applicant, in this case SCE, to submit a copy of its organizing documents and evidence of its qualification to transact business in California, or to refer to that documentation if previously filed with the Commission.
A copy of SCE’s Certificate of Determination of Preferences of the Series F Preference Stock filed with the California Secretary of State on May 5, 2012, and presently in effect, certified by the California Secretary of State, was filed with the Commission on June 29, 2012, in connection with Application No. 12-06-017, and is by reference made a part hereof.

A copy of SCE’s Certificate of Determination of Preferences of the Series G Preference Stock filed with the California Secretary of State on January 24, 2013, and presently in effect, certified by the California Secretary of State, was filed with the Commission on January 31, 2013, in connection with Application No. 13-01016, and is by reference made a part hereof.

A copy of SCE’s Certificate of Determination of Preferences of the Series H Preference Stock filed with the California Secretary of State on February 28, 2014, and presently in effect, certified by the California Secretary of State, was filed with the Commission on March 24, 2014, in connection with Application No. 14-03-013, and is by reference made a part hereof.

A copy of SCE’s Certificate of Determination of Preferences of the Series J Preference Stock filed with the California Secretary of State on August 19, 2015, and presently in effect, certified by the California Secretary of State, was filed with the Commission on October 2, 2015, in connection with Application No. 15-10-001, and is by reference made a part hereof.

A copy of the SCE’s Certificate of Determination of Preferences of the Series K Preference Stock, filed with the California Secretary of State on March 2, 2016, and presently in effect, certified by the California Secretary of State, was filed with the Commission on April 1, 2016, in connection with Application No. 16-04-001, and is by reference made a part hereof.

Certain classes and series of SCE’s capital stock are listed on a “national securities exchange” as defined in the Securities Exchange Act of 1934, and copies of SCE’s latest Annual Report to Shareholders and its latest proxy statement sent to its stockholders has been filed with the Commission with a letter of transmittal dated March 17, 2017, pursuant to Commission General Order Nos. 65-A and 104-A.
C. **Balance Sheet and Statement of Income**

Appendix B to this Application contains copies of SCE’s balance sheet and statement of income for the period ending March 31, 2017, which is the most recent one.

D. **Description of Southern California Edison Company**

SCE is an investor-owned public utility engaged in the business of generating, transmitting, and distributing electric energy in portions of Central and Southern California. In addition to its properties in California, it owns, in some cases jointly with others, facilities in Arizona and Nevada, its share of which produces power and energy for the use of its customers in California. In conducting such business, SCE operates an interconnected and integrated electric utility system.

E. **Service Territory**

SCE’s service territory is located in 15 counties in Central and Southern California, consisting of Fresno, Imperial, Inyo, Kern, Kings, Los Angeles, Madera, Mono, Orange, Riverside, San Bernardino, Santa Barbara, Tuolumne, Tulare, and Ventura Counties, and includes approximately 180 incorporated communities as well as outlying rural territories. A list of the counties and municipalities served by SCE is attached hereto as Appendix C. SCE also supplies electricity to certain customers for resale under tariffs filed with the Federal Energy Regulatory Commission.

F. **Statutory Authority**

This Application is made pursuant to the provisions of Section 851 of the California Public Utilities Code, the Commission’s Rules of Practice and Procedure, and prior decisions, orders and resolutions of this Commission.

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SCE provides electric service to a small number of customer accounts in Tuolumne County and is not subject to franchise requirements.
G. **Supporting Appendices**

Appendices A through C, below, are made a part of this Application.

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H. **Request For Expedited and *Ex Parte* Treatment**

SCE believes that this Application contains all of the information that is required to support the requested relief. However, SCE is prepared to provide such other information as the Commission may require to act on this Application. SCE further believes that this Application does not raise any material issues of fact.

The relief requested by this Application is similar to that previously granted by the Commission to SCE to lease available land for secondary use in several applications including Decision Nos. 05-06-045, 04-09-018, and 03-01-083, although those applications did not involve subsurface uses. SCE requests expedited treatment of this Application at the earliest possible date in order to proceed with the proposed lease and the resulting generation of revenue for SCE’s ratepayers. SCE also requests that this Application be granted *ex parte*. The transaction is consistent with the public interest, is not expected to have an impact on SCE’s ability to serve its customers, and will benefit ratepayers.
V. CONCLUSION

SCE respectfully requests that the Commission issue an expedited *ex parte* Order authorizing SCE to lease the Site to SHP in accordance with the attached lease.

Respectfully submitted,

CLAIRE KEANE
BETH GAYLORD

/s/ Claire Keane
By: Claire Keane

Attorneys for
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SIGNAL HILL PETROLEUM, INC.

/s/ David Slater
By: David Slater
Its: Executive Vice President/ COO

2633 Cherry Avenue
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Telephone: (562) 595-6440
Facsimile: (562) 595-1052
Email: dslater@shpi.net

Date: June 27, 2017
VERIFICATION

I am an officer of the applicant corporation herein, and am authorized to make this verification on its behalf. The statements in the foregoing document are true of my own knowledge, except as to matters which are therein stated on information or belief, and as to those matters I believe them to be true.

I declare under penalty of perjury that the foregoing is true and correct.

Executed on June 26, 2017 at Pomona, California.

/s/ Nestor Martinez
By: Nestor Martinez
Vice President,
Engineering and Technical Services,
Transmission and Distribution
Southern California Edison Company
Appendix A

Subsurface Oil and Gas Lease between Southern California Edison Company and Signal Hill Petroleum, Inc.
THIS LEASE ("Lease") dated ______________, 2017 is between Southern California Edison Company, a California corporation ("Lessor"), and Signal Hill Petroleum, Inc., a California corporation, ("Lessee").

In consideration of the foregoing and other consideration, the receipt and adequacy of which are mutually acknowledged, Lessor and Lessee agree as follows:

1. **LEASING.** Lessor grants and leases to Lessee all right, title and interest of Lessor, if any, in and to all depths below five hundred (500) feet beneath the surface of the "leased land" for the purpose and exclusive rights of prospecting, exploring, mining, drilling and operating the leased land for oil, gas and other hydrocarbons, and other commercially valuable substances which may be produced through wells whether or not similar to the above-mentioned substances (collectively "Royalty Substances"), and substances produced in association with any of them, Lessee may produce, inject, take, treat, store, remove and dispose of such associated substances and Royalty Substances. Lessee may also construct, erect, maintain, operate, use, repair, replace and remove within and from the leased land subsurface improvements for carrying on its operations in the leased land and land pooled or unitized with the leased land. Lessee is also granted subsurface easements and rights-of-way for passage into, within and through the leased land for any or all of the above mentioned purposes. The Leased Land does not include any right to use any of the surface of the land lying above five hundred (500) feet nor the right to have access upon the surface of the Leased Land for any purpose, including drilling operations. Any proposed use or access of the surface of the Leased Land by Lessee shall be subject to Lessee obtaining rights to the use or access of the surface of the Leased Land from the Lessor or other surface fee owner.

2. **LEASED LAND.** The leased land is located in the County of Los Angeles, State of California, as described in Exhibit A. Lessor makes no representations, warranties, agreements or covenants with respect to the character and extent of its oil and gas rights or other interest in the leased land. This Lease and the rights and interest of Lessee hereunder are subject to all matters appearing of record in the official records of the Los Angeles County Recorder, or
otherwise known to Lessee.

3. **TERM.** This Lease is made for an initial “Primary Term” of five (5) years from the date above (subject to extension as provided in Paragraph 4), and after the Primary Term for a “Secondary Term” defined as so long as either Lessee conducts development (including, but not limited to, drilling, re-drilling, repairing and reworking operations) or producing operations on the leased land, or lands pooled or unitized with the leased land, without interruption for more than 180 consecutive days, or Lessee shall be excused therefrom as provided in Paragraph 19, below. During the Primary term, Lessee shall either: (i) commence drilling operations on the leased land or land pooled or unitized with the leased land, and thereafter continue its operations with reasonable diligence until Royalty Substances are found in paying quantities or a depth is reached at which Lessee believes further drilling would be unprofitable, or (ii) quitclaim and surrender this Lease.

4. **OPTION TO EXTEND.** At any time during the initial Primary Term, Lessee will have the option to extend the Primary Term for an additional five (5) years by written notice to Lessor of such extension along with payment of $300.00 per acre or $3000.00 whichever amount is greater, in further rental.

5. **RENTAL.** Upon Lessor’s delivery to Lessee of this Lease, Lessee shall pay to Lessor rental in full for the Primary Term consisting of $300.00 per acre or $3,000.00, whichever is greater. Other than as permitted in Paragraph 4, no further rentals shall be required or due under this Lease.

6. **DRILLING OPERATIONS.** If Lessee commences operations for an initial well and either completes or abandons the well that is the subject of those operations before the expiration of the Primary Term, then Lessee is not required to commence operations for any subsequent well prior to the expiration of the Primary Term. Upon the expiration of the Primary Term and thereafter, Lessee will drill further wells within the leased land or land pooled and unitized with the leased land allowing not more than six (6) months between the completion of one well and the commencement of operations for the next well, until the leased land and all land pooled or unitized with the leased land has been fully drilled as discussed within the meaning of pooling provided in Paragraph 22, below. Lessee shall be given credit for as much of the time in each such six (6) months drilling interval as is not utilized because of drilling by Lessee sooner than required, and such credit may be used to extend subsequent drilling intervals in such manner as Lessee may
determine. Lessee may at any time drill additional wells, but it shall not be required to do so.

7. **OFFSETS.** If, before the leased land and land pooled or unitized with the leased land has been fully drilled, a well is drilled by Lessee or a third party upon other land ("outside well") which produces any Royalty Substance in paying quantities from a subsurface point of production within 75 feet ("offset distance") from a boundary of the leased land or land pooled or unitized with leased land, Lessee shall offset such outside well by commencing drilling of an “offset well” at a suitable offset location on the leased land or land pooled or unitized with leased land within six (6) months after it is determined that any Royalty Substance is being produced from such outside well in paying quantities. However, (a) if a well is then being drilled on the leased land or land pooled or unitized with leased land, the period allowed for commencement of such drilling operations shall be extended until six (6) months after the completion or abandonment of the well so being drilled, and (b) if there already exists or is being drilled on the leased land or land pooled or unitized with the leased land a well at a suitable offset location, it shall take the place of the required offset well, then Lessee shall be excused of its obligations under this Lease with respect to that specific offset well. A suitable offset location is one within the respective offset distance from the relevant boundary of the leased land or land pooled or unitized with leased land and not more than twice the respective offset distance from a line drawn from the outside well to the nearest point in that boundary and extended along that line through the leased land or land pooled or unitized with leased land. Offset wells shall be counted in determining when the leased land and land pooled or unitized with leased land has been fully drilled. Once the leased land or land pooled or unitized with the leased land has been fully drilled, no offset well shall be required under this Lease no matter the nature, volume or value of production which Lessee or any third party may obtain from operations within any outside land.

8. **ROYALTY SHARE.** The term "royalty share" as used herein means one-sixth (1/6 or 16.667%) and Lessor hereby reserves its royalty share of all substances produced, saved and sold from or allocated to the leased land. The parties acknowledge that said “royalty share” of said substances becomes the personal property of Lessor upon its being produced. For purposes of the royalty provisions of this Lease, the phrase “operations under this Lease” includes all operations within the leased land or land pooled or unitized with the leased land. No royalty shall be due to Lessor for or on account of production used, lost or consumed in operations under this Lease or lost through evaporation, leakage, fire or other casualty prior to the delivery of the same to its purchaser. If Lessee in operations under this Lease shall substitute electric power...
purchased from any third party for natural gas obtainable from the leased land or land pooled or unitized with the leased land, Lessee shall be entitled to deduct from the amount of the royalty accruing to Lessor under this Lease the royalty share of the cost of such electric power, provided that no deduction shall in any event exceed the amount of the royalty accruing under this Lease.

9. **OIL ROYALTY.** Lessee shall sell the royalty share of oil produced in operations under this Lease on the same terms and conditions as it sells its own oil, and remit to Lessor its share of the sales proceeds received from such sale. If it is necessary to treat the oil in order to make it saleable, Lessee may deduct therefrom a reasonable charge for dehydration, treating such oil and a reasonable charge for transportation to the treating plant. Nothing herein contained shall be construed as obligating Lessee to treat oil.

10. **GAS ROYALTY.** All gas, including liquids extracted from gas, produced from operations under this Lease shall be re-injected, consumed in operations under this Lease, blended with crude oil production, transported by Lessee to an outside facility to generate power for Lessee’s field wide operations, or sold by Lessee. No royalty shall be due upon gas, including liquids extracted from gas, which is either re-injected or consumed in operations under this Lease. Gas, including liquids extracted from gas, or blended with crude oil production, shall be subject to the oil royalty provisions above. If in any month the value of the electric power generated from gas produced from operations under this Lease exceeds the total of (i) the power costs avoided by Lessee in operations under this Lease during that month from the use of energy produced at that facility and (ii) Lessee’s cost incurred in delivering that gas to the production facility and of generating power from that gas during that month, then Lessee shall pay Lessor the royalty share of that excess. Lessee shall pay to Lessor the royalty share of the net proceeds received by Lessee from the sale of gas produced in operations under this Lease. The cost of processing, treating, compressing, handling and transporting gas in connection with the sale thereof shall be deducted in determining net proceeds of sale. During such times that a market at the well for the gas produced from the leased land or land pooled or unitized with leased land does not exist, Lessee may suspend the operation of any such gas well or wells. Nothing herein contained shall obligate Lessee to treat or process natural gas nor shall Lessee be obligated to save, sell or otherwise dispose of natural gas or residual dry gas, as the case may be, unless there is a market therefore at the well or processing plant at a price and under conditions which Lessee believes to be commercially reasonable.
11. **OTHER ROYALTY/COMMINGLING OF PRODUCTION.** Lessee shall pay Lessor as royalty the market value on the leased land, in the condition as produced, of the royalty share of any Royalty Substances, other than as provided in the oil royalty and gas royalty provisions above. Lessee, at its option, may commingle production of oil, gas and other produced substances from the leased land and land pooled or unitized with leased land with production from other lands, into a central facility constructed by Lessee at any location convenient to Lessee. For the purpose of calculating and paying royalties in accordance with the terms of this Lease, Lessee shall have the option of either (a) installing an appropriate meter(s) that will measure total net production from the leased land and land pooled or unitized with leased land, or (b) allocating total production measured at the central facility to the leased land and land pooled or unitized with the leased land based on monthly tests on individual wells. The production measurement to be used shall determine the production of the respective commingled properties for the purpose of proper payment of royalties. Adjustments will be made for oil commingled of a different gravity.

12. **PAYMENT DATE.** Payment of royalties on the production of Royalty Substances shall be made by Lessee to or for the benefit of Lessor by end of month in which payment is received by Lessee (i.e., for payment received by Lessee in January payment shall be made to Lessor on or before the last day of January). Lessor agrees to examine promptly the information provided and payments made by Lessee to it hereunder and promptly advise Lessee of any objection thereto.

13. **LESSER INTEREST AND AFTER-ACQUIRED TITLE.** The royalties provided for in this Lease are based on the whole of the oil and gas rights in the leased land. If Lessor owns less than the whole of the oil and gas rights in the leased land, the royalties accruing hereunder shall be proportionately reduced. If any claim is asserted or any action or proceeding instituted by Lessor, or by any third party claiming title to the leased land or any part thereof or any interest therein or in any production therefrom, adverse to Lessor or in hostility to rights claimed in good faith by Lessee under this Lease, then Lessee may defer or discontinue all operations on the leased land until 90 days after final resolution of that controversy or, if Lessee operates wells, it may deposit royalties accruing hereunder in respect to the production therefrom in any bank in the state of California to abide the final resolution of such controversy. Lessee at its option may discharge any tax, mortgage or other lien upon the leased land, either in whole or in part, and if Lessee does so, it shall be subrogated to such lien with the right to enforce same and apply rentals and royalties accruing hereunder toward satisfying same. Should Lessor hereafter acquire any
additional right, title or interest in or to the leased land, it shall be subject to the provisions of this Lease.

14. **TAXES.** Lessee shall pay all taxes levied upon or assessed against its improvements, fixtures and personal property on the leased land, including Lessee's oil stored thereon. The “royalty share” (as defined above in Paragraph 8) of taxes levied upon or assessed against the minerals and mineral rights subject to this Lease (or, if same shall not be separately assessed, such part of the taxes on the leased land as are due to the discovery of oil, gas or any of the above-mentioned other substances on the leased land or lands adjacent thereto) shall be paid by all of the persons entitled to share in the royalty hereunder, according to their several interests in that royalty, and the remainder thereof by Lessee. Any severance tax or other tax, assessment, or license now or hereafter levied or imposed, measured by the quality or value of Royalty Substances produced from the leased land, or any portion thereof, shall be borne by the parties in the same ratio as taxes on minerals and mineral rights. Lessee shall be only liable for its pro-rata share of any special assessment for local improvements or benefits relating to its oil and gas operations.

15. **LESSEE’S OBLIGATION.** Lessee, at its own cost and expense, shall pay for all labor performed and materials furnished in the operations of Lessee hereunder and Lessor shall not be chargeable with, or liable for, any part thereof. Lessee shall protect the leased land from liens of every character arising from its operations. Lessee shall conduct its operations hereunder in conformity with any reasonable conservation or curtailment program affecting the drilling of wells or the production of Royalty Substances to which Lessee may voluntarily subscribe or become a party, or with any conservation or curtailment program which may be imposed by law, or by any appropriate governmental agency, and shall otherwise conduct its operations in accordance with good oil field practice. Lessee shall comply with all state, federal and local laws and with the rules, regulations and orders of any federal, state or other governmental agency having jurisdiction with respect to the spacing, drilling or producing of wells, or other operations for oil or gas, and if there is any conflict between the same and provisions of this Lease, such laws, rules, regulations and orders shall modify or supersede the conflicting provisions of this Lease.

16. **INDEMNITY AND INSURANCE.** Lessee shall indemnify and defend Lessor, and hold it and the leased land harmless and free, from and against every lien, claim, demand, loss
and liability which shall arise out of or be asserted to have arisen out of or in connection with (i) any of the operations of Lessee on or in the vicinity of the leased land, (ii) the exercise by Lessee of any of its rights hereunder, (iii) the doing of any labor or the furnishing of any materials or supplies to or for Lessee, or (iv) any breach by Lessee or by any such employee or contractor of any of the provisions of this Lease. Throughout the term of this Lease, Lessee shall maintain in full force and effect, at its own expense, and shall require each subcontractor to provide and maintain in effect, those insurance policies and minimum limits of coverage as specified below, with insurance companies authorized to do business in the state of California, with an A.M. Best’s Insurance Rating of not less than A-:VII. In no way do these minimum insurance requirements limit or relieve Lessee of the obligations assumed elsewhere in this Agreement, including but not limited to Lessee’s defense and indemnity obligations:

(i) Workers’ Compensation Insurance with statutory limits, as required by the state having jurisdiction over Supplier’s employee, and Employer’s Liability Insurance with limits of not less than:

a. Bodily Injury by accident - $1,000,000 each accident

b. Bodily Injury by disease - $1,000,000 policy limit

c. Bodily Injury by disease - $1,000,000 each employee

(ii) Commercial General Liability Insurance, covering all operations by or on behalf of Lessee arising out of or connected with this Agreement for third-party bodily injury and property damage. Such insurance shall be in limits of not less than Five Million Dollars ($5,000,000) per occurrence and in the aggregate. Such insurance shall contain standard cross-liability and severability of interest provisions. Coverage limits may be provided by primary and excess liability policies combined.

(iii) Pollution Liability Insurance, with limits of not less than $5,000,000 each occurrence/claim and in the annual aggregate, covering bodily injury, sickness, disease and property damage (including the physical injury to or destruction of tangible property and resulting loss of use thereof, clean-up costs, and the loss of use of tangible property that has not been physically injured or destroyed) losses caused by pollution conditions that arise from the operations and activity of the Lessor under this Agreement. If such insurance is maintained on a claims-made
basis, Lessor shall continue to maintain such coverage for a period of not less than three years following termination of this Agreement. If written on a claims-made basis, the retro-active date shall equal or precede the effective date of this Agreement.

(iv) The insurance required above shall apply as primary insurance to, without a right of contribution from, any other insurance or self-insurance maintained by Lessor. Lessee and its insurers shall be required to waive all rights of recovery from or subrogation against Lessor and its insurers. The Commercial General Liability and Pollution Liability insurance required above shall name Lessor as additional insured for liability arising out of Lessee’s operations and activities under this Agreement.

(v) Lessee shall provide Lessor certificates of insurance evidencing the coverage required above. All deductibles, co-insurance and self-insured retentions applicable to the insurance above shall be paid by Lessee. Lessee shall provide Lessor with at least thirty (30) days’ prior written notice in the event of cancellation of coverage.

17. **LESSOR INSPECTION.** Lessor, at all reasonable times, may examine the books kept by Lessee in relation to the amount and character of the production from the leased land and land pooled or unitized with leased land and the disposition thereof.

18. **SURRENDER.** Lessee, at its option, may at any time quitclaim and surrender all of the leased land, in which event this Lease shall be at an end and Lessee shall be relieved of all obligations thereunder save and except the obligation to pay royalties theretofore accrued. Except as to wells already in existence at the time of quitclaim and surrender, land so quitclaimed shall no longer remain subject to the subsurface easements and rights-of-way of Lessee as described above.

19. **RELIEF FROM PERFORMANCE.** Performance of any and all covenants and conditions imposed upon Lessee hereunder, including without limitation the performance provided in Paragraph 3 for the continuation of the Secondary Term, shall be suspended at the time or from time to time to the extent that Lessee is hindered in or prevented from complying therewith, in whole or in part, by war, riots, strikes, lockouts, action of the elements, accidents, inability to obtain adequate drilling rigs, equipment and/or materials on the open market, or to obtain transportation
thereof, laws, rules and regulations of any federal, state, municipal or other governmental agency, or executive orders asserted as official by or under any public authority claiming jurisdiction, or any other cause beyond the control of Lessee, including, by way of explanation and not limitation, the inability of Lessee to obtain a drilling permit due to awaiting approval of a required Environmental Impact Report or any type of set-back or spacing regulation whether now in existence or hereafter enacted. The amount of time during which Lessee is prevented from conducting drilling or reworking operations between the date of this Lease and the end of the primary term by reason of the contingencies above stated, shall extend the primary term of this Lease for a period of time equal to the time necessary to suspend operations by reason of such contingencies. Other than operations for the drilling of an initial well, drilling or producing operations hereunder (except of offset wells when wells offset or to be offset are being operated) may be suspended while the price offered generally to producers in the same vicinity for oil of the quality produced from the leased land is $20.00 or less per barrel at the well, or when there is no available market for such oil at the well above that price, and in either case for a period of ninety (90) days after the reason for suspension ceases to exist. Gas wells need not be operated when there is no market for gas at the well at a price and under conditions Lessee believes to be for the best interests of both parties hereto.

20. **DEFAULT.** If Lessee fails to pay promptly any royalty, or otherwise defaults with respect to any condition or covenant of this Lease, and if such failure or default continues for a period of sixty (60) days after receipt by Lessee of a written demand from Lessor for such payment or performance, then, at the option of Lessor and except as otherwise provided below this Lease shall terminate. If there is a bona fide dispute as to the amount of money or other performance due, and all undisputed amounts are paid, the sixty (60)-day period shall be extended until fifteen (15) days after the dispute is settled by final court decree, arbitration binding on both parties, or mutual agreement. If Lessee’s default is of a nature that it cannot be fully corrected within 60 days, then Lessee’s default shall be cured hereunder if Lessee shall commence such performance within the 60 day period and thereafter diligently continue its performance in good faith until completed. If at the time of any termination hereunder a well has been drilled through the leased land then such termination shall not affect Lessee’s rights with respect to the operation of that well and the rights and obligations of Lessor and Lessee with respect to that well shall be as provided in Paragraph 28 below.

21. **ASSIGNMENT.** No change in the ownership of land or minerals covered by this Lease,
and no assignment or transfer by operation of law or otherwise of rents or royalties, shall be binding on Lessee until it has been furnished with a certified copy of the instrument of transfer, together with proper evidence that there has been compliance with the laws of the State of California with respect to the transfer or assignment of any royalty or mineral interest. No assignment, sublease, or transfer by operation of law or otherwise of the Lessee’s interest (including transfer of an ownership interest in Lesse greater than 50%) shall be binding on Lessor without the Lessor’s written consent which consent shall not be unreasonably withheld.

22. **POOLING AND UNITIZATION.** Lessee shall have the right at its option, at any time and from time to time, either before or after the discovery of Royalty Substances, to combine and pool the leased land as to any one or more depths or formations therein, into one or more operating units with any other land formation therein (whether held by Lessee or others). Each unit may be of such size and shape as Lessee may establish.

Each unit created hereunder shall become effective upon the execution by Lessee of a Declaration of Pooling setting forth the exterior boundaries of the unit so created and describing the lands, formations or interests pooled thereunder. A unit may be on a well-only or certain wells-only basis and may overlap with the boundaries of one or more other units. Any unit which overlaps with the boundaries of another unit shall be modified to apply only to a specific well or wells or to differing formations. Lessee may, at any time after creation of such unit, enlarge, reduce or otherwise modify such unit by executing a Supplemental Declaration of Pooling, but no retroactive adjustment of royalties shall be made. Promptly after execution of each Declaration of Pooling and each Supplemental Declaration of Pooling, Lessee shall give written notice thereof to Lessor.

Any unit may include land within which a well has theretofore been completed or within which operations for drilling have theretofore been commenced, and within the meaning of the requirements of this Lease any such well or operations, if off the leased land, shall be considered as having been commenced immediately on the effective date of such pooling. Production, drilling or reworking operations anywhere on any unit created hereunder shall be treated as production, drilling or reworking operations on the leased land. There shall be allocated to the leased land the proportion of the pooled production from any such operating unit (whether or not such production is from the leased land) that the “net mineral acres” covered by this Lease and included in such operating unit (i.e., the product of the number of the surface acreage of the leased land and...
percentage of total oil and gas rights in the leased land owned by Lessor) bears to the total net mineral acreage included in such operating unit. (For example, a 50% mineral interest in a 10-acre parcel represents 5 net mineral acres.) Royalties shall be paid hereunder only upon that portion of such production so allocated to this Lease, and as to pooled production from any and all land in such operating unit such royalties shall be in lieu of any other royalties.

The leased land and land pooled or unitized with the leased land shall be deemed to have been “fully drilled” within the meaning hereof, when one well shall have been drilled hereunder (whether before or after discovery of Royalty Substances in paying quantities, and wherever drilled, and whether or not itself capable of producing Royalty Substances in paying quantities) for each 160 acres of land included in the relevant unit, or there remain fewer than 80 acres in the unit for which no well has been drilled.

If taxes of any kind are levied or assessed which are based upon the quantity of pooled substances underlying or produced from any such unit, then the share of such taxes to be borne by Lessor as provided in this Lease shall be in proportion to the share of production from such unit allocated to the leased land.

Lessee may at any time quitclaim to the persons entitled thereto all or any part of the land in any such unit, and no owner of land in such unit not owning any interest in quitclaimed land, except by virtue of such pooling, shall have any interest in such quitclaimed land after the quitclaim is delivered or recorded. Allocation of production as aforesaid from any such unit, whether to the leased land or in like manner to other lands therein, shall continue notwithstanding any quitclaim or other termination, either in whole or in part, of this or any other lease covering lands in such operating unit until such time as the owner of such land shall (or shall give others the right to) drill for or produce any of the pooled substances from any part of such lands, whereupon all such lands formerly included in such unit and as to which the lease covering the same shall have been terminated, shall be excluded in determining the production to be allocated to the respective lands in such unit and in prorating taxes; and in the event of the failure of Lessor's or any other owner's title as to any portion of the land included in any such unit, such portion of such land shall likewise be excluded from such operating unit; provided, that Lessee shall not be held to account for any production allocated to any lands excluded from any such unit unless and until Lessee has actual knowledge of the aforesaid circumstances requiring such exclusion.

Lessee may, at any time either before or after the commencement of the drilling of a well
on lands included in any such operating unit, wholly dissolve such unit by executing a Declaration of Dissolution. Promptly after execution of such Declaration of Dissolution, Lessee shall give written notice thereof to Lessor. Upon the dissolution of any such unit, whether or not this Lease or any other lease involved herein remains in effect, all rights of Lessor hereunder to royalty on pooled substances produced from the lands which were so pooled (other than the leased land) shall cease and terminate; but such dissolution shall not otherwise affect or impair any of Lessee's intent, right or obligations under this Lease, including its right to create a new operating unit or units out of the lands previously pooled pursuant to this paragraph. The sale, conveyance or other transfer of, or of any interest in, any portion or portions of the leased land which are at the time of such transfer, subject to an operating unit shall (unless the instrument effecting such transfer expressly provides otherwise) be deemed to include and shall operate as a transfer and assignment of all of the transferor's interest, rights and benefits under this lease (including the right to royalty on allocated production from the lands subject to any such unit) insofar as such interest, rights and benefits pertain to or are allocable hereunder to the portion or portions of the leased land or interest therein so transferred.

23. REQUIREMENT FOR NOTICE. If Lessor, before the expiration of the Primary Term of this Lease, receives a bona fide offer which Lessor is willing to accept from any party offering to acquire from Lessor a lease covering any or all of the substances covered by this Lease and covering all or a portion of the land leased, with the lease becoming effective upon termination, surrender or expiration of this Lease, Lessor hereby agrees to notify Lessee in writing of said offer immediately, including in the notice the names and address of the offering party, the price offered and all other pertinent terms and conditions of the offer. Lessee, for a period of 30 days after the receipt of the notice, shall have the prior and preferred right and option to purchase the lease or part thereof or interest therein, covered by the offer at the price and according to the terms and conditions specified in the offer. Should Lessee elect to purchase the lease pursuant to the terms hereof, it shall so notify Lessor in writing by mail or telegram prior to expiration of that 30-day period.

24. DEFINITIONS AND MEANINGS. The words "drilling operations" as used in this Lease include, in addition to actual drilling, any work, including, but not limited to, building road for access, construction of a drilling location and any appropriate pits or other structures, undertaken or commenced in good faith if followed with reasonable diligence and in due course by the actual operations of drilling in the ground.
A well shall be deemed completed when any tanks, separators, heater treaters, power lines, pipelines, flow lines, pumps, meters, and other appropriate lease based equipment and facilities appropriate to prepare the oil for sale, store, and ship said oil to market have been installed and are ready to begin processing oil from the said well and the well has been connected thereto for oil, or connected to a market pipeline for a gas well, or plugged and abandoned as a dry hole.

The determination of whether a well is an “oil well” or a “gas well” shall be made in compliance with California Division of Oil, Gas, and Geothermal Resources rules and regulations.

“Paying quantities,” when used in regard to the term of this Lease and the continuation of Lessee’s rights hereunder means and refers to production in quantities sufficient to yield a return in excess of operating costs, even though drilling and equipment costs may never be repaid and although Lessee may ultimately suffer a loss considering its operations as a whole. When used in the drilling or offset provisions of this Lease, or in other contexts where the question is whether Royalty Substances have been found in such quantities as to require the drilling of further wells or other actions or operations of Lessee, the term “paying quantities” means and refers to such quantities as would lead to a reasonable expectation of a reasonable profit on the entire sum, including drilling costs, expended or to be expended in connection with such drilling or other actions or operations.

25. **TERMINATION.** On the expiration or sooner termination of this Lease, Lessee shall quietly and peacefully surrender possession to Lessor and file of record a Quitclaim Deed, in the Los Angeles County Recorder’s office.

26. **EXECUTION.** If more than one person is named as Lessor herein and one or more of them fails to execute this Lease, it shall nevertheless (if accepted by Lessee) become effective as a lease from each such Lessor as may have executed the same. This Lease may be executed in any number of counterparts and all such counterparts shall be deemed to constitute a single lease and the execution of one counterpart by any Lessor shall have the same force and effect as if he had signed all the other counterparts.

27. **SUCCESSORS AND Assigns.** This Lease and all its terms, conditions and stipulations shall extend to and be binding upon all the heirs, successors and assigns of Lessor and Lessee (subject to Lessor’s written consent referred to above in Paragraph 21), and the right of Lessor and Lessee to assign and encumber all or any part of their respective interest hereunder.
is expressly confirmed.

28. **DRILLSITES AND DRILL-THROUGH RIGHTS.** In addition to other rights, privileges and easements hereby granted to Lessee, Lessor hereby grants to Lessee the exclusive right to drill through the leased land to conduct operations within other lands whether or not included in a unit within the leased land. Notwithstanding the expiration, surrender or termination of this Lease, Lessee’s right with respect to any such well drilled under this paragraph shall continue for so long as Lessee, its successors and assigns, continues to operate any such well. Except with respect to a well producing within an operating unit including the leased land, Lessor shall not own or receive any part of the royalty or production from any such well drilled through the leased lands, or be responsible for taxes assessed thereon, but following expiration, surrender or termination of this Lease as to the portion of the leased land through the subsurface of which any such well passes, Lessee shall pay to Lessor annually and in advance One Dollar ($1.00) per lineal foot of subsurface well bore within the leased land.

29. **GOVERNING LAW.** This Lease, the obligations of the parties hereunder and all other matters arising out of and/or relating to this Lease shall be governed by and construed in accordance with the laws of the State of California, without giving effect to any conflicts of law principles that would cause the laws of another jurisdiction to apply.

30. **ENTIRE AGREEMENT; MODIFICATION; WAIVER.** This Lease includes the entire agreement and understanding between Lessor and Lessee, and neither Lessor nor Lessee is entering into this Lease in reliance on any representation or warranty of the other except such as appear in this Lease. Any other statements made on behalf of Lessor or Lessee to the other at or before their execution of this Lease are merged into or superseded by this Lease. This Lease may not be modified other than in a writing signed by Lessor and Lessee; provided, however, that if at any time the interest of Lessor hereunder is held by more than one person, any of them may by agreement with Lessee in a writing signed by them modify this Lease solely with respect to and affecting their interest and a majority in interest of them may by signed agreement with Lessee, modify this Lease with respect to all of their interests.

31. **ATTORNEY FEES AND COURT COSTS.** The substantially prevailing party in any action regarding this Lease shall be entitled to its reasonable attorney fees and court costs (which shall include the cost of staff time or expert witnesses) including, but not limited to, appeals, if any.
32. **NOTICES.** Any notice or payment to be made or given by either party to the other hereunder may be delivered in person or by registered or certified mail, postage prepaid, addressed to the party for whom intended as follows:

To Lessor (Notices) at:  Southern California Edison Company  
Attn: Real Properties  
2 Innovation Way  
PIV 2, 2nd Floor  
Pomona, CA 91768

To Lessor (Payments) at:  Southern California Edison Company  
Attn: Account Receivable  
P.O. Box 800  
Rosemead, CA 91770

To Lessee at:  Attn:  Land Manager  
Signal Hill Petroleum, Inc.  
2633 Cherry Avenue  
Signal Hill, CA  90755

All notices given by registered or certified mail shall be effective on receipt. Either party may from time to time, by written notice to the other, designate a different address which shall be substituted for the one above specified.
IN WITNESS OF WHICH, Lessor and Lessee have caused this Lease to be duly executed by them or on their behalf as of the date first hereinabove written.

LESSEE:  

By:___________________________

Title:_________________________

Date: _________________________

LESSOR:  

By:___________________________

Date: _________________________

Phone:________________________
EXHIBIT A

Attached to and made a part of that certain Subsurface Oil and Gas Lease dated __________ 2017 between Southern California Edison Company, a California corporation, as Lessor and Signal Hill Petroleum, Inc., as Lessee.

The lands referred to in Paragraph 2 of the referenced Subsurface Oil and Gas Lease are set out as follows:

APN 7219-009-800

That portion of the Southeast quarter of Fractional Section 28, Township 4 South, Range 12 West, in the Rancho Los Alamitos, in the County of Los Angeles, State of California, described as follows: Beginning at a point in the Easterly line of Bennett Avenue (now Lakewood Boulevard), as then established 60 feet wide along the West line of said Southeast quarter of Section 28, which point is Northerly 282.38 feet, measured along said Easterly line, from the center line of State Street (now Pacific Coast Highway), as then established 60 feet wide; thence from said point of beginning, Easterly, parallel with said center line (and its Easterly prolongation) of State Street 300.43 feet, more or less, to a point in the Northerly prolongation of the Westerly line of Ximeno Avenue, as then established 60 feet wide along the Easterly line of Lot 39 in the Alamitos Tract, as per map recorded in Book 36 of Miscellaneous Records, Page 37, Records of said Los Angeles County; thence Northerly, along said last mentioned prolongation, 290.39 feet to a point; thence Westerly, parallel with the Easterly prolongation of the said center line of State Street and with said center line, 299.60 feet, more or less, to a point in the Easterly line of said Bennett Avenue; thence Southerly along said Bennett Avenue 290.39 feet, more or less, to the point of beginning.

Containing 87,133 Square Feet or 2.0003 Acres More or Less.

SIGNED FOR IDENTIFICATION

Southern California Edison Company

____________________________________
Authorized Agent

____________________________________
Name

____________________________________
Title
Appendix B

SCE’s Balance Sheet and Statement Income as of March 31, 2017
(h) A balance sheet as of the latest available date, together with an income statement covering the period from close of last year for which an annual report has been filed with the Commission to the date of the balance sheet attached to the application.

**STATEMENT OF INCOME**  
**THREE MONTHS ENDED MARCH 31, 2017**

(In millions)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>OPERATING REVENUE</td>
<td>$ 2,456</td>
</tr>
<tr>
<td>OPERATING EXPENSES:</td>
<td></td>
</tr>
<tr>
<td>Purchase power and fuel</td>
<td>784</td>
</tr>
<tr>
<td>Other operation and maintenance</td>
<td>571</td>
</tr>
<tr>
<td>Depreciation, decommissioning and amortization</td>
<td>497</td>
</tr>
<tr>
<td>Property and other taxes</td>
<td>97</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>1,949</td>
</tr>
<tr>
<td>OPERATING INCOME</td>
<td>507</td>
</tr>
<tr>
<td>Interest and other income</td>
<td>33</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(141)</td>
</tr>
<tr>
<td>Other expenses</td>
<td>(7)</td>
</tr>
<tr>
<td>INCOME BEFORE INCOME TAX</td>
<td>392</td>
</tr>
<tr>
<td>INCOME TAX</td>
<td>12</td>
</tr>
<tr>
<td>NET INCOME</td>
<td>380</td>
</tr>
<tr>
<td>Less: Preferred and preference stock dividend requirements</td>
<td>31</td>
</tr>
<tr>
<td>NET INCOME AVAILABLE FOR COMMON STOCK</td>
<td>$ 349</td>
</tr>
</tbody>
</table>
## SOUTHERN CALIFORNIA EDISON COMPANY

### BALANCE SHEET
MARCH 31, 2017

### ASSETS
(in millions)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>UTILITY PLANT:</strong></td>
<td></td>
</tr>
<tr>
<td>Utility plant, at original cost</td>
<td>$43,488</td>
</tr>
<tr>
<td>Less- accumulated provision for depreciation and decommissioning</td>
<td>9,321</td>
</tr>
<tr>
<td></td>
<td><strong>34,167</strong></td>
</tr>
<tr>
<td>Construction work in progress</td>
<td>2,658</td>
</tr>
<tr>
<td>Nuclear fuel, at amortized cost</td>
<td>126</td>
</tr>
<tr>
<td></td>
<td><strong>36,951</strong></td>
</tr>
<tr>
<td><strong>OTHER PROPERTY AND INVESTMENTS:</strong></td>
<td></td>
</tr>
<tr>
<td>Nonutility property - less accumulated depreciation of $91</td>
<td>75</td>
</tr>
<tr>
<td>Nuclear decommissioning trusts</td>
<td>4,352</td>
</tr>
<tr>
<td>Other investments</td>
<td>61</td>
</tr>
<tr>
<td></td>
<td><strong>4,488</strong></td>
</tr>
<tr>
<td><strong>CURRENT ASSETS:</strong></td>
<td></td>
</tr>
<tr>
<td>Cash and equivalents</td>
<td>100</td>
</tr>
<tr>
<td>Receivables, less allowances of $55 for uncollectible accounts</td>
<td>670</td>
</tr>
<tr>
<td>Accrued unbilled revenue</td>
<td>265</td>
</tr>
<tr>
<td>Inventory</td>
<td>235</td>
</tr>
<tr>
<td>Derivative assets</td>
<td>69</td>
</tr>
<tr>
<td>Regulatory assets</td>
<td>394</td>
</tr>
<tr>
<td>Other current assets</td>
<td>307</td>
</tr>
<tr>
<td></td>
<td><strong>2,040</strong></td>
</tr>
<tr>
<td><strong>DEFERRED CHARGES:</strong></td>
<td></td>
</tr>
<tr>
<td>Regulatory assets</td>
<td>7,674</td>
</tr>
<tr>
<td>Derivative assets</td>
<td>1</td>
</tr>
<tr>
<td>Other long-term assets</td>
<td>230</td>
</tr>
<tr>
<td></td>
<td><strong>7,905</strong></td>
</tr>
<tr>
<td></td>
<td><strong>$51,384</strong></td>
</tr>
</tbody>
</table>
## SOUTHERN CALIFORNIA EDISON COMPANY

**BALANCE SHEET**  
**MARCH 31, 2017**  
**CAPITALIZATION AND LIABILITIES**  
*(in millions)*

### CAPITALIZATION:

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common stock</td>
<td>$2,168</td>
</tr>
<tr>
<td>Additional paid-in capital</td>
<td>660</td>
</tr>
<tr>
<td>Accumulated other comprehensive loss</td>
<td>(18)</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>9,568</td>
</tr>
<tr>
<td><strong>Common shareholder's equity</strong></td>
<td><strong>12,378</strong></td>
</tr>
<tr>
<td>Preferred and preference stock</td>
<td>2,245</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>10,843</td>
</tr>
<tr>
<td><strong>Total capitalization</strong></td>
<td><strong>25,466</strong></td>
</tr>
</tbody>
</table>

### CURRENT LIABILITIES:

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term debt</td>
<td>0</td>
</tr>
<tr>
<td>Current portion of long-term debt</td>
<td>579</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>847</td>
</tr>
<tr>
<td>Accrued taxes</td>
<td>88</td>
</tr>
<tr>
<td>Customer deposits</td>
<td>272</td>
</tr>
<tr>
<td>Derivative liabilities</td>
<td>237</td>
</tr>
<tr>
<td>Regulatory liabilities</td>
<td>804</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>656</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td><strong>3,483</strong></td>
</tr>
</tbody>
</table>

### DEFERRED CREDITS:

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred income taxes and credits</td>
<td>10,323</td>
</tr>
<tr>
<td>Derivative liabilities</td>
<td>989</td>
</tr>
<tr>
<td>Pensions and benefits</td>
<td>898</td>
</tr>
<tr>
<td>Asset retirement obligations</td>
<td>2,580</td>
</tr>
<tr>
<td>Regulatory liabilities</td>
<td>5,910</td>
</tr>
<tr>
<td>Other deferred credits and other long-term liabilities</td>
<td>1,735</td>
</tr>
<tr>
<td><strong>Total deferred credits</strong></td>
<td><strong>22,435</strong></td>
</tr>
</tbody>
</table>

**Total**  

| Total Liabilities                   | $51,384              |
Appendix C

List of Counties and Municipalities Served by SCE
Incorporated Cities and Counties Served by SCE

COUNTIES
- Fresno
- Imperial
- Kern
- Kings
- Madera
- Mono
- Orange
- Riverside
- San Bernardino
- Santa Barbara
- Tuolumne
- Tulare
- Ventura

CITIES
- Adelanto
- Agoura Hills
- Alhambra
- Aliso Viejo
- Apple Valley
- Arcadia
- Artesia
- Avalon
- Baldwin Park
- Barstow
- Beaumont
- Bell
- Bell Gardens
- Bellflower
- Beverly Hills
- Big Bear Lake
- Bishop
- Blythe
- Bradbury
- Brea
- Buena Park
- Calabasas
- California City
- Calimesa
- Camarillo
- Canyon Lake
- Carpenteria
- Carson
- Cathedral City
- Cerritos
- Chino
- Chino Hills
- Claremont
- Commerce
- Compton
- Corona
- Costa Mesa
- Covina
- Cudahy
- Culver City
- Cypress
- Delano
- Desert Hot Springs
- Diamond Bar
- Downey
- Duarte
- Eastvale
- El Monte
- El Segundo
- Exeter
- Farmersville
- Fillmore
- Fontana
- Fountain Valley
- Fullerton
- Garden Grove
- Gardena
- Glendora
- Goleta
- Grand Terrace
- Hanford
- Hawaiian Gardens
- Hawthorne
- Hemet
- Hermosa Beach
- Hesperia
- Hidden Hills
- Highland
- Huntington Beach
- Huntington Park
- Indian Wells
- Industry
- Inglewood
- Irvine
- Irwindale
- Jurupa Valley
- La Canada Flintridge
- La Habra
- La Habra Heights
- La Mirada
- La Palma
- La Puente
- La Verne
- Laguna Beach
- Laguna Hills
- Laguna Niguel
- Laguna Woods
- Lake Elsinore
- Lake Forest
- Lakewood
- Lancaster
- Lawndale
- Lindsay
- Loma Linda
- Lomita
- Long Beach
- Los Alamitos
- Lynwood
- Malibu
- Mammoth Lakes
- Manhattan Beach
- Maywood
- McFarland
- Menifee
- Mission Viejo
- Moreno
- Mount
- Montebello
- Monterey Park
- Moorpark
- Moreno Valley
- Murrieta
- Newport Beach
- Norco
- Norwalk
- Ojai
- Ontario
- Orange
- Oxnard
- Palm Desert
- Palm Springs
- Palmdale
- Palos Verdes
- Paramount
- Perris
- Pico Rivera
- Placentia
- Pomona
- Port Hueneme
- Porterville
- Rancho Cucamonga
- Rancho Mirage
- Rancho Palos Verdes
- Rancho Santa Margarita
- Redlands
- Redondo Beach
- Rialto
- Ridgecrest
- Rolling Hills
- Rolling Hills Estates
- Rosemead
- San Bernardino
- San Buenaventura
- San Dimas
- San Fernando
- San Gabriel
- San Jacinto
- San Marino
- Santa Ana
- Santa Barbara
- Santa Clarita
- Santa Fe Springs
- Santa Monica
- Santa Paula
- Seal Beach
- Sierra Madre
- Signal Hill
- Simi Valley
- South El Monte
- South Gate
- South Pasadena
- Stanton
- Tehachapi
- Temecula
- Temple City
- Thousand Oaks
- Torrance
- Tulare
- Tustin
- Twenty-nine Palms
- Upland
- Valencia
- Victorville
- Villa Park
- Visalia
- Walnut
- West Covina
- West Hollywood
- Westlake Village
- Westminster
- Whittier
- Wildomar
- Woodlake (Three Rivers)
- Yorba Linda
- Yucaipa
- Yucca Valley

Last Updated: 7/18/2016