**An Advanced Fracture Characterization and Well Path Navigation System
for Effective Re-Development and Enhancement of Ultimate Recovery from
the Complex Monterey Reservoir of South Ellwood Field, Offshore
California**

Quarterly Technical Progress Report

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Progress Report July 1, 2005- September 30, 2005

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Abstract

Venoco Inc, intends to re-develop the Monterey Formation, a Class III basin reservoir, at South Ellwood Field, Offshore Santa Barbara, California.

Well productivity in this field varies significantly. Cumulative Monterey production for individual wells has ranged from 260 STB to 8,700,000 STB. Productivity is primarily affected by how well the well path connects with the local fracture system and the degree of aquifer support. Cumulative oil recovery to date is a small percentage of the original oil in place. To embark upon successful re-development and to optimize reservoir management, Venoco intends to investigate, map and characterize field fracture patterns and the reservoir conduit system. State of the art borehole imaging technologies including FMI, dipole sonic and cross-well seismic, interference tests and production logs will be employed to characterize fractures and micro faults. These data along with the existing database will be used for construction of a novel geologic model of the fracture network. Development of an innovative fracture network reservoir simulator is proposed to monitor and manage the aquifer's role in pressure maintenance and water production. The new fracture simulation model will be used for both planning optimal paths for new wells and improving ultimate recovery.

In the second phase of this project, the model will be used for the design of a pilot program for downhole water re-injection into the aquifer simultaneously with oil production. Downhole water separation units attached to electric submersible pumps will be used to minimize surface fluid handling thereby improving recoveries per well and field economics while maintaining aquifer support.

In cooperation with the DOE, results of the field studies as well as the new models developed and the fracture database will be shared with other operators. Numerous fields producing from the Monterey and analogous fractured reservoirs both onshore and offshore will benefit from the methodologies developed in this project.

This report presents a summary of all technical work conducted during the eighth quarter of Budget Period II.

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Introduction

The Field Demonstration site for this Class III (basin clastic) Program Proposal is the South Ellwood Field located offshore California. The Monterey Formation is the main producing unit in the South Ellwood Field and consists of fractured chert, porcelanite, dolomite, and siliceous limestone interbedded with organic mudstone. This reservoir has an average thickness of 1,000 feet, and lies at subsea depths of approximately -3,500' to -5,000'.

Venoco and USC jointly submitted an application to conduct a DOE co-operative investigation of the Monterey formation at South Ellwood in June 2000. The DOE granted this application in July 2000.

Executive Summary

Venoco and USC prepared a proposal for a DOE sponsored joint investigation of the fractured Monterey formation. It was agreed that Venoco would construct the geologic model for the field and gather new reservoir data as appropriate. USC would then develop a simulation model that would be used to optimize future hydrocarbon recovery. Joint Venoco-USC teams were established to manage the flow of data and insure that Venoco and USC activities remained synchronized. A co-operative agreement was signed with the DOE on July 31, 2000.

During Budget period I, Venoco worked with USC to develop a new geological and engineering model of the Monterey formation. This cooperative work between USC and Venoco has made several contributions to the tech transfer goal of the U.S. Department of Energy. The most significant of these were; the development of an interactive database on the Monterey Formation, a new simulation algorithm for the description of fracture-controlled Monterey Reservoirs, a pattern recognition method for analysis of well log data, enhanced water shut-off techniques and reprocessing of the 1982 3D seismic survey data to improve the geologic structural model. USC no longer participates in the project after the conclusion of Budget Period I activities.

The primary goal of the Budget Period II is to develop the new fault blocks identified as a result of the field re-evaluation conducted during Budget Period I. A Middle Sespe prospect was identified by an exploration well drilled from a jack-up in 1985. We have used the reprocessed 3D to image the South Ellwood structure at Sespe level. 3120-15RD4 was drilled during 2004-2005 to appraise this Lower Sespe structure. A second exploratory well will be drilled in 2005 to test the North Flank block of the Monterey.

Experimental

Not applicable for the work performed.

Results and Discussion

Task II – New Data

3242-18 Production Log

The oil producing perforations (7392-7772') in 3242-18 were acidized and a new Electric Submersible Pump was run in May 2005. Unfortunately, this caused a significant increase in

water cut from 65% to 95%. It was initially suspected that the source of the water might be cross fault 5 that intersects the wellbore near the perforations that were stimulated. During August 2005, we pulled the ESP completion and ran a gas lift string. A production log consisting of Schlumberger's Flowview, Fullbore spinner and Water Flow tools was run on August 10th and compared to the last production log from March 2001. On the basis of the 2001 production log, we had set a bridge plug to abandon the open hole section from 8520-10098' as this was producing 1200 BWPD with no oil influx. The August 2005 log showed that the bottom set of perforations in the 7-5/8" casing (8320-58') was producing 920 BWPD and the Water Flow Log detected that flow was occurring outside the 7-5/8" casing. On the 2001 log this set of perforations was only contributing 160 BWPD under similar producing conditions. It was determined that the acid had inadvertently been spotted on this bottom set of perforations and had opened up a communication path behind pipe to the open hole section. The bottom set of perforations was squeezed and the ESP completion rerun. The water cut has now returned to a normal level of 65% and the production has increased to over 1900 BOPD.

FlowView Tool

In the FloView tool four holdup measurements are made around the well bore. The sensor used is a probe that measures the local hold up of water. (At a given depth the local holdup can vary considerably at different points across the well bore.)

To log a horizontal well more than four probes are required. The addition of a second tool produces the FloView_{Plus} measurement with a total of eight probes distributed across the wellbore. Most of the probes will now register a continuous phase of either hydrocarbon or water but a probe close to the water-oil interface will see some bubbles. MapFlo processing of the field data is then used to produce borehole cross sections and a value of water holdup.

Water Flow Log (WFL)

The WFL, Water Flow Log, works in the presence of flowing water where a neutron pulse activates some of the flowing oxygen. This activated oxygen decays rapidly with the emission of gamma rays, which are detected as a peak in a gamma ray detector signal some time after the neutron burst.

The **time** from the middle of the neutron burst to the peak of the gamma ray detector signal is measured. Given the **distance** from the minitron neutron generator to the gamma ray detector a water **velocity** is computed. Multiple detectors allow a large velocity range to be measured. In horizontal or monophasic flow regimes the velocity measured corresponds to the mean water velocity.

Under favorable conditions the area under the gamma ray peak can also be processed to give the water flow rate (known as the 'flow index').

3242-18 Production Log August 2005

Analysis of Production Logs in GoCad

The new production log from 3242-18 and successful squeeze prompted a re-evaluation of the source of water production in those wells with modern Flow-view production logs. This data was loaded in GoCad to see if there would be a correlation between point of water entry and proximity to faults. Six wells have modern suites of logs – 3120-9RD1, 3120-12, 3120-16, 3242-7RD2, 3232-12 and 3242-18. Perforations in close proximity to one of five faults – C3b, N2, W0, CF5 or NWC2 seem to produce anomalous quantities of water for their structural position. Perforations close to the Green reverse fault seem to produce large quantities of gas. Perforations down hole from these fault intersections appear to produce relatively clean oil where the Monterey is well fractured. This data appears to show that the oil-water contact is moving unevenly across the field with significant water production only in the fracture zones closest to the major faults. This implies that wells such as 3120-12 and 3120-9RD1 that appear to have watered out may have recompletion opportunities if the uphole water entry points can be squeezed off. We plan to recomplete these two wells during 2006.

Lease 3120 Wells showing relation of water production to proximity with NWC2 and W0 Faults

3242 Wells showing relation of water production to proximity of N2, C3b and Green Faults

Task IV-1—Produced Water Re-Injection

The two existing group separators (V-107 and V-108) will be retrofitted with new internals to allow three phase water separation. NATCO, the original designer of the group separators has designed new vessel internals for retrofitting these vessels. Upgrades will include a new proprietary “Porta Test Revolution” inlet separation device, a higher water weir and new water level control, alarm and shutdown instrumentation. The “Porta Test Revolution” inlet separation device utilizes centrifugal force to separate gas from the liquid without foaming. The higher water weir will allow longer liquid retention time to provide more complete water oil separation. These improvements will reduce the water cut in the oil shipped to Ellwood to approximately 10%. The Revolution devices have been arrived and during a platform shutdown in February 2005 we installed a new production header to direct all Holly produced fluids into a single production separator. Production V-107 was taken off line and cleaned. However since drilling operations are continuing on the Sespe and North flank wells, it was not possible to begin welding the internals in this vessel due to the limitations imposed by Venoco’s simultaneous operations policy. The modification of the two separators was postponed until the end of drilling operations in December 2005. Water injection should begin in the first quarter of 2006.

Task IV-2—Downhole Water Separation ESP's

Venoco conducted a review of Platform Holly modifications that would be required to accommodate additional ESP wells. Holly is run on shore power and the load factor for the subsea power cable must be closely monitored. We have been reviewing two alternatives. First the drilling rig generators could be modified to run continuously and generate power for Holly in parallel to the grid. Secondly we could raise separator pressure and decommission one of the large Holly gas compressors. This would free up enough spare power to supply five new ESP wells. Current lead times for equipment for either of these options will probably delay implementation of this task until 2006.

Task IV-3—Development of New Fault Blocks

Sespe Well 3120-15 RD4

The Sespe well (originally called 3242-19 RD1) was renamed 3120-15RD4 by the California Division of Oil, Gas and Geothermal Resources since the producing interval is located on State lease 3120. The well reached a total depth of 14247' on January 17th 2005. Excellent gas shows were evident in the Middle Sespe, Gaviota and Coldwater formations. A 2-7/8" completion string was run to test a barefoot section in the massive sands of the Gaviota formation from 12965-13650'. This zone tested wet with minor traces of gas. The reservoir pressure was estimated to be 5500 psi. During testing, the tubing plugged with mud. The tubing was cleaned out with coiled tubing and the completion recovered. TCP guns were run and set on hanger to shoot the Middle Sespe sands. The completion string was rerun but it was not until six weeks later that the completion string was landed due to difficulties running the packer in the oil based mud completion fluid. The guns would not fire due to the presence of 60' of settled mud solids lying on top of the firing head. It was decided to pull the completion and recomplete the well in with brine. Recovery of the completion string took an additional two months as it required a washover string to clean out settled mud solids in the tubing-casing annulus. At report time, Venoco was running mills to insure that the 5-1/2" and 7" liners and their respective liner tops were thoroughly clean.

A new set of guns will be run to effect a test of the Middle Sespe sands from 12155-12770'. Net pay in the Middle Sespe is 338'. If successful, a production test in the Middle Sespe will add up to 12 MMB of reserves.

North Flank Well 3242-13 RD1

The North fault block is a large Monterey fault block that lies just to the north of the main fault block and is downthrown approximately 800' by the N1 fault. Two exploratory wells were drilled into this fault block in the 1970's and it was assumed to be wet. However, the reprocessed 3D seismic data shows that these two wells drilled into the bottom of a syncline. 3242-10 tested a small amount of heavy oil from what is now assumed to be the oil-water contact of this fault block. A considerable reservoir volume lies updip of these two wells trapped against the Red Mountain regional fault. Significant natural seep activity occurs above the point where this north limb terminates against the Red Mountain fault. A smaller rock volume is trapped against the N1 fault to the south. An idle well, 3242-13, will be redrilled to test both limbs of the syncline during the Fourth Quarter of 2005. The original perforations of this well were squeezed and abandoned during 2004. A successful appraisal well may add up to 20 MMB of reserves.

Task V- Project Management

Project review meetings were held on a monthly basis in Carpinteria. Individuals working on the project during this quarter included:

Reservoir Studies:

Steve Horner

Geological/Geophysical Modeling

Marc Kamerling, Chris Knight

Project Management:

Steve Horner

Task VI-Technology Transfer

None.

Conclusions:

This is the seventh quarterly technical report for Budget Period II. Three significant new projects are in progress. An appraisal well was drilled to test the Sespe prospect identified from seismic reprocessing. This well is presently being production tested. A second exploratory well will be drilled to appraise the Monterey North flank block in the fourth quarter of 2005. In addition, we have completed design work to separate and re-inject all produced water back into the Monterey at Holly. Equipment has been purchased to modify the Holly separators and we expect to complete the project by Q1 2006. These projects could add more than 30 MMB of reserves to South Ellwood field.

References

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