

MINUTE ITEM

7/31/69

40. REVIEW OF STATE OIL AND GAS DEVELOPMENT CONTROLS - W-7300. W-3557

During consideration of Calendar Item 35 attached, appearances were made by the following:

Honorable Robert J. Lagomarsino, State Senator, 24th Senatorial District, who voiced his opposition to offshore oil and gas leasing at Santa Barbara.

George H. Clyde, Supervisor, Santa Barbara County, who stated that the Board of Supervisors of Santa Barbara County had adopted a resolution calling for the banning of offshore drilling for oil and gas and urged the Commission to continue a moratorium on drilling on State leases.

Robert C. Sharp, Engineer, Santa Barbara County, who spoke against oil drilling in the Santa Barbara Channel.

George P. Kading, County Counsel, Santa Barbara County, who spoke against oil drilling in the Santa Barbara Channel and suggested that a hearing be held re offshore drilling in that area.

Deputy Attorney General Warren J. Abbott, who informed the Commission that Federal leases in the Outer Continental Shelf area are issued pursuant to an act of Congress; that Congress has complete jurisdiction over the Federal lands; and that the Act of Congress provided that the law applicable to the land is the State law as of the date of the adoption of the Act, and cannot be changed by California as far as the Federal lands are concerned.

F. J. Hortig, Executive Officer of the Commission, who answered many questions raised by the Commission, and pointed out that the Commission had contracts with its lessees that, if not honored, could raise legal and economic problems.

The Commission considered the matter at length, including the problem of possible drainage of State lands by Federal lessees, and the need for considering the over-all question of protection of the environment.

Upon motion duly made and unanimously carried, the Commission directed:

1. EVALUATION OF THE FEASIBILITY AND APPLICABILITY OF AGREEMENTS FOR UNITIZED DEVELOPMENT OF FEDERAL AND STATE LANDS IN THE SANTA BARBARA CHANNEL AREA.
2. RECOMMENDATIONS FOR DRILLING WELLS ON EXISTING LEASES MAY BE BROUGHT TO THE COMMISSION FOR CONSIDERATION ON A WELL-BY-WELL BASIS IF THERE ARE UNIQUE CIRCUMSTANCES THAT JUSTIFY AND REQUIRE SUCH DRILLING.

Attachment

Calendar Item 35 (5 pages)

REVIEW OF STATE OIL AND GAS DEVELOPMENT CONTROLS - W.O. 7300

On January 28, 1969, while drilling well A21 from Platform A on Federal Outer Continental Shelf Tract 402 in the Santa Barbara Channel, Union Oil Company of California suffered a well blowout. As a result of the accident and the subsequent marine pollution, the Department of the Interior suspended all drilling and producing activity on Federal lands in the Channel, with the exception of certain corrective efforts on the Union lease, until the Department could review and strengthen antipollution safeguards.

On February 4, 1969, the Chairman of the State Lands Commission announced that, although over 925 wells had been drilled into State lands from off-shore platforms and islands under completely controlled conditions and without any detrimental effect on the environment, the State Lands Division had been "directed not only to make a technical review of the occurrence on the Federal lands but also to review all controls for operations on State lands to reassure that everything possible is in fact being done to preclude any similar occurrence on lands under the jurisdiction of the State Lands Commission."

In furtherance of that objective, on February 27, 1969, the Commission acted to defer the date for receiving bids for oil and gas lease of a parcel of tide and submerged land in the Santa Barbara Channel, to revoke all geologic exploration drilling permits, and to authorize public hearings to be held with respect to the issuance of such permits.

The review ordered by the Chairman has confirmed that the existing California statutes provide an adequate framework within which to conduct successful oil and gas operations on State-owned tide and submerged lands. Furthermore, present rules, regulations, and procedures are adequate to the task of preventing marine pollution detrimental to the environment.

The safety record of oil and gas operations on lands under the jurisdiction of the Commission reflects, in large measure, the close supervision provided by the State Lands Division. Reflected also is the State's requirement of its lessees that technological advances in drilling and production procedures be implemented as soon as feasible where such advances will increase operational safety margins. For future operations it is proposed that the lessees will be required to have ready access to acceptable standby pollution control, containment and removal equipment.

Of great significance to the avoidance of pollution is the flexibility that the Commission's present regulations allow in determining procedures to be followed in specific oil operations offshore. Drilling and production safety is highly dependent upon effective adjustment of control to circumstances found in the field.

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Concurrently with the Chairman's order on February 4, the Secretary for Resources directed that a State Ad Hoc Committee be formed within the Agency to review State regulations and inspection practices on offshore oil and gas operations and to develop recommendations felt to be necessary with relation to both safety and aesthetics. The State Lands Division participated as a member of the Committee. A summary of the "REPORT OF THE AD HOC COMMITTEE STATE REGULATIONS AND INSPECTION PRACTICES, OIL AND GAS OPERATIONS AND OIL POLLUTION", prepared jointly with that committee, is appended as Exhibit "A".

Included on the Committee, besides the State Lands Division, were the Division of Oil and Gas, the Water Resources Control Board, the Department of Conservation, the Department of Fish and Game, the California Disaster Office, and the Environmental Quality Study Council. Other State agencies reviewed preliminary drafts of the report, and review and comment was solicited and received from the Geological Survey and the Western Oil and Gas Association.

State Lands Division participation on the Committee offered the opportunity for a comprehensive review of the State's total regulatory structure and the role of the Commission's rules, regulations, and procedures within the framework of the overall State effort to control offshore oil and gas drilling. This review once again has pointed up the fact that, although both the State Lands Division and the Division of Oil and Gas have responsibilities related to oil and gas operations on State-owned lands, nonconflicting roles have developed through the years. There are no significant overlaps or voids in the operation of these two agencies on State lands with regard to oil operations. All activities in areas of mutual concern are complementary.

The current status of oil and gas operations offshore California is mixed. The City of Long Beach has not curtailed operations offshore that City. The Federal government has concluded its review of Federal rules and procedures, with participation by the State Lands Division and other representatives of the Resources Agency, and, in addition to continued remedial work on Union's lease, exploratory and development drilling has resumed elsewhere in the Federal portion of the Channel, resulting in at least two widely separated discoveries that may constitute a threat of drainage to State leased lands.

In addition to the Commission's formal action to defer further leasing and exploratory drilling on State lands, the Division informally reached an understanding with the State's oil and gas lessees in Orange, Ventura, and Santa Barbara counties to suspend the drilling of new wells into State lands until the Division's review had been completed. As a result of that understanding, no new well has been drilled anywhere offshore on lands under the jurisdiction of the Commission since January 29, 1969.

Continuation of the moratorium on drilling can have serious economic effects on oil and gas revenues to the State. An insufficient number of wells in a reservoir can alter the economics of that reservoir because of the time value of money, effectively resulting in a smaller ultimate economic reserve and loss in ultimate income to the State. Inability of a lessee to drill

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additional injection wells necessary for the orderly and timely expansion of secondary recovery projects already approved by the Commission can result in significant changes in the economics of the project, to the detriment of all lease participants. Inability to drill needed injection wells will also result in lessees' deciding not to attempt new secondary recovery projects. Large diseconomies will result in the overall operation of a field if the lessee is not able to replace old uneconomical wells with new wells, thus shortening the economic life of the field. Finally, it is necessary to continue evaluation of State lands in the vicinities of new discoveries on Federal lands that may pose a threat of drainage to State lands.

There is little evidence of serious damage having occurred to any resources as a result of the Union accident. There can be no doubt that the State has had an excellent record of safety in the management of its offshore oil and gas reserves and that it is possible to maintain this record.

The current moratorium of six months represents ten percent or more of the remaining life of many of the existing fields, and can have a measureable effect on the economic life of those fields. In view of this economic threat, as well as in consideration of the minimal permanent effect of Union's accident on the total environment, the minimal probability of a similar accident happening under State control, and the vital need for oil and gas in California's economy, it now appears that it is in the best interest of the State to permit lessees to resume the necessary drilling programs for the required development of oil and gas production on the tide and submerged lands of the State.

Attachment: Exhibit "A"

EXHIBIT "A"

SUMMARY OF
REPORT OF THE AD HOC COMMITTEE,
STATE REGULATIONS AND INSPECTION PRACTICES,
OIL AND GAS OPERATIONS AND OIL POLLUTION

This study was requested by the California Resources Agency in the wake of the Santa Barbara Channel oil pollution incident of early 1969. Regulations and practices are reviewed and recommendations made to assure that public safety, property and environmental quality receive maximum protection consonant with economic development of the oil and gas resources of an increasingly urbanized California. Provision is made herein for implementation of these recommendations.

Under State regulation and supervision, the California oil industry has a generally excellent record in the prevention of major oil spills. State regulations are not so rigid as to preclude discretion. This approach has been successful and should be continued. Some legal restrictions on inter-agency exchange of offshore data should be removed.

State agencies have various responsibilities in regard to oil operations and oil pollution. The Division of Oil and Gas is responsible for the conservation and protection of oil, gas and fresh water. The State Lands Commission, operating through the State Lands Division, represents the State as a land and mineral owner, and protects the State's interest in the development of same. The State Water Resources Control Board and the Regional Water Quality Control Boards are responsible for water quality and control of water pollution. The Department of Fish and Game is responsible for fish and wildlife resources in California and, in carrying out its duties, also enforces State and Federal pollution laws. The Division of Industrial Safety is responsible for assuring safe working environments.

In general, State agencies have sufficient authority to enforce compliance with oil pollution prevention and abatement requirements, although there are some "gray" areas. The responsibilities of the Division of Oil and Gas should be expanded to include protection of public safety, property and natural resources in regard to oil and gas operations. The Division should accordingly expand its duties, require additional information from oil operators and conduct more inspections. There appears to be a serious void in State regulation and inspection of the pollution aspects of onshore pipelines, other than public utility pipelines. Also, there should be better control on the location, construction and operation of oil and waste water sumps, and on waste water disposal into ocean waters. Oil containment and removal devices should be quickly available to offshore oil operations.

There is a need for better coordination between State agencies in many activities related to oil and gas operations. For example, the State Lands Division should establish better coordination with other agencies, particularly

the Regional Water Quality Control Boards. The later Boards also need to work at this and, in addition, should maintain better liaison with the Division of Oil and Gas. Ocean-going tankers are the most likely future source of disastrous oil spills. A study should be made of west coast tanker traffic and safety procedures. Lesser oil spills in harbors and old well abandonments are continuing nuisances which also require further study.

A new California Oil Spill Disaster Contingency Plan is proposed to provide for effective coordination of State efforts during any future major oil spill abatement operations, regardless of the source of the spill.

Recommendations and Implementation

Two primary recommendations are not in the body of the report; they are as follows:

- (A) The head of each State agency mentioned herein shall on or before September 15, 1969 submit a report to this Ad Hoc Committee detailing the actions taken by his agency to implement the recommendations in this report which concern it, and suggesting the form of any legislation which may be needed to complete the implementation of these recommendations. Submittal of reports shall be expedited by the agency designated to coordinate each recommendation. These agency reports shall be evaluated by this committee and forwarded to the Resources Agency and the State Lands Commission, on or before October 15, 1969, with further recommendations including those for necessary legislation.
- (B) The concerned departments shall put the needed legislation into required form and secure its introduction early in the 1970 session of the Legislature, as coordinated by the Resources Agency.

The other 38 recommendations are included and numbered in each section of the report.

Most recommendations are for changes in, or additions to, present procedures and practices, and/or for better inter-agency coordination. These can be adopted administratively or effected by cooperation. In some instances, additional authority seems warranted and legislation may be required for achievement.