

MINUTE ITEM

4/30/75
DJE

23. RESUMPTION OF DRILLING OPERATIONS FROM EXISTING FACILITIES ON STATE OIL AND GAS LEASES PRC 3120 AND PRC 3242; SOUTH ELLWOOD OFFSHORE FIELD, SANTA BARBARA COUNTY; ATLANTIC RICHFIELD COMPANY AND MOBIL OIL CORPORATION - W 9723, PRC 3120, PRC 3242.

During consideration of Calendar Item 21 attached, appearances were made by the following:

In Opposition

Anthony C. Fischer, Deputy City Attorney, City of Santa Barbara
Martin Kellogg, Environmental Worker, Isla Vista Community Council

Proponents (listed in the order of their appearance)

Charles F. Armin, District Director; Oil, Chemical & Atomic Workers Union, AFL-CIO
George V. Castagnola, President, Geo. V. Castagnola Enterprises
Don Cole, Business Manager, Sandpiper Golf Course
J. D. Flournoy, Director, California Wildlife Federation, Inc.
Taylor Hancock, Vice President, Global Marine, Inc.
H. R. Mochmuth, Past President, California Wildlife Federation
Clarence Howard, Business Representative, Local #12, International Union of Operating Engineers
Howard Hogue, Vice President, Tidewater Marine Service, Inc.
Robert L. Kubik, Attorney, Mobil Oil Corporation
R. W. Mansfield, Legislative Advocate, State Building Trades Council
Bob McHale, Business Representative, Local #12, International Union of Operating Engineers
W. B. Wood, Assistant Vice President, Southern California Gas Company
J. B. Hundley, Operations Manager, Atlantic Richfield Company

(For a complete verbatim report on the presentations made by those listed above, see the reporter's transcript, copy of which is on file in the office of the State Lands Commission and by reference made a part hereof.)

Assistant Attorney General Jay L. Shavelson informed the Commission that he considered that the Environmental Impact Report previously prepared was legally adequate; that he thought the Lands Commission acted properly and responsibly and in the spirit of the California Environmental Quality Act when it made the decision in January to reexamine that report before allowing the lessee to proceed with the resumption of drilling operations. However, the Lands Commission does not

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have the same discretionary authority it would have if it were issuing a new lease or even a permit for a new platform, and that legal risks would be entailed if the Commission did not give its approval to the resumption of drilling operations.

Upon motion duly made and carried, a resolution was adopted instructing the Commission's staff to negotiate with the oil companies in the Santa Barbara Channel for the setting up of an emergency fund for oil spills in the Channel, to try to get the oil companies to accomplish that.

Commissioner Dymally stated that he hoped the staff would explore with the oil companies an environment that is similar to the one the State now has in Long Beach.

Upon motion duly made and carried, the following resolution, as amended, was adopted:

THE COMMISSION:

1. TERMINATES ITS ACTION OF JANUARY 14, 1975, SUSPENDING THE STATE LANDS COMMISSION'S RESOLUTION OF DECEMBER 19, 1974, APPROVING THE RESUMPTION OF DRILLING FROM PLATFORM HOLLY PURSUANT TO THE PROVISIONS OF STATE OIL AND GAS LEASES PRC 3120 AND PRC 3242.
2. REVOKES SPECIFIC DRILLING APPROVALS ISSUED BY THE STATE LANDS DIVISION PURSUANT TO SAID RESOLUTION OF DECEMBER 19, 1974.
3. REDELEGATES AUTHORITY TO THE EXECUTIVE OFFICER TO APPROVE FURTHER DRILLING FROM PLATFORM HOLLY; WHICH AUTHORITY SHALL BE EXERCISED IN ACCORDANCE WITH GOOD OIL FIELD AND GOOD ENVIRONMENTAL PRACTICES IN ORDER TO ACHIEVE MAXIMUM ECONOMIC RECOVERY OF OIL AND GAS AND ENVIRONMENTAL CONTROL; PROVIDED THAT THE COMMISSION HEREBY RESERVES TO ITSELF THE AUTHORITY TO ACT IN ALL MATTERS AFFECTING ANY FUTURE CHANGE IN COMMISSION POLICY WITH REGARD TO SAID DRILLING.
4. RESOLVES THAT PARTS 1 AND 3 OF THE FOREGOING RESOLUTION ARE SUBJECT TO THE UNDERSTANDING THAT ATLANTIC RICHFIELD COMPANY, AS OPERATOR OF SAID LEASES, HAS AGREED TO THE FOLLOWING PROVISIONS AND ARE CONDITIONED THEREON:
 - A. ATLANTIC RICHFIELD COMPANY WILL FURNISH TO THE STATE LANDS COMMISSION A CERTIFICATE OF INSURANCE FROM A RECOGNIZED INSURANCE COMPANY DOING BUSINESS IN CALIFORNIA IN THE SUM OF \$10 MILLION INCLUDING THE STATE AS A NAMED INSURED AND EVIDENCING INSURANCE

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AGAINST LIABILITY FOR DAMAGES TO THIRD PERSONS ARISING OUT OF ANY AND ALL DRILLING AND PRODUCTION ACTIVITIES ON OR FROM PLATFORM HOLLY--WHICH CERTIFICATE SHALL NOT BE CANCELABLE EXCEPT UPON 30 DAYS NOTICE, AND ATLANTIC RICHFIELD COMPANY SHALL AGREE TO KEEP A CERTIFICATE OF INSURANCE MEETING THE ABOVE REQUIREMENTS IN EFFECT AT ALL TIMES UNTIL ALL DRILLING AND PRODUCTION FROM SAID PLATFORM HOLLY SHALL HAVE TERMINATED AND ALL WELLS ON SAID PLATFORM HAVE BEEN PROPERLY ABANDONED IN THE MANNER REQUIRED BY LAW;

- B. SHOULD ANY EVENT OCCUR CAUSING A SUBSTANTIAL NUMBER OF CLAIMS FOR DAMAGES TO BE FILED AGAINST THE ATLANTIC RICHFIELD COMPANY AS A RESULT OF OPERATIONS ON OR FROM PLATFORM HOLLY, ATLANTIC RICHFIELD COMPANY SHALL, WITHIN TEN DAYS AFTER SUCH EVENT, CAUSE TO BE OPENED, OR OPEN, A CLAIMS OFFICE WITHIN THE CITY OF SANTA BARBARA STAFFED WITH SUFFICIENT PERSONNEL AND AUTHORITY TO PROCESS ALL CLAIMS AND TO SETTLE ALL UNCONTESTED CLAIMS--BARRING UNUSUAL CIRCUMSTANCES, THE STAFFING OF SAID OFFICE SHALL BE SUFFICIENT TO PROCESS ALL CLAIMS AND SETTLE ALL UNCONTESTED CLAIMS WITHIN 60 DAYS OF THE ESTABLISHMENT OF SAID OFFICE; ALL DRILLING AND PRODUCTION SHALL BE CONDUCTED FROM PLATFORM HOLLY IN ACCORDANCE WITH APPLICABLE LAW, THE RULES AND REGULATIONS OF THE STATE LANDS COMMISSION AND THE DIVISION OF OIL AND GAS, AND THE PROCEDURES HERETOFORE ADOPTED BY THE STATE LANDS COMMISSION, AND REFERRED TO OR DESCRIBED IN THE FINAL ENVIRONMENTAL IMPACT REPORT RELATING TO DRILLING OPERATIONS FROM PLATFORM HOLLY ADOPTED BY THE STATE LANDS COMMISSION ON DECEMBER 19, 1974;
- C. ATLANTIC RICHFIELD SHALL IMPLEMENT AND MAINTAIN PROPERLY AND EFFICIENTLY THE OIL-SPILL CONTINGENCY PLAN CONTAINED IN VOLUME III, APPENDIX C. OF SAID ENVIRONMENTAL IMPACT REPORT;
- D. TO FACILITATE THE SETTLEMENT OF CONTESTED CLAIMS BY THIRD PERSONS WITHOUT THE NECESSITY OF LITIGATION, ATLANTIC RICHFIELD WILL AGREE TO MEDIATION PROCEDURES APPROVED BY THE EXECUTIVE OFFICER AFTER CONSULTATION WITH THE OFFICE OF THE ATTORNEY GENERAL.
5. THE EXECUTIVE OFFICER IS HEREBY AUTHORIZED TO EXECUTE A LETTER OF UNDERSTANDING PRESERVING THE LEGAL RIGHTS OF THE STATE LANDS COMMISSION AND ATLANTIC RICHFIELD COMPANY IN THE FORM PRESENTLY CONTAINED IN STATE LANDS DIVISION FILE W 9723.

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6. UPON REVIEW OF THE TRANSCRIPT OF THE MEETING, THE PRECISE INTENTION OF THE STATE LANDS COMMISSION WITH REGARD TO THAT PORTION OF SAID RESOLUTION RELATING TO THE REINJECTION OF GAS WAS FOUND TO BE UNCLEAR; THEREFORE, THE STAFF WILL RECOMMEND TO THE COMMISSION A RESOLUTION CLARIFYING THIS MATTER TO BE CONSIDERED AT THE COMMISSION MEETING OF MAY 27, 1975.

Attachment:
Calendar Item 21 (8 pages)

CALENDAR ITEM

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W 9723

21.

RESUMPTION OF DRILLING OPERATIONS FROM EXISTING FACILITIES ON STATE OIL AND GAS LEASES PRC 3120 AND PRC 3242; SOUTH ELLWOOD OFFSHORE FIELD, SANTA BARBARA COUNTY

LEASES: PRC 3120 and PRC 3242.
 LESSEE: Atlantic Richfield Company and Mobil Oil Corp.
 COUNTY: Santa Barbara.
 AREA: South Ellwood Offshore Field.

INTRODUCTION: On January 14, 1975, the State Lands Commission suspended a resolution of December 19, 1974, which allowed resumption of drilling operations by Atlantic Richfield Company as operator from existing facilities on State Oil and Gas Leases PRC 3120 and PRC 3242, and further suspended the drilling permits issued by the State Lands Division pursuant thereto. Concurrently, the Commission directed staff to re-examine the December 1974 approvals and permits and to determine whether the resumption of drilling would be consonant with current Executive and Legislative policies of the State.

In accordance with the directive, staff has completed the re-examination. Dialogues have been conducted with the Executive and Legislative branches of the State to develop a consensus of opinion on the resumption of drilling from existing Platform Holly located on PRC's 3120 and 3242. The results of the staff effort are described herein:

BACKGROUND: Following the February 1969 oil spill from Union Oil Company's Platform A in Federal outer continental shelf waters offshore Santa Barbara, the State Lands Commission declared a moratorium on new drilling on all State offshore oil and gas leases pending review of drilling and operating procedures. Such review was conducted and new, more stringent procedures were adopted in December 1973. Accordingly, the Commission lifted the moratorium (which had been in effect for almost six years) subject, however, to prior Commission review, on a lease-by-lease basis, of any proposal to resume drilling on any offshore State oil and gas leases.

In early 1974 Atlantic Richfield Company (the operator for both leases) applied to the Commission for permission to complete its drilling program of 30 wells on the Platform Holly lease. Prior to the 1969 moratorium, 13 wells had been drilled on the Platform with no untoward incident.

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Because of the potential environmental effect of Atlantic Richfield's proposal, the State Lands Division ordered preparation of an Environmental Impact Report for the drilling of 17 new wells in completion of the drilling program on the existing lease and platform. The report was prepared under close supervision of the Division by the consulting firm of Dames and Moore. After thorough staff review for accuracy, adequacy, and objectivity, the EIR was processed in accordance with State guidelines and requirements of the California Environmental Quality Act. Comments on the draft EIR were received during a two-day public hearing in Santa Barbara in September 1974. Those comments were incorporated in the final EIR presented to the State Lands Commission for consideration. In December 1974 the Commission considered the Atlantic Richfield application and the applicable EIR, and authorized the resumption of drilling, directing the State Lands Division to proceed with the issuance of permits.

THE ATLANTIC RICHFIELD COMPANY PROPOSAL:

Essentially, Atlantic Richfield proposes a drilling program which would not exceed 17 new producing wells additional to the 13 producing wells already located on existing Platform Holly, and which would complete the drilling program from that platform. No new platforms are proposed. Purpose of the program is to extract oil and gas from the Monterey geological zone underlying PRC Leases 3120 and 3242. Completion of the drilling program; i.e., to add 17 new wells to the platform, is contingent on whether Atlantic Richfield can obtain the necessary approvals from other State and local agencies to modify shore facilities and construct a Stretford plant to remove excess sulfur compounds from the produced gas. Although the EIR considers existing and proposed onshore facilities, which were also considered by the State Lands Commission, any Commission action on the drilling proposal would not include approval of onshore facilities.

If Atlantic Richfield is unable to obtain approvals for the onshore facilities, only a partial interim development program will be implemented rather than the full 17-well continuation program. The partial program

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will consist of drilling 8 to 10 new wells (rather than 17); would reduce the rate of oil production from 20,000 barrels per day to 12,000 barrels per day; would require reinjection of produced gas into the formation; and, would require use of existing onshore facilities.

The total project completion proposal by Atlantic Richfield is limited to the drilling of a maximum of 17 new wells on Platform Holly. Any additional wells and/or facilities that Atlantic Richfield might contemplate in the future would be subject to separate Commission consideration and the preparation of another separate EIR.

PERTINENT INFORMATION:

The 13 wells already in operation on Platform Holly (PRC's 3120 and 3242) have produced more than 8 million barrels of oil and 8.5 billion cubic feet of gas. The State has received royalty revenue of about \$10 million from these wells, the money having been assigned to Statewide water projects and Capital Outlay for Higher Education. If the proposed 17 new wells were to be approved, the eventual royalty income to the State could reach a peak of approximately \$100,000 per day, or \$36.5 million per year. Even partial development, or less than 17 new wells, could provide the State with nontax revenue of \$50,000 per day, or \$18.25 million per year.

THE ENVIRONMENTAL IMPACT REPORT:

As noted earlier, the EIR was prepared with thorough staff review and processed in accordance with State guidelines and the provisions of CEQA, incorporating comments received through the Santa Barbara public hearing.

In its re-examination of the EIR, staff has determined, with the advice and concurrence of the Office of the Attorney General, that the EIR is a legally sufficient document both in terms of compliance with applicable law and in the attention given to areas potentially impacted by the proposal.

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Public criticism of the EIR and the proposal was centered around three major areas of critical concern; i.e., well blowout, liability assumption in the event of a blowout, and the potential increase of tanker traffic. Concern in the first instance was directed at the level of adequacy of blowout prevention measures. In the second instance, the concern was for assumption of responsibility by the lessee/operator for damages resulting from a blowout. In the third instance, concern was directed to one of the avoidable consequences discussed in the EIR; i.e., a potential increase in tanker traffic in the Santa Barbara Channel.

LEGISLATIVE AND EXECUTIVE CONSIDERATION:

In accordance with the Commission's directive of January 14, 1975, staff has conferred with State Legislative and Executive branches regarding the Atlantic Richfield proposal.

Discussions were held in the State Capitol on February 20, 1975, with legislators responding to a Legislature-wide notice that staff would conduct a briefing on the Atlantic Richfield proposal and would be available to respond to any questions.

One of the matters of main concern at the meeting was that a Commission rejection of the Atlantic Richfield application would involve risking litigation, the outcome of which could not be predicted with certainty, and potential liability which could be of sufficient magnitude to have a serious fiscal impact upon the State.

It was also the consensus of those present that, should the Commission give its approval of the application, agreements should be obtained from Atlantic Richfield with respect to blowout prevention measures, as well as provisions to assure that the company operator would expeditiously discharge any liability arising in the event of oil spill damage.

Discussion with members of the Executive Branch led to expressions of similar concern regarding State exposure to damage claims by Atlantic Richfield, the necessity for blowout prevention measures, and the need to protect third persons who might suffer damages in the event of an oil spill.

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PROJECT MITIGATION MEASURES:

Mitigating measures, for the most part, involve oil spill prevention and control procedures. Such procedures include the use of appropriate safety equipment during drilling and production operations, in strict compliance with applicable laws and regulations of Federal, State, and local governmental agencies.

Approval of Atlantic Richfield's application would include requirements that all well drilling be conducted in accordance with the Commission's "Procedures for Drilling and Production Operations from Existing Facilities on Tide and Submerged Lands Currently under State Oil and Gas Leases", including requirements for well casing, blowout prevention, drilling mud programs, facility safety inspections, and special training programs for operator personnel.

Platform Holly is equipped with an integrated safety-control system that will cause shut-in of all wells in the event of fire, pipeline failure, or other catastrophe. Well control training will be conducted daily until each crew is thoroughly trained, and, thereafter, at least once a week for each crew. The company drilling supervisor will be responsible for instructing all drilling crews in blowout prevention and State procedures for drilling operations. In addition, all Atlantic Richfield and drilling contractor supervisory staff will be required to have attended, on an annual basis, a formal blowout control training school.

As an added safety measure, all critical drilling operations will be monitored by an on-site State Lands Division inspector empowered to shut down drilling operations if, in his judgment, safety considerations so warrant.

AGREEMENTS FOR THE PROTECTION OF THIRD PERSONS:

With the assistance of the Office of the Attorney General, staff has prepared agreements, additional to present lease requirements and acceptable to the lessees, affording increased protection to third persons for any damages arising from operations conducted under the leases. These agreements provide:

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1. Atlantic Richfield will furnish the State Lands Commission with a certificate of insurance in the amount of \$10 million evidencing insurance against liability for damages to third persons.
2. Procedures shall be established for the prompt processing of all claims, and the prompt payment of uncontested claims.
3. To facilitate the settlement of contested claims by third persons without the necessity of litigation, Atlantic Richfield will agree to mediation procedures approved by the Executive Officer after consultation with the Office of the Attorney General.

COMMISSION ALTERNATIVES:

The Commission essentially has two alternatives for consideration in acting upon the Atlantic Richfield application:

1. The Commission may rescind the December 1974 approval, and deny resumption of drilling on PRC's 3120 and 3242 by Atlantic Richfield. In such event, it is staff opinion that Atlantic Richfield will file suit against the State for damages, as previously explained.
2. The Commission could lift its January 1975 suspension, contingent upon the additional agreements discussed above, which Atlantic Richfield has indicated a willingness to accept.

PROPOSED RESOLUTION:

Assuming that the Commission determines to approve the resumption of drilling operations on Platform Holly, the following form of Resolution would accomplish this purpose and would be acceptable to Atlantic Richfield Company:

THE COMMISSION HEREBY:

1. TERMINATES ITS ACTION OF JANUARY 14, 1975, SUSPENDING THE STATE LANDS COMMISSION'S RESOLUTION OF DECEMBER 19, 1974, APPROVING THE RESUMPTION OF DRILLING OF PLATFORM HOLLY PURSUANT TO THE PROVISIONS OF STATE OIL AND GAS LEASES PRC 3120 AND PRC 3242.

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2. REVOKES SPECIFIC DRILLING APPROVALS ISSUED BY THE STATE LANDS DIVISION PURSUANT TO SAID RESOLUTION OF DECEMBER 19, 1974.
3. REDELEGATES AUTHORITY TO THE EXECUTIVE OFFICER TO APPROVE FURTHER DRILLING ON PLATFORM HOLLY; WHICH AUTHORITY SHALL BE EXERCISED IN ACCORDANCE WITH GOOD OIL FIELD PRACTICES IN ORDER TO ACHIEVE MAXIMUM ECONOMIC RECOVERY OF OIL AND GAS; PROVIDED THAT THE COMMISSION HEREBY RESERVES TO ITSELF THE AUTHORITY TO ACT IN ALL MATTERS AFFECTING ANY FUTURE CHANGE IN COMMISSION POLICY WITH REGARD TO SAID DRILLING.
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 - A. ATLANTIC RICHFIELD COMPANY WILL FURNISH TO THE STATE LANDS COMMISSION A CERTIFICATE OF INSURANCE FROM A RECOGNIZED INSURANCE COMPANY DOING BUSINESS IN CALIFORNIA IN THE SUM OF \$10 MILLION INCLUDING THE STATE AS A NAMED INSURED AND EVIDENCING INSURANCE AGAINST LIABILITY FOR DAMAGES TO THIRD PERSONS ARISING OUT OF ANY AND ALL DRILLING AND PRODUCTION ACTIVITIES ON OR FROM PLATFORM HOLLY--WHICH CERTIFICATE SHALL NOT BE CANCELABLE EXCEPT UPON 30 DAYS NOTICE, AND ATLANTIC RICHFIELD COMPANY SHALL AGREE TO KEEP A CERTIFICATE OF INSURANCE MEETING THE ABOVE REQUIREMENTS IN EFFECT AT ALL TIMES UNTIL ALL DRILLING AND PRODUCTION FROM SAID PLATFORM HOLLY SHALL HAVE TERMINATED AND ALL WELLS ON SAID PLATFORM HAVE BEEN PROPERLY ABANDONED IN THE MANNER REQUIRED BY LAW;
 - B. SHOULD ANY EVENT OCCUR CAUSING A SUBSTANTIAL NUMBER OF CLAIMS FOR DAMAGES TO BE FILED AGAINST THE ATLANTIC RICHFIELD COMPANY AS A RESULT OF OPERATIONS ON OR FROM PLATFORM HOLLY, ATLANTIC RICHFIELD COMPANY SHALL, WITHIN TEN DAYS AFTER SUCH EVENT, CAUSE TO BE OPENED, OR OPEN, A CLAIMS OFFICE WITHIN THE CITY OF SANTA BARBARA STAFFED WITH SUFFICIENT PERSONNEL AND AUTHORITY TO PROCESS ALL CLAIMS AND TO SETTLE ALL UNCONTESTED CLAIMS--BARRING UNUSUAL CIRCUMSTANCES, THE STAFFING OF SAID OFFICE SHALL BE SUFFICIENT TO PROCESS ALL CLAIMS AND SETTLE ALL UNCONTESTED CLAIMS WITHIN 60 DAYS OF THE ESTABLISHMENT OF SAID OFFICE; ALL DRILLING AND PRODUCTION SHALL BE CONDUCTED ON PLATFORM HOLLY IN ACCORDANCE WITH APPLICABLE LAW, THE RULES AND REGULATIONS OF THE STATE LANDS COMMISSION AND THE DIVISION OF OIL AND GAS, AND THE PROCEDURES HERETOFORE ADOPTED BY THE STATE LANDS COMMISSION, AND REFERRED TO OR DESCRIBED IN THE FINAL ENVIRONMENTAL IMPACT REPORT RELATING TO DRILLING OPERATIONS FROM PLATFORM HOLLY ADOPTED BY THE STATE LANDS COMMISSION ON DECEMBER 19, 1974;

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- C. ATLANTIC RICHFIELD SHALL IMPLEMENT AND MAINTAIN PROPERLY AND EFFICIENTLY, THE OIL SPILL CONTINGENCY PLAN CONTAINED IN VOLUME III, APPENDIX C, OF SAID ENVIRONMENTAL IMPACT REPORT;
 - D. TO FACILITATE THE SETTLEMENT OF CONTESTED CLAIMS BY THIRD PERSONS WITHOUT THE NECESSITY OF LITIGATION, ATLANTIC RICHFIELD WILL AGREE TO MEDIATION PROCEDURES APPROVED BY THE EXECUTIVE OFFICER AFTER CONSULTATION WITH THE OFFICE OF THE ATTORNEY GENERAL.
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