

STATE OF CALIFORNIA

Minutes of the Meeting of the
State Lands Commission
Long Beach, California

April 30, 1975

A regular meeting of the State Lands Commission was called to order by Chairman Kenneth Cory in the Sixth Floor Board Room, Long Beach Harbor Department, 925 Harbor Plaza, Long Beach, California, at 10:03 a.m. on Wednesday, April 30, 1975.

Present: Kenneth Cory, State Controller, Chairman
Mervyn M. Dymally, Lieutenant Governor, Commissioner
Roy M. Bell, Director of Finance, Commissioner

Staff Members in Attendance:

William F. Northrop, Executive Officer
R. S. Golden, Assistant Executive Officer
Donald J. Everitts, Manager, Energy and
Mineral Resources Development
James F. Trout, Manager, Land Operations
W. M. Thompson, Manager, Long Beach Operations
Robert C. Hight, Staff Counsel
Julia T. Stahl, Secretary

Also in Attendance:

Representing the Office of the Lieutenant Governor
Steve Smith

Representing the Office of the Governor
Tony Kline

Representing the Office of the Attorney General
Jay L. Shavelson, Assistant Attorney General
N. Gregory Taylor, Deputy Attorney General

Appearances:

Re Minute Item 16 - Authorization for Litigation to Establish
and Confirm the Nature and Extent of
Existing State Titles to Lands Within
San Francisco Bay and its Estuary in
the Area of Mt. Eden Creek, Alameda
County

William A. Falik, representing Leslie Salt Co.,
Inc.

Re Minute Item 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

Anthony C. Fischer, Deputy City Attorney, City of Santa Barbara
Martin Kellogg, Environmental Worker, Isla Vista Community Council
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. Hochmuth, Past President, California Wildlife Federation
Clarence Howard, Business Representative, Local #1, 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

WELCOME

Mr. Harold A. Lingle, Deputy City Attorney, City of Long Beach, extended a welcome to the Commission on behalf of the City, pointing out that it was the first time that the Commission had ever met in Long Beach.

EXECUTIVE OFFICER'S REPORT

4/30/75

Mr. William F. Northrop, Executive Officer, State Lands Commission, briefed the Commission on the status of the following items:

1. Recreational piers and marinas S 8282
2. Coastal Zone Plan Report W 9601
3. Long Beach Dry Gas
4. Atlantic Richfield Reconsideration W 9723
(See Minute Item 23 of this meeting)

The Executive Officer indicated that he would like the Commission to go on record on Federal offshore drilling. The staff was directed to pursue this item.

A resolution was presented to the Commission concerning the following legislation: AB 699 (Warren), AB 366 (Cullen), and AB 45 (Cullen) of the 1975 legislative session. The Commission unanimously approved the portions of the resolution concerning AB 699 and AB 366. However, the portion dealing with AB 45 was approved by a 2 to 1 vote with Commissioner Bell voting against it because of the Governor's opposition to the bill. The following resolution was adopted by the Commission:

WHEREAS, the State Lands Commission has instructed staff to analyze legislation which would impact on the energy and land management programs for which it is responsible. Subsequently, the Commission has been advised that there are a number of bills which embody concepts which would facilitate the Commission's management of tide and submerged lands;

WHEREAS, AB 699 would impose absolute liability for damage caused by oil and gas operations within the coastal zone. If enacted, it would assure that damage or injury to the natural resources of the State are compensated for;

WHEREAS, AB 366 would give broad oil pollution control authority to the State Lands Commission and would require the State Lands Commission to license all oil terminal facilities and regulate such operations in order to prevent pollution of coastal waters. This bill also deals with the administration of third party liability claims;

WHEREAS, AB 45 would create a deep water ports division within the State Lands Commission in order for the State to regulate the construction and operation of deep water ports.

This is considered to be declaratory of existing law and would clarify that the Commission has the major responsibilities attendant to these responsibilities;

WHEREAS, these several bills would give the Commission specific legislative guidelines for assuring greater environmental protection over the State's tide and submerged lands. Therefore, be it resolved

THAT THE COMMISSION AUTHORIZES STAFF TO SUPPORT THE CONCEPTS EMBODIED IN AB 45, AB 366 AND AB 699. SUCH EFFORTS WILL INCLUDE PROVIDING TESTIMONY AND TECHNICAL ASSISTANCE TO THE LEGISLATURE WHICH ARE REFLECTIVE OF THE COMMISSION'S POLICIES FOR ASSURING THE ENVIRONMENTAL PROTECTION AND SOUND MANAGEMENT OF THESE VALUABLE COASTAL LANDS. AND BE IT FURTHER RESOLVED

THAT THE COMMISSION SHALL FROM TIME TO TIME AUTHORIZE STAFF TO TAKE SPECIFIC LEGISLATIVE ACTION ON LEGISLATION WHICH WOULD CLARIFY OR STRENGTHEN PROVISIONS OF LAW RELATING TO THE PROGRAMS AND POLICIES OF THIS COMMISSION.

Commissioner Bell questioned the Executive Officer about the parity price efforts, in response to which the Executive Officer reported on his trip to Washington, D.C. Mr. Northrop stated that he was disappointed in the reaction there; that the picture is very bleak.

A copy of the Executive Officer's written report is attached as Exhibit "A" and by reference made a part hereof.

Attachment:
Exhibit "A" (9 pages)

EXHIBIT "A"

STATE LANDS COMMISSION MEETING
April 30, 1975

EXECUTIVE OFFICER'S REPORT

by
WILLIAM F. NORTHROP

I have a few informational items, Mr. Chairman, including a response to Governor Dymally's suggestion last month on requirements for recreational pier and marina leases granted by the Commission. I also have a detailed report to make to you on Item 11(A). With your permission, I will make that report when the Commission is ready to consider that item.

1. RECREATIONAL PIER AND MARINA LEASES

At the last Commission meeting, Governor Dymally suggested incorporating into the leases or lease renewals for recreational piers or marinas occupying State lands, a condition of termination by the State Lands Division. He suggested that such condition would be exercised if and when the appropriate planning agency adopted a plan under which the pier or marina structures would be non-conforming.

To meet Governor Dymally's objectives, yet still provide firm-term leases, the staff has suggested the possibility of reducing the lease period from the present 10 years to 5 years. Under normal zoning processes, such a 5-year period would not extend private occupancy unduly beyond usual planning periods. In this way, the Commission could deny further permits or remove non-conforming structures, and no structure would be contrary to local planning for more than just a few years.

Staff review indicates that private and commercial recreational pier or marina leases are usually located in areas zoned for public recreational use and appear to present little problem of non-conforming use. There is an additional consideration for marinas. Amortization periods necessary to finance major marina developments usually require fairly long periods of firm occupancy to guarantee pay-out. Governor Dymally's objectives are met in the normal contract provisions of such leases, which require compliance with reasonable local regulations, and which are adopted only after Commission approval.

If the Commission concurs with staff review and suggestion for a shorter lease term, such reduction to 5 years can be considered as part of the proposed new regulations now out for public comment. As you know, one public hearing on proposed amendments to our regulations was held in Sacramento yesterday. Another will be held here in Long Beach on Friday. After public comment and testimony has been incorporated, staff will bring the proposed regulation amendments before the Commission for consideration and action.

2. COASTAL ZONE PLAN REPORT

The State Lands Division staff is presently critiquing the recently issued preliminary Coastal Plan prepared by the California Coastal Zone Conservation Commission. Public hearings on the proposed plan have already begun, and are scheduled in all of the coastal counties. These

3. LONG BEACH GAS

I have been meeting with the City Manager of Long Beach to resolve some long-standing problems on the valuation of Long Beach tidelands dry gas.

4. ATLANTIC RICHFIELD RECONSIDERATION

On January 14, 1975, the Commission suspended approval for Atlantic Richfield to resume drilling operations on Platform Holly, pending a further staff review of drilling procedures and environmental considerations. The staff was also asked to consult with State Legislative and Executive branches to determine current policies.

Staff re-examination has been completed.

Dialogues were conducted with Legislators and the Governor's Office in February and March. One of the matters of chief concern at those meetings was that a complete rejection of the Atlantic Richfield application involved the risk of potential litigation and a possible fiscal impact upon the State of serious magnitude.

We were advised to try and reach agreement with Atlantic Richfield with respect to blowout prevention measures, as well as provisions to assure that the company operator would discharge any liability arising in the event of oil spill damage.

Following those guidelines, exhaustive negotiations have been conducted with Atlantic Richfield. The results of these lines of endeavor are before you today for consideration.

The Proposal

Essentially, ARCO proposes a drilling program which would not exceed 17 new producing wells additional to the 13 producing wells already located on existing Platform Holly. The proposal would complete the drilling

program from that platform, which has been in abeyance since the 1969 moratorium. (I might add that the 13 wells in production prior to the moratorium have created no untoward incidents, and have already provided the State with about \$10 million in royalty revenue.)

The 17 new wells are expected to provide an additional oil production of approximately 20,000 barrels per day. The eventual royalty income to the State could reach a peak of approximately \$100,000 per day, or \$36.5 million per year. Oil produced from these wells would be "new oil" and not subject to controlled pricing.

The full program, however -- of 17 new wells -- would require approval from other State and local agencies to modify existing onshore facilities and to construct a Stretford plant to remove excess sulfur compounds from produced gas.

If these approvals are not forthcoming, ARCO then proposes a partial interim drilling program of 8 to 10 new wells on Platform Holly. Such reduction in the program would reduce the rate of oil production from 20,000 barrels per day to 12,000 barrels per day. Revenue to the State would decrease proportionately.

The proposal before the Commission today is limited to the drilling of a maximum of 17 new wells on an existing platform. Any additional wells or facilities that Atlantic Richfield might contemplate in the future would be subject to separate Commission consideration, and to the preparation of a separate Environmental Impact Report.

Staff re-examination has been directed to many areas of public concern: predominately that the operator conform to new procedures adopted by the Commission; that the operator abide by an established contingency plan and critical operations plan in the event of spillage or leakage; that more stringent training be required for operator personnel; that drilling approval be on a well-by-well basis; and, that the operator agree to liability responsibility in the event of a spill.

New Procedures

The new procedures adopted by the Commission include requirements for well casing, blow-out prevention, drilling mud programs, and facility safety inspections. Platforms must be equipped with integrated safety-control systems that will cause shut-in of all wells in the event of fire, pipeline failure, or other catastrophe.

Contingency Plan

Special emphasis on mitigation of oil spills has been written into the new procedures. These include initial abatement of an incident; clear and mandatory reporting methods; and, mandatory containment and clean-up of any oil spill.

Critical Operations Plan

Certain operations perform in drilling and production work are more critical than others with respect to well control, fire, explosion, oil spills, and other discharge or emissions. Such operations must be listed, and

may be curtailed or even terminated under certain weather, sea, or other conditions. As an added safety measure, all critical drilling operations will be monitored by an on-site State Lands Division inspector, who is empowered to shut down drilling operations if, in his judgment, safety conditions so warrant.

In addition, inspection frequency by State Lands Division staff will be increased, and will include daily morning reports.

Training of Personnel

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.

The introduction of legislation is now being considered to require training certification of all drilling personnel. We would support such legislation.

Well-by-Well Approval

While the State Lands Division had previously issued a blanket approval of 9 specific wells on Platform Holly, our re-examination considers that approval to have been excessive in number. Therefore, and only pursuant to

delegation of authority by the Commission, the Executive Officer proposes to approve the drilling of a much smaller number of wells. Such approval will be based on prior separate engineering review by the State Lands Division, and will be consistent with appropriate engineering and geological data. This method of well approval would be a substantial improvement over the previous program, and would provide staff with the necessary information on nature and location of each proposed well.

Liability Responsibility

In view of the fact that it took the responsible oil company six years to pay damages after the infamous Santa Barbara oil spill in federal waters, the staff conducted extensive negotiations with Atlantic Richfield in an attempt to achieve absolute liability responsibility on the part of the operator.

We were unable to get agreements on absolute liability, or on binding arbitration. The Office of the Attorney General has advised that it is beyond the power of the Commission to impose such conditions unilaterally.

We have, however, been able to come to an agreement with Atlantic Richfield, which we feel, affords increased protection to third persons, and to the State, for any damages arising from operations conducted under the leases. Briefly, these agreements would provide:

1. Atlantic Richfield will furnish to the State Lands Commission a certificate of insurance

in the amount 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.

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.

Staff has completed the assignment given to it by the Commission last January. Should the Commission determine to approve resumption of drilling on Platform Holly by Atlantic Richfield, we offer a resolution (now before you) which would accomplish such purpose, and which would be agreeable to Atlantic Richfield.