

MINUTE ITEM

This Calendar Item No. 1  
was approved as Minute Item  
No. 1 by the State Lands  
Commission by a vote of 3  
0 at its 8/19/83  
meeting.

MINUTE ITEM  
1

8/12/83  
W 40185  
Staff

APPROVAL OF AMENDED LEASE CONDITIONS,  
SPECIAL OPERATING REQUIREMENTS,  
ACCOUNTING PROCEDURES AND OTHER PROVISIONS,  
SALE OF OIL AND GAS LEASES  
PT. CONCEPTION TO PT. ARGUELLO,  
SANTA BARBARA COUNTY

During consideration of Calendar Item 1, attached, Acting-Chairman McCarthy clarified the two documents before the Commission. The first document was the Calendar Item itself; the second document's first page was titled, "Proposed Amendments to Special Operating Requirement 5(d), Version I", attached hereto as Exhibit "A".

It was noted following the meeting that the halibut trawling grounds shown on Exhibit 5, Sensitive Biological Areas map, was incorrectly plotted. The map was subsequently corrected and is attached hereto as Exhibit 5, Revised August 15, 1983.

The following people testified:

- 1) Mr. Earl Stout  
Manager, Alaska/Pacific Division Exploration  
Exxon Company, U.S.A.
- 2) Ms. Dianne Guzman  
Director of Resource Management  
County of Santa Barbara
- 3) Ms. Naida West  
California Council for Environmental  
and Economic Balance
- 4) Dr. Ruth Ann Corwin  
Chair, Conservation Task Force  
Oceanic Society/OCS Coalition
- 5) Ms. Rachel T. Saunders  
Friends of the Sea Otter
- 6) Ms. Martha Davis  
Wildlife Coordinator, Greenpeace

1681

- 7) Mr. Alan Hur  
Director of Fisheries Protection Institute  
Pacific California Federation of Fishermen's  
Association
- 8) Mr. Win Swint  
President, California Abalone Association
- 9) Mr. Michael David Cox, Attorney  
South Central Coastwatch  
Central Coast Commercial Fishermen's  
Association

Mr. Peter Phillips, Water Quality Biologist, Department of Fish and Game, was in attendance to answer any questions.

The following amendments were submitted for consideration by the Commission:

- 1) Proposed amendments to Special Operating Requirements (four pages), which were a compilation of oil industry and public interest group comments to the amended lease conditions adopted at the July 21, 1983 State Lands Commission meeting.
- 2) Clarifying language was presented by Dr. Corwin. The words "comprehensive planning study" should be replaced with "the Fish and Game studies".
- 3) The following language submitted by Mr. Cox to amend Special Operating Requirement 4(c):  
  
Add to end of last line: "and the biomass and density of critical organisms shall be analyzed".
- 4) Suggestion by Mr. Cox that clarifying language be added to Special Operating Requirement 4(d) to include seabirds.

Upon motion made by Commission-Alternate Jervis and seconded by Commission-Alternate Ordway, the Proposed Amendments to Special Operating Requirements (four pages); the proposed amendments submitted by Dr. Ruth Ann Corwin and Mr. Michael David Cox, and the staff recommendation in Calendar Item 1, were approved by a vote of 3-0.

The Commission directed staff to transmit this package to the Coastal Commission for consideration at their August 23, 1983 Meeting.

Attachment: Calendar Item 1

CALENDAR ITEM

8/12/83  
W 40185  
Staff

1.

APPROVAL OF AMENDED LEASE  
CONDITIONS, SPECIAL OPERATING REQUIREMENTS,  
ACCOUNTING PROCEDURES, AND OTHER PROVISIONS,  
SALE OF OIL AND GAS LEASES  
PT. CONCEPTION TO PT. ARGUELLO,  
SANTA BARBARA COUNTY

Since 1979 the Commission has been engaged in an oil and gas leasing program in the Pt. Conception Area. To reach the current position of finalizing details of the leasing program, the Commission has taken a number of thoughtful and informative steps. Geologic hazard and geophysical surveys have been conducted and analyzed. A cultural resource survey has been reviewed and analyzed. Staff has acquired and analyzed oil and gas resource data. A Program Environmental Impact Report was prepared, circulated, reviewed and adopted under provisions of the California Environmental Quality Act. And finally, a lease system was developed to assure full recovery, to the State, of the economic value of the resources.

In authorizing the leasing of the eight tracts in December, 1982, the Commission decided, following seven public hearings three of which were before the Commission itself, to proceed on the basis of:

- o net profit share leases;
- o imposition of stringent operating requirements;

DATE	1683
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- o receiving and opening bids on August 15, 1983.

At the July 21, 1983 meeting, the Commission rescheduled the receipt and opening of bids to September 30, 1983. It also adopted, for public review and comment, amendments to the lease form, Special Operating Requirements and Accounting Procedures, together with a preliminary map of biologically sensitive areas. Public comments were requested to be received by August 8, 1983. Nine comments were received in time to be considered for inclusion into the changes discussed below and recommended to the Commission for approval. The changes sent out for public review and comment address concerns expressed by the Coastal Commission and make technical changes to the lease and accounting procedures.

In general, the comments may be broken down into three areas of interest - oil and gas industry, state and local government, and public interest groups.

It can be safely said that the oil and gas industry believes the proposed lease package is unduly burdensome and infringes upon the usual industry decision making prerogative. Five companies commented directly on the revised lease package. The reaction is best summed up in a statement of one company "...[the Company] is even more troubled by the onerous, and we

CALENDAR PAGE:	
DATE FILED	1634

think unreasonable, lease terms and special operating conditions (sic) under consideration for this sale. Despite efforts..[by industry]..to make the oil and gas industry's concerns known to the Commission, rather than alleviating those problems, the revised lease terms impose additional, and even more unreasonable provisions".

Specifically, the industry believes that rentals should be refunded on some basis if the lease tract becomes undevelopable due to the limitations on drilling or other constraints imposed by the State after the leases are issued. This proposal has been rejected by staff. The rental payment provides the lessee with an exclusive right to explore for oil and gas resources for a three-year period. Whether or not these resources are found and whether they may be developed is not the basis for the rent charge. The extent to which the lessees take advantage of the conferred right is up to them.

Most company comments were that water-based drilling muds and non-toxic cuttings can be safely discharged on site. They seek revision of Special Operating Requirement 9 to permit such ocean disposal. Such disposal is permitted when studies demonstrate to the State's satisfaction that it is not harmful to the environment. No changes have been made to Requirement 9.

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The industry representatives also object to the imposition of a six-month exploration prohibition in the halibut trawling area. As a minimum, site specific approval of jack-up drilling rigs should be permitted in the halibut trawling grounds under Special Operating Requirement 5(d).

Industry believes that the requirement to have a spill control vessel available before the State considers approval of drilling activities on the leased lands is unneeded. The existing requirement suggests that the equipment be on site at the beginning of the exploratory site-specific environmental reviews. Staff agrees that the vessel need not be available until drilling activities commence.

Other concerns voiced by industry include requests for eliminating mandatory subsea completions, removal of the 20-acre well spacing requirement and objections to removal of the "economically" feasible portion of the pipeline requirement. One company suggested that review panels should include an industry representative as well as other scientists. Another protested the six-month advance notice to the Western Space and Missile Command of all proposed exploratory drilling operations. They thought 3-4 months would be sufficient. Still another company suggested an expanded "Clean Seas" oil spill containment capability instead of the dedicated vessels

required. Several other individual company comments have been reviewed. Where appropriate, all concerns have been accommodated in the revised lease.

Santa Barbara County, the San Francisco Bay Chapter of the Oceanic Society (also representing the Environmental Coalition on the OCS which includes the Sierra Club and Greenpeace), and the Friends of the Sea Otter stated their continued opposition to the sale and criticized the time available for comment. In addition, the Society and the Friends of the Sea Otter stated that the proposed interagency agreement between the State Lands Commission and the Coastal Commission should have been available for public review. Specific comments were provided to change the program should the sale proceed.

The County and the Society urged adoption of a final drilling prohibition map prior to awarding the leases. Since much of the data will be developed in studies and reports funded by the lessees, it is not practical to do this before awarding the leases.

The Society and the Friends of the Sea Otter also recommend that all biologically sensitive areas outside of the prohibition area should be made part of that area and further recommend the expansion of the prohibition area to the 30

fathom contour line. Staff recommends retaining the present area limits so as to provide the greatest opportunity to study intensively the resources of the area. If appropriate, revision will be made to the prohibited area as provided in Special Operating Requirement 4(a).

The County also requests that a panel of agency representatives (State Lands Commission, Coastal Commission and County), with the assistance of the Scientific Advisory Committees, should help in defining the scope and methodology of studies done under the lease and that the County should be involved in designating. 1) sensitive areas; and 2) areas where drilling would be precluded. This has been accommodated in the proposed Interagency Agreement.

The Society further recommends that the scientific advisory committees should be: (1) composed of an equal number of members selected by the State Lands Commission, Coastal Commission and Santa Barbara County; (2) paid \$50 per day plus expenses; and (3) that specific time "allowances" for reviews of requests for proposals (RFP) for special studies and for draft reports from such studies be provided.

The comments of the Society and the Friends of the Sea Otter suggest additional changes to the "Special Operating



Requirements". Examples of these comments are:

- Transportation of Hydrocarbons. These requirements must be strengthened to eliminate any possibility of developing a marine terminal in the lease area. (This has been done in Special Operating Requirement 2(d). Further, the pipeline requirements should be altered to eliminate blasting and require more biological information prior to siting. (Staff believes this is covered in the existing Special Operating Requirement 2(a).
  
- Biological Surveys. The role of these surveys needs to be made clear. They are site specific and will be used to stipulate specific mitigations. Public review must be increased by allowing public comments on the Requests for Proposals and consulting with Santa Barbara County, Coastal Commission and the public on surveys, special biological resources and map revisions. The scope must be expanded by deleting references to marine mammals only and including all biological resources. Of special

importance is the need for accurate seabird surveys. Actual benthic sampling using submersibles should be required, rather than allowing use of a remote video camera. (Staff believes that Special Operating Requirement 4 should remain as proposed.)

- Special Studies. Prior to commencement of any exploratory drilling or seismic survey operations, the Fish and Game studies must be conducted. The scope of the studies should be left to the discretion of the Department of Fish and Game, with full public input. The funding ceiling, here will be inadequate for the necessary work. They believe the amount as well as the Department of Fish and Game should be increased from \$300,000 to \$1,000,000. (The stated reason for increasing the funding level is for producing studies not intended in the original requirement.)

- Sea Otters. The specific provisions of this section should be applied to gray whales. No critical operation during exploratory or production drilling or any seismic operation

1690
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should be allowed between December 1st and April 1st. (Staff believes that the need for the proposed change has not been demonstrated.)

The Society also recommends that no seismic or exploratory activities be allowed until the completion of the special studies and the realization of specified objectives of the comprehensive planning program. The Society also suggests that a report be prepared as part of such program to address specific issues, e.g. directional drilling, implementation of pipeline and facility agreements, federal cooperative agreements, etc. Staff believes that most of these will be addressed in the EIR process.

Several commentators asked about the scheduling of the studies and reports in relation to the start of exploratory drilling activities. Exhibit 7 shows potential time frames in relation to the date of award of the leases.

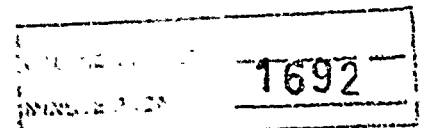
AB 884: N/A

- EXHIBITS:
1. Lease tracts
  2. Amendments to the Oil and Gas Lease Form
  3. Amendments to Lease Exhibit C, Special Operating Requirements

4. Amendments to Lease Exhibit D, Accounting Procedures
5. Map of Biologically Sensitive Areas
6. Interagency Agreement with California Coastal Commission
7. Study Time Frames

IT IS RECOMMENDED THAT THE COMMISSION:

1. FIND THAT THE COMMISSION HAS REVIEWED AND CONSIDERED THE INFORMATION CONTAINED IN THE FINAL EIR PREPARED IN CONNECTION WITH THIS PROJECT (EIR 308), AND RELATED MATERIALS, BEFORE ADOPTING THE PROPOSED MODIFICATIONS TO THE PROJECT AS SET FORTH BELOW. FINDINGS MADE BY THE COMMISSION AT ITS MEETING OF DECEMBER 22, 1982 ARE INCORPORATED HEREIN BY REFERENCE.
2. ADOPT THE AMENDMENTS TO THE LEASE FORM, SPECIAL OPERATING REQUIREMENTS AND ACCOUNTING PROCEDURES SHOWN ON EXHIBITS 2-4 OF THIS CALENDAR ITEM.
3. ADOPT THE MAP OF BIOLOGICALLY SENSITIVE AREAS SHOWN ON EXHIBIT 5 OF THIS CALENDAR ITEM.
4. APPROVE EXECUTION OF AN INTERAGENCY AGREEMENT WITH THE CALIFORNIA COASTAL COMMISSION SUBSTANTIALLY IN THE FORM



SHOWN IN EXHIBIT 6 OF THIS CALENDAR ITEM.

5. AUTHORIZE STAFF TO FORMALLY SEEK BIDS TO BE RECEIVED ON OR BEFORE SEPTEMBER 30, 1983 FOR THE SALE OF OIL, GAS AND OTHER HYDROCARBONS IN EIGHT TRACTS IN SANTA BARBARA COUNTY BETWEEN PT. CONCEPTION AND PT. ARGUELLO.

DATE	1693
TIME	

EXHIBIT A

Proposed Amendments to Special Operating Requirement 5(d)  
Version I

1. Only drilling ships and not jackup rigs should be prohibited in the halibut trawling grounds between October 1 and March 31 each year.

Corrective language in Special Operating Requirement #5(d) would read:

"Exploratory drilling shall not be conducted using anchored drilling vessels between October 1 and March 31 within halibut trawling grounds as shown on the sensitive biologic area map described in Special Operating Requirement 4(f).

2. The halibut trawling restriction should only continue as long as the area is actively being used as a trawling ground.

Corrective language in Special Operating Requirement #5(d) would read:

"Exploratory drilling shall not be conducted between October 1 and March 31 within halibut trawling grounds as shown on the sensitive biologic area map described in Special Operating Requirement 4(f) as long as the restricted area is being actively used for commercial trawling."

Proposed Amendment to Special Operating Requirement 5(a)  
Version II

1 and 2 above would be combined to read:

"Exploratory drilling shall not be conducted using anchored drilling vessels between October 1 and March 31 within halibut trawling grounds as shown on the sensitive biologic area map described in Special Operating Requirement 4(f) as long as the restricted area is being actively used for commercial trawling."

CALENDAR PAGE

MINUTE PAGE

1695

Proposed Amendment to Special Operating Requirement 11(b)

The scope of the oil dispersant studies specified in Special Operating Requirement #11(b) should be expanded to cover marine birds and mammals.

The language of 11(b) can be corrected to achieve this purpose by deleting the language indicated below:

"When directed by the State, the lessee, acting in conjunction with all other State lessees, if any, of tide and submerged lands between Point Conception and Point Arguello, shall fund a study or studies under the direction and control of the Department of Fish and Game to determine the chronic effect of oil, oil dispersants and a combination of oil and oil dispersants on marine biota, excluding marine birds and mammals. The costs for these studies shall not exceed three hundred thousand dollars (\$300,000).

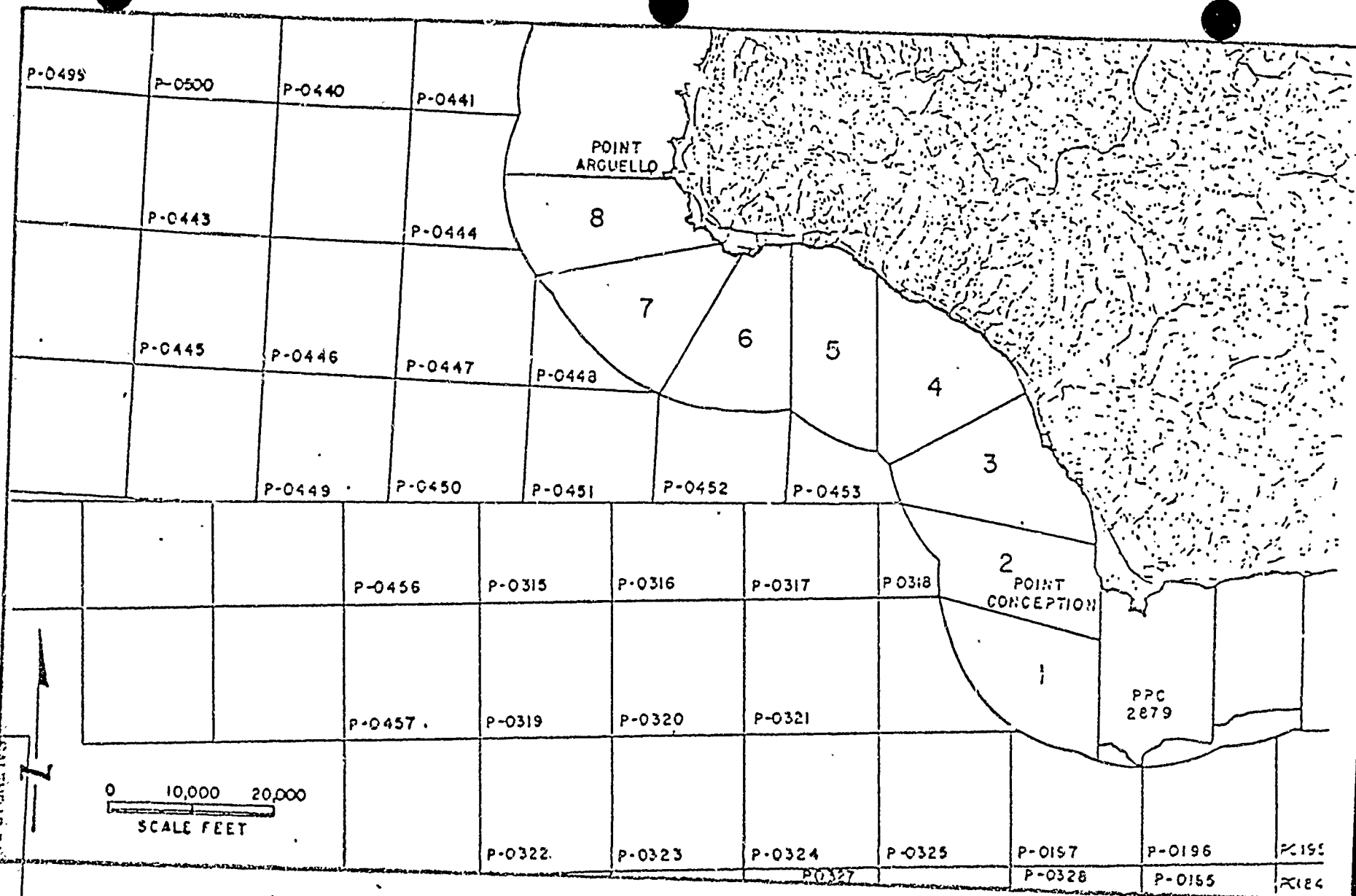


Proposed Amendment to Special Operating Requirement 13(b)

The potential restriction on critical operations between December 1 and April 1 each year should include consideration of the gray whale.

The corrected language in Special Operating Requirement 13(b) would read:

"(b) Critical operations during exploratory drilling shall not be permitted between December 1 and April 1 when the State, acting on its own, on the recommendation of the Department of Fish and Game (which shall consult with the United States Fish and Wildlife Service) or the public, and pursuant to the State's own rules and regulations, determines that the risk of oil spills from such operations is sufficient to damage significantly the sea otter or gray whale population."



LEASE PARCELS  
PT. CONCEPTION - PT. ARGUELLO AREA  
STATE LANDS COMMISSION  
EXHIBIT 1 LEASE TRACTS

MINUTE PAGE

1698

W.O. 40185

EXHIBIT 2

Amendments to Oil and Gas Lease

1 for lease operations only. Oil so used shall be reported to the  
2 State monthly. The value of such oil shall not be used in  
3 determining net profits pursuant to Exhibit "D". With the  
4 approval of the State, the Lessee may also use gas produced from  
5 the Lessee's wells drilled into the leased lands, or gas received  
6 currently in exchange for gas so produced, for the following  
7 purposes only: fuel, gas lift, injection into oil sands from  
8 which the well or wells may be producing and reinjection into the  
9 leased lands. Gas so used, or gas given in exchange for gas so  
10 used, shall be reported to the State monthly, but shall not be  
11 used in determining net profits pursuant to Exhibit "D". The  
12 State may take, free of cost to it and at no expense to the  
13 Lessee, all produced surplus gas which cannot be marketed or  
14 beneficially utilized by the Lessee. The surplus gas taken by  
15 the State shall be for the use of the State of California.

16 28. DESIGNATION OF OPERATOR AND GIVING OF NOTICES

17 The lessee shall designate an operator who shall give and  
18 receive all notices and make all payments to the State under this  
19 lease. All notices to be given under this lease shall be deemed  
20 to have been fully given when made in writing and deposited in  
21 the United States mail, registered and postage prepaid, and  
22 addressed as follows:

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### EXHIBIT 3

### EXHIBIT C

### SPECIAL OPERATING REQUIREMENTS

#### 1. SUBSEA COMPLETIONS

In preparing a development plan, the Lessee shall give the same consideration to the use of subsea completions as it does to fixed platforms. When approving a development plan, the State may require the use of subsea completions in those cases where it determines that economics, technical feasibility, environmental impacts, compatibility with commercial fishing operations and the religious beliefs of Native Americans, considered together rather than separately, indicate that subsea completions would be preferable to fixed platforms. When subsea completions are used, the Lessee shall promptly prepare and continually update maps showing the exact location of every subsea installation and shall make such maps available to commercial fishermen and other members of the public.

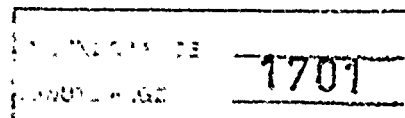
#### 2. TRANSPORTATION OF HYDROCARBONS

(a) Pipelines from offshore production facilities to onshore processing facilities will be required by the State for the transportation of produced oil, gas and other hydrocarbons if pipeline rights-of-way can be obtained and the State, acting upon information supplied by affected parties and responsible governmental agencies, determines that the laying of

pipelines is technologically feasible and environmentally preferable to other methods of transportation. The State reserves the right to require the placement of any pipeline in certain designated pipeline corridors. Wherever feasible, the pipeline corridors shall be located in soft rather than hard bottom areas of the tide and submerged lands. In the event that any blasting is required during the installation of any pipeline, a qualified observer, approved by the U. S. Army Corps of Engineers and the Department of Fish and Game, shall be retained by the Lessee. Detonation shall not be allowed until the qualified observer determines that the area where the blasting is to occur is free of marine birds and mammals.

(b) Following the completion of an onshore pipeline transportation system, no hydrocarbons produced from the leased lands shall be transported by vessel from processing facilities, except in cases of emergency as determined by the State or unless the lessee demonstrates to the satisfaction of the State that as to that lessee the use of such system is infeasible.

(c) Where the criteria in subparagraph (b) above are not met and surface transportation must be employed, all vessels used for transporting produced hydrocarbons shall conform with all standards established for such vessels under the Port and Tanker Safety Act of 1978 (33 U.S.C. sections 1221 et seq.).



(d) The State shall not approve any development or production plan which proposes the construction of a marine terminal within the lease area.

(e) If the State determines that a pipeline cannot meet the criteria in subparagraph (b) above, the Lessee shall use the safest available transport vessels. The use of oil barges will be permitted only if the Lessee, in cooperation with the State, has performed a study which demonstrates to the satisfaction of the State that barging is environmentally preferable to tankering.

### 3. POTENTIAL GEOHAZARDS .

Drilling operations shall not be conducted and seafloor wellheads and fixed structures for the production, transportation or storage of oil, gas or other hydrocarbons shall not be placed within geologically unstable portions of the leased lands such as potentially unstable sediments, areas of mass movement, submarine canyons or channels, shallow gas zones and areas near active faulting or surface ruptures unless the Lessee has demonstrated to the satisfaction of the State that such operations can be conducted and such wellheads and such structures can be designed and placed so as to withstand the maximum probable effects of the identified geohazards. Site-specific surveys shall be conducted prior to exploration and development operations to determine the potential for unstable bottom conditions and other geologic hazards. Extension of

these surveys outside the leased lands may be required where necessary to evaluate the magnitude and significance of the hazard. All potentially unstable areas, including fault zones, must be mapped before any seafloor wellheads or fixed structures are installed. The State may require site-specific soil testing before exploration and development operations are allowed.

#### 4. LEASE AREA MAPPING AND MANDATORY BIOLOGICAL SURVEYS

(a) The State has adopted a map which indicates areas where oil and gas production and development activities (excluding pipelines) will be prohibited on the ocean bottom inshore of the 15 fathom bathymetric curve or within 1/2 mile of shore, whichever is further from the high tide line. This map also indicates where oil and gas activities may be allowed if geologic, and biologic, studies and a project specific EIR demonstrate that no significant adverse environmental impacts will occur. The information obtained from the biological surveys will be used by the State with other information to refine the map. Such map revisions will be developed and adopted as part of the EIR process and will be updated as new surveys are completed.

(b) Prior to the commencement of any drilling operations and prior to the commencement of construction or placement of any structure, including pipelines, on the leased lands, the Lessee shall fund site-specific biological surveys as

FILE NO.	PAGE
	1703

specified and conducted by the State in consultation with the Department of Fish and Game, the United States Fish and Wildlife Service, the Minerals Management Service and the National Marine Fisheries Service. The site-specific biological surveys shall determine whether the site contains areas used as a breeding ground for commercially recoverable species or is an area of special biological significance that may be adversely affected, either directly or indirectly, by drilling operations or the placement of structures on the leased lands. The surveys shall also determine whether adjacent areas of special biological significance may be similarly affected. Areas of special biological significance include, but are not limited to: (1) existing or potential critical habitats for rare, threatened or endangered species, including but not limited to the California sea otter and the California gray whale; (2) areas used by rare, threatened or endangered species for breeding or migration; (3) areas containing very unusual or rare ecosystems or ecotones; (4) areas with large numbers or high diversity of species; and (5) areas containing species of limited regional distribution due to natural range or significantly reduced populations.

(c) The biological surveys shall include a characterization of (1) the area within a one (1) kilometer radius of the development site (or within three hundred (300) meters of pipelines) and (2) areas potentially affected by the development by on-site observations of a marine biologist using



a submersible device for deep water or scuba equipment for shallow water. A remote camera survey (video and/or film) may suffice in soft bottom areas. Observations shall be accompanied by photodocumentation and the taking of samples. Box core samples shall be taken on soft bottoms. Rocks, portions of rocks or organisms living on rocks shall be taken from hard bottoms. Sampling and observations shall be most intense within three hundred (300) meters of the development site and within one hundred (100) meters of pipelines. Sample species collected shall be identified to the lowest possible taxonomic level and the biomass and density of critical organisms shall be analyzed.

(d) The surveys shall be performed by a qualified biologist and shall include systematic observations which accurately describe seabird and marine mammal occurrences in and uses of the project area, including an on-site census and behavioral observations of feeding, breeding and migration. The surveys shall also indicate the relationship of project area observations to known data on seabird, sea otter, and other marine mammal population, size, dynamics, structure and movements in adjacent, present or potential habitats.

(e) If the results of site-specific biological surveys show the existence of a special biological resource that may be adversely affected by lease operations, the Lessee shall (1) pursue feasible alternatives which will not have a significant adverse effect upon the resource identified or

DATE	12
TIME	1705

employ mitigation measures, and (2) establish through submissions to the State of documents such as an oil spill contingency plan and critical operation and curtailment plan, that operations will not have a significant adverse effect upon the resource identified. These alternatives and plans may include such provisions as seasonal or permanent off limit areas, special equipment requirements, and clean-up programs after drilling. The State will review all data submitted and after consultation with the Department of Fish and Game, the United States Fish and Wildlife Service and the National Marine Fisheries Service and preparation of a project specific environmental impact report, will determine in writing whether a special biological resource exists, whether or not it may be significantly affected by proposed lease operations, and what, if any, lease operations will be permitted at such location. No lease operations may be commenced until the State has approved the project and has given the Lessee written directions on how to proceed and the Lessee has obtained all necessary governmental approvals and permits. In lease areas where adverse effects cannot be mitigated to the satisfaction of the State, the State may prohibit development. Such prohibition shall not be the basis of a claim against the State. Any mitigation measures provided in the State's written directive shall be based on laws and regulations of the State governing offshore oil and gas activities on State lands and shall be made

in consultation with the Department of Fish and Game, the United States Fish and Wildlife Service and the National Marine Fisheries Service.

(f) If any area of biologically significant resources should be endangered during the conduct of any lease operations, the Lessee shall immediately report such occurrence to the State and take every reasonable effort to protect the resource.

#### 5. FISHERIES AND MULTIPLE USE COORDINATION

(a) The Lessee shall include in its exploration and development plans a proposed fisheries training program. The training program shall be subject to approval by the State after consultation with the Department of Fish and Game and the National Marine Fisheries Service. The training program shall be for the personnel involved in operating vessels used in carrying out lease operations and for platform and shore-based supervisors. The purpose of the training program shall be to familiarize persons working on the leased lands of the value of the commercial fishing industry, methods of offshore fishing operations and potential hazards, and conflicts and impacts resulting from offshore oil and gas activities. The training program shall be formulated and implemented by qualified instructors.

(b) To minimize ocean bottom scarring, lessees shall lift drill ship anchors vertically when they are being

removed.

(c) Lessees shall comply with crew and work boat shipping corridors, whenever established, to control ingress and egress to and from drilling and production sites within the lease area.

(d) Exploratory drilling shall not be conducted using anchored drilling vessels between October 1 and March 31 within halibut trawling grounds as shown on the sensitive biologic area map described in Special Operating Requirement 4(a) as long as the restricted area is being actively used for commercial trawling.

6. SUSPENSION OF OPERATIONS AND

EVACUATION OF AND SHELTER FOR PERSONNEL

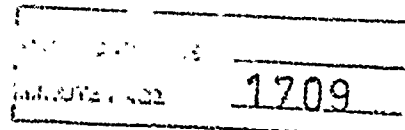
(a) Before the Lessee operates or causes to be operated on its behalf boat or aircraft traffic into individual, designated warning areas, the Lessee shall coordinate and comply with instructions from the Commander, Western Space and Missile Center (WSMC) or other appropriate military agency. Such control and instruction will provide for positive control of boats and aircraft operating in the warning areas at all times.

(b) Recognizing that mineral exploration, exploitation and recovery operations on the leased lands can impede tactical military operations, the Lessee acknowledges and agrees that the United States reserves and has the right to suspend temporarily lease operations in the interest of national

security requirements. Such temporary suspension of operations, including the evacuation of personnel and appropriate sheltering of personnel not evacuated (an appropriate shelter shall be designed to withstand overpressures specified by WSMC\* and shall provide for the protection of all personnel engaged in operations on the lease for the duration of any Department of Defense activity from flying or falling objects or substances), will become effective upon the order of the Commander, WSMC, other appropriate military agency or higher authority when national security interests necessitate such action. Lessee will develop and submit a contingency evacuation/shelter plan to the State for approval and concurrence by WSMC prior to commencement of drilling operations. Any temporary suspension of operations for national security may not exceed seventy two (72) hours, provided that any such suspension may be extended by order of the appropriate authority. Equipment may remain in place during periods of suspension. In order to coordinate exploratory drilling activities with WSMC operations, lessee shall provide WSMC with 6 months advance written notice of all proposed exploratory drilling operations updated monthly.

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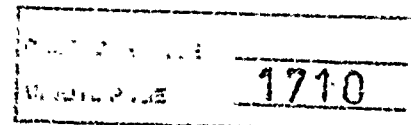
\* It is our understanding at present that sheltering applies only to tracts 5, 6, & 7.



(c) The Lessee shall control its own electromagnetic emissions and those of its agents, employees, invitees, independent contractors and subcontractors emanating from individual designated defense warning areas in accordance with requirements specified by the Commander, WSMC or other appropriate military agency, to the degree necessary to prevent damage to, or unacceptable interference with, Department of Defense flight, testing or operational activities conducted within individual designated warning areas. Necessary monitoring, control and coordination with the Lessee, its agents, employees, invitees, independent contractors and subcontractors, will be effected by the Commander of the appropriate onshore military installation conducting operations in the particular warning area, provided that control of such electromagnetic emissions shall permit at least one (1) continuous channel of communication between the Lessee, its agents, employees, invitees, independent contractors or subcontractors, and onshore facilities.

7. ASSUMPTION OF RISK AND HOLD HARMLESS

Whether or not compensation for damage or injury might be due under a theory of strict or absolute liability or otherwise, the Lessee assumes all risks of injury or damage to persons or property which occurs in, on or above the leased lands to any person or any property of any person who is an agent, employee or invitee of the Lessee, or its agents,



independent contractors or subcontractors, in connection with any activities being performed by or for the Lessee in, on or above the leased lands, if such injury or damage to such person or property occurs by reason of the activities of any agency of the United States, its contractors or subcontractors, or any of their officers, agents or employees, being conducted as a part of, or in connection with, the programs and activities of the WSMC or other appropriate military agency. Notwithstanding any limitations of the Lessee's liability in this lease, the Lessee assumes the risk whether such injury or damage is caused in whole or in part by any act or omission, regardless of negligence or fault, of the United States, its contractors or subcontractors, or any of their officers, agents or employees. The Lessee shall indemnify and save harmless the United States against all claims for loss, damage or injury to the Lessee and to the agents, employees and invitees of the Lessee, its agents, independent contractors and subcontractors, in connection with the programs and activities of the aforementioned military installations and agencies, whether the same be caused in whole or in part by the negligence or fault of the United States, its contractors or subcontractors, or any of their officers, agents or employees, and whether such claims might be sustained under theories of strict or absolute liability or otherwise.

8. LABOR REQUIREMENT

(a) During exploration, development and

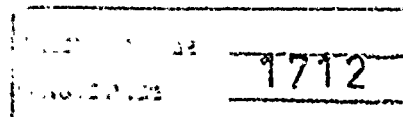
production activities on the leased lands, all vessels, rigs, platforms and other vehicles or structures under the control of the Lessee must be manned by citizens of the United States or aliens lawfully admitted to the United States for permanent residence.

(b) The requirements of subparagraph (a) do not apply if the Lessee files with the State and the Department of Industrial Relations a report, deemed adequate by these agencies, showing that there is an insufficient number of qualified citizens of the United States, or aliens lawfully admitted to the United States for permanent residence, available for such work.

(c) This provision is severable from all other special operating requirements and all other provisions of this lease. Any determination that all or any part of this provision is unconstitutional or otherwise invalid shall not affect any other provision of the special operating requirements or of this lease.

#### 9. DRILLING MUDS AND CUTTINGS

Notwithstanding the provisions of section 6873(b) of the Public Resources Code or any other provision of state law, the discharge of drilling muds and cuttings into the marine environment is expressly prohibited. This prohibition shall remain in effect until the State is satisfied by the results of appropriate studies that the prohibition is no longer warranted.





The State may require whatever studies it deems appropriate to assist it in making its decision.

#### 10. OIL SPILL RESPONSE CAPABILITY

(a) The Lessee, acting in conjunction with all other State lessees, if any, of tide and submerged lands between Point Conception and Point Arguello, shall supply and maintain a dedicated spill control vessel, comparable to Mr. Clean II operated by Clean Seas, Inc. The vessel may be chartered through an industry cooperative. Such charter, including crew, fuel and food, need not exceed one million, one hundred thousand dollars (\$1,100,000) the first year. Such vessel shall be equipped with the most effective equipment available. The capital cost of the equipment need not exceed one million one hundred thousand dollars (\$1,100,000) the first year. The vessel must be capable of being on location in the project area within two (2) hours of notification that a spill has occurred. The vessel must be available for use on the leased lands prior to any drilling activities on the leased lands.

The succeeding annual costs of operation, including whatever amounts are needed for a sinking fund to replace equipment, need not exceed one million five hundred thousand dollars (\$1,500,000) adjusted for inflation. The annual cost limitation shall be cumulative and need not at any time exceed, but may equal, one million five hundred thousand dollars (\$1,500,000) adjusted for inflation times the number of years

the oldest State lease of tide and submerged lands between Point Conception and Point Arguello has been in effect.

(b) The Lessee, acting in conjunction with all other State lessees, if any, of tide and submerged lands between Point Conception and Point Arguello, shall establish, staff, maintain and operate an open-water oil spill containment and recovery system with a capability equivalent to that available from the U.S. Coast Guard Pacific Strike Team, but with the added capability of a response time of no more than four (4) hours to any part of the State leases between Point Conception and Point Arguello. This capability shall be demonstrated at least semi-annually by participation in drills conducted under the direction of the State Operating Authority as defined in the California Oil Spill Contingency Plan. The vessel may be chartered through an industry cooperative. Such charter, including crew, fuel and food need not exceed two million dollars (\$2,000,000) the first year. This supply system shall include a second vessel with Coast Guard certification as a tank vessel so that it may transport recovered oil. Its equipment shall be the most advanced available. The capital cost need not exceed one million five hundred thousand dollars (\$1,500,000) the first year. The succeeding annual costs of operation, including whatever amounts are needed for a sinking fund to replace equipment, need not exceed two million five hundred thousand dollars (\$2,500,000) adjusted for inflation..

The annual cost limitation shall be cumulative and need not at any time exceed, but may equal, two million five hundred thousand dollars (\$2,500,000) adjusted for inflation times the number of years the oldest State lease of tide and submerged lands between Point Conception and Point Arguello has been in effect. The funding shall include amounts necessary to finance monitoring activities of the State and the Department of Fish and Game.

(c) The Lessee, acting in conjunction with all other State lessees, if any, of tide and submerged lands between Point Conception and Point Arguello, shall fund semi-annual oil spill response training of the members of the Sta. Interagency Oil Spill Committee (SIOSC) as directed by the Chairman of SIOSC. The costs for the training in any single calendar year need not exceed three hundred thousand dollars (\$300,000) adjusted for inflation.

(d) All funding required by subparagraphs (a) through (c) above shall be shared equally by the holders of State leases of tide and submerged lands between Point Conception and Point Arguello in effect when the costs must be incurred.

(e) The adjustment for inflation provided in this paragraph and in paragraph 14 shall be calculated each year as the percentage by which the first revision of the implicit price deflator for the gross national product for the last

calendar quarter in the year immediately preceding varies from the first revision of such deflator for the calendar quarter ending December 31, 1983.

#### 11. SPECIAL STUDIES

(a) When directed by the State, the Lessee, acting in conjunction with all other State lessees, if any, of tide and submerged lands between Point Conception and Point Arguello, shall fund studies under the direction and control of the Department of Fish and Game to provide a biological inventory for a full year cycle of the state-owned tide and submerged lands between Point Conception and Point Arguello. The costs for these studies shall not exceed seven hundred thousand dollars (\$700,000).

(b) When directed by the State, the Lessee, acting in conjunction with all other State lessees, if any, of tide and submerged lands between Point Conception and Point Arguello, shall fund a study or studies under the direction and control of the Department of Fish and Game to determine the chronic effect of oil, oil dispersants and a combination of oil and oil dispersants on marine biota. The costs for these studies shall not exceed three hundred thousand dollars (\$300,000).

(c) All funding required by subparagraphs (a) and (b) above shall be shared equally by the holders of State leases of tide and submerged lands between Point Conception and

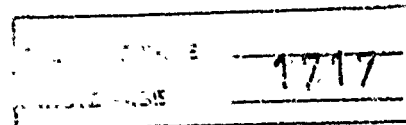
Point Arguello in effect when the costs must be incurred.

## 12. OCEAN FLOOR OBSTRUCTIONS

The Lessee shall provide to the State and, upon request, to any member of the public, a map showing the exact location of any under-sea obstruction on the leased lands either in place at the time of the lease award or placed deliberately or accidentally on the leased lands by the Lessee or its agents. The map shall be updated at the discretion of the State.

## 13. SEA OTTERS

(a) The Lessee, acting in conjunction with all other State lessees, if any, of tide and submerged lands between Point Conception and Point Arguello, shall fund (1) studies to determine better the potential effects of oil and gas exploration and production on the sea otter and (2) measures to mitigate the adverse effects of oil and gas exploration and production on the sea otter population. Content, timing and implementation of these studies and measures shall be determined by the Director of the Department of Fish and Game in consultation with the United States Fish and Wildlife Service and appropriate members of the public and the scientific community. The studies shall be made available to the public and shall be used by the State in its consideration of subsequent activities undertaken pursuant to this lease. These studies and measures shall include development of an oil spill contingency plan, including stockpiling of equipment and



supplies, designed to minimize sea otter mortality and impacts on sea otter habitat. Measures to be considered and evaluated include how otters are to be or should they be captured, herded, contained, transported, cleaned and rehabilitated. Funds for these studies and measures shall be shared equally by the holders of State leases of tide and submerged lands between Point Conception and Point Arguello in effect when the costs must be incurred. These funds, which shall not exceed five million dollars (\$5,000,000), shall be deposited, as needed, in a separate account with the Department of Fish and Game at the direction of the State.

(b) Critical operations during exploratory drilling shall not be permitted between December 1 and April 1 when the State, acting on its own, on the recommendation of the Department of Fish and Game (which shall consult with the United States Fish and Wildlife Service) or the public, and pursuant to the State's own rules and regulations, determines that the risk of oil spills from such operations is sufficient to damage significantly the sea otter or gray whale population.

#### 14. ALL SEASON OCEAN CURRENT AND METEOROLOGIC STUDIES

The Lessee, acting in conjunction with all other State lessees, if any, of tide and submerged lands between Point Conception and Point Arguello, shall fund a continuing study of oceanographic and meteorologic conditions in the area between

Point Conception and Point Arguello. The study shall include, but not be limited to, the placement of the instrumentation necessary to obtain high quality measurements of wave, wind, current and temperature. The work shall be performed by a contractor in a manner satisfactory to the State and shall consider all work currently underway by others. The costs for these studies shall not exceed one million dollars (\$1,000,000) per year adjusted for inflation. The annual cost limitation shall be cumulative and at no time shall exceed, but may equal, one million dollars (\$1,000,000) adjusted for inflation times the number of years the oldest State lease of tide and submerged lands between Point Conception and Point Arguello has been in effect. Funds for the continuing study shall be shared equally by the holders of State leases of tide and submerged lands between Point Conception and Point Arguello in effect when the costs must be incurred.

#### 15. SCIENTIFIC ADVISORY COMMITTEES

Scientific Advisory Committees will be established by the State to advise in the development of the scope of studies and review reports required by lease provisions or resulting from proposed oil and gas activities in the leased area. Funds necessary for the support of such committees shall be provided, and shared by successful lessees as stipulated in this lease, upon request by the State in an amount not to exceed \$25,000 per year.

EXHIBIT 4  
Amendments to Exhibit D  
Accounting Procedures for Determining  
Net Profit Share Payment for State Oil and Gas Leases

(2) If surplus Material is moved from the NPSL Project Area, no charge shall be made to NPSL Operations for a distance greater than the distance to the nearest reliable supply store, Recognized Barge Terminal or Railway Receiving Point unless agreed to by the Executive Officer. No charge shall be made to NPSL Operations for moving Material to other properties owned by or under the control of the Lessee unless agreed to by the Executive Officer.

(3) In the application of subparagraphs d(1) and d(2) of this section, there shall be no equalization of actual gross trucking costs of \$400 or less, excluding accessorial charges.

e. Contract services. Except when excluded by paragraph f of this section and/or section 6c, the Cost of services and utilities provided under contract by Outside Parties and which constitute proper and necessary NPSL Operations or support for NPSL Operations, and rental charges paid to Outside Parties for the rental of equipment used in the NPSL Project Area in support of NPSL Operations, may be charged to NPSL Operations.

f. Legal expenses. Expense of handling, investigating and settling litigation or claims, discharging of liens, payments of judgments and amounts paid for settlement of claims incurred in or resulting from NPSL Operations, or necessary to protect or recover the NPSL Property, are allowable, except those Costs listed in section 6e as unallowable. Allowable charges include the salaries and wages of Lessee's legal staff and expense of



1 Equipment and facilities that are not listed shall be  
2 charged on a basis consistent with the nature of the  
3 use.

4 (3) In lieu of charges in paragraph g(1) of this  
5 section, the Lessee may elect to use average commercial  
6 rates prevailing in the vicinity of the NPSL Project  
7 Area less 20 percent. For equipment for which no  
8 commercial rate exists, the Lessee shall submit the  
9 basis for determining such Costs to the Executive  
10 Officer for approval.

11 h. Damages and losses to NPSL Property. All Costs necessary  
12 for the repair or replacement of NPSL Property made necessary  
13 because of damages or losses incurred by fire, flood, storm,  
14 theft, accident or other causes not covered by insurance, except  
15 those resulting from Lessee's gross negligence or willful  
16 misconduct. Any settlement received from an insurance carrier  
17 should be credited to NPSL Operations when received.

18 i. Taxes. All taxes, except income taxes, federal windfall  
19 profit taxes and other taxes based upon income or profits that  
20 are assessed or levied upon or in connection with NPSL Operations  
21 and which have been paid by the Lessee. Allowed taxes shall  
22 include, but are not limited to, production, severance, State of  
23 California windfall profit taxes if applicable to total  
24 Production, excise, ad valorem, and mineral taxes. Federal  
25 windfall profit taxes are allowable only at times prior to the month  
26 in which net profit payments to the State commence.

27 /

D-16.

1 p. Dry or bottom hole contributions to wells drilled by  
2 Outside Parties within 1,489 feet of the exterior boundary of the  
3 NPSL for information relative to the exploration or development  
4 of the NPSL.

5 q. Costs of permits and licenses for the NPSL Operation.

6 r. Costs of Outside Substances, less Cost recoveries, used  
7 as injection for production, repressuring, pressure maintenance,  
8 cycling or other primary, secondary or tertiary recovery  
9 purposes.

10 s. Costs of required work commitment for the NPSL.

11 t. Charges for cleaning, dehydration, desulphurization and  
12 compression required for making the Production marketable.

13 u. Dismantling, abandonment and restoration Costs of NPSL  
14 Property. Following commencement of production, estimated  
15 dismantling, abandonment and removal Costs of wells and  
16 facilities including overhead allowance, charged as NPSL Property  
17 and restoration of the NPSL Project Area may be included as  
18 direct operating costs on a monthly basis and, if included, must  
19 be amortized on a unit-of-production basis. The initial amount  
20 amortized per BTU equivalent equals the estimated Cost (without  
21 regard to inflation) determined in accordance with generally  
22 accepted accounting principles as of the commencement of  
23 production for the NPSL, divided by the number of BTU equivalents  
24 represented by the proved reserves of the NPSL as determined  
25 under Financial Accounting Standard Board rules as of that time.  
26 The amount amortized per BTU equivalent may be redetermined not  
27 more than once every two years at the commencement of the

1 Lessee's fiscal year and not later than five years prior to the  
2 estimated date of final abandonment of the NPSL Tract, by  
3 dividing the number of BTU equivalents represented by the proved  
4 reserves of the NPSL as of the time of redetermination into the  
5 difference between the then estimated Cost for abandonment of the  
6 wells and facilities on or in support of the NPSL and the  
7 cumulative amortization already charged as of that time for the  
8 NPSL Property. The amount of dismantling, abandonment and  
9 removal Costs charged as a direct operating cost and amortized  
10 shall be invested in a State of California interest bearing trust  
11 account as a cash reserve for the purpose of paying the final  
12 Cost of abandonment of the NPSL Project Area. The Lessee and the  
13 State shall have the privilege of withdrawing their proportionate  
14 net profit percentage share of the earned interest on the  
15 anniversary date of the trust account. The selection of the  
16 trust account, the periodic interest rates, and withdrawal and  
17 use of the principal shall be approved by the State. The  
18 principal shall not be used for any abandonment made prior to  
19 final field abandonment which may commence before production  
20 ceases. If, upon abandonment of all wells and facilities for the  
21 NPSL and restoration of the NPSL Project Area, the actual Costs,  
22 less salvage value (if any), are less than the total amount  
23 amortized for such purposes for the NPSL Property, the excess  
24 amortization funded must be included in the Production Revenue  
25 Account for the purposes of determining the Lessee's Net Profit  
26 Share Base. If, upon abandonment of all wells and facilities on  
27 the NPSL and restoration of the NPSL, the actual Costs, less

1 c. Overhead shall not be charged on the value of

2 (1) Legal expenses (section 4f);

3 (2) Ad valorem taxes on personal property or  
4 mining rights rendered for NPSL Property;

5 (3) Windfall profit taxes;

6 (4) Amortized dismantling, abandonment and  
7 restoration contributions;

8 (5) Outside Substances charged to the NPSL  
9 (section 4r);

10 (6) Credits for Material charged under section 4c  
11 that are salvaged, returned or used for the benefit of  
12 non-NPSL Operations; and

13 (7) Interest for Allowance for Investment Recovery.

14 6. Unallowable Costs

15 The following Costs shall not be charged as Direct or  
16 Joint Costs to NPSL Operations:

17 a. Bidding and pre-lease environmental Costs and lease  
18 rentals for the first three years of the Lease;

19 b. Interest, except as permitted under sections 4g and 9;

20 c. Depreciation, depletion, amortization or any other charge  
21 for investment recovery, except as explicitly provided by the  
22 Allowance for Investment Recovery calculated according to section  
23 9, for Material charged to a NPSL account under section 4c;

24 d. Research and development Costs, except that this type of  
25 Cost shall not be construed to cover the resolution of specific  
26 technical problems confronting NPSL Operations, specific  
27 engineering design problems related to equipment or facilities

Revised 8/15/83

CALENDAR PAGE  
MINUTE PAGE

1725

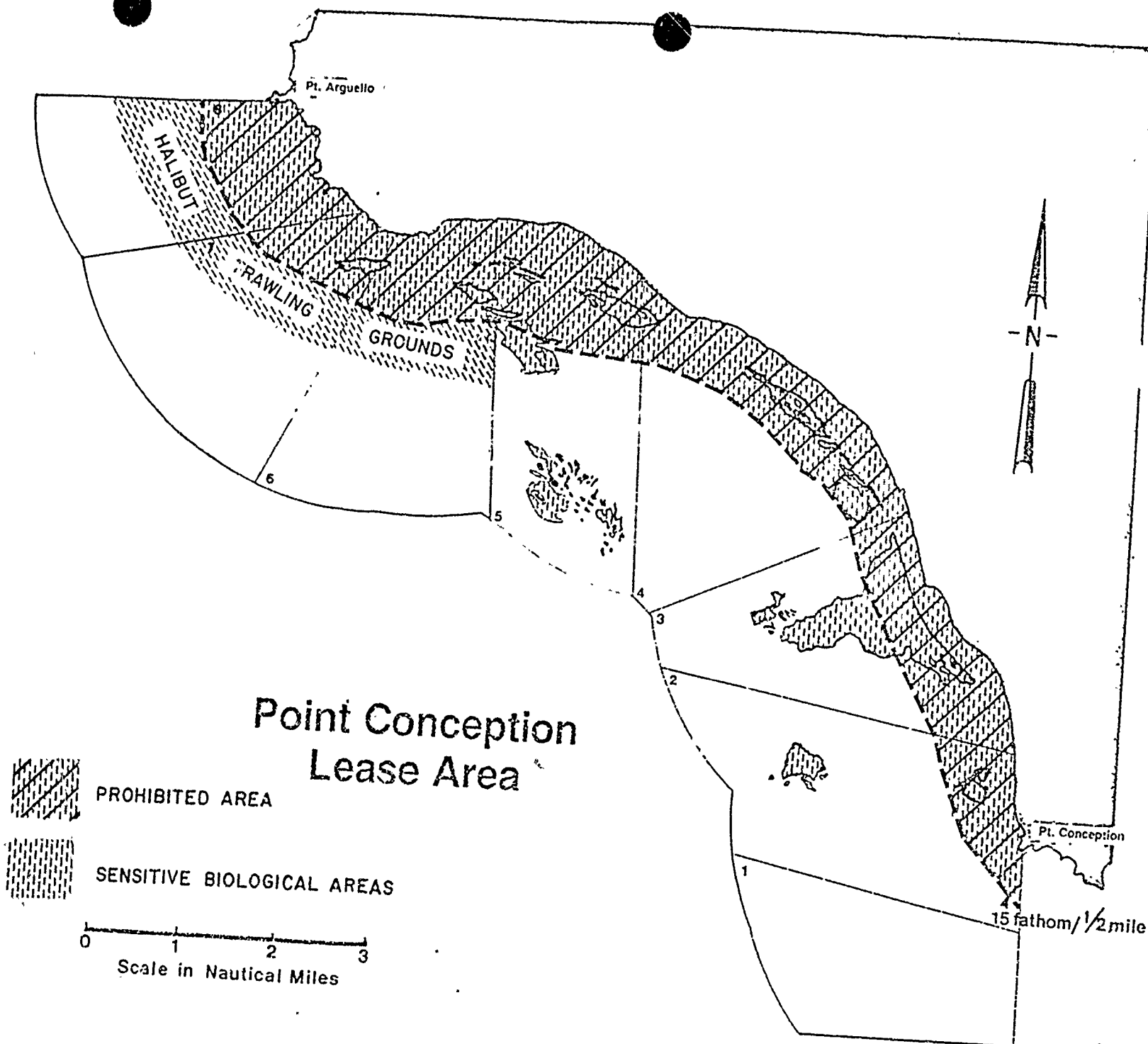


EXHIBIT 5

## EXHIBIT 6

### INTERAGENCY AGREEMENT

This agreement, dated August 12, 1983, is entered into between the State Lands Commission (SLC) and the California Coastal Commission (CCC) concerning the leasing of approximately 40,000 acres of State sovereign lands between Pt. Conception and Pt. Arguello for oil and gas development.

The parties agree as follows:

#### 1. Marine Resource Studies

In consideration of specific mandates of the Coastal Act regarding marine resources and the findings required of the Coastal Commission in permitting subsequent exploratory and development activities in the proposed lease sale area, the SLC will consult with the CCC regarding the design and implementation of the marine resource studies required by SLC Special Operating Requirement #4 of the lease. Such consultation will occur prior to the issuance by SLC of a request for proposal (RFP) for such studies and after a draft report is received by SLC as a result of said studies.

#### 2. Lease Amendments

The SLC will notify the CCC prior to its consideration of all amendments to leases let within the Pt. Conception - Pt. Arguello area. Amendments which require

findings under the Coastal Act shall be submitted to the Coastal Commission for concurrence. Lease provisions which may be subject to such notification include the Special Operating Requirements;

3. Comprehensive Planning and Mapping

A. Planning

i. Purpose and Objectives

The parties shall work with other governmental bodies such as Santa Barbara County in a comprehensive planning process which can be used by them to make regulatory decisions concerning the exploration and development of the lease area. The objectives of this program are to:

- a. Provide direction and guidance for future biological, geological, and environmental studies;
- b. Maximize reasonable consolidation of various support, production, and transportation facilities;
- c. Identify areas where unitization or pooling of State, Federal, or private lease interests should be required;
- d. Obtain the information necessary to evaluate competing offshore uses of the marine environment;
- e. Make all possible information and analyses available

- to the respective decision makers in a timely fashion;
- f. Determine the optimum location for platforms, pipelines, and support facilities;
  - g. Resolve conflicts concerning seismic survey activities in the lease area; and
  - h. Evaluate the timing of all exploratory drilling activities to balance the number of drillships and wells with the potential impact on coastal resources and the petroleum reserves.

ii. Advisory Committees

The SLC shall, as needed, establish Advisory Committees composed of knowledgeable scientists selected by SLC, CCC and County of Santa Barbara to review and comment on reports and changes proposed in the lease sale and thereafter in operations conducted under the lease. At least two of the scientists on each committee shall be selected from a pool supplied by the Coastal Commission and Santa Barbara County, if each supplies the names of three or more suitable scientists available and willing to serve on the committee when they are needed.

iii. Timing and Procedure

The staffs will hold regular meetings beginning October 15, 1983, to develop and implement this comprehensive



planning process. Consultation will also occur with additional public and private entities such as: Santa Barbara County and City, other State agencies, oil and fishing industry representatives, and public interest organizations. The process will:

- a. Identify policies which may be implemented through the process;
- b. Establish objectives and goals which will be necessary to carry out the policies;
- c. Acquire information and data from affected parties; and
- d. Evaluate actual lease facility proposals.

It is clearly understood and intended by both parties that the planning process shall periodically be reviewed and updated.

iv. Relation to Permit Process

It is intended that the comprehensive planning process will be an integral part of the agencies' permit review process. Much of the information needed for the process will be obtained from application materials required by public agencies as well as the studies mandated by the SLC lease package. Additional data will be solicited as needed for the comprehensive planning process. The SLC and the CCC will consider the information

developed for the comprehensive plan as well as required material submitted with specific permit requests in arriving at development decisions.

## B. Mapping

### i. Purpose and Objectives

Prior to the receipt of bids, a sensitive biologic area map will be developed by the SLC using existing information. It will be accompanied by a narrative explanation which clearly defines the meaning of the map and provides for its implementation. The purpose of the map is twofold. First, it will indicate areas where oil and gas exploration and production activities (except pipelines) will not be permitted on the ocean bottom within the Pt. Conception - Pt. Arguello lease area. Second, it will show biologically sensitive zones within the lease area where exploration and production activities may be allowed if detailed project specific studies indicate that there will not be significant environmental damage. The map will be revised by the SLC, based on the new biological surveys listed in Special Operating Requirement #4 of the leases and all other available biological work done in the lease area. In making these revisions, the SLC will work with the CCC and the DFG, in consultation with the scientific advisory panels. The sensitive biologic area map will be

reviewed and approved by the State Lands Commission and the California Coastal Commission as a part of the EIR process and prior to the submittal of any permit application to the Coastal Commission for exploration or production activities. Through changes in the SLC lease stipulations, prospective lessees are on notice of this process and limitation.

ii. Specific Resources Areas to be Designated on Sensitive Biologic Area Map

No permanent platforms or exploration activities on the ocean bottom will be allowed inshore of the 15-fathom bathymetric curve or within 1/2 mile of the shoreline whichever results in the greater distance from shore. Exploration and production wells may be allowed within the lease area waterward of the 15 fathom/1/2 mile band where site specific geologic, biologic, and marine mammal studies and a project specific EIR demonstrate that no significant environmental damage will occur. Prohibition of exploratory or development activities in the 15 fathom/1/2 mile shoreline band shall not preclude directional drilling from sites located outside the band.

It is agreed that the 15 fathom/1/2 mile wide drilling prohibition area and the mapping of other sensitive biologic areas is designed to protect environmentally significant areas such as kelp beds, rocky bottom strata, rubble/cobble sites and fishing resources.

iii. Areas of Special Biological Significance.

All areas of special biological significance as defined in Special Operating Requirement #4 shall be mapped.

v. Updating and Map Review.

The sensitive biologic area map will be updated on a regular basis. Any substantial changes will require approval by the SLC and the CCC.

4. Jurisdiction

The CCC asserts that it has permit authority over the SLC leasing program. The SLC disagrees, but, through a letter from its Executive Officer, dated January 24, 1983 has submitted its lease package for review and comment without prejudice to its position. The CCC has reviewed and processed the letter as an application. By entering into this agreement and by submitting and reviewing this lease package, neither agency waives its rights to assert its jurisdictional position. Both parties expressly reserve their rights to pursue the jurisdictional issue.

# PT. CONCEPTION/PT. ARQUELLO STUDY TIME FRAMES

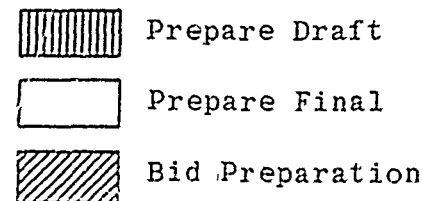
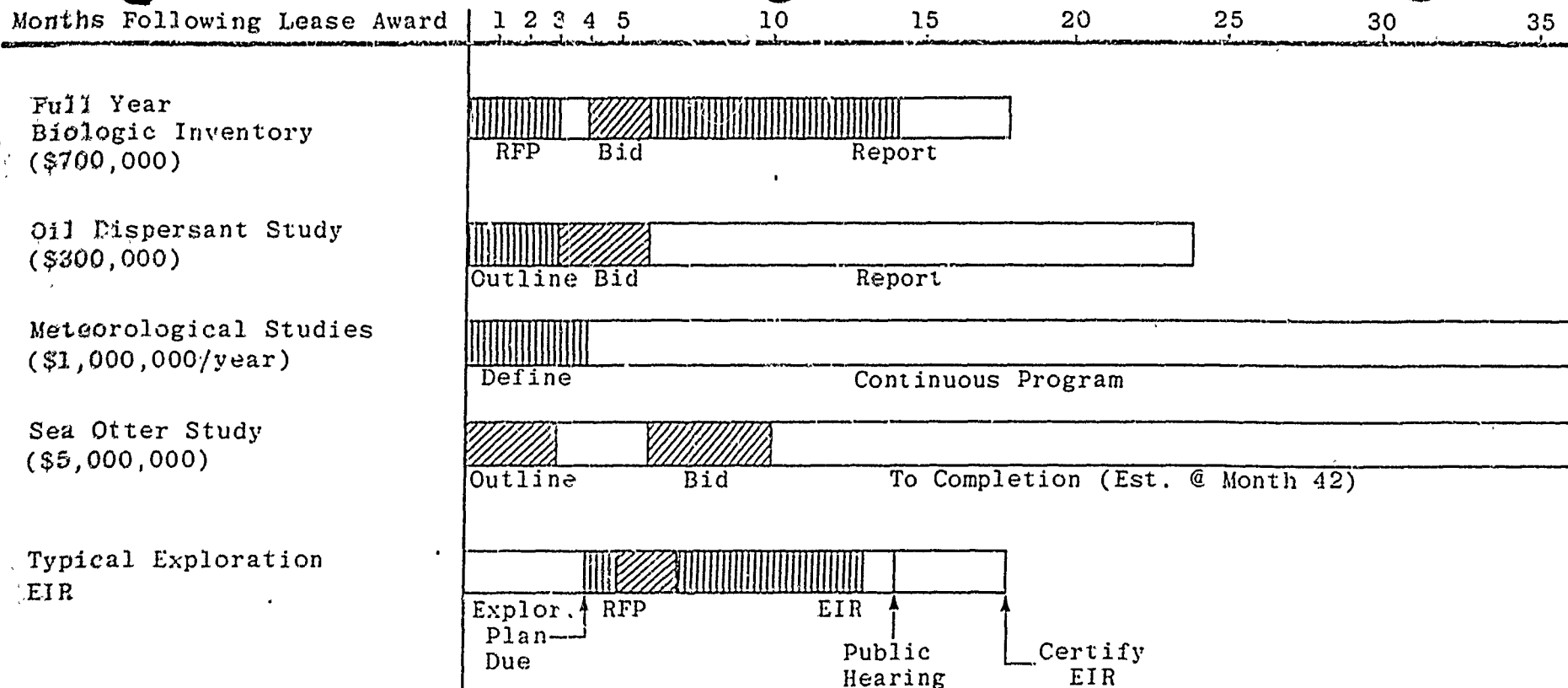


EXHIBIT 7

CALENDAR PAGE  
MINUTE PAGE

1733

EXHIBIT 7A

STUDIES UNDER THE  
SPECIAL OPERATING REQUIREMENTS

Full Year Biological Inventory (SOR 11a)

- (\$700,000) - Study to be completed before  
exploratory drilling.
- Lead Agency - Fish and Game
- Draft RFP - 90 days after award of leases
- Final RFP - 120 days after award of leases
- Award contract - 6 months after award of leases
- Draft report - 14 months after award of contract
- Final report - 18 months after award of contract

Oil Dispersant Study (SOR 11b)

- (\$300,000) - Study to be conducted by  
Department of Fish and Game
- Lead Agency - Fish and Game
- Draft Outline - 3 months after award of leases
- Award Contract - 6 months after award of leases
- Study Report - 24 months after award of leases

Sea Otter Study (SOR 13a)

- (\$5,000,000) - Study to be conducted by the  
Department of Fish and Game
- Lead Agency - Fish and Game
- Draft Study Outline - 90 days after award of leases
- Adopt Study Definition - 6 months after award of leases
- Award contract - 8 months after award of leases
- Start Program - 10 months after award of leases

LENDAR PAGE

NOTE PAGE

1734

Meteorological Studies (SOR 14)

(\$1,000,000 per yr) Study to be done in conjunction with federal lessees to provide overall real time reporting of ocean current, wind and wave data in the lease area.

Lead Agency - State Lands Commission  
Define Study - 120 days after award of leases  
Start Continuing - 6 months after award of leases  
Program