

CALENDAR ITEM

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GENERAL LEASE - RIGHT-OF-WAY USE

APPLICANT: Point Arguello Pipeline
Company (PAPCO),
a General Partnership
Chevron U.S.A., Inc.,
Agent for PAPCO
Attn: Lee Bafalon
6001 Bollinger Canyon Road
P. O. Box 5050
San Ramon, California 94583-0905

AREA, TYPE LAND AND LOCATION:
An approximate 10.221-acre parcel of tide and
submerged land, located in the Pacific Ocean
near Point Conception, Santa Barbara County.

LAND USE: Installation and maintenance of a 24-inch oil
pipeline linking Platform Hermosa on Federal
OCS lease - P 0316 to shore at a point just
north of Point Conception.

TERMS OF PROPOSED LEASE:
Initial period: 25 years beginning February 1,
1986.
Surety bond: \$100,000.
Public liability insurance: Combined single
limit coverage of \$2,000,000.

CONSIDERATION: \$10,685.55 per annum; with the State reserving
the right to fix a different rental on the
second anniversary of the lease and on each
fifth anniversary thereafter.

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BASIS FOR CONSIDERATION:

Pursuant to 2 Cal. Adm. Code 2003.

APPLICANT STATUS:

Applicant is not an owner or permittee of upland.

PREREQUISITE CONDITIONS, FEES AND EXPENSES:

Filing fee has been received.

STATUTORY AND OTHER REFERENCES:

A. P.R.C.: Div. 6, Parts 1 and 2; Div. 13.

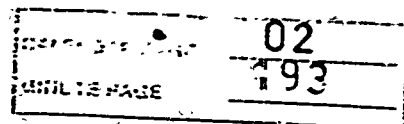
B. Cal. Adm. Code: Title 2, Div. 3; Title 14, Div. 6.

AB 884.

02/14/86.

OTHER PERTINENT INFORMATION:

1. Chevron U.S.A., Inc. (Chevron) is the operator of a federal lease and is developing an oil and gas project in Federal waters off Point Conception, Santa Barbara County. In connection with that project, Chevron, as permitting agent for Point Arguello Pipeline Company (PAPCO) which is a California general partnership, has applied to the Commission for permission to install a 24-inch wet oil pipeline on state-owned tide and submerged lands. The partners in PAPCO are Capitan Oil Pipeline Company, Champlin Liquid Pipeline, Inc., Chevron Pipe Line Company, Four Corners Pipe Line Company, Harvest Corporation, Koch Exploration Company, Oxbow Energy, Inc., Phillips Petroleum Company, Simmons Santa Barbara, Ltd, Sun Offshore Gathering Company, Texaco Harvest Pipeline Company, Inc., and Union California Pipeline Company. The pipeline is proposed to be regulated by the Federal Energy Regulatory Commission pursuant to the Interstate Commerce Act. This line will initially serve a three platform federal development by linking Chevron's Platform Hermosa with an onshore processing



plant at Gaviota. There, additional water will be removed from the oil in preparation for shipment of oil by pipeline or tanker for final refining and distribution to market. Another general partnership, Point Arguello Natural Gas Company (PANGL) will build and operate a separate natural gas pipeline. PANGL's gas pipeline will parallel the crude oil pipeline and is addressed in Calendar Item 2. Both pipelines will be constructed at the same time to comply with environmental requirements.

2. The Commission has encouraged the consolidation of pipelines into common corridors and the co-location of processing facilities onshore as a means of mitigating and reducing the environmental impacts of scattered pipelines and multiple onshore processing facilities. (See Vol. I, Offshore Oil and Gas Development: Southern California 1977, Prepared by The OCS Project Task Force, Office of Planning and Research, for the California Coastal Commission; and Public Resources Code Section 30262(b)). The staff believes that the Commission should designate a corridor as the sole corridor for the placement of pipelines from the federal Point Arguello area to an onshore location near Point Conception. This corridor will also be used for any future pipelines serving this same area. However, secondary corridors may be required to connect state and federal platforms to PAPCO's pipeline system or other major pipelines.

The tide and submerged lands identified for use by PAPCO are held in trust by the State of California for the people of California to facilitate commerce, navigation, and fisheries. The environmental impact report/statement (EIR/EIS) prepared for activities in the area identified potential impacts on navigation, fisheries, and other

environmental resource values. However, such impacts can be mitigated by requiring changes or alterations to the project which avoid or substantially lessen the environmental effects identified in the EIR/EIS. These mitigation measures are identified in Exhibit "C", including PAPCO's contribution to the proposed mitigation fund established by the Commission for its proposed Point Conception lease program.

On the issue of commerce, however, the staff believes that unless the oil and gas production, processing and transportation facilities are treated as a single system, the aspects of the trust, which involve the promotion of commerce and transportation of products in commerce will be substantially impaired.

In order to protect the people of the State of California's economic interests and promote commerce, which is a component of the State Lands Commissions trusteeship of these lands, the staff believes that conditions need to be placed on lessees to ensure that oil and gas from State lands can be transported onshore, processed, and moved to market. The conditions to accomplish this exercise of the Commission's trust responsibilities and protection of the public interest are contained below in the findings.

3. This activity involves lands identified as possessing significant environmental values pursuant to P.R.C. 6370, et seq. Based upon the staff's consultation with the persons nominating such lands and through the CEQA review process, it is the staff's opinion that the project, as proposed, is consistent with its use classification.

Also, as required by P.R.C. Section 6818, on numerous occasions, e.g., the Notice of

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Preparation, and the review period for the Draft EIR/EIS, etc., the Department of Parks and Recreation was consulted and its comments solicited as to the relationship of the proposed project to "possible interference with the recreational use of lands littoral" to the project area.

4. The California Coastal Act, P.R.C. Section 30262, requires that new or expanded oil facilities be consolidated to the maximum extent feasible. To accomplish this goal, the oil pipeline and natural gas pipeline should be built to serve the entire federal Point Arguello area. Further, such pipelines should provide access to potential oil and gas production from State tide and submerged lands. Lines originating from other production platforms in the Point Arguello area will feed into tie-in manifolds at the Hermosa Platform and tie-in locations to be identified by State Lands Commission staff. PAPCO, through its agent, Chevron U.S.A., Inc. has agreed to:
- a) provide for access to the oil pipeline system to nonpartners on an equal and nondiscriminatory basis; and
 - b) provide for access to the onshore oil processing facility and storage facilities to nonpartners on an equal and nondiscriminatory basis.

However, the County of Santa Barbara land use permit and the Santa Barbara Air Pollution Control District permit both preclude the use of the facility for any oil or gas except for oil or gas produced from the federal Point Arguello development. Although these local permits also required that the oil and gas facilities be available for other producers, the prohibitions seem, in fact to preclude other users access to the facilities.

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In addition, the County permits which preclude the use of the PAPCO/PANGL facility by any producers, except for those in the federal Point Arguello field development, appear to conflict with the legislative direction for consolidation of coastal processing facilities and with the Commission's nondiscriminatory access policies.

5. An EIR/EIS was prepared and adopted for this project by the Minerals Management Service and County of Santa Barbara. A staff member of the Commission sat on a joint review panel headed by the Minerals Management Service and County of Santa Barbara. The State Lands Commission's staff has reviewed such document and believes that it complies with the requirements of CEQA. In addition, staff has identified in the attached Exhibit "C", significant environmental effects which involve the part of the project that the Commission will be considering for approval.
6. In the Point Conception lease program, the Commission imposed several special mitigation requirements which required that the State lessees provide funds for several studies and environmental monitoring activities. During negotiations with the Coastal Commission staff, the mitigation requirements were also made applicable to pipelines on the lands proposed for leasing.

The subject areas proposed to be covered by this general mitigation program are identified in Exhibit "D".

The Commission previously imposed the requirement that UNOCAL participate in this general mitigation program by contributing one cent per barrel of oil transported over the State tide and submerged lands. Staff's premise for recommending this

requirement was that UNOCAL would enjoy the benefits resulting from the studies and monitoring activities identified in the mitigation program and therefore UNOCAL's pipeline should participate in financing the program. However, the staff recognized that these benefits would not accrue if the lease program did not proceed and the mitigation program was not implemented. Thus, the staff also recommended that the funds contributed by UNOCAL be placed in an interest bearing trust account and refunded unless the mitigation is implemented.

During initial negotiations with PAPCO's agent, Chevron, they stated that PAPCO would not agree to contribute to the mitigation program. It believes that the mitigation it has already agreed to pay is sufficient to meet the Commission's concerns, and that because of the other mitigation that PAPCO has agreed to pay for, its case is different than UNOCAL's and it should be exempted from the mitigation program.

Exhibit "D", Attachment 1, lists the mitigation and expected cost of the mitigation PAPCO and/or its partners have agreed to pay under other governmental permits. The most significant item PAPCO or parent corporations of its partners have agreed to fund, includes the stationing of a new Clean Seas vessel in the Point Arguello area.

Attachment 2 to Exhibit "D" lists the items from Attachment 1 to Exhibit "D" which staff believes fall within the purview of the studies and other requirements identified in Exhibit "D". However, the other items such as the real time weather monitoring system, Sea Otter studies, and fishery studies required in the Commission's lease program will be directly or indirectly beneficial to PAPCO in the

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event of a pipeline rupture, and will be beneficial to the partners that make up PAPCO in their future expanded development in the Point Arguello area.

Therefore, the staff believes that PAPCO and the parent corporations of the partners will benefit from the information developed by the studies and monitoring programs, and no basis exists to distinguish PAPCO from UNOCAL. Further, staff does not believe that preferential treatment should be accorded to PAPCO over UNOCAL in order to exempt PAPCO from the mitigation program contribution.

However, since PAPCO has already agreed to contribute funds for several studies, or otherwise already performed some of the site specific studies required by the Commission, there is a basis to modify the amount and methodology for the contribution PAPCO should make.

In addition, the significant contributions made by PAPCO and its partners to a Clean Seas vessel increases the probability that future State lessees in the Point Conception lease program area can participate and reduce the need for duplication of such efforts by State lessees.

Based on the information supplied by PAPCO, staff believes that the pipeline route marine biosurveys and pipeline geohazards/geophysical surveys have met the Commission's conditions 1 and 3 of the mitigation program. A new Clean Seas vessel which has been dedicated to the federal Point Arguello development area which would meet the Commission's mitigation program requirement for a similar vessel.

The Commission also required an oil dispersant study in the maximum amount of \$300,000. PAPCO and the parents or sibling subsidiaries with interests in the adjacent federal OCS have agreed to fund a \$100,000 oil dispersant study. Based on the federal lease study area in relation to the total acreage in the State lease study area and federal lease study area, PAPCO's study would meet its fair share of the oil dispersant study required in the Commission mitigation program.

The All Season Ocean Current and Meteorologic studies are designed to provide a historic data base on ocean current and other weather information to update oil spill contingency plans and improve the response capability of oil spill recovery efforts. In addition, these studies will have a real time, weather, and current monitoring system which will provide oil spill recovery teams with actual real time information in the event of an oil spill from federal platforms, State platforms, and pipeline ruptures.

These studies and accompanying weather and meteorologic measuring equipment will be a direct benefit to PAPCO and parent corporations of its partners owning interests in federal OCS leases adjacent to the State lease study area, because it will improve their oil spill recovery efforts, reduce the environmental effects of platform spills and pipeline ruptures, and increase the likelihood of further development in the adjacent federal OCS because of the reduced likelihood of environmental damage from oil spills.

Because of the numerous contributions already made by PAPCO and parent entities of its partners owning interests in the OCS federal leases, considerable difficulty has arisen in determining the fair share

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contribution of PAPCO to the mitigation program for the point Conception area.

The staff has identified several options for the Commission to consider in determining the contribution methodology for PAPCO. The federal government has created an Offshore Oil Pollution Compensation Fund (43 U.S.C. Section 1812) which is designed to provide a source of funds to compensate parties who are damaged by oil pollution. The allocation method used to determine federal lessee's contribution is a charge per barrel of oil produced, with a maximum fee of \$0.03 per barrel. (43 U.S.C. Section 1812(d)(1)). The allocation method required in the UNOCAL right-of-way, and agreed to by UNOCAL, was a contribution based upon the amount of oil transported through the pipeline. The charge was a penny per barrel. This method seeks to allocate on actual production because, as production increases and the risk and potential hazards from spills and pipeline ruptures increase, the share of costs of the mitigation program to be borne also increase. This method is also consistent with the methodology used by the federal government in its Oil Pollution Compensation fund.

Another option would be to allocate the costs on the basis of land area covered by the federal EIR/EIS area study and the State Lands Commission Lease area study. The Point Arguello Area Study covered 128,736 acres and the Point Conception Lease area study covered 40,944 acres for a total of 169,680 acres. Thus, under this methodology, PAPCO's contribution would be based on a 75.87 percent of the costs of the mitigation program.

The rationale behind this allocation methodology is that, since the

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environmental documents were intended to identify broad geographic areas, the mitigation program was intended to also cover broad geographic areas.

A similar methodology would be to allocate costs of the program based on actual federal tracts for which development approval is granted added to the whole State lease study area. And, as new federal developments are approved and tied into the PAPCO system, such additional tracts would be added to the total acreage for allocation. Based on information supplied by MMS, the acreage in the initially approved federal project is 14,000 acres. When added to the State's study area, the federal projects are about 25.48 percent of the total area.

Another subset of the area study allocation method would be to take the initially approved federal project area plus the tracts covered by three additional hypothetical platforms in the revised MMS area study for a total of 26,647 acres, which when added to the State study area, results in a 39.42 percentage attributable to federal acreage.

Although the penny-per-barrel allocation method actually results in a lower dollar contribution, PAPCO has opposed this methodology. However, PAPCO has offered to contribute a one time lump sum of \$560,000 within 60 days after the issuance of this lease. Based on staff's analysis, this lump sum payment is roughly equivalent to what would be contributed on the basis of a penny per barrel, taking into account other substantial mitigation contributions by PAPCO's and partners.

Therefore, staff recommends that the Commission choose the lump sum alternative.

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APPROVALS OBTAINED:

County of Santa Barbara, United States Army
Corps of Engineers, California Coastal
Commission and Water Quality Control Board.

FURTHER APPROVALS REQUIRED:

Minerals Management Service.

EXHIBITS:

- A. Land Description.
- B. Location Map.
- C. CEQA Findings.
- D. Mitigram Program.
- E. Agreement for Establishment of Covenants,
Grant of Easements and Other Rights.

IT IS RECOMMENDED THAT THE COMMISSION:

1. FIND THAT AN EIR/EIS WAS PREPARED AND ADOPTED FOR THIS PROJECT BY THE MINERALS MANAGEMENT SERVICE COUNTY OF SANTA BARBARA AND THAT THE COMMISSION HAS REVIEWED AND CONSIDERED THE INFORMATION CONTAINED THEREIN.
2. FIND THAT THE SIGNIFICANT ENVIRONMENTAL EFFECTS IDENTIFIED IN THE EIR/EIS WHICH INVOLVE THE PART OF THE PROJECT THAT THE COMMISSION IS CONSIDERING FOR APPROVAL (EXHIBIT "C") WILL BE MITIGATED BY CHANGES, ALTERATIONS, OR PERMIT CONDITIONS WHICH HAVE BEEN REQUIRED IN OR INCORPORATED INTO THE PROPOSED PROJECT; AND THAT THE COMMISSION SHOULD EXPRESSLY ADOPT THE MITIGATION MEASURES AND IMPOSE THEM AS EXPRESSED CONDITIONS OF THE LEASE.
3. FIND THAT THE TIDE AND SUBMERGED LANDS PROPOSED FOR USE AS A CONSOLIDATED PIPELINE CORRIDOR AND PAPCO'S PIPELINE RIGHT-OF-WAY WAS IDENTIFIED AS POSSESSING SIGNIFICANT ENVIRONMENTAL VALUES, THAT THE COMMISSION DESIGNATED THOSE LANDS UNDER CATEGORY B (DEFINED AS LIMITED USE, COMPATIBLE WITH AND NON-CONSUMPTIVE OF SIGNIFICANT ENVIRONMENTAL VALUES), AND THAT THE USE PROPOSED BY PAPCO AS CONDITIONED BY PROPOSED MITIGATION MEASURES AND STIPULATIONS, IS CONSISTENT WITH THE USE CATEGORY ASSIGNED TO THE PROPOSED LEASE AREA WITHIN THE SIGNIFICANT LANDS INVENTORY COMPLETED PURSUANT TO SECTIONS 6370 ET SEQ. OF THE P.R.C.
4. FIND THAT THE ESTABLISHMENT OF THIS CORRIDOR IS NECESSARY TO IMPLEMENT THE STATE POLICY OF CONSOLIDATING FACILITIES

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TO MINIMIZE LAND USE AND ENVIRONMENTAL IMPACTS AND DECLARE THAT SUCH A CORRIDOR IS ESTABLISHED AS DESCRIBED IN EXHIBIT "A" AND INCORPORATED HEREIN AS IF FULLY SET FORTH, FOR THE CONSTRUCTION, MAINTENANCE AND OPERATION OF PIPELINES SERVING STATE AND FEDERAL OFFSHORE OIL AND GAS DEVELOPMENT IN THE POINT ARGUELLO AREA.

5. FIND THAT IT HAS REVIEWED AND CONSIDERED THE INFORMATION CONTAINED IN THE FEIR (EIR 308) AND RELATED MATERIALS BEFORE MAKING ITS DECISION ON THE PROPOSED PROJECT.
6. FIND THAT THE ESTABLISHMENT OF THIS CORRIDOR IS NECESSARY TO PROTECT AND PROMOTE THE PUBLIC TRUST INTEREST OF COMMERCE, NAVIGATION AND FISHERIES UNDER WHICH THESE SOVEREIGN LANDS ARE HELD. THIS CORRIDOR WILL BE USED TO LOCATE PIPELINES SERVICING STATE AND FEDERAL OIL AND GAS DEVELOPMENT PROJECTS. BY CONSOLIDATING PIPELINES INTO ONE CORRIDOR THE POTENTIAL ADVERSE EFFECTS ON FISHERIES AND NAVIGATION WILL BE MINIMIZED. IN ORDER TO PROTECT AND FACILITATE COMMERCE, NAVIGATION AND FISHERIES AND EXERCISING THE COMMISSION'S POWER AS TRUSTEE FOR THESE PURPOSES, ALL APPLICANTS FOR PIPELINES WILL BE REQUIRED TO ENSURE THAT EACH SUCH PIPELINE WILL PROVIDE:
 - A. NONDISCRIMINATORY ACCESS FOR ALL PRODUCERS OF OIL AND/OR GAS FOR TRANSPORTATION AT PUBLISHED TARIFFS SETTING FORTH FAIR AND REASONABLE RATES, TERMS AND CONDITIONS OF SHIPMENT.
 - B. NONDISCRIMINATORY ACCESS TO ONSHORE OIL AND GAS PROCESSING FACILITIES AT REASONABLE RATES, TERMS AND CONDITIONS WILL BE PROVIDED TO THE STATE, ITS LESSEES, PURCHASERS FROM EITHER OF THEM, AND ANY FEDERAL OCS LESSEES USING THE PIPELINES. AND, IF REQUESTED, PIPELINE LESSEES OR THEIR CORPORATE PARENTS, OR SUBSIDIARIES OF SUCH CORPORATE PARENTS, WILL PROVIDE IN RETURN FOR FAIR COMPENSATION, LAND FOR SEPARATE PROCESSING FACILITIES FOR THE STATE AND ITS LESSEES.
 - C. NONDISCRIMINATORY ACCESS AT PUBLISHED AND REASONABLE RATES, TERMS AND CONDITIONS, WITHOUT REQUIREMENT FOR SALE OR EXCHANGE TO PIPELINE APPLICANT, OF ANY OIL AND GAS OWNED BY THE STATE, ITS LESSEES OR PURCHASERS FROM EITHER OF THEM, TO PIPELINES WHICH ARE OWNED BY APPLICANT OR ANY CORPORATION OWNING, OWNED BY, OR UNDER COMMON OWNERSHIP WITH APPLICANT WHICH ACCESS IN FACT

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ENABLES SUCH OIL OR GAS TO BE DELIVERED TO SUBSTANTIAL REFINING MARKETS, SUCH AS THE SAN FRANCISCO OR LOS ANGELES REFINING CENTERS; UNLESS, IN THE ALTERNATIVE, A COMMON CARRIER PIPELINE FACILITY HAS BEEN ESTABLISHED WHICH WILL MOVE SUCH OIL OR GAS TO SUCH MARKET AREAS AT PUBLISHED FAIR AND REASONABLE RATES, TERMS AND CONDITIONS.

- D. NO PIPELINES IN THE CORRIDOR SHALL INTERFERE WITH THE EXPLORATION AND DEVELOPMENT OF OIL AND GAS RESOURCES ON THE TIDE AND SUBMERGED LANDS.
- E. ALL USERS OF THE DESIGNATED CORRIDOR SHALL CONTRIBUTE TO AN ENVIRONMENTAL MITIGATION FUND FOR THE PURPOSE OF FUNDING THE MITIGATION PROGRAMS IDENTIFIED BY THE COMMISSION IN ITS POINT CONCEPTION LEASE PROGRAM. SUCH CONTRIBUTION SHALL BE BASED ON A PER BARREL OF OIL CHARGE OF ONE CENT PER BARREL OF OIL TRANSPORTED IN THE PIPELINE SYSTEM ACROSS STATE-OWNED LANDS OR ON SOME OTHER BASES APPROVED BY THE COMMISSION. ALL CONTRIBUTIONS SHALL BE PAID TO A TRUST ACCOUNT, ESTABLISHED BY THE COMMISSION. NO PAYMENTS FROM SUCH ACCOUNT WILL BE AUTHORIZED UNLESS AND UNTIL OIL AND GAS EXPLORATION AND DEVELOPMENT OPERATIONS COMMENCE ON THE STATE'S TIDE AND SUBMERGED LANDS BETWEEN POINT CONCEPTION AND POINT ARGUELLO. IN THE EVENT NO EXPLORATION OR DEVELOPMENT COMMENCES ON THESE STATE LANDS WITHIN FIFTEEN YEARS FROM NOVEMBER 21, 1985, ALL SUMS PLUS INTEREST WILL BE REFUNDED.
- F. FIND THAT THE PURPOSE FOR WHICH THE CORRIDOR IS ESTABLISHED REQUIRES FREE AND OPEN MARKETABILITY OF OIL AND GAS PRODUCED IN THE POINT ARGUELLO AREA AND THEREFORE ANY RIGHT-OF-WAY LEASE SHALL CONTAIN THE CONDITIONS SET FORTH ABOVE.
7. AUTHORIZE ISSUANCE TO POINT ARGUELLO PIPELINE COMPANY (PAPCO) OF A 25-YEAR GENERAL LEASE - RIGHT-OF-WAY USE SUBSTANTIALLY IN THE FORM ON FILE IN THE PRINCIPAL OFFICE OF THE STATE LANDS COMMISSION, BEGINNING FEBRUARY 1, 1986; IN CONSIDERATION OF ANNUAL RENT IN THE AMOUNT OF \$10,685.55, WITH THE STATE RESERVING THE RIGHT TO FIX A DIFFERENT RENTAL ON THE SECOND ANNIVERSARY OF THE LEASE, AND ON EACH FIFTH ANNIVERSARY THEREAFTER; PROVISION OF A \$100,000 SURETY BOND; FOR INSTALLATION AND MAINTENANCE OF ONE 24-INCH OIL PIPELINE ON THE LAND DESCRIBED ON

EXHIBIT "A" ATTACHED AND BY REFERENCE MADE A PART HEREOF, AND SUBJECT TO THE FOLLOWING CONDITIONS WHICH SHALL BE INCLUDED IN THE RIGHT-OF-WAY LEASE:

- A. PAPCO OR ITS PIPELINE OPERATOR SHALL FURNISH THE STATE LANDS COMMISSION WITH A COPY OF A CERTIFICATE OF FINANCIAL RESPONSIBILITY ISSUED TO IT BY THE U.S. COAST GUARD PURSUANT TO FEDERAL REGULATIONS GOVERNING THE OFFSHORE OIL POLLUTION COMPENSATION FUND, EVIDENCING PAPCO'S OR ITS PIPELINE OPERATOR'S FINANCIAL RESPONSIBILITY IN THE AMOUNT OF \$35,000,000 FOR DAMAGES AND CLEANUP COSTS INCURRED AS A CONSEQUENCE OF OR IN RESPONSE TO OIL POLLUTION ARISING FROM PAPCO PIPELINE OPERATIONS ON THE OUTER CONTINENTAL SHELF.
- B. ALL PIPELINE OPERATIONS ON STATE LANDS SHALL BE CONDUCTED UNDER THIS LEASE IN ACCORDANCE WITH APPLICABLE LAWS AND THE RULES AND REGULATIONS OF THE STATE LANDS COMMISSION.
- C. PAPCO AGREES THAT THE OIL PIPELINE FROM PLATFORM HERMOSA TO THE GAVIOTA OIL PROCESSING FACILITY WILL BE CONSTRUCTED, OPERATED AND MAINTAINED AS A COMMON CARRIER, AND WILL ACCEPT FROM NON-OWNERS OF THE PIPELINE, TENDERS FOR THE TRANSPORTATION OF OIL ON REASONABLE TERMS AND CONDITIONS AND AT JUST AND REASONABLE RATES, WHICH TERMS, CONDITIONS OR RATES ARE PUBLISHED AND ARE NO LESS FAVORABLE THAN THOSE APPLIED TO SHIPMENTS BY OWNERS OF THE LINE, AND WITH NO REQUIREMENT THAT THE TENDERED OIL BE SOLD, EXCHANGED OR OTHERWISE TRANSFERRED TO THE PIPELINE OR ITS OWNERS. ("OIL" INCLUDES OIL MIXED WITH WATER OR ENTRAINED GAS.)
- D. PAPCO, AT PAPCO'S INITIAL EXPENSE SHALL PROVIDE TO THE STATE FOR THE BENEFIT OF ITS OFFSHORE OIL LESSEES, CONTRACTORS, OR PURCHASERS FROM ANY OF THEM A TIE-IN FACILITY ON THAT PORTION OF THE PAPCO PIPELINE ON STATE TIDE AND SUBMERGED LANDS. SUCH OFFSHORE TIE-IN FACILITY SHALL BE INSTALLED BY PAPCO AT THE TIME OF CONSTRUCTION OF THE PAPCO PIPELINE AND AT A LOCATION IDENTIFIED BY THE COMMISSION'S ENGINEERING STAFF. BEFORE THE STATE OR ITS OFFSHORE OIL LESSEES, CONTRACTORS OR OIL PURCHASERS OF EITHER OF THEM ACCESS THE PAPCO PIPELINE AT SUCH OFFSHORE TIE-IN FACILITY, THEY SHALL AGREE TO REIMBURSE PAPCO FOR ALL COSTS INCURRED IN THE DESIGN, PURCHASE OF MATERIALS AND

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INSTALLATION OF SUCH OFFSHORE TIE-IN FACILITY, AND TO ASSUME ALL OBLIGATIONS AND RESPONSIBILITIES RELATED TO SUCH TIE-IN FACILITY AS SET FORTH IN THE PAPCO TIE-IN POLICY FILED WITH THE COMMISSION. IF, WHEN INSTALLING THE OFFSHORE TIE-IN FACILITY, PAPCO DETERMINES THAT THE TIE-IN FACILITY IS IMPROPERLY ALIGNED AND MUST BE REMOVED TO PROTECT THE INTEGRITY OF THE PAPCO PIPELINE, THEN PAPCO SHALL NOT BE OBLIGATED TO INSTALL AT ITS EXPENSE ANOTHER OFFSHORE TIE-IN FACILITY.

FURTHER, PAPCO, WHEN REQUESTED, SHALL PROVIDE TO THE STATE OR ITS OFFSHORE OIL LESSEES, CONTRACTORS OR OIL PURCHASERS OF EITHER OF THEM ADDITIONAL TIE-IN FACILITIES ONSHORE TO ALLOW TRANSPORT OF OIL THROUGH PAPCO'S PIPELINE. THESE ADDITIONAL TIE-IN FACILITIES SHALL BE PROVIDED SOLELY IN ACCORDANCE WITH THE PAPCO TIE-IN POLICY AND AT SUCH LOCATIONS AS IDENTIFIED BY THE COMMISSION OR BY THE STATE'S OFFSHORE OIL LESSEES OR BY OIL PURCHASERS OF EITHER OF THEM.

PAPCO AND CHEVRON U.S.A., INC. OWNING LAND AT AND ADJACENT TO THE SITE OF THE GAVIOTA OIL PROCESSING FACILITY SHALL GRANT AN EASEMENT, WHEN REQUESTED, TO THE STATE OR TO OFFSHORE OIL LESSEES, CONTRACTORS, OR OIL PURCHASERS FROM ANY OF THEM TO PROVIDE ACCESS ACROSS SUCH LANDS TO THE PAPCO OIL PIPELINE LEADING INTO THE GAVIOTA OIL PROCESSING FACILITY. SUCH EASEMENT SHALL BE PROVIDED IN ACCORDANCE WITH EXHIBIT "E" "AGREEMENT FOR ESTABLISHMENT OF COVENANTS, GRANT OF EASEMENTS AND OTHER RIGHTS" ATTACHED HERETO AND INCORPORATED HEREIN BY REFERENCE, AND SHALL BE FOR THE BENEFIT OF THE STATE AND ITS OFFSHORE OIL LESSEES CONTRACTORS, OR OIL PURCHASERS FROM ANY OF THEM WHO HAVE TENDERED OIL FROM STATE TIDE AND SUBMERGED LANDS TO THE PAPCO OIL PIPELINE AND THE GAVIOTA OIL PROCESSING FACILITY, AND SHALL REMAIN IN EFFECT FOR THE TERM OF THIS LEASE. PAPCO SHALL PROVIDE TO THE COMMISSION A CERTIFIED COPY OF SUCH EASEMENT WITHIN 90 DAYS OF ITS RECORDATION. THE VALUE OF EASEMENTS OR OTHER RIGHTS IN LAND PROVIDED FOR UNDER THIS PARAGRAPH SHALL BE DETERMINED IN ACCORDANCE WITH THE APPRAISAL PROCEDURE IN EXHIBIT "E", WHICH SHALL ALSO BE AN EXHIBIT TO THE LEASE. ALSO, PAPCO SHALL PROVIDE TO THE COMMISSION WITHIN 90 DAYS FROM THE ISSUANCE OF THIS LEASE, A COPY OF ITS RIGHT-OF-WAY LEASE OR EASEMENT WITH CHEVRON U.S.A., INC. FOR THE RIGHT-OF-WAY ACROSS THE LANDS IDENTIFIED IN ATTACHMENT C TO EXHIBIT "E".

E. (1) IN THE EVENT CHEVRON U.S.A., INC. (CHEVRON) SELLS, GIVES, OR OTHERWISE TRANSFERS ITS LAND AT THE LANDFALL OF THE PAPCO PIPELINE (LAND COMMONLY REFERRED TO AS THE "GERBER FEE" PROPERTY, WHICH IS MORE PARTICULARLY DESCRIBED IN ATTACHMENT B TO EXHIBIT "E") WITHIN 90 DAYS AFTER THE ISSUANCE OF THIS LEASE, THEN CHEVRON SHALL RESERVE TO ITSELF EASEMENTS FOR PIPELINES, WATER LINES, POWER CABLES AND OTHER RELATED FACILITIES, AND WHEN REQUESTED, IN ACCORDANCE WITH SUBSECTION 3 HEREIN, SHALL GRANT TO THE STATE OR ITS OFFSHORE OIL AND GAS LESSEES, CONTRACTORS, OR OIL AND GAS PURCHASERS FROM ANY OF THEM, THE RIGHT TO USE SUCH RESERVED EASEMENTS.

IF CHEVRON DOES NOT SELL, GIVE OR TRANSFER THE GERBER FEE PROPERTY WITHIN 90 DAYS AFTER THE ISSUANCE OF THIS LEASE, THEN CHEVRON OR ITS AFFILIATES OWNING SUCH LAND SHALL GRANT AN EASEMENT, WHEN REQUESTED, IN ACCORDANCE WITH SUBSECTION 3 HEREIN, TO THE STATE OR ITS OFFSHORE OIL AND GAS LESSEES, CONTRACTORS, OR OIL AND GAS PURCHASERS FROM ANY OF THEM TO PROVIDE ACCESS TO AND ACROSS SUCH LANDS FOR OIL, GAS AND OTHER PIPELINES, ELECTRIC POWER CABLES SERVING STATE TIDE AND SUBMERGED LANDS, AND ELECTRICAL POWER GENERATOR OR SUBSTATION FACILITIES. IN SUCH EVENT CHEVRON OR ITS AFFILIATES SHALL RECORD OR CAUSE TO BE RECORDED THIS LEASE.

(2) IN ADDITION, IF LANDS ADJACENT TO THE GAVIOTA PROCESSING FACILITY (MORE PARTICULARLY DESCRIBED IN ATTACHMENT C TO EXHIBIT "F") BECOME ZONED OR OTHERWISE AVAILABLE FOR OTHER OIL AND GAS PROCESSING FACILITIES, THEN CHEVRON OR ITS AFFILIATES OWNING LAND ADJACENT TO THE GAVIOTA PROCESSING FACILITY SHALL PROVIDE ACCESS EITHER BY LEASE, LICENSE, EASEMENT OR FEE TRANSFER, THE METHOD TO BE AT THE DISCRETION OF THE STATE, IN ACCORDANCE WITH SUBSECTION 3, HEREIN.

(3) IF THE STATE OR ITS OFFSHORE OIL AND GAS LESSEES, CONTRACTORS, OR OIL AND GAS PURCHASERS OF ANY OF THEM, HAVE FINAL PERMITS AND APPROVALS FOR THE CONSTRUCTION OF OIL AND GAS PROCESSING FACILITIES, PIPELINES, POWER CABLES, OR OTHER RELATED FACILITIES, AND SUCH PERMITS OR APPROVALS INCLUDE THE USE OF LANDS OR INTERESTS HELD BY CHEVRON OR ITS AFFILIATES ADJACENT TO THE GAVIOTA PROCESSING FACILITY, THEN CHEVRON SHALL PROVIDE EASEMENTS OR RIGHTS TO USE EASEMENTS WITHIN 60 DAYS AFTER WRITTEN NOTIFICATION OF A REQUEST FOR SUCH

EASEMENTS. THE VALUE OF EASEMENTS OR OTHER RIGHTS IN LAND PROVIDED FOR UNDER THIS PARAGRAPH SHALL BE DETERMINED IN ACCORDANCE WITH AN APPRAISAL PROCEDURE, TO BE CONTAINED IN THE "COVENANTS AND GRANTS OF EASEMENTS, AND OTHER RELATED INTERESTS". ATTACHED HERETO AS EXHIBIT "E", WHICH SHALL ALSO BE AN EXHIBIT TO THE LEASE.

(4) THE COVENANTS PROVIDED HEREIN SHALL REMAIN IN EFFECT ONLY FOR SO LONG AS THE STATE RIGHT-OF-WAY LEASE ACROSS THE LANDS DESCRIBED IN EXHIBIT "A" IS IN FULL FORCE AND EFFECT.

(5) CHEVRON OR ITS AFFILIATES SHALL EXECUTE DOCUMENTS NECESSARY TO SHOW THE INTENT TO TRANSFER THE PROPERTY INTERESTS IDENTIFIED HEREIN, IF SUCH EVIDENCE IS NECESSARY TO COMPLETE APPLICATIONS FOR PERMITS AND APPROVALS.

- F. IN THE EVENT PAPCO CONSTRUCTS, OPERATES AND MAINTAINS ANY ADDITIONAL OIL PIPELINES RUNNING FROM THE SUBJECT OIL PIPELINE LANDFALL SITE TO THE GAVIOTA OIL PROCESSING FACILITY OR OTHER OIL PROCESSING FACILITIES, PAPCO WILL ACCEPT FROM NON-OWNERS OF SUCH ADDITIONAL PIPELINES TENDERS FOR THE TRANSPORTATION OF OIL ON REASONABLE TERMS AND CONDITIONS AND AT JUST AND REASONABLE RATES, WHICH TERMS, CONDITIONS OR RATES ARE PUBLISHED AND ARE NO LESS FAVORABLE THAN THOSE APPLIED TO SHIPMENTS BY THE OWNERS OF SUCH ADDITIONAL OIL PIPELINES.
- G. PAPCO'S PIPELINE SHALL BE INITIALLY DESIGNED AND CONSTRUCTED TO FACILITATE THE RUNNING OF AN INTERNAL INSPECTION TOOL THROUGH THE PIPELINE. INTERNAL INSPECTIONS OF THE PAPCO PIPELINE USING THE INTERNAL INSPECTION TOOL SHALL BE MADE AT THE DISCRETION OF PAPCO EXCEPT THAT IN THE CASE OF THAT PORTION OF THE PAPCO PIPELINE ON STATE TIDE AND SUBMERGED LANDS SUCH INSPECTIONS SHALL BE MADE EVERY THREE YEARS UNLESS OTHERWISE APPROVED BY THE COMMISSION'S ENGINEERING STAFF. ALL RESULTS OF SUCH INSPECTIONS INCLUDING REPORTS, ANALYSES AND RECOMMENDATIONS PREPARED BY OR FOR PAPCO, SHALL BE SUBMITTED TO THE COMMISSION.
- H. ALL SHIPMENTS OF OIL THROUGH THE PAPCO PIPELINE TO GAVIOTA WILL BE TREATED AT THE GAVIOTA OIL PROCESSING

FACILITY AND STORED AT STORAGE FACILITIES, IF ANY, OPERATED BY PAPCO AT GAVIOTA, AT JUST AND REASONABLE RATES, TERMS AND CONDITIONS FOR TREATMENT OR STORAGE WHICH ARE NO LESS FAVORABLE THAN THOSE ACCORDED SHIPMENTS BY PARTNERS OF PAPCO AND WITHOUT REQUIREMENT FOR SALE TO PAPCO, OR, AT THE DISCRETION AND SOLE EXPENSE OF THE SHIPPER, WILL BE DELIVERED TO ANOTHER PIPELINE FOR TRANSPORTATION TO ANOTHER OIL PROCESSING OR STORAGE FACILITY, AS DESIGNATED BY IT OR THE STATE.

- I. IN THE EVENT THE STATE OR ITS OFFSHORE OIL AND GAS LESSEES, CONTRACTORS, OR OIL PURCHASERS FROM ANY OF THEM DO NOT HAVE ACCESS TO A COMMON CARRIER OIL PIPELINE FROM THE GAVIOTA OIL PROCESSING FACILITY OR OTHER ALTERNATIVE MEANS ACCEPTABLE TO THE STATE OF MOVING OIL FROM THE GAVIOTA OIL PROCESSING FACILITY, THEN AT SUCH TIME AS THE STATE OR ITS OFFSHORE OIL AND GAS LESSEES, CONTRACTORS, OR OIL PURCHASERS FROM ANY OF THEM TENDER OIL TO THE PAPCO OIL PIPELINE AND TO THE GAVIOTA OIL PROCESSING FACILITY AND SUCH TENDER COMPLIES WITH PAPCO'S PUBLISHED FERC TARIFF, PAPCO SHALL BUILD OR CAUSE TO BE BUILT A COMMON CARRIER INTERTIE, NO GREATER THAN 3,500 FEET IN LENGTH, BETWEEN THE GAVIOTA OIL PROCESSING FACILITY AND THE CELERON ALL-AMERICAN PIPELINE SYSTEM, AS SUCH PIPELINE SYSTEM IS CURRENTLY PLANNED AND DESIGNED; OR, IN THE EVENT THE CELERON ALL-AMERICAN PIPELINE SYSTEM IS NOT BUILT AS CURRENTLY PLANNED AND DESIGNED, PAPCO SHALL CONTRIBUTE TO THE STATE FUNDS EQUIVALENT TO THE COSTS OF INSTALLING SUCH A COMMON CARRIER INTERTIE. THE STATE, FOR ITS OFFSHORE OIL LESSEES, WILL NOT PROTEST THE INCLUSION OF THE COMMON CARRIER INTERTIE, BUILT OR CAUSED TO BE BUILT BY PAPCO AS DESCRIBED HEREIN, WITH THE PAPCO OIL PIPELINE FOR TARIFF PURPOSES.
- J. IN ORDER TO FACILITATE THE ENFORCEMENT OF THE TERMS AND CONDITIONS OF THIS LEASE, PAPCO SHALL USE ITS BEST EFFORTS TO ENSURE THAT ALL FINAL TARIFFS AND FINAL AMENDMENTS TO TARIFFS ARE SUBMITTED TO THE STATE LANDS COMMISSION FOR REVIEW AND COMMENT PRIOR TO SUBMITTAL TO OTHER REGULATORY AGENCIES, BUT IN NO EVENT SHALL SUCH SUBMITTALS TO THE COMMISSION OCCUR LESS THAN 15 DAYS PRIOR TO SUBMITTAL TO FERC OR OTHER REGULATORY BODIES. SUCH FILING AND ANY COMMENTS BY THE COMMISSION OR ITS STAFF IS NOT INTENDED TO BE A WAIVER OF ANY RIGHT TO INTERVENE IN ANY RATE MAKING PROCEEDING OR OTHER

RELATED PROCEEDING BEFORE REGULATORY BODIES. SUCH TARIFFS WILL BE KEPT CONFIDENTIAL BY THE COMMISSION UNTIL PUBLISHED BY PAPCO.

PAPCO SHALL ALSO FILE WITH THE COMMISSION FOR REVIEW AND COMMENT ALL FINAL TARIFFS AND FINAL AMENDMENTS TO TARIFFS NOT PROPOSED TO BE FILED WITH OTHER REGULATORY BODIES. SUCH TARIFFS SHALL BE FILED THREE MONTHS PRIOR TO THEIR EFFECTIVE DATE.

- K. IF THE STATE OR ITS LESSEES OF TIDE AND SUBMERGED LANDS HAVE UNDERTAKEN AN OFFSHORE OIL DEVELOPMENT PROJECT WHICH IDENTIFIES THE PAPCO OIL PIPELINE AND THE GAVIOTA OIL PROCESSING FACILITY AS A FEASIBLE MEANS OF TRANSPORTING AND PROCESSING OIL FROM STATE TIDE AND SUBMERGED LANDS; AND SUCH PROJECT HAS BEEN FULLY PERMITTED AND APPROVED BY ALL APPLICABLE FEDERAL, STATE AND LOCAL AUTHORITIES; AND THE COMMISSION APPROVES THE TENDER OF SUCH OIL TO THE PAPCO OIL PIPELINE AND THE GAVIOTA OIL PROCESSING FACILITY; AND SUCH TENDER COMPLIES WITH PAPCO'S PUBLISHED FERC TARIFFS; THEN, PAPCO SHALL TAKE ALL REASONABLE ADMINISTRATIVE STEPS NECESSARY TO ENSURE THAT PAPCO'S SANTA BARBARA COUNTY (COUNTY) PERMITS AND AIR POLLUTION CONTROL DISTRICT (APCD) AUTHORIZATIONS APPLICABLE TO THE PAPCO OIL PIPELINE AND GAVIOTA OIL PROCESSING FACILITY DO NOT PRECLUDE PAPCO'S ACCEPTANCE OF SUCH TENDER. NEITHER PAPCO NOR ANY OF ITS PARTNERS SHALL BE OBLIGATED TO PERFORM OR COMMIT TO THE PERFORMANCE OF ANY CONDITIONS, ENVIRONMENTAL STUDIES, MITIGATIONS OR EXPENDITURES RELATED THERETO WHICH MAY ARISE OUT OF SUCH ADMINISTRATIVE PROCEEDINGS. IN THE EVENT THAT THE COUNTY OR APCD DOES NOT AMEND OR OTHERWISE INTERPRET SUCH PERMITS AND AUTHORIZATIONS TO ALLOW PAPCO TO ACCEPT THE TENDER OF SUCH OIL FOR TRANSPORTATION AND PROCESSING, AND THE COUNTY'S OR APCD'S DECISION DOES NOT COMPLY WITH THE REQUIREMENTS OF LAW FOR SUCH A DECISION, THEN PAPCO SHALL SEEK REVIEW BY COMMENCEMENT OF ADMINISTRATIVE MANDAMUS PROCEEDINGS PURSUANT TO CODE OF CIVIL PROCEDURE SECTION 1094.5 OR OTHER APPLICABLE PROVISIONS OF LAW FOR MODIFICATION OF SUCH PERMITS AND AUTHORIZATIONS. PAPCO SHALL TAKE REASONABLE STEPS TO PURSUE SUCH ADMINISTRATIVE MANDAMUS PROCEEDINGS TO AN INITIAL JUDGMENT, BUT PAPCO SHALL HAVE NO OBLIGATION TO TAKE ANY STEP IN ADDITION TO THE FOREGOING AND SPECIFICALLY NO OBLIGATION TO PROSECUTE AN APPEAL OR

OTHER FURTHER JUDICIAL REMEDY. THE STATE SHALL COOPERATE WITH PAPCO IN THE COMMENCEMENT AND PURSUIT OF SUCH ADMINISTRATIVE MANDAMUS PROCEEDINGS AND TAKE SUCH STEPS AS ARE REASONABLY NECESSARY TO ENSURE THE FULL COOPERATION OF THE STATE'S LESSEES IN SUCH ADMINISTRATIVE MANDAMUS PROCEEDINGS.

L. NO ASSIGNMENT OR TRANSFER OF ANY INTEREST IN PAPCO OR OF THE PAPCO OIL PIPELINE OR OF THE GAVIOTA OIL PROCESSING FACILITY SHALL BE MADE WITHOUT THE PRIOR CONSENT OF THE COMMISSION WHICH CONSENT SHALL NOT BE UNREASONABLY WITHHELD. FURTHER, THE CONDITIONS IMPOSED BY PARAGRAPHS D, E, AND H, ARE INTENDED TO BE CONDITIONS APPURTENANT TO ANY LANDS OWNED BY CHEVRON U.S.A., INC. OR PAPCO UPON WHICH THE PAPCO OIL PIPELINE AND THE GAVIOTA OIL PROCESSING FACILITY ARE CONSTRUCTED. PAPCO AND CHEVRON SHALL RECORD OR CAUSE TO BE RECORDED AT THEIR EXPENSE, EXCEPT AS PROVIDED IN CONDITION E, THIS LEASE UPON LANDS OWNED BY PAPCO AT THE SITE OF THE GAVIOTA OIL PROCESSING FACILITY, WITHIN 90 DAYS OF THE EXECUTION OF THIS LEASE.

M. PAPCO SHALL CONTRIBUTE \$560,000 WITHIN 60 DAYS AFTER THE ISSUANCE OF THIS LEASE TO AN ENVIRONMENTAL MITIGATION FUND FOR THE PURPOSE OF FUNDING THE MITIGATION PROGRAMS IDENTIFIED BY THE COMMISSION IN ITS POINT CONCEPTION LEASE PROGRAM (EXHIBIT "D"), AS RELATING TO CUMULATIVE ENVIRONMENTAL IMPACTS OF THE OIL PIPELINE AND RELATED OFFSHORE DEVELOPMENT PROJECTS.

THE CONTRIBUTION SHALL BE PAID TO A TRUST ACCOUNT ESTABLISHED BY THE COMMISSION. NO PAYMENTS FROM THE TRUST ACCOUNT WILL BE AUTHORIZED UNLESS AND UNTIL OIL AND GAS EXPLORATION AND DEVELOPMENT OPERATIONS COMMENCE ON THE STATE'S TIDE AND SUBMERGED LANDS BETWEEN POINT CONCEPTION AND POINT ARGUELLO. IN THE EVENT NO EXPLORATION OR DEVELOPMENT COMMENCES ON THESE STATE LANDS WITHIN 15 YEARS FROM NOVEMBER 21, 1985. ALL SUMS PLUS INTEREST WILL BE REFUNDED.

8. FIND THAT THE PROJECT, AS PROPOSED AND MITIGATED, WILL NOT UNREASONABLY INTERFERE WITH THE MAINTENANCE OR USE OF THE LITTORAL LANDS FOR RECREATIONAL PURPOSES OR PROTECTION OF SHORE PROPERTIES, PURSUANT TO SECTION 6818 OF THE PUBLIC RESOURCES CODE.

CALENDAR ITEM NO. 7 (CONT'D)

9. AUTHORIZE CHIEF COUNSEL OF THE COMMISSION TO MAKE NECESSARY MINOR MODIFICATIONS TO THE LEASE AND ITS ACCOMPANYING EXHIBITS TO ACCOMPLISH THE PURPOSES IDENTIFIED BY THE COMMISSION IN AUTHORIZING THE ISSUANCE OF THE RIGHT-OF-WAY LEASE.

EXHIBIT "A"

LAND DESCRIPTION

W 23489

A strip of tide and submerged land 20 feet wide in the Pacific Ocean approximately one mile north of Point Conception, Santa Barbara County, California, the centerline of said strip being described as follows:

BEGINNING at a point having coordinates of
N = 863,068.85 and E = 727,223.03; thence S 88° 56' 15"
W 8754.94 feet to the beginning of a tangent curve concave to the north having a radius of 20,000 feet; thence along said curve, through a central angle of 7° 33' 45", 2639.81 feet; thence tangent to said curve N 83° 30' 00" W 11,066.81 feet to the offshore ownership boundary of the State of California as determined according to the decree entered by the United States Supreme Court in United States v. California, Original No. 5, on January 31, 1966, 382 US 448.

EXCEPTING THEREFROM any portion lying landward of the ordinary high water mark.

This description is based on the California Coordinate System, Zone 6.

END OF DESCRIPTION

REVISED AUGUST 22, 1985, BY BOUNDARY SERVICES UNIT, M.L. SHAFER, SUPERVISOR.

(PAPCO)

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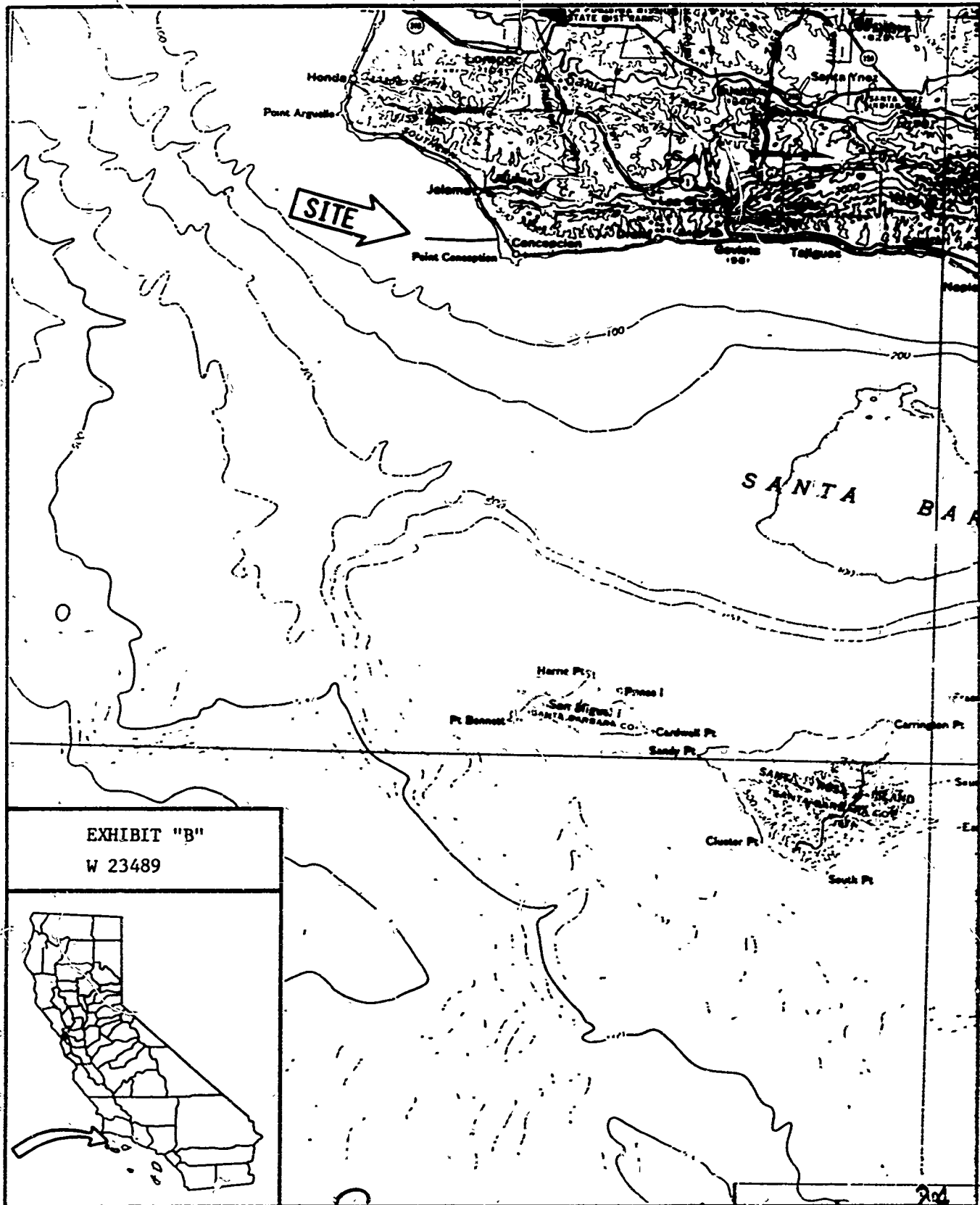


EXHIBIT "B"
 W 23489



(PAPCO)

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APPENDIX C

PAPCO
CEQA FINDINGS

The significant environmental impacts of the Point Arguello Pipeline Company's (PAPCO) proposal for a subsea pipeline between platform Hermosa to a landfall north of Point Conception, transporting oil from the South Santa Maria Basin to an onshore processing facility at Gaviota, are discussed below. These impacts were identified in the: "Point Arguello Field and Gaviota Processing Facility Area Study and Chevron/Texaco Development Plans EIR/EIS" certified by the County of Santa Barbara, acting as CEQA Lead Agency, on October 25, 1984. The staff of the State Lands Commission participated as a member of the local-State-Federal "Joint Review Panel" which managed the preparation of the EIR/EIS. The findings, mitigations and supporting facts presented below, rely substantially on this document, but were updated where appropriate.

As a Responsible Agency, the Commission is authorized to require changes in the project, or require mitigations designed to lessen its environmental effects, by conditioning that part of the project which it must approve (Sections 15041(b) and 15096(q) & (h), Title 14, California Administrative Code).

Pursuant to Section 15091, the State Lands Commission, acting as a Responsible Agency pursuant to CEQA, finds that for each significant environmental effect:

Changes or alterations have been required in, or incorporated into, the project which avoid or substantially lessen the significant environmental effect as identified in the final EIR/EIS.

The discussion of the project's significant impacts and their proposed mitigations recommended for adoption by the Commission, is presented in three sections, as follows:

- I. Construction Impacts;
- II. Impacts of Ongoing Operations
- III. Area Study and Cumulative Impacts

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I. CONSTRUCTION IMPACTS

The potentially significant construction impacts of the proposed project in State waters will be principally localized and temporary.

A. Marine Water Resources

1. IMPACT: Resuspension of oil-containing sediments (near seeps) likely during subsea trenching and pipelaying. Impacts equivalent to small oil spill on natural seep activity (oil slicks, dissolution of organics, depletion of dissolved oxygen, etc.)

MITIGATION: No additional mitigations are required. Based on a visual survey, PAPCO has routed the pipeline so as to avoid natural seeps.

FINDING: The pre-construction survey conducted by PAPCO will result in the avoidance of seep areas. Final pipeline routing, based on survey results, constitute changes or alterations required in, or incorporated into the project, which avoid or substantially lessen the environmental effect as identified in the EIR/EIS.

FACTS SUPPORTING FINDINGS:

A visual survey of the pipeline route has been conducted by PAPCO. Accordingly, the pipeline route delineated completely avoids any seep areas in State waters.

The release of oil from disturbed sediments around natural oil seeps could have impacts equivalent to a small oil spill or natural seep activity, ranging from a few gallons to several tens of barrels. Such impacts may be in the form of oil slicks, dissolution of toxic organics, or the depletion of dissolved oxygen. These releases can be mitigated in two ways: (1) avoidance of seep areas during trenching; and (2) rapid deployment of oil spill containment and cleanup equipment where such releases result in surface slicks. Such equipment will be available for deployment from Clean Seas Inc.'s Mr. Clean III which will be stationed in the vicinity of Platform Harvest. Response time will generally range from several minutes to 1 hour.

B. Marine Biology

1. IMPACT: Loss of hard-bottom benthos due to construction vessel anchoring.

MITIGATION: 1. Following the designation of construction anchorages, PAPCO is required to submit an anchoring plan for staff approval, including appropriate restrictions of vessel activities and consolidated mooring.

FINDING: The submittal of an anchorage plan that avoids hard-bottom features along the pipeline route constitutes changes or alterations required in, or incorporated into the project, which avoid or substantially lessen the environmental effect as identified in the EIR/EIS.

FACTS SUPPORTING FINDING:

Anchoring of pipeline towing and support vessels during the installation of the inter-platform and Hermosa-to-shore pipelines could impact up to 20 large raised-profile hard-bottom features. Most of these lie in Federal waters (See EIR/EIS Fig. 4.5-2). Installation impacts on these features in State waters could be locally significant, as well as regionally significant when considered together with potential habitat losses in the Federal OCS.

PAPCO has committed to submit to staff an anchorage plan which avoids hard-bottom features, prior to the start of construction. As noted above, most of these features are in Federal waters. However, where they may exist along the route in State waters, their physical extent and the nature of vessel anchoring procedures at sea may make complete avoidance infeasible. These resulting losses are expected to be minor and insignificant. In addition, the pipeline, where it lies on the ocean floor, will allow the formation of permanent new hard substrate which should compensate for such losses.

2. IMPACT: Disturbance of seabird and/or Harbor Seal rookeries, benthic, intertidal and fish communities at Point Conception due to nearshore pipeline construction.

MITIGATION:

- a) Should trenching and blasting be necessary to install the pipeline landfall, multiple small charges shall be used rather than a few large ones.

FINDING: Drilling under the intertidal zone from shore is environmentally preferred to blasting and is required, if feasible. If infeasible, and blasting is necessary, then use of small charges will constitute a change or alteration being required in, or incorporated into, the project, which avoid or substantially lessen the environmental effect as identified in the EIR/EIS.

FACTS SUPPORTING FINDING:

PAPCO proposes to construct the pipeline to shore starting in May 1986. This schedule will avoid conflicts with the migrating California Gray Whale.

Trenching for the pipelines through the nearshore intertidal zone at the pipeline landfall north of Point Conception could have significant impacts on marine mammals and seabirds, especially if blasting through bedrock is necessary. Significant but mitigable impacts such as stunning of swimming individuals and interruption of breeding or rearing activities could occur if construction occurs in late Winter or early Spring. In order to minimize blasting impacts in the nearshore zone, PAPCO is being required to use the smallest possible multiple charges, rather than a few large ones.

Chevron is currently testing a promising drilling method from atop the coastal bluff through the bedrock underlying the intertidal zone, emerging through the seafloor approximately 2,600 feet from shore. If successful, no trenching and/or blasting in the nearshore area will be necessary as the pipeline will be drawn through the drilled tunnel. If this testing is not successful and blasting is necessary, the resulting impacts could be significant and inconsistent with the Federal Mammal Protection Act. The MMS has indicated that endangered species consultation will be reinitiated if blasting is required.

3. IMPACT: Damage to kelp canopy at Ellwood due to crew boat traffic.

MITIGATION: No additional mitigations are required in view of PAPCO's current plans for crew transport.

FINDING: The fact that PAPCO will use Carpinteria instead of Ellwood, and then only if weather conditions prohibit helicopter transport of crews and, if used, boats will adhere to the Santa Barbara Channel oil service vessel traffic corridor program, constitute changes or alterations required in, or incorporated into the project, which avoid or substantially lessen the environmental effect as identified in the EIR/EIS.

FACTS SUPPORTING FINDING:

Originally, Texaco, a co-applicant with Chevron U.S.A. for this initial development of the Pt. Arguello Field, a co-applicant with Chevron U.S.A. for this initial development of the Pt. Arguello Field, proposed to utilize Ellwood as its crew base during construction. However, as it currently stands, PAPCO proposes to transport its crews to the project by helicopter from the Santa Barbara Airport. Crews will be transported by boat from Carpinteria, only in case of emergency, such as during periods of inclement weather (approximately 2% of the year). In such cases, the crew boats will adhere to the industry-designated narrow corridor through the kelp bed, thus minimizing the disturbed-canopy area. The potential resulting impact is considered to be insignificant.

C. Commercial Fishing

1. IMPACT: Disruption of commercial fishing activities during construction.

MITIGATION:

1. The area affected by construction at any one time, shall be kept to a minimum in order to minimize conflicts with local fishermen.
2. Local fishermen shall be notified by PAPCO, in accordance with the notification requirements specified for the Commission's Geophysical Survey Permits. (See "General Permit to Conduct Geophysical Surveys," "Permit Regions" map and "Notification Procedures," Exhibits "A" and "B" respectively.)

FINDING: Limiting the construction area at any one time, establishing the notification procedures to local fishermen and PAPCO's commitment to

post-construction survey and subsequent removal of retrievable construction debris, constitute changes or alterations required in, or incorporated into the project, which avoid or substantially lessen the environmental effect as identified in the EIR/EIS.

FACTS SUPPORTING FINDING:

The impacts to fishermen associated with pipeline construction in State waters are expected to be small but potentially significant, relative to those associated with construction of the overall project, especially if coordinated with local fishermen. Such impacts would take the form of pre-empting fishing within and across the pipeline corridor for a limited period.

As has been the Commission's experience with other permits for projects affecting fishing in the offshore area, advance notification to local fishermen effectively minimizes conflicts with local fishing activities. The procedure established for Geologic and Geophysical permits is considered acceptable for this purpose.

Also, PAPCO has committed to conduct a post-construction survey and remove any retrievable construction-related debris from the ocean floor. This would avoid damage to fishermen's year following construction.

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II. IMPACTS OF ONGOING OPERATIONS

The potentially significant adverse impacts resulting from normal operations of the proposed project on State lands would result from an oil spill. Such a spill could originate in State waters, or occur in Federal waters and extend into State waters. In either case, State marine water, marine biological, terrestrial biological and commercial fishing and public recreational resources could be affected.

The proposed platforms and pipelines in Federal and State waters were carefully designed to prevent spills and to detect and isolate them if and when they did occur, so as to minimize damage to the environment.

Toward this end, Chevron has prepared an "Oil Spill and Emergency Contingency Plan: Pt. Arguello Area" (June 1985), hereafter referred to as "Plan" or "OSEC" Plan. It describes the organization, equipment, resources, training notification, and response procedures used to respond rapidly and effectively to oil spills and other project-related accidents and hazards.

Chevron's plan has been approved by the federal Mineral Management Service (MMS) and the United States Coast Guard (USCG), and found by the California Coastal Commission (CCC) to be consistent with California's Federal Coastal Zone Management Program.

Under MMS guidelines, such plans are reviewed and updated annually. Chevron's Plan is consistent with the State Lands Commission's regulations for Oil and Gas Drilling and Production Operations on State tide and submerged lands (2 Cal. Admin. Code, Article 3.4) and has been reviewed by the Commission's staff.

Also operative in the project area are other complementary environmental management plans. The National Oil and Hazardous Substances Pollution Contingency Plan, more commonly referred to as the National Contingency Plan (NCP) provides the framework and mechanism for Federal response to actual or potential pollution incidents, including: assignment of responsibilities among Federal agencies in coordination with State and local agencies; procedures for identifying, containing, dispersing and removing oil and hazardous substances; a procedure for coordinating scientific support of cleanup operations; assessment of damage and research efforts; and a system of surveillance and reporting to give agencies rapid notification of discharges. The NCP was published in 1979 and has been updated periodically since then.

The California State Oil Spill Contingency Plan (revised 1983), provides the organizational framework within the State for spill contingency planning and response. It assigns responsibility for coordination of State response to pollution incidents to the Director of the California Department of Fish and Game. The State Plan also requires local governments to prepare local contingency plans for oil spill response. Santa Barbara County is in the process of preparing its plan in response to this requirement and the major expansion of offshore oil and gas development occurring in the County. Lastly, the California Coastal Commission also has a "Policy Statement on Oil Spill Response Measures" (1983), which must be adhered to in obtaining its approval.

The oil and gas industry assumes primary responsibility for spill abatement response and cleanup in the project area from its facilities. It has formed Clean Seas, Inc., an oil spill cooperative comprised of member companies operating in the South Central Coast area. Clean Seas, Inc. has prepared a contingency plan designed to meet State and Federal requirements. The plan establishes an organizational framework for response to spills of a member company, provides detailed response procedures for specific sites along the coast, and has detailed lists of its own equipment as well as support equipment available through local contractors. It also serves as a training document used in conducting spill response training for operator personnel.

As it currently stands, Chevron's OSEC combines what are normally first- and second-level oil spill responses by providing a dedicated spill response/safety vessel, "Mr. Clean III", to be stationed in the vicinity of Texaco's Platform Harvest. This vessel will be on hand to warn any vessel that appears to be approaching any of the platforms in the area, to steer clear. In addition, it contains a large inventory of spill containment and cleanup equipment. This equipment includes a 45' response boom boat carrying a spill boom and an oil skimmer, in addition to that carried on "Mr. Clean III." This boat, the "Dash", capable of travelling at speeds exceeding 20 knots, can arrive at a spill site quickly, followed by the 180' "Mr. Clean III". Response time for the initial deployment of equipment in the Pt. Conception - Pt. Arguello area will range from a few minutes to one hour. Mr. Clean III, owned by the oil spill cleanup co-op, Clean Seas, Inc., is expected to be operational in April 1986. If any drilling activity begins before that time, Clean Seas' "Mr. Clean II", presently stationed at Avila Beach, will be brought into the area until "Mr. Clean III" arrives.

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The OSEC response plan for the area includes both platforms and pipelines. The dedicated vessel will respond and clean up spills to just seaward of the surf zone. Shoreline cleanup will also be coordinated by Clean Seas, Inc., as detailed in the Plan.

The addition of "Mr. Clean III" for this area was the result of MMS, USCG, and CCC requirements that a spill response vessel be capable of reaching a spill within one hour. "Mr. Clean III" meets this requirement.

For a larger spill, "Mr. Clean III" would respond first, followed by support from its sister vessels "Mr. Clean I" and "Mr. Clean II." An additional level of response, if needed, would be from the Long Beach/Los Angeles Harbor, where the co-op Clean Coastal Waters and other private contractors are stationed. Also, the U.S. Coast Guard has the Pacific Strike Team stationed at Hamilton AFB. This Team includes trained personnel and extensive heavy duty oil containment and removal equipment.

In addition to mechanical cleanup methods, there are dispersants available for use on oil spills. These chemicals break-up the oil so natural dispersion and evaporation can be enhanced, thereby removing the oil from the water surface. The use of dispersants requires the authorization of the Federal Regional Response Team (RRT) Region IX, which consists of representatives of most Federal agencies (USCG, MMS, EPA, NOAA, etc.) and the states within that region (California, Arizona, New Mexico and Hawaii). The Department of Fish and Game is the State representative on the RRT. Actual approval for dispersant use is granted by the EPA representative to the RRT through the On-Scene Coordinator (usually a representative of the USCG). In State waters, the State Department of Fish and Game must concur for use to be authorized.

Overall, the oil spill mechanical containment and recovery equipment are considered to be effective in seas up to 6- to 8-feet and winds of up to 25 knots. This equipment becomes increasing less effective as sea conditions worsen, as discussed in Addendum H of Technical Appendix O. On this basis, sea and weather conditions in the Point Arguello Field area should permit mechanical oil spill control and recovery 50 to 70 percent of the time.

State Lands Commission regulations, Cal. Admin. Code, Title 2, Article 3.3, Sect. 2132(h), sets forth "Pipeline Operations and Maintenance" requirements and procedures to ensure the safe operation and maintenance of this pipeline and provide for early detection of spills or leaks through a carefully conceived inspection program, so that they may be repaired.

A. Marine Water Resources

1. IMPACT: Surface oil slicks, tar balls, contamination of sediments and other adverse water quality changes (lowering of dissolved oxygen, solubility of potentially toxic chemicals, decrease in light transmittance) due to unlikely oil spill.

MITIGATION:

1. Containment and cleanup equipment shall be provided for deployment in accordance with Chevron's approved "Oil Spill and Emergency Contingency Plan: Point Arguello Area" (June 1985), including future amendments required to it.
2. Periodic safety audits and inspections shall be performed by the Commission in accordance with its rules and regulations in order to reduce the probability, frequency, and volume of oil spills caused by pipeline leaks or rupture.
3. Staff shall approve the proposed state-of-the-art monitoring system for the pipeline transversing State lands in order to minimize even small spills.
4. A fair and equitable insurance policy, and a claims and arbitration procedure, such as that established by the Commission for resumption of drilling approvals, shall be required to compensate for damages caused by spills and other activities of PAPCO.
5. A fair and equitable contribution by PAPCO to the mitigation fund established by the Commission as a part of its Pt. Conception - Pt. Arguello Lease Program shall be set by the Commission.

FINDING: Inspection and monitoring requirements, and the deployment of the containment and cleanup equipment which will be available in accordance with the approved "Oil Spill and Emergency Contingency Plan" for the Pt. Arguello Area, constitute changes or alterations required in, or incorporated into the project, which avoid or substantially lessen the environmental effect as identified in the EIR/EIS.

FACTS SUPPORTING FINDING:

In general, oil spills resulting from this project are expected to be infrequent. The most probable pipeline spills would be very small (a few gallons to tens of barrels) and could result from leaks, ruptures and/or other equipment failures. The more unlikely major pipeline spills (1,000 barrels or greater) would result from such events as a major pipeline rupture or major navigational accident. Such major events would result in large spills and could have some significant adverse effects, which could be only partially mitigated.

Considering the pipeline system's design, location of shut-off valves and expected shut-off response times, the maximum peak flow "worse case" spill in the event of a major pipeline rupture is estimated at 7,600 barrels of dry oil. In comparison, a 2 inch hole in the pipeline could result in up to 350 barrels being spilled prior to valve shut-off and up to 4,800 lost slowly over time if no repair is made. A minor leak would be of the order of 80 barrels. The pipeline will be equipped with a state-of-the-art Supervisory Control and Data Acquisition System (SCADA) so that such events can be detected quickly in order to minimize their environmental effects. The results of statistical analyses of oil spill events resulting from project operations are presented in Section 5.11 of the EIR/S.

Expected adverse water quality effects of spills include generation of turbidity, Biological Oxygen Demand (BOD) and Chemical Oxygen Demand (COD), release of toxic hydrocarbons to the water, reduced light penetration and oxygen reaeration rates and, where the spill reaches nearshore areas, contamination of sediments. The significance of a spill and, therefore, the nature and extent of its impact, will depend on its size and fate, but any spill over 1,000 barrels is likely to cause some locally to regionally significant impacts which may not be mitigable to insignificance. As discussed on pages 7-9, an OSEC Plan has been prepared by Chevron and approved by the appropriate governmental agencies.

In approving its amended Pt. Conception to Pt. Arguello Lease Program, the Commission stipulated that a mitigation fund be established and contributed to by all lessees of the area, for the purpose of studying and better mitigating the effects of subsequent oil exploration and development in the lease area. PAPCO is such a lessee and should be required to contribute fairly and equitably to that fund.

The diligent enforcement of State and Federal design, construction and operating regulations PAPCO's contribution to the Pt. Conception mitigation fund and the expeditious deployment of spill containment and cleanup equipment as outlined in the OSEC Plan, will ensure that spills are prevented to the maximum extent possible and that environmental damage is minimized in the event a spill occurs.

B. Marine Biology

1. IMPACT: Mortality and disturbance of seabirds and/or marine mammals due to unlikely major oil spill and cleanup activities.

MITIGATION:

Same as Marine Water Resources, page 10.

FINDING: The requirement for inspection, monitoring and deployment of containment and cleanup equipment which will be available in accordance with the approved "Oil Spill and Emergency Contingency Plan: Pt. Arguello Area", constitutes changes or alterations required in, or incorporated into the project, which avoid or substantially lessen the environmental effect as identified in the EIR/EIS.

FACTS SUPPORTING FINDING:

Spills from the proposed offshore pipelines are projected to be generally smaller and less likely than platform spills. Most pipeline spills would result from minor leaks and are expected to range from a few gallons to several tens of barrels.

The results of the oil spill modeling analysis in Appendix O of the EIR/EIS indicate that spills originating at the proposed offshore platforms locations are generally more likely to move out to sea than to reach land. However, the locations at which project-related spills are most likely to reach land (up to about 5%) are of recognized special importance to marine biota. These are: San Miguel and Santa Rosa Islands and/or the mainland coast between Point Arguello and Cojo Bay. The probability of reaching other locations is generally unlikely.

Because of their extraordinary sensitivity to oil spill impacts and likely presence in areas affected by a spill, seabirds may incur the most severe impacts, including mortality

due to oiling, with the extent depending on spill size and location (See Appendix I, Section 5.5.2).

Fur-bearing marine mammals, including the Federally threatened/State protected Southern sea otter, Federal candidate/State-rare Guadalupe fur seal and Federal candidate Northern fur seal, are less abundant and therefore less likely to encounter the spilled oil. Because of their lack of oil slick avoidance behavior, there is high likelihood that they will experience high mortality following oiling of their pelts (See Appendix I).

Rocky intertidal areas characterize the more likely landfall locations. In the event of a major spill, they could be expected to experience significant mortality due to smothering by oil and the extent of mechanical cleanup required. In the rocky areas, wave action will break up the oil and cleanse them naturally over time.

The Pt. Conception mitigation fund is intended to help develop better ways to minimize oil spill impacts on seabirds, mammals, and other marine organisms.

An OSEC Plan described on pages 7-9 has been prepared by Chevron and approved by all the appropriate governmental agencies.

The diligent enforcement of State and Federal design, construction and operating regulations and the expeditious deployment of spill containment and cleanup equipment, will ensure that spills are prevented to the maximum extent possible and that environmental damage is minimized in the event a spill occurs.

2. IMPACT: Damage to subtidal ecology due to unlikely major oil spill.

MITIGATION:

Same as Marine Water Resources, page 10.

FINDING: The requirement for inspection, monitoring and deployment of containment and cleanup equipment which will be available in accordance with the approved "Oil Spill and Emergency Contingency Plan: Pt. Arguello Area", constitutes changes or alterations required in, or incorporated into the project, which avoid or substantially lessen the environmental effect as identified in the EIR/EIS.

FACTS SUPPORTING FINDING:

In addition to the facts presented in support of the Marine Water Resources findings, it should be noted that it is uncommon for more than 10% of the oil from a major spill to be mechanically recovered, and it is known that persistent effects in some areas, such as soft sediments in shallow protected waters, can be found even after 10 years. Because of the large areas potentially affected, the magnitude of the changes in water column and sediment chemistry, and the potentially long recovery time for sensitive marine areas, major spills are considered to have a significant adverse environmental effect.

The Pt. Conception mitigation fund intended to help develop better ways to minimize oil spill impacts on the subtidal ecology of the project area.

An OSEC Plan described on pages 7-9 has been prepared by Chevron and approved by all the appropriate governmental agencies.

The diligent enforcement of State and Federal design, construction and operating regulations, the proposed Pt. Conception mitigation fund and the expeditious deployment of spill containment and cleanup equipment, will ensure that spills are prevented to the maximum extent possible and that environmental damage is minimized in the event a spill occurs.

C. Terrestrial Biology

1. IMPACT: Offshore platform or pipeline oil spill reaches sensitive shoreline areas, especially coastal wetlands, including sensitive habitats and listed species.

MITIGATION:

Same as for Marine Water Resources, page 10.

FINDING: The requirement for inspection, monitoring and deployment of containment and cleanup equipment which will be available in accordance with the approved "Oil Spill and Emergency Contingency Plan: Pt. Arguello Area", constitutes changes or alterations required in, or incorporated into the project, which avoid or substantially lessen the environmental effect as identified in the EIR/EIS.

FACTS SUPPORTING FINDING:

As described in Section 5.11 of the EIR/EIS, the probability that oil from an offshore oil spill from the platforms would reach wetland habitats along the mainland coast is low, primarily because of the area's ocean currents and wind patterns. Also, offshore distances would allow time for substantial containment and preparation for cleanup. The conditional probability of a pipeline spill originating onshore is higher. Jalama Beach and Creek are the most likely sensitive shoreline areas to be affected by a pipeline spill between Platform Hermosa and shore. Jalama Creek is an important regional anadromous stream where Steelhead Trout are found.

Section 500 and Appendix A of the "Oil Spill and Emergency Contingency Plan" delineates the sensitive shoreline areas and outlines the procedures and equipment to be deployed to protect them in the event of minor and major spills, included needed manpower resources and estimated response times.

The diligent enforcement of State and Federal design construction and operating regulations and the deployment of spill containment and cleanup equipment, will ensure that spills are prevented to the maximum extent possible and that environmental damage is minimized in the event a spill occurs.

D. Commercial Fishing.

1. IMPACT: Pre-emption of harvest of productive commercial fishing areas by unlikely major oil spill.

MITIGATION:

Same as Marine Water Resources, page 10.

FINDING: The requirements for inspection, monitoring and deployment of containment and cleanup equipment to commercial fishing areas in accordance with the approved "Oil Spill and Emergency Contingency Plan: Pt. Arguello Area", constitutes changes or alterations required in, or incorporated into the project, which avoid or substantially lessen the environmental effect as identified in the EIR/EIS.

FACTS SUPPORTING FINDING:

As further described in the facts supporting the Marine Water Resources and Marine Biology findings, regionally significant impacts can accompany major project-related offshore spills of 1,000 barrels or more, which have an overall probability of occurrence of about five percent over the project life. (See Appendix O)

Smaller spills can also significantly impact commercial fishing in the project area, depending on their point of origin in relation to fishing areas and oceanographic and meteorological conditions, physically pre-empting as many as 100 or more square miles from fishing for one to several months. The catch of a substantial number of fishermen may be significantly reduced during that period because they would be precluded from using productive tow or set gear fishing for rockfish. To minimize these effects, the OSEC Plan for the Pt. Arguello Area described on pages 7-9 has been prepared by Chevron and approved by all of the appropriate agencies.

The diligent enforcement of State and Federal design, construction and operating regulations and the expeditious deployment of spill containment and cleanup equipment as outlined in the OSEC will ensure that spills are prevented to the maximum extent possible and that environmental damage is minimized in the event a spill occurs.

E. Recreation

1. IMPACT: Oil spill reaches public beaches.

MITIGATION:

Same as Marine Water Resources, page 10.

FINDING: The requirements for inspection, monitoring and deployment of containment and cleanup equipment to pre-mapped shoreline public recreation areas in accordance with the approved "Oil Spill and Emergency Contingency Plan: Pt. Arguello Area", constitute changes or alterations required in, or incorporated into the project, which avoid or substantially lessen the environmental effect as identified in the EIR/EIS.

FACTS SUPPORTING FINDING:

In addition to the facts supporting the Marine Water Resources findings and the discussion of the OSEC Plan for the

project area (pages 7-9), it should be noted that as indicated in Table 5.10.1, most of the actively used beaches, in the Santa Barbara Channel and north of the Santa Ynez River mouth, are very unlikely to be impacted in any given year, or even over the expected lifetime of the proposed project. The most likely location for spill landfall is San Miguel Island/Castle Rock, with an estimated overall probability of 7.2 per thousand years. Other beaches which could be impacted are Government Point/Cojo Bay and Jalama Beach.

The diligent enforcement of State and Federal design, construction and operating regulations and the expeditious deployment of spill containment and cleanup equipment as outlined in the OSEC will ensure that spills are prevented to the maximum extent possible and that environmental damage is minimized in the event a spill occurs.

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III. CUMULATIVE IMPACTS

The proposed pipeline from Platform Hermosa to the landfall north of Pt. Conception is designed to accommodate the anticipated production from the full development of the "Area Study" area as outlined. Therefore, no direct significant adverse construction-related impacts on State lands from the anticipated 8-platform production are expected.

The potentially significant cumulative impacts of development on State lands in the project area are expected to be those associated with additional development and production on the adjacent Federal OCS in the Pt. Arguello Field and Central Santa Maria Basin, and on State lands from Pt. Sal to the western reaches of the Santa Barbara Channel.

Such impacts could take the form of oil spills entering the project area from the north or south, or the drain on oil spill containment and cleanup resources in the event of simultaneous spills occurring north of Pt. Arguello or in the West Santa Barbara Channel.

While the EIR/EIS estimated most of the cumulative effects to be similar to, but 2-3 times more likely and potentially more severe than those associated with the project, such impacts are hard to quantify given the lack of information about future offshore activity.

What can be said at this time is that spills from proposed development in the Central Santa Maria Basin would most likely spread directly shoreward rather than southward (Union Oil Project/Exxon Project Shamrock and Central Santa Maria Basin Area Study EIS/EIR), resulting in a relatively small impact on the project area. It is expected that Mr. Clean III will be capable of responding to such an accident before it reaches too deeply into the South Santa Maria Basin.

The Pt. Arguello Natural Gas Line Company (PANGL) is proposing to construct a gas pipeline in parallel with, and in the same right-of-way as PAPCO. The cumulative impacts of the combined oil and gas development are discussed in the adjunct PANGL Calendar Item, see pages ___ to ___ of Calendar Item No. ___, and are hereby adopted herein by reference.

It should also be noted that all additional platforms and associated pipelines to be proposed in and around the Area Study area and/or on adjacent State tidelands, will be subject to appropriate CEQA or Federal Consistency analysis, including

specific mitigations, such as updating the Oil Spill and Emergency Contingency Plans for each proposed increment of development.

A. Marine Water Resources

IMPACT: Impacts are similar to those from project, but more likely and of potentially greater magnitude.

MITIGATION:

1. Same as Marine Water Resources, page 10.
2. Review and update of the OSEC Plan with each increment of proposed future development to provide acceptable response capability.

FINDING: Changes or alterations have been or will be required in, or incorporated into, this and other projects which avoid or substantially lessen the significant environmental effect as identified in the lease EIR/EIS.

FACTS SUPPORTING FINDINGS:

See introductory Cumulative Impacts discussion page 18.

B. Marine Biology

1. IMPACT: Same as for project-related Marine Biology, but 2-3 times greater and more likely.

MITIGATION: Same as Marine Water Resources (Cumulative)

FINDING: Changes or alterations have been or will be required in, or incorporated into, this and other projects which avoid or substantially lessen the significant environmental effect as identified in the lease EIR/EIS.

FACTS SUPPORTING FINDINGS:

See introductory Cumulative Impacts discussion page 18.

C. Recreation

IMPACT: Same, but possibly 2-3 times greater in likelihood, and magnitude than for the project due to increased production.

MITIGATION: Same as Marine Water Resources (Cumulative)

FINDING: Changes or alterations have been or will be required in, or incorporated into, this and other projects which avoid or substantially lessen the significant environmental effect as identified in the lease EIR/EIS.

FACTS SUPPORTING FINDINGS:

See introductory Cumulative Impacts discussion page 18.

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EXHIBIT D

The following items are the special operating and mitigation requirements required by the Commission as part of the Point Conception lease program. In acting on the Lease Program the Commission intended them to apply to all uses of the state owned tide and submerged lands related to oil and gas development.

1. **LEASE AREA MAPPING AND MANDATORY BIOLOGICAL SURVEYS**

(a) The State has adopted a map which indicates areas where oil and gas exploratory wells, 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 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

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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 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.

2. 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 State 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 7 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.

3. 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.

4. **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.

5. **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.

6. **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.

7. **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.

8. 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.

ATTACHMENT 1

ENVIRONMENTAL MITIGATIONS

Platform Hermosa:	\$ 5,000,000.00
o Vapor Recovery Equipment	
o Sulfur Reduction Equipment	
o Water Effluent Monitoring and Treatment Equipment	
o NOx Reduction Equipment	
Platform Hidalgo:	5,000,000.00
o Same as for Platform Hermosa	
Platform Harvest:	5,000,000.00
o Assumes Texaco is installing similar equipment	
Pipeline Geohazards/Geophysical Surveys	200,000.00
o Pre-construction	100,000.00
o Post-construction	
Pipeline Leak Detection System	2,000,000.00
Oil Spill Dispersant Study	100,000.00
Point Arguello Area Oil Spill Contingency Plan	14,000.00
Clean Seas Oil Spill Co-op (annual cost of \$818,479.00 x 30 years)	24,554,370.00
Pipeline Route Marine Bio-Surveys	
o State Waters	50,000.00
o In-shed	4,000.00
Fisheries Enhancement Fund (County FDP Condition M-10)	65,000.00
Fishermen's Contingency Fund (County FDP Condition M-3)	N/A*
TOTAL	\$ 42,554,370.00

* Assessment formula currently being developed by Santa Barbara County.

EXHIBIT E

AGREEMENT FOR ESTABLISHMENT OF COVENANTS,

GRANT OF EASEMENTS AND OTHER RIGHTS.

THIS AGREEMENT FOR ESTABLISHMENT OF COVENANTS, GRANT OF EASEMENTS AND OTHER RIGHTS is entered into this _____ day of _____, 1986, by and among the STATE OF CALIFORNIA, acting by and through the STATE LANDS COMMISSION, (hereinafter referred to as the "State"), POINT ARGUELLO PIPELINE COMPANY, a California general partnership (hereinafter referred to as "PAPCO"), and CHEVRON USA, INC., a California corporation (hereinafter referred to as "Chevron").

P R E L I M I N A R Y:

A. The State is the owner of certain submerged real property lying between the mean high tide mark on the shore of the California coast and an unmarked boundary line three (3) miles seaward from the shore.

B. PAPCO is the owner of a certain oil pipeline (the "Pipeline") that is or will be constructed from the Platform Hermosa in the Pacific Ocean to a location commonly known as Gaviota in Santa Barbara County, California. PAPCO and the State are parties to that certain lease dated _____, 1986 (the "Lease"), affecting certain submerged real property over which the Pipeline does or will pass, which submerged real property is described in Exhibit A, attached hereto and incorporated herein by reference, and which submerged real property is hereinafter referred to as the "Leased Property."

C. Chevron is the owner of certain real property commonly known as the "Gerber Fee" (hereinafter sometimes referred to as the "GERBER FEE") which adjoins the Leased Property and over which PAPCO intends to construct the Pipeline. Said real property is commonly referred to as the

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"Gerber Fee" and is described in Exhibit B, attached hereto and incorporated herein by reference. PAPCO intends that the Pipeline shall run from Platform Hermosa across the property described in Exhibit B hereto to the Gaviota dehydration facility (hereinafter referred to as the "Processing Plant"), which Processing Plant is located on the real property described in Exhibit C, attached hereto and incorporated herein by reference. The Processing Plant is owned by PAPCO. Adjacent to the Processing Plant and along the proposed path of the Pipeline, and also adjacent to the Processing Plant and not along the proposed path of the pipeline is certain real property owned by Chevron, which real property is described in Exhibit D, attached hereto and incorporated herein by reference. Lying between the real property described in Exhibits B and D hereto are certain parcels of real property (the "Private Property") which are owned by persons who are not parties to this agreement. PAPCO, through condemnation, purchase or otherwise, has or will obtain a right-of-way for the Pipeline and any necessary appurtenances thereto across the Private Property. For purposes of convenience, the parcels of real property described in Exhibits B and D hereto are hereinafter collectively referred to as the "Chevron Property."

D. The State and Chevron acknowledge that Chevron is negotiating a sale, gift or other transfer of the Gerber Fee property. Pursuant to condition E of the Lease, no recordation of the Lease or this document against the Gerber Fee property is required if such sale, gift or other transfer occurs within ninety (90) days after the execution of the lease by all parties.

E. In consideration for the grant of the Lease PAPCO and Chevron desire to grant to the State, the State's oil and gas lessees, or purchasers from either of them the right to access the Pipeline, the right to pass oil ("oil" includes oil mixed with water or entrained gas) through the Pipeline, and the right to have oil processed and stored at

the Processing Plant, and the parties also desire to agree as to other matters as hereinafter set forth.

NOW, THEREFORE, in consideration of the foregoing and of the mutual agreement of the parties hereto to the terms and conditions hereinafter contained the parties agree as follows:

1. PAPCO hereby acknowledges and agrees that the Pipeline and the Processing Plant shall be constructed, operated and maintained as common carrier facilities and that PAPCO shall accept from non-owners of the Pipeline tenders for the transportation and processing of oil on reasonable terms and conditions and at just and reasonable rates, which terms, conditions or rates shall be published and no less favorable than those applied to shipments by owners of the Pipeline, and there shall be no requirement that the tendered oil be sold, exchanged or otherwise transferred to PAPCO or to any person or entity owning an interest in PAPCO. In the event PAPCO constructs, operates and maintains any additional oil pipelines running from the Pipeline landfall site to the Processing Plant or to other oil processing facilities, PAPCO will accept from non-owners of such additional pipelines tenders for the transportation of oil on reasonable terms and conditions and at just and reasonable rates, which terms, conditions or rates are published and are no less favorable than those applied to shipments by the owners of such additional oil pipelines, and there shall be no requirement that the tendered oil be sold, exchanged or otherwise transferred to PAPCO or to any person or entity owning an interest in PAPCO.

2. PAPCO does hereby establish in favor of and grant to the State for the benefit of the State's offshore oil and gas lessees, contractors and oil purchasers from any of them a nonexclusive easement to move their oil through the Pipeline to the Processing Plant based on the terms, conditions and rates denoted hereinabove in Paragraph 1.

PAPCO, at PAPCO's initial expense and when requested by the State, shall provide to the State, the State's offshore oil and gas lessees, contractors and/or oil purchasers from any of them facilities necessary for access to the Pipeline on Chevron's GERBER FEE property and on Chevron's Property at or near the Processing Plant. These facilities shall be sized to utilize the full capacity of the incoming pipelines. The additional onshore access facilities shall be provided solely in accordance with the PAPCO access facility policy filed with the State Lands Commission and at such locations as identified by the State Lands Commission, or by the State's offshore oil and gas lessees, contractors and/or oil purchasers from any of them.

3. Pursuant to that certain (name of document granting easements to PAPCO) dated _____, 198____, and recorded in the Official Records of Santa Barbara County as Instrument No. _____, in Book _____, at Page _____, Chevron granted to PAPCO certain easements to place the Pipeline and appurtenances thereto on the Chevron Property. Chevron does hereby establish in favor of and grant to the State for the benefit of the State's offshore oil and gas lessees, contractors and/or oil purchasers from any of them a nonexclusive easement to move their oil across Chevron's Property through the Pipeline. Also, Chevron does hereby establish in favor of and grant to PAPCO, the State, the State's oil and gas lessees, and purchasers from the State or the State's oil and gas lessees an easement to construct and locate the access facilities referred to in Paragraph 2 above (the "Access Facilities") on the Chevron Property in such areas as meet with Chevron's approval, which approval shall not be unreasonably withheld. Finally, Chevron does hereby establish in favor of and grant to the State for the benefit of the State's offshore oil and gas lessees, contractors and/or oil purchasers from any of them, the right to enter the Chevron Property following reasonable prior notice to inspect, maintain, or repair the Pipeline and/or

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Access Facilities.

4. Chevron hereby acknowledges that, in order to access the Pipeline, the State, the State's offshore oil and gas lessees, contractors or purchasers from any of them will need to construct access pipelines across the Chevron Property to the Access Facilities. Chevron does hereby establish in favor of and grant to the State, for the benefit of the State and its offshore oil and gas lessees, contractors and oil purchasers from any of them an easement to construct and locate such access pipelines on the Chevron Property in such areas as meet with Chevron's approval, which approval shall not be unreasonably withheld. Also, Chevron does hereby establish in favor of and grant to the State, for the benefit of the State and its offshore oil and gas lessees, contractors or oil purchasers from any of them the right to enter the Chevron Property following reasonable prior notice to inspect, maintain, or repair such access pipelines. Such easements for the access pipelines shall be granted in exchange for the compensation determined pursuant to Paragraph 6 hereof.

5. Chevron hereby acknowledges that the State, the State offshore oil and gas lessees, contractors or oil purchasers from any of them may need to obtain the grant of additional easements for other pipelines, electric power cables, and electrical power generators or substations on or across the Chevron Land in conjunction with the development of adjacent State lands. Chevron hereby agrees to cooperate in locating and granting such easements, to the extent Chevron has such right, either directly or through its subsidiary corporations and agrees that such easements shall be granted in exchange for the compensation determined pursuant to Paragraph 6 hereof.

6. In the event that the State, the State's oil and gas lessees, contractors and/or oil purchasers from any of them shall require an easement as described in Paragraphs 4 and 5 hereof, the purchase price for such easement (the "Price") shall be the Price agreed to by the State (or the

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State's oil and gas lessees, or purchasers from either of them) and Chevron. In the event that the State (or the State's oil and gas lessee, or purchasers from either of them) and Chevron cannot agree upon the Price within forty-five (45) days after Chevron's receipt of a request for the granting of such easement, each party shall supply to the other within fifteen (15) days after the expiration of said forty-five (45) day period the name and address of one (1) person to act as appraiser; provided, however, that if either party fails to designate an appraiser within the time herein specified, then the appraiser who is designated shall conclusively determine the Price. If two (2) appraisers are designated they shall jointly submit within twenty (20) days after the second thereof has been designated their appraisal of the Price. The State and Chevron intend that the Price shall equal the fair market value of the easement area based on industrial pipeline use of such area and not highest and best use, as determined in a competitive and open market under all conditions requisite to a fair sale, each party acting prudently and knowledgeably and assuming the Price is not affected by undue stimulus. Should the two (2) appraisers be unable to agree within said twenty (20) days, the two (2) appraisers shall each submit independent written appraisal and together they shall designate one (1) additional person as appraiser within ten (10) days following the expiration of said twenty (20) day period. Should the two (2) appraisers be unable to agree upon a third appraiser within said time, then within ten (10) days thereafter said appraisers shall request the American Arbitration Association to appoint the third appraiser within twenty (20) days following such request. The third appraiser shall submit an independent written appraisal within twenty (20) days following his or her appointment. The two (2) appraisals of the Price of the easement area which are nearer in amount shall be retained, and the third appraisal shall be discarded. The Price shall be conclusively determined upon the basis of the average valuation of the two (2) remaining

appraisals. Each party shall bear the cost of the appraiser appointed by it and the State (or the State's oil and gas lessee, or purchasers from either of them) and Chevron shall share equally in the cost of the third appraiser. The persons designated as appraisers shall be selected from a list of members of the American Institute of Real Estate Appraisers and shall have been actively engaged for at least ten (10) years in real estate practice.

7. The State, PAPCO, and Chevron acknowledge that the easements referred to herein are blanket easements in nature, and the parties agree that, at the earliest point in time as is reasonable possible, the parties shall seek to locate such easements and amend or modify this document as is appropriate. Chevron and PAPCO shall execute documents necessary to show their intent to transfer the property interests identified herein if such evidence is necessary to complete applications for permits and approvals.

8. PAPCO hereby covenants and agrees that the State, the State's oil and gas lessees, contractors and/or oil purchasers from any of them shall have the right to have their oil processed and stored at the Processing Plant, at just and reasonable rates, terms and conditions for treatment or storage which are no less favorable than those accorded shipments by persons or entities owning an interest in PAPCO, and without requirement of sale to PAPCO or any person or entity owning an interest therein; provided, however, that the State, the State's offshore oil and gas lessee, contractors and/or oil purchasers from any of them may elect to have such oil delivered to another pipeline at their expense for transportation to another dehydration or storage facility as designated by it.

9. Each easement, restriction and covenant contained herein shall be appurtenant to and for the benefit of all portions of the State lands lying between the mean high tide mark and the three-mile limit and located between the San Luis Obispo County line to the north and the Santa Barbara

County line to the south and shall run with the land.

10. Each easement, restriction and covenant contained herein shall be a burden upon the real property described in Exhibit C hereto, the Chevron Property, and any interest therein held by PAPCO and shall run with the land. In the event that PAPCO, Chevron or any corporation owning, owned by, or under common ownership with Chevron shall acquire any interest in the Private Property through condemnation, purchase or otherwise, the parties hereto agree to amend this Agreement so that the Private Property shall be similarly burdened. No recordation of this document against the title to the Private Property shall be required.

11. The easements herein granted and covenants herein made shall continue in perpetuity; provided, however, that in the event the Lease is terminated with no replacement lease entered into, then this agreement shall be of no further force and effect and the parties shall execute and record a termination of this agreement.

12. If any clause sentence or other portion of this agreement shall become illegal, null or void for any reason, or shall be held by any court of competent jurisdiction to be so, the remaining portions thereof shall remain in full force and effect.

13. All conveyances of all or any interest in the real property described in Exhibit C hereto, the Chevron Property, or the Pipeline subsequent to the date hereof shall recite that they are subject and subordinate to the terms and provisions hereof.

14. This Agreement for Establishment of Covenants, Grant of Easements and Other Rights shall inure to the benefit of and be binding upon the parties hereto, their successors, transferees and assigns.

IN WITNESS WHEREOF, the parties hereto have executed this Establishment of Covenants, Grants of Easements, and Processing and Storage Agreement as of the day and year first

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hereinabove set forth.

STATE OF CALIFORNIA,
By State Lands Commission

By _____

Title _____

POINT ARGUELLO PIPELINE COMPANY,
a California general partnership

By _____

Title _____

By _____

Title _____
CHEVRON USA, INC.,
a California corporation

By _____

Title _____

By _____

Title _____

(To be Notarially Acknowledged)

Exhibit "A" to be provided at the time of execution.

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Exhibit B to be provided at the time of execution.

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Exhibit"C" to be provided at the time of execution.

Exhibit "D" to be provided at the time of execution.