

MINUTE ITEM

This Calendar Item No. C53 was approved as
Minute Item No. 53 by the California State Lands
Commission by a vote of 3 to 0 at its
06/28/07 meeting.

**CALENDAR ITEM
C53**

A Statewide 06/28/07
Bid Log 2007-01
WP40807; WP421
S M. Voskanian, A. Abeleda, D. Brown,

**REQUEST AUTHORITY FOR EXECUTIVE OFFICER TO SOLICIT PROPOSALS
FOR ENGINEERING SERVICES, NEGOTIATE FAIR AND REASONABLE PRICE,
AWARD AND EXECUTE AGREEMENTS FOR EVALUATION OF GEOLOGIC AND
RESERVOIR FORMATIONS UNDER STATE TIDELANDS LOCATED OFFSHORE
CALIFORNIA**

PARTY:

California State Lands Commission
100 Howe Avenue, Suite 100 South
Sacramento, CA 95825-8202

BACKGROUND:

A. Pending Lease Applications

Staff has received applications for a new offshore oil and gas lease in a previously unleased area of state waters in Santa Barbara County off Vandenberg Air Force Base. The Commission may only consider such a request pursuant to the California Coastal Sanctuary Act of 1994, under Public Resources Code §6244, if the Commission determines that the State's resources are being drained by means of producing wells upon adjacent federal lands, and that the lease is in the best interests of the State. At present, staff has insufficient information and knowledge of the areas under consideration for leasing to make a reasonably well founded recommendation to the Commission as to the mechanism and magnitude of drainage, if any, by the adjacent federal oil and gas operations. An independent third party consultant is needed to determine: (1) if drainage is occurring due to the adjacent federal lease oil and gas operations; (2) the mechanism for such drainage, if occurring; (3) the potential oil and gas reserves of the reservoir in State waters which is being, or could be, drained, as well as the split between State and federal reserves; (4) develop an estimated production forecast; (5) using the production forecast develop an independent economic model to generate cash flow for different oil price and royalty scenarios, and (6) assist staff in determining royalty terms for the best interest to the State.

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B. PRC 421

Venoco, Inc. (Venoco) has submitted an application to the Commission seeking approval to return oil and gas lease PRC 421 to production. Production from the lease was shut in 1994 following a pipeline leak resulting in the release of approximately 170 barrels of oil underneath the 12th green at the Sandpiper Golf Course, near the coastal bluffs. In 2001, leaks were discovered in both PRC 421 wellheads. In repairing those wellheads, Venoco determined that the reservoir had become re-pressurized. This led to Staff concern about the potential for leakage from abandoned offshore wells, so the cause of the re-pressurization was investigated. There are two possibilities. One potential cause is the effect of the disposal of water produced from Venoco's nearby Platform Holly. That injection was occurring into the same geologic formation as the PRC 421 reservoir, but from an onshore location that was thought to be separated from the 421 reservoir by an impermeable fault. The second possibility was the natural influx of the aquifer associated with the reservoir. A pressure test involving the Holly injection well was performed in an attempt to confirm the sealing nature of the fault. The test was inconclusive. Although most reservoir engineering evidence suggests that aquifer influx is what caused the oil reservoir to re-pressurize, Staff believes that further pressure testing is necessary to confirm the source of the re-pressurization and the maximum possible reservoir pressure that could result. Staff is seeking to engage the services of a reservoir engineer to consult with Staff and assist in preparing a recommendation to the Commission as to the need for further reservoir testing, and if such further testing is approved by the Commission in the future, to design test procedures and methodologies under which the testing would occur. Further testing may require over 6 months of producing a well, resulting in an estimated production of 18,000 barrels of oil. The ultimate goal is to prevent pollution from offshore wells abandoned many years ago and to ensure the safety of proposed resumption of production operations on Lease PRC 421.

PROPOSED ACTIVITY:

Staff requests authority to enter into a contract with an independent engineering firm to review and analyze the best current information pertaining to these and other areas in question.

The firm selected will work directly for the Staff, and shall enter into confidential relationships with the applicants and others to acquire the necessary information and documents upon which to base their findings. The study will be funded solely by the applicants through reimbursable agreements with the State.

Consultant selection shall be conducted consistent with procedures as specified in CSLC Regulations and in the State Contracting Manual on the basis of demonstrated competence and qualifications for the types of services to be

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performed and at a fair and reasonable price. All costs shall be recovered from project applicant.

OTHER PERTINENT INFORMATION:

1. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines [Title 14, California Code of Regulations, section 15060(c)(3)], the staff has determined that this activity is not subject to the provisions of the CEQA because it is not a "project" as defined by the CEQA and the State CEQA Guidelines.

Authority: Public Resources Code section 21065 and Title 14, California Code of Regulations, sections 15060 (c)(3) and 15378.

2. Approval of this item by the Commission does not constitute approval of the proposed lease, nor does it authorize further pressure testing of the 421 wells at this time; it only authorizes consultant contracts for engineering services.

STATUTORY AND OTHER REFERENCES:

- A. Public Resources Code Section 6106 (Delegation to execute written instruments)
- B. State Contracts Manual Section 11.00 (A & E method)
- C. Public Contract Code Section 6106
- D. Government Code Section 4526
- E. California Administrative Code Title 2 Article 13 Section 2980.0 - 2990.0

IT IS RECOMMENDED THAT THE COMMISSION:

1. FIND THAT THESE ACTIVITIES ARE EXEMPT FROM THE REQUIREMENTS OF CEQA PURSUANT TO 14 CAL CODE REGS. 15060(c)(3) BECAUSE THESE ACTIVITIES ARE NOT PROJECTS AS DEFINED BY PUBLIC RESOURCES CODE SECTION 21065 AND 14 CAL CODE REGS. 15378.
2. FIND THAT THE SELECTION OF CONSULTANTS UNDER THIS PROCESS DOES NOT AFFECT SMALL BUSINESSES AS DEFINED IN GOVERNMENT CODE SECTION 11342, SUB. (H), BECAUSE THEY WILL BE ACCORDED EQUAL OPPORTUNITY TO SUBMIT STATEMENTS OF QUALIFICATIONS AND PERFORMANCE DATA.
3. FIND THAT THE SELECTION OF CONSULTANTS UNDER THIS PROCESS FOR PROFESSIONAL SERVICES OF ARCHITECTURAL, LANDSCAPE ARCHITECTURAL, ENGINEERING, ENVIRONMENTAL, LAND SURVEYING OR CONSTRUCTION PROJECT MANAGEMENT SERVICES WILL BE CONSISTENT WITH PROCEDURES AND

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POLICIES ADOPTED BY THE COMMISSION AS SPECIFIED IN GOVERNMENT CODE SECTION 4526 AND TITLE 2, CALIFORNIA CODE OF REGULATIONS 2980 –2980.9.

4. AUTHORIZE THE EXECUTIVE OFFICER OR HIS DESIGNEE TO SOLICIT PROPOSALS, NEGOTIATE FAIR AND REASONABLE PRICE, AWARD AND EXECUTE CONTRACTS FOR RESERVOIR ENGINEERING SERVICES IN ACCORDANCE WITH STATE POLICIES AND PROCEDURES NOT TO EXCEED \$400,000.
5. AUTHORIZE THE EXECUTIVE OFFICER OR HIS DESIGNEE TO ENTER INTO AGREEMENTS WITH PROJECT APPLICANTS TO RECOVER COSTS INCURRED IN THE CONSIDERATION OF THESE PROJECTS.

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