

**CALENDAR ITEM
C22**

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06/01/09
PRC 3414.1
J. Brown
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**CONSIDER ADOPTION OF A MITIGATED NEGATIVE DECLARATION, A
MITIGATION MONITORING PROGRAM, AN AMENDMENT OF LEASE
PRC 3414 AND A LEASE TERMINATION AGREEMENT**

LESSEE:

Coscol Petroleum Corporation
(formerly Pacific Refining Company)
2 N. Nevada #468
Colorado Springs, CO 80903

AREA, LAND TYPE, AND LOCATION:

20.30 acres, more or less, of sovereign lands in San Pablo Bay, city of Hercules,
Contra Costa County.

AUTHORIZED USE:

Operation and maintenance of a marine terminal, a vapor recovery system, and
appurtenant pipelines for the transfer of crude oil and petroleum products
between tanker vessels and barges and Lessee's upland facility.

LEASE TERM:

Ten years, beginning November 18, 2000, ending November 17, 2010.

CONSIDERATION:

\$70,195 per year, with the State reserving the right to fix a different rent
periodically during the lease term, as provided in the lease.

PROPOSED LEASE AMENDMENT:

Amend Section 1, Basic Provisions, to require the following:

1. Insurance: Liability insurance coverage of no less than \$2,000,000
2. A Non-Cancelable Performance Bond: \$5,000,000

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3. Parent Guarantee substantially in the form on file in the Sacramento Office of the Commission.

TERMINATION AGREEMENT PROVISIONS:

1. Coscol will pay annual rent of \$70,195 until Commission staff determines, and notifies Coscol, that the marine terminal improvements have been removed and/or abandoned to Commission staff's satisfaction and as outlined in the Mitigated Negative Declaration and upon acceptance by the Commission of a lease quitclaim deed.
2. Coscol will perform and comply with all terms and conditions contained in the Mitigation Monitoring Program, attached as Exhibit "C".
3. Coscol will, at no cost to the Commission, respond in a reasonable and timely manner and remove all or any portion of the improvements abandoned in place, if the abandoned improvements are ever determined by the Commission to create a potential hazard, nuisance or otherwise be adverse to the public interest.
4. Coscol will provide a Site Clearance Post Abandonment Survey and a Pipeline Survey every two years beginning January 2012, to confirm that any abandoned marine terminal improvements remain buried.

BACKGROUND INFORMATION:

On November 18, 1965, the Commission authorized the issuance of a General Lease – Industrial Use to Sequoia Refining Corporation for a term of 15 years, with the right to renew the lease agreement for three successive periods of ten years each, for the construction and use of a pier and other improvements associated with a marine oil terminal (MOT) facility.

On June 24, 1976, the Commission authorized the first Lease Amendment and Consent to Assignment of Lease PRC 3414.1, from Gulf Oil Corporation to Pacific Refining Company. Subsequently, on June 27, 1979, the Commission authorized the second Lease Amendment to include lease provisions regarding marine petroleum transfer facilities on State sovereign lands. The Commission then authorized the renewal and a third amendment to the lease on November 9, 1993, to require installation of a vapor recovery system.

The upland refinery was built in 1966 and operated for 31 years until operations were ceased in 1997. The land-based portion of the refinery was decommissioned, dismantled, remediated, and sold to New Pacific Properties in 1997. New Pacific Properties redeveloped the upland refinery site for housing, a school, commercial use, and open space. The

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MOT and submerged pipelines in San Pablo Bay were decommissioned and have been in caretaker status since 1997. In April, 2008, Pacific Refining Company, now known as Coscol Petroleum Corporation, submitted an application to decommission and partially abandon the marine facilities within the lease premises.

PROPOSED DECONSTRUCTION AND PIPELINE ABANDONMENT:

The MOT will be deconstructed using a Commission staff approved, project-specific, Marine Safety Plan. Key MOT deconstruction work activities would include:

- Removal/demolition of appurtenant facilities;
- MOT fixtures removal/demolition;
- Concrete deck demolition;
- Concrete catwalk demolition;
- 437± wooden and concrete pile demolition; and
- Removal of debris, if any, and marker buoys.

The MOT facility includes a total of 437 piles. Of the piles, 259 are precast, steel-reinforced concrete piles that provide the primary support for the MOT facilities, while 178 are creosote-treated timber fender piles. The MOT plans suggest that the embedment length of the timber piles is on the order of 30 to 35 feet into the Bay sediment. It is anticipated that many of the piles are 40 plus years old, and would likely break if extraction is attempted. The general practice for pile removal in the San Francisco Bay Area is removal to at least two feet below the mudline. This practice is appropriate in areas where scour is not expected to occur and is sufficient to ensure that the pile stubs remain buried within the sediments, and do not have the potential to protrude above the seafloor, posing a potential hazard to navigation. Coscol proposes that the standard depth for pile removal during deconstruction of the MOT be at least two feet below the current mudline. It is anticipated that pile stubs would remain buried under at least two feet of sediment that would increase over time. The stubs of the piles that support the mooring dolphins and the east breasting dolphin that are within a localized scour area would be covered by considerably more sediment as these depressions would be expected to fill in relatively rapidly with sediment following pile removal.

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There are seven pipelines ranging in size from three to 24 inches that formerly serviced the MOT. Five of the pipelines were used for petroleum hydrocarbon transfer, one for water, and one served as a cable conduit. These seven pipelines would be abandoned in place as part of the proposed project. An additional eight-inch diameter pipeline was used for wastewater discharge during refinery operations that is now used and maintained by Hercules LLC (associated with the upland development) under Lease PRC 7985, for storm water discharge. Lease No. PRC 7985 will expire in 2017.

In 2003, the five petroleum transfer pipelines were pigged (inspection with the use of a metal and/or plastic plug the diameter of the pipeline that is pushed through the pipeline), then cleaned, tested, and filled with seawater from the MOT side facility to the shoreward end of the pipeline. The vapor recovery unit that is present at the MOT was also drained and flushed with water. A seawater sample was subsequently collected from a sample port installed at the shore side end of each pipeline. The samples contained less than 15 parts per million of total recoverable petroleum hydrocarbons, as indicated using the Environmental Protection Agency Test Method 418.1. This also substantially satisfies the Commission (Working Policy March 13, 2000, pursuant to the Lempert-Keene-Seastrand Oil Spill Prevention and Response Act of 1990, amended, Public Resources Code section 8755) and United States Coast Guard guidance for abandoned petroleum pipelines.

The MOT-side pipelines are currently sealed at the MOT and at the shore-side of the pipeline alignment and laid up in seawater. Deconstruction activities for the offshore pipelines at the MOT include removing the pipeline sections that emerge from San Pablo Bay sediments and rise up to service the MOT. These pipeline sections would be cut off at a depth of three feet or more below the existing Bay mud sediments. Prior to cutting each pipeline, a group plug would be placed on the shoreward side of the cut to contain the existing seawater and contents and prevent leakage of seawater from the pipelines. The cut pipe sections would be rigged and lifted on board a barge with a crane for transportation to the shore-based staging area for salvage, recycling, or disposal.

In December 2008, a report was prepared by the Commission's environmental consultant on the sedimentation patterns and processes affecting the area of the pipeline corridor and offshore marine terminal to determine whether erosion caused by hydrodynamic bottom stresses would eventually expose the buried pipelines. The buried pipeline corridor lies on the southern side of the shipping channel in eastern San Pablo

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Bay. The marine terminal is in an average water depth of 36 feet, with water depths about 22 feet on the inshore southern side of the marine terminal. The pipeline corridor ends in about 30 feet depth at the marine terminal and in about three-to-four feet depths near the shoreline. This report indicated that there is good evidence that sediment has accumulated (six to eight feet) in the area from 1991 to August 2005 and that some erosion will likely continue at the marine terminal and in the sediment bed where the pipelines are near the marine terminal.

The shore end of the offshore pipelines would be closed by installation of a blind flange prior to being covered in concrete. Coscol will be required to conduct a pipeline survey every two years beginning January 1, 2012 to confirm that the abandoned pipelines remain buried.

OTHER PERTINENT INFORMATION:

1. Coscol is required to obtain permission from the owner of the uplands adjoining the lease premises prior to the start of decommissioning activities.
2. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines (Title 14, California Code of Regulations, Section 15025), the staff has prepared a Proposed Mitigated Negative Declaration identified as CSLC MND No. 750, State Clearinghouse No. 2009032085. Such Proposed Mitigated Negative Declaration was prepared and circulated for public review pursuant to the provisions of the CEQA.

Based upon the Initial Study, the proposed Mitigated Negative Declaration, and comments received in response thereto, there is no substantial evidence that the project will have a significant effect on the environment; Title 14, California Code of Regulations, Section 15074 (b).

A Mitigation Monitoring Program has been prepared in conformance with the provisions of the CEQA (Public Resources Code Section 21081.6).

3. This activity involves lands identified as possessing significant environmental values pursuant to Public Resources Code Sections 6370. Based upon the staff's consultation with the person's 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.

APPROVALS REQUIRED:

U.S. Fish and Wildlife Service, National Marine Fisheries Services, U.S. Army Corps of Engineers, U.S. Coast Guard, Union Pacific Railroad,

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California Department of Fish and Game, San Francisco Bay
Conservation and Development Commission, San Francisco Bay Regional
Water Quality Control Board, Bay Area Air Quality Management District,
East Bay Regional Park District, Contra Costa County, and the city of
Hercules

EXHIBITS:

- A. Site/Location Map
- B. Land Description
- C. Mitigation Monitoring Program

PERMIT STREAMLINING ACT DEADLINE:

August 14, 2009

RECOMMENDED ACTION:

IT IS RECOMMENDED THAT THE COMMISSION:

CEQA FINDING:

CERTIFY THAT A PROPOSED MITIGATED NEGATIVE DECLARATION, CSLC MND NO. 750, STATE CLEARINGHOUSE NO. 2009032085, WAS PREPARED FOR THIS PROJECT PURSUANT TO THE PROVISIONS OF THE CEQA, THAT THE COMMISSION HAS REVIEWED AND CONSIDERED THE INFORMATION CONTAINED THEREIN AND IN THE COMMENTS RECEIVED IN RESPONSE THERETO AND THAT THE MND REFLECTS THE COMMISSION'S INDEPENDENT JUDGMENT AND ANALYSIS.

ADOPT THE PROPOSED MITIGATED NEGATIVE DECLARATION AND DETERMINE THAT THE PROJECT, AS APPROVED, WILL NOT HAVE A SIGNIFICANT EFFECT ON THE ENVIRONMENT.

ADOPT THE MITIGATION MONITORING PROGRAM, AS CONTAINED IN EXHIBIT "C", ATTACHED HERETO.

SIGNIFICANT LANDS INVENTORY FINDING:

FIND THAT THIS ACTIVITY IS CONSISTENT WITH THE USE CLASSIFICATION DESIGNATED BY THE COMMISSION FOR THE LAND PURSUANT TO PUBLIC RESOURCES CODE SECTIONS 6370, ET SEQ.

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AUTHORIZATION:

AUTHORIZE AMENDMENT OF LEASE AND AUTHORITY TO ENTER INTO A LEASE TERMINATION AGREEMENT FOR DECOMMISSIONING AND ABANDONMENT OF LEASE NO. PRC 3414.1, A GENERAL LEASE – INDUSTRIAL USE, OF LANDS SHOWN ON EXHIBIT “A” (FOR REFERENCE PURPOSES ONLY) AND DESCRIBED IN EXHIBIT B, ATTACHED AND BY THIS REFERENCE MADE A PART HEREOF, EFFECTIVE JUNE 1, 2009, TO PROVIDE FOR THE DECOMMISSIONING AND PARTIAL ABANDONMENT OF THE EXISTING MARINE TERMINAL FACILITIES TO THE SATISFACTION OF COMMISSION STAFF; SUBMITTAL OF A PIPELINE SURVEY EVERY TWO YEARS BEGINNING JANUARY 1, 2012 TO CONFIRM THAT THE ABANDONED PIPELINES REMAIN BURIED; RESPONSIBILITY IN PERPETUITY FOR ALL ABANDONED MARINE TERMINAL IMPROVEMENTS; LIABILITY INSURANCE COVERAGE OF NO LESS THAN \$2,000,000; A NON-CANCELABLE PERFORMANCE BOND IN AN AMOUNT NOT LESS THAN \$5,000,000; AND, A PARENT GUARANTEE; ALL OTHER TERMS AND CONDITIONS OF THE LEASE WILL REMAIN IN EFFECT WITHOUT AMENDMENT.