



The Legal and Policy Challenges of Offshore Decommissioning in State Waters

CALIFORNIA STATE LANDS COMMISSION

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California State
Lands Commission



PROJECT GOALS

Safely and timely decommission Platform Holly and Piers 421

Safely and timely decommission prior State Oil and Gas Leases PRC 1466 (Rincon Island), PRC 145 and PRC 410 (onshore development).

Final disposition of all infrastructure consistent with CEQA analysis and in the best interests of the state

South Ellwood Project Area



South Ellwood Project Area



South Ellwood Project Area



RILP Oil and Gas Leases



Rincon Island and Causeway



PRC 145.1 Onshore Facility



Out of Service

Policy Challenges

- This is the first time in the history of the California State Lands Commission that its Oil and Gas lessees have completely defaulted on their obligations to decommission the infrastructure that they, or their predecessors, placed on state sovereign lands.
- Further complicating this already difficult situation is the interplay between the California Coastal Sanctuary Act (Public Resources Code Sections 6240-6244) and the Federal Rules of Bankruptcy.
- Prior to the passage of the California Coastal Sanctuary Act, the Commission could re-lease an otherwise productive asset to help offset damages and liabilities through end of life.

Policy Challenges

- Without the opportunity to release, a termination or a quitclaim instantly protected the lands by prohibiting any new oil and gas leases.
- The issue, however, was that neither the Commission nor any other agency of the state had sufficient tools to fully address the liabilities associated with an oil and gas company that went into bankruptcy with an intent to liquidate (versus reorganize) and thereby escape the significant costs of decommissioning.
- Stakeholders – Ensuring that various parties are engaged and facilitating proper coordination. Interesting alignments and disagreements.

Coordination with Local Governments/State Agencies

- City of Goleta
- Santa Barbara County Air Pollution Control District
- Division of Oil, Gas, and Geothermal Resources
- California Coastal Commission
- Office of Oil Spill Prevention and Response
- APCD
- Local Emergency Services
- State Fire Marshal

Policy Challenges

- Another significant issue associated with the Venoco and RILP bankruptcy's are that they are nonstandard costs and very difficult to get an accurate estimate on which to request funds.
 - The need to request budget allocations from the General Fund to fulfill these companies obligations and that is a difficult and tedious process.
- Regulatory Compliance – Everybody is aware of the difficulties here!

Legal Challenges

- **Venoco, LLC (17-10828)**

- On April 17, 2017 Venoco quitclaimed its interests in PRC 3120, 3242 (Platform Holly) and PRC 421 (nearshore piers)
- That same day Venoco filed for Chapter 11 bankruptcy initiating the automatic stay against any creditor action. (11 U.S.C. § 362(a))
- On April 19, 2017, the Commission sent a Notice of Default to Venoco estate notifying them of their obligation under the leases, and subject to Public Resources Code 6804.1, to decommission the leases.
- DOGGR, under its independent authority, issued Order 1116 requiring Venoco to decommission its onshore and offshore wells and facilities.

Legal Challenges

- **Venoco, LLC (17-10828)**

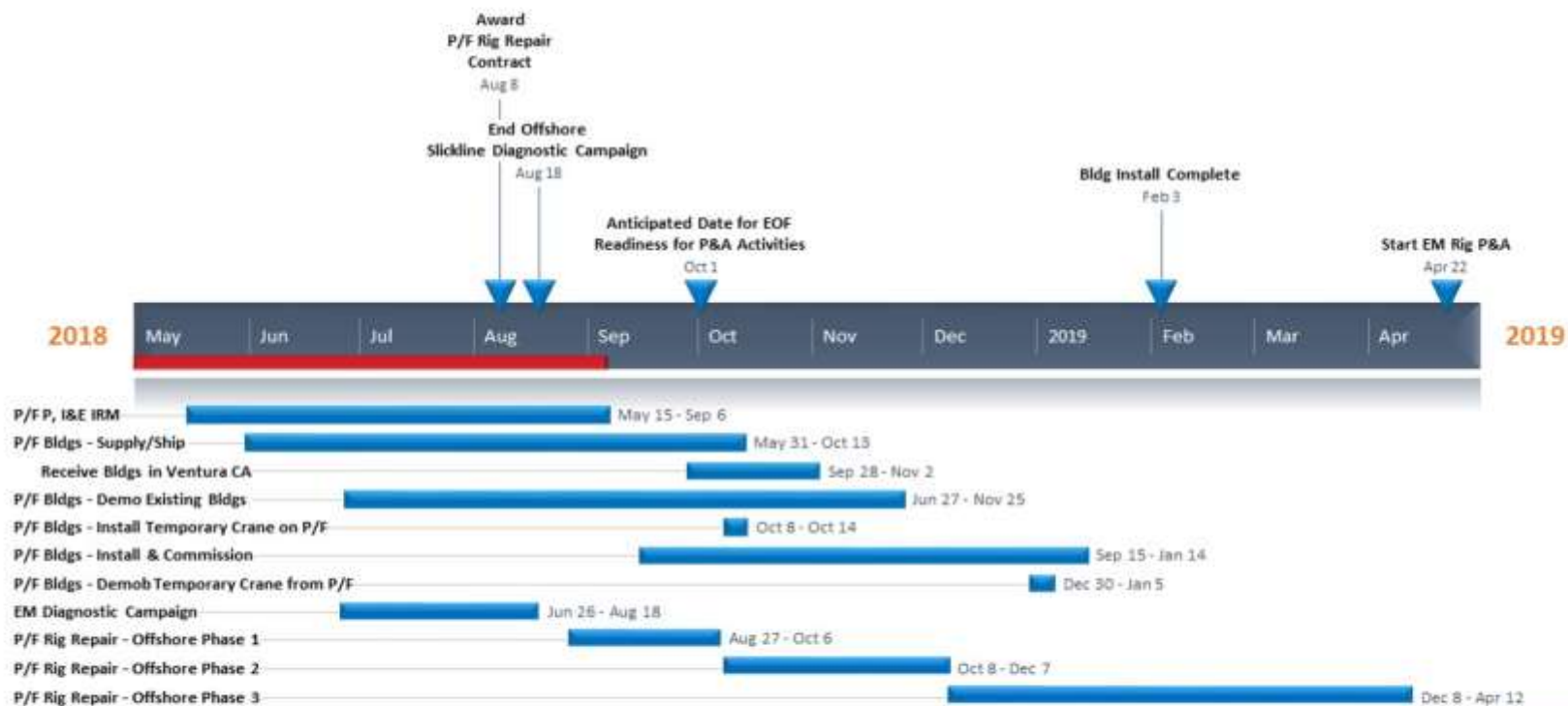
- Venoco does not have the manpower or the money to fulfill its contractual and statutory obligations to decommission Platform Holly, the PRC 421 piers, or the Ellwood Onshore Facility.
- On May 1, 2017, the Commission entered into an emergency agreement with the Venoco estate to ensure that staffing was retained on the critical facilities to prevent the potential release of harmful hydrogen sulfide gas or oil.
- The Commission, through its contracted agent Beacon West, continues to fulfill Venoco's ongoing obligations to comply with all health, safety and environmental permits and regulations through the proper operation and maintenance of the facilities.

Legal Challenges

- **Rincon Island Limited Partnership (RILP)**

- In response to the Commission's agendized termination of RILP's leases, following an earlier Notice of Default and failure to cure significant lease and regulatory compliance issues, and DOGGR's Emergency Order 1114 RILP filed for Chapter 11 bankruptcy, on August 8, 2016, in an effort to stay the Commission's hand.
- After a protracted fight in the bankruptcy court RILP failed to comply with a court order and the assets were turned over to a court appointed trustee who then quitclaimed the leases in December 2017.
- The Commission engaged Driltek to fulfill RILP's ongoing obligations to comply with all health, safety and environmental permits and regulations through the proper operation and maintenance of the facilities.

The Current Schedule – Holly P&A



Next Steps after P&A Completion

- Final Disposition of the various operations and related infrastructure.
Dependent upon:
 - Significant stakeholder and community engagement
 - Environmental Analysis of a Decommissioning Plan pursuant to CEQA (Environmental Impact Report)
 - Funding



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THANK YOU & QUESTIONS

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