

MINUTE ITEM

This Calendar Item No. 29
was approved as Minute Item
29 by the State Lands
Commission by a vote of 3
to 0 at its 9/23/82
meeting.

CALENDAR ITEM

29

9/23/82
WP 4977.1
W 503.780
Horn
R. Ludlow

LETTER OF UNDERSTANDING WITH EXXON CORPORATION

BACKGROUND:

In December of 1974, the Commission approved Industrial Lease PRC 4977.1 to Exxon Pipeline Company of California (now known as Pacific Offshore Pipeline Company or "POPCO") and to Exxon Corporation, for a term of 15 years with two successive periods of ten years each. The lease authorized construction and maintenance of various sized oil, gas, water, and utility pipelines serving Exxon's Hondo platform together with a single point mooring facility.

Pursuant to the terms of the lease, all authorized improvements were to be completed by December 31, 1982. POPCO, which acquired Exxon Pipeline Company's interest in the lease and agreed to purchase natural gas from Exxon at the platform, will complete construction of a 12-inch diameter gas pipeline connecting the platform to an on-shore processing facility by December 31, 1982. However, no other authorized facilities are presently under construction, nor if they were, could be completed by the construction limiting date.

Exxon is in the process of preparing a Development and Production Plan for submittal to the United States Minerals Management

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Service which will detail the specific plans and facilities necessary for further development of the Santa Ynez unit. This plan involves two options, one involving the expansion of existing off-shore processing facilities for oil and gas and another, the development of on-shore facilities. The on-shore option appears to be the most desirable to Exxon at this time and they therefore wish to maintain whatever rights they may have under their existing leasehold.

It is the position of the State Lands Commission staff that because Exxon has failed to complete the improvements called for in the lease by the construction limiting date of December 31, 1982, the Commission now has the right to take steps to terminate Exxon's rights under the lease. Exxon disputes this position.

In order to avoid potential litigation and to enable all parties to the lease to obtain its potential benefits, Exxon has offered to enter into a Letter of Understanding with the State Lands Commission. The Letter of Understanding would contain the following major points:

1. Exxon would agree to enter into a new or amended lease with the State Lands Commission which would provide, among other things, for volumetric rental; and
2. Exxon would agree not to construct any improvements on the leasehold prior to the execution of the new or amended lease; and
3. The State Lands Commission would agree not to seek to terminate Exxon's rights under the lease before December 31, 1984 by reason of Exxon's failure to complete the authorized improvements by the construction limiting date.

It is important to note that the Letter of Understanding does not extend the term of the lease nor does it extend the date by which the authorized improvements were to have been completed. What the State Lands Commission will be doing is abstaining

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from exercising the right it has under
the lease to terminate it.

AB 884: N/A.

EXHIBIT: A. Site Map.

IT IS RECOMMENDED THAT THE COMMISSION:

1. DETERMINE THAT AN ENVIRONMENTAL DOCUMENT NEED NOT BE PREPARED FOR THIS ACTIVITY AS IT IS NOT REQUIRED UNDER THE PROVISIONS OF CEQA, PURSUANT TO 14 CAL. ADM. CODE SECTIONS 15100 ET SEQ.
2. AUTHORIZE THE EXECUTION OF A LETTER OF UNDERSTANDING WITH EXXON CORPORATION CONTAINING THE PROVISIONS SET FORTH ABOVE AND IN SUBSTANTIALLY THE FORM ON FILE WITH THE COMMISSION.

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