

MINUTE ITEM

This Calendar Item

was

No. 25

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7/21/83

MINUTE ITEM

25

7/21/83

W 40185

Staff

CONSIDERATION OF AMENDED LEASE CONDITIONS,
SPECIAL OPERATING REQUIREMENTS,
ACCOUNTING PROCEDURES, AND OTHER PROVISIONS,
SALE OF OIL AND GAS LEASES,
POINT CONCEPTION TO POINT ARGUELLO,
SANTA BARBARA COUNTY

During consideration of Calendar Item 25 attached, copies of the Calendar Item were distributed to all interested parties in attendance at the meeting. Dr. Ruth Ann Corwin, representing the Environmental Coalition on the OCS and the Oceanic Society, appeared to request that a regular mailing list be established for Point Conception mailings. Ms. Corwin was also concerned that the August 8 deadline for comments on this Calendar Item was an unreasonable time frame to impose upon interested parties.

Acting Chairman McCarthy explained that the Commission was formulating questions to be asked by the public in advance of two public hearings scheduled by the State Lands Commission and the California Coastal Commission, tentatively scheduled for August 25 and August 23-24, respectively. The August 8 deadline was established to accommodate these two hearings.

Acting Chairman McCarthy further clarified that Commission deadlines were partially mandated by statutory notice requirements.

Assistant Attorney General Taylor wanted it clarified for the record that staff of the Commission had not been lax in distribution of Point Conception materials to the public.

Ms. Corwin was assured that she would be given ample opportunity to comment on this matter at the August 12, 1983 Commission meeting.

Executive Officer Detrick clarified that Exhibit 1 in the Calendar Item was not a correct exhibit in that it showed incorrect tract boundaries (this Minute Item includes the correct exhibit).

There being no further discussion, and upon motion duly made and carried, the Resolution in Calendar Item 25 was approved as presented by a vote of 3-0.

Attachment: Calendar Item 25.

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25.

CONSIDERATION OF AMENDED LEASE
CONDITIONS, SPECIAL OPERATING REQUIREMENTS, ACCOUNTING
PROCEDURES, AND OTHER PROVISIONS, SALE OF OIL AND GAS
LEASES, PT. CONCEPTION TO PT. ARGUELLO
SANTA BARBARA COUNTY

At its meeting of December 27, 1982, the State Lands Commission authorized the staff to solicit bids for eight tracts of State owned lands lying offshore between Pt. Conception and Pt. Arguello, as shown on attached Exhibit 1. The Commission also adopted the Net Profit Share form of oil and gas lease, and Exhibits "A" through "D" of that lease. In addition, the Commission delegated to the Chairman the authority to approve lease language necessary to conform the lease to the intent of the Commission, and was asked to report back to the full Commission subsequent to any clarifications.

On January 24, 1983, the full lease sale package was submitted to the California Coastal Commission to assist in its review and comment pursuant to Sec. 30404 of the Public Resources Code. It was without prejudice to the State Lands Commission's position regarding the Coastal Commission's permit jurisdiction. Several months of discussions ensued between Coastal Commission and Lands Commission staff. This effort culminated in an agreement by Lands Commission staff to recommend some changes in the lease package to resolve concerns of the Coastal Commission staff. By entering into this agreement and by submitting and reviewing the lease

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package, neither agency would waive its rights to assert its jurisdictional position. The Coastal Commission has reviewed and processed as an application the lease package as submitted on January 24.

Concurrently, staff of the Coastal Commission recommended in their staff report on permit number E-83-5 for the May 25, 1983 Coastal Commission meeting "...that the [Coastal] Commission approve the State Lands Lease Sale contingent on all the revisions suggested by the SLC staff being adopted by the State Lands Commission". Nevertheless, the Coastal Commission declined to accept its staff recommendation.

Since May 25, representatives of the two Commissions have met three times to resolve remaining concerns of the Coastal Commission about the lease program. As a result, some further modifications of the package are recommended by Lands Commission staff. It is believed that with the changes and conditions discussed below, the Coastal Commission concerns over the lease program are resolved.

In essence the latest changes are that:

1. The lease bid submittal and opening would be deferred 45 days with the new date to be September 30, 1983.
2. The lease area would be broken down into two parts:

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4. Concerns of Vandenberg Air Force Base will be resolved through amendments to Special Operating Requirement No. 6 which provide for personnel shelters of a type which meet Air Force safety requirements, contingency planning for evacuation and advance notice of exploratory drilling activities within the lease area.

5. Scientific Advisory Committees will be established to review studies and reports produced in connection with the lease sale and the Special Operating Requirements. These Committees will be funded by the lessees in an amount not to exceed \$25,000 per year. The Special Operating Requirements will be amended to reflect this element.

6. A Lease Area Advisory Committee will be established. The Committee will consist of a representative each of the Coastal Commission, the County of Santa Barbara and the Lands Commission. Subsequent to the award of the leases, the committee would review and comment on reports, lease changes and operations conducted under the leases.

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a) from the shoreline seaward to the 15 fathom bathymetric curve or 1/2 nautical mile whichever is the further, oil and gas exploration and development activities will be prohibited on the ocean bottom. Oil and gas resources within this band may be explored and developed from sites outside the band;

b) from the 15 fathom curve seaward oil and gas exploration and development will be considered where detailed project specific environmental studies and impact reports indicate clearly that such activities will not result in significant adverse environmental impacts.

3. A biologically sensitive area map would be prepared for the project area and adopted by the Lands Commission. This map will show the prohibited area of 2(a) above and such sensitive areas as:

- a.) hard bottom communities
- b.) rubble/cobble bottom sites
- c.) significant kelp beds
- d.) halibut trawling grounds

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7. An Interagency Agreement between the Coastal Commission and the Lands Commission will be prepared and signed. This agreement will cover the above issues in more detail and also cover specifics about the marine resource studies, lease amendments and related issues.

Staff has also met with interested members of the public, with other agencies, and with industry to discuss the lease form and its exhibits. Staff has reported to the Chairman, and recommended other minor changes in the lease and exhibits which are included along with changes outlined above in the exhibits attached hereto.

AB 884: N/A

- Exhibits:
1. Lease tracts
 2. Proposed Amendments to the Oil and Gas Lease Form
 3. Proposed Amendments to Lease Exhibit C, Special Operating Requirements
 4. Proposed Amendments to Lease Exhibit D, Accounting Procedures for Determining Net Profit Share Payment for State Oil and Gas Leases

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5. Preliminary Map of Biologically Sensitive Areas

IT IS RECOMMENDED THAT THE COMMISSION:

1. RESCHEDULE THE BID SUBMITTAL AND OPENING FOR SEPTEMBER 30, 1983;
2. ADOPT FOR PUBLIC REVIEW AND COMMENT THE AMENDMENTS SHOWN ON EXHIBITS 2-4 OF THIS CALENDAR ITEM;
3. ADOPT FOR PUBLIC REVIEW AND COMMENT THE PRELIMINARY MAP OF BIOLOGICALLY SENSITIVE AREAS;
4. SPECIFY THAT COMMENTS ON THE AMENDMENTS AND PRELIMINARY MAP ARE TO BE RECEIVED BY THE COMMISSION BY AUGUST 8, 1983.

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EXHIBIT 2

Proposed Amendments to
Oil and Gas Lease

A question was asked concerning who should make net profit payments in the case of joint lessees. The lease form was changed to require that an operator shall be designated who shall give and receive all notices and make all payments to the State under the lease. Page 20 of the lease would be changed to read as shown on Exhibit 2A.

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EXHIBIT 2A

1 for lease operations only. Oil so used shall be reported to the
 2 State monthly. The value of such oil shall not be used in
 3 determining net profits pursuant to Exhibit "D". With the
 4 approval of the State, the Lessee may also use gas produced from
 5 the Lessee's wells drilled into the leased lands, or gas received
 6 currently in exchange for gas so produced, for the following
 7 purposes only: fuel, gas lift, injection into oil sands from
 8 which the well or wells may be producing and reinjection into the
 9 leased lands. Gas so used, or gas given in exchange for gas so
 10 used, shall be reported to the State monthly, but shall not be
 11 used in determining net profits pursuant to Exhibit "D". The
 12 State may take, free of cost to it and at no expense to the
 13 Lessee, all produced surplus gas which cannot be marketed or
 14 beneficially utilized by the Lessee. The surplus gas taken by
 15 the State shall be for the use of the State of California.

16 28. NOTICES DESIGNATION OF OPERATOR AND GIVING OF NOTICES

17 The lessee shall designate an operator who shall give and
 18 receive all notices and make all payments to the State under this
 19 lease. All notices to be given under this lease shall be deemed
 20 to have been fully given when made in writing and deposited in
 21 the United States mail, registered and postage prepaid, and
 22 addressed as follows:

23 /
 24 /
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 26 /
 27 /

20.

Exhibit 3

Proposed Amendments to Exhibit C
Special Operating Requirements

In addition to adding a new requirement 15, amendments are suggested for Requirements 1, 2, 4, 5, 6 and 10. Only a minor change is made in number 1. Requirement 2 has been changed to clarify the State's position concerning the use of pipelines. Platform to shore pipelines are to be required where "technologically" feasible eliminating the phrase "economically" from subpart (a). Wording has also been added which prohibits the construction or use of a new marine terminal within the lease area.

Requirement 4 is amended to clarify the funding, administration and purpose of the mandatory biological and marine mammal surveys. A statement has been added that 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. Subpart (f) is added to indicate the survey data will be used along with other information to develop a sensitive biologic area map.

For Requirement 5 the lessees are put on notice that corridors may be established for crewboat/workboat access to and from the lease sites. If established, the lessees must adhere to the navigational lanes.

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To meet the needs of the Air Force Western Space and Missile Command, Requirement 6 has been changed. It will now require a contingency plan for evacuation of platforms. Shelters for essential personnel must be designed to meet the Air Force specifications. Lessees will now be required to submit drilling plans to the Air Force 6-months in advance of occupying a lease site.

Changes have been made in the method for meeting the oil spill response capability requirements. Originally, it was Staff's opinion that adequate response capability could be provided by requiring the lessees to maintain a dedicated spill control vessel similar to the Mr. Clean II, and with a two-hour response time. Back-up was to be provided by a system similar to the U.S. Coast Guard Pacific Coast Strike Team, and with a four-hour response time. After considerable review and discussion with State and Federal agencies, and with industry, it was concluded that the provision for and dedication of another 160 foot class vessel with offshore response equipment funded by industry would provide capabilities equivalent to the Strike Team concept. The stipulation is rewritten accordingly. The proposed amendment also includes changes in funding requirements which allow the vessels to be chartered, rather than purchased out-right.

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Requirement 15 provides for the establishment and funding of scientific advisory committees to assist the State, when requested, in the review of studies and reports required by or resulting from the lease program.

All these amendments are shown on Exhibit 3A which follows.

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EXHIBIT 3A

EXHIBIT C

SPECIAL OPERATING REQUIREMENTS

1. SUBSEA COMPLETIONS

In preparing a development plan, the Lessee shall give the same consideration to the use of subsea completions as it does to fixed platforms. When approving a development plan, the State may require the use of subsea completions in those cases where it determines that economics, technical feasibility, environmental impacts, compatibility with commercial fishing operations and the religious beliefs of Native Americans, considered together rather than separately, indicate that subsea completions would be preferable to fixed platforms. When subsea completions are used, the Lessee shall promptly prepare and continually update maps showing the exact location of every subsea installation and shall make such maps available to commercial fisherman fishermen and other members of the public.

2. PIPELINE FEASIBILITY

TRANSPORTATION OF HYDROCARBONS

(a) Pipelines from offshore production facilities to onshore processing facilities will be required by the State for the transportation of produced oil, gas and other hydrocarbons if pipeline rights-of-way can be obtained and the State, acting upon information supplied by affected parties and responsible governmental agencies, determines that the laying of

pipelines is economically and technologically feasible and environmentally preferable to other methods of transportation. The State reserves the right to require the placement of any pipeline in certain designated pipeline corridors. Wherever feasible, the pipeline corridors shall be located in soft rather than hard bottom areas of the tide and submerged lands. In the event that any blasting is required during the installation of any pipeline, a qualified observer, approved by the U. S. Army Corps of Engineers and the Department of Fish and Game, shall be retained by the Lessee. Detonation shall not be allowed until the qualified observer determines that the area where the blasting is to occur is free of marine birds and mammals.

(b) Following the completion of a an onshore pipeline transportation system, no hydrocarbons produced from the leased lands shall be transported by surface vessel from offshore production sites processing facilities, except in cases of emergency as determined by the State or unless the lessee demonstrates to the satisfaction of the State that as to that lessee the use of such system is infeasible.

(c) Where the criteria in subparagraph (a) (b) above are not met and surface transportation must be employed, all vessels used for transporting produced hydrocarbons shall conform with all standards established for such vessels under the Port and Tanker Safety Act of 1978 (33 U.S.C. sections 1221 et seq.).

(d) The State shall not approve any development or production plan which proposes the construction of a marine terminal within the lease area or the use of tankers or barges to transport produced hydrocarbons, unless the Lessee, in cooperation with the State, has performed a study which demonstrates to the satisfaction of the State that a pipeline cannot meet the criteria in subparagraph (a) (b) above.

(e) If the State determines that a pipeline cannot meet the criteria in subparagraph (a) (b) above, the Lessee shall use the safest available transport vessels. The use of oil barges will be permitted only if the Lessee demonstrates to the satisfaction of the State that barging is environmentally preferable to tankering.

3. POTENTIAL GEOHAZARDS

Drilling operations shall not be conducted and seafloor wellheads and fixed structures for the production, transportation or storage of oil, gas or other hydrocarbons shall not be placed within geologically unstable portions of the leased lands such as potentially unstable sediments, areas of mass movement, submarine canyons or channels, shallow gas zones and areas near active faulting or surface ruptures unless the Lessee has demonstrated to the satisfaction of the State that such operations can be conducted and such wellheads and such structures can be designed and placed so as to withstand the maximum probable effects of the identified geohazards. Site-

specific surveys shall be conducted prior to exploration and development operations to determine the potential for unstable bottom conditions and other geologic hazards. Extension of these surveys outside the leased lands may be required where necessary to evaluate the magnitude and significance of the hazard. All potentially unstable areas, including fault zones, must be mapped before any seafloor wellheads or fixed structures are installed. The State may require site-specific soil testing before exploration and development operations are allowed.

4. MANDATORY BIOLOGICAL AND MARINE MAMMAL SURVEYS

(a) 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 ~~conduct~~ fund site-specific biological and marine mammal surveys as specified and conducted by the State after in consulting 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 and marine mammal surveys shall determine whether the site contains areas used as a breeding grounds 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.

(b) 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.

(c) The marine mammal surveys shall be performed by a qualified marine mammalogist and shall consist of systematic observations which accurately describe mammal occurrences in and uses of the project area, including an on-site census and ~~behaviorial~~ behavioral observations of feeding, breeding and migration. The surveys shall also indicate the relationship of project area observations to known data on sea otter and other marine mammal population, size, dynamics, structure and movements in adjacent, present or potential habitats.

(d) If the results of site-specific biological and marine mammal 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, or (2) establish through submissions to the State of such documents 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. 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, and 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 as 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.

(e) 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.

(f) The information obtained from the biological and marine mammal surveys will be used by the State with other information to refine existing maps which indicate areas where oil and gas production and development activities

will be prohibited on or above the ocean bottom. These maps will also indicate where oil and gas activities will be considered if site specific geologic, biologic, and marine mammal studies and a project specific EIR demonstrate that no significant adverse environmental impacts will occur. Such map revisions will be developed and adopted as part of the EIR process and will be updated as new surveys are completed.

5. FISHERIES TRAINING PROGRAM 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 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 between October 1 and March 31 within halibut trawling grounds as shown on the sensitive biologic area map described in Special Operating Requirement 4(f).

6. SUSPENSION OF OPERATIONS AND
EVACUATION OF AND SHELTER FOR PERSONNEL

(a) Before the Lessee operates or causes to be operated on its behalf boat or aircraft traffic into individual, designated warning areas, the Lessee shall coordinate and comply with instructions from the Commander, Western Space and Missile Center (WSMC) or other appropriate military agency. Such control and instruction will provide for positive control of boats and aircraft operating in the warning areas at all times.

(b) Recognizing that mineral exploration, exploitation and recovery operations on the leased lands can impede tactical military operations, the Lessee acknowledges and agrees that the United States reserves and has the right to suspend temporarily lease operations in the interest of national security requirements. Such temporary suspension of operations, including the evacuation of personnel and appropriate sheltering

of personnel not evacuated (an appropriate shelter shall be designed to withstand overpressures specified by WSMC* and shall provide for mean the protection of all personnel engaged in operations on the lease for the duration of any Department of Defense activity from flying or falling objects or substances), will become effective upon the order of the Commander, WSMC, other appropriate military agency or higher authority when national security interests necessitate such action. Lessee will develop and submit a contingency evacuation/shelter plan to the staff for approval and concurrence by WSMC prior to commencement of drilling operations. Any temporary suspension of operations for national security may not exceed seventy two (72) hours, provided that any such suspension may be extended by order of the appropriate authority. Equipment may remain in place during periods of suspension. In order to coordinate exploratory drilling activities with WSMC operations, lessee shall provide WSMC with 6 months advanced written notice of all proposed exploratory drilling operations updated monthly.

(c) The Lessee shall control its own electromagnetic emissions and those of its agents, employees, invitees, independent contractors and subcontractors emanating from individual designated defense warning areas in accordance with requirements specified by the Commander, WSMC or other appropriate military agency, to the degree necessary to prevent

*Applies only to tracts 5, 6, & 7.

damage to, or unacceptable interference with, Department of Defense flight, testing or operational activities conducted within individual designated warning areas. Necessary monitoring, control and coordination with the Lessee, its agents, employees, invitees, independent contractors and subcontractors, will be effected by the Commander of the appropriate onshore military installation conducting operations in the particular warning area, provided that control of such electromagnetic emissions shall permit at least one (1) continuous channel of communication between the Lessee, its agents, employees, invitees, independent contractors or subcontractors, and onshore facilities.

7. ASSUMPTION OF RISK AND HOLD HARMLESS

Whether or not compensation for damage or injury might be due under a theory of strict or absolute liability or otherwise, the Lessee assumes all risks of injury or damage to persons or property which occurs in, on or above the leased lands to any person or any property of any person who is an agent, employee or invitee of the Lessee, or its agents, independent contractors or subcontractors, in connection with any activities being performed by or for the Lessee in, on or above the leased lands, if such injury or damage to such person or property occurs by reason of the activities of any agency of the United States, its contractors or subcontractors, or any of their officers, agents or employees, being conducted as a part

of, or in connection with, the programs and activities of the WSMC or other appropriate military agency. Notwithstanding any limitations of the Lessee's liability in this lease, the Lessee assumes the risk whether such injury or damage is caused in whole or in part by any act or omission, regardless of negligence or fault, of the United States, its contractors or subcontractors, or any of their officers, agents or employees. The Lessee shall indemnify and save harmless the United States against all claims for loss, damage or injury to the Lessee and to the agents, employees and invitees of the Lessee, its agents, independent contractors and subcontractors, in connection with the programs and activities of the aforementioned military installations and agencies, whether the same be caused in whole or in part by the negligence or fault of the United States, its contractors or subcontractors, or any of their officers, agents or employees, and whether such claims might be sustained under theories of strict or absolute liability or otherwise.

8. LABOR REQUIREMENT

(a) During exploration, development and production activities on the leased lands, all vessels, rigs, platforms and other vehicles or structures under the control of the Lessee must be manned by citizens of the United States or aliens lawfully admitted to the United States for permanent residence.

(b) The requirements of subparagraph (a) do not

apply if the Lessee files with the State and the Department of Industrial Relations a report, deemed adequate by these agencies, showing that there is an insufficient number of qualified citizens of the United States, or aliens lawfully admitted to the United States for permanent residence, available for such work.

(c) This provision is severable from all other special operating requirements and all other provisions of this lease. Any determination that all or any part of this provision is unconstitutional or otherwise invalid shall not affect any other provision of the special operating requirements or of this lease.

9. DRILLING MUDS AND CUTTINGS

Notwithstanding the provisions of section 6873(b) of the Public Resources Code or any other provision of state law, the discharge of drilling muds and cuttings into the marine environment is expressly prohibited. This prohibition shall remain in effect until the State is satisfied by the results of appropriate studies that the prohibition is no longer warranted. The State may require whatever studies it deems appropriate to assist it in making its decision.

10. 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. Clear II operated by Clean Seas, Inc. The vessel may be chartered through an industry cooperative. Such charter, including crew, fuel and food, shall not exceed one million, one hundred thousand dollars (\$1,100,000) the first year. which Such vessel shall be equipped with the most effective equipment available. The capital cost of the equipment shall 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 the State's consideration and approval of any drilling activities on the leased lands. The initial capital cost for the vessel and equipment shall not exceed one million dollars ~~(\$1,000,000)~~. The succeeding annual costs of operation, including whatever amounts are needed for a sinking fund to replace equipment, shall not exceed one million five hundred thousand dollars ~~(\$1,000,000)~~ (\$1,500,000) adjusted for inflation. The annual cost limitation shall be cumulative and at no time shall exceed, but may equal, one million five hundred thousand dollars ~~(\$1,000,000)~~ (\$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 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 shall not exceed three hundred thousand dollars (\$300,000) adjusted for inflation.

(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 the establishment, staffing, maintenance maintain and operation operate of 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 shall 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

(\$10,000,000) (\$1,500,000) the first year. The succeeding annual costs of operation, including whatever amounts are needed for a sinking fund to replace equipment, shall not exceed one two million five hundred thousand dollars ~~(\$1,000,000)~~ (\$2,500,000) adjusted for inflation. The annual cost limitation shall be cumulative and at no time shall exceed, but may equal, one two million five hundred thousand dollars ~~(\$1,000,000)~~ (\$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 shall 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.

calendar quarter in the year immediately preceding varies from the first revision of such deflator for the calendar quarter ending December 31, 1983.

11. 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, excluding marine birds and mammals. 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.

12. 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 laced deliberately or accidentally on the leased lands by the Lessee or its agents. the map shall be updated at the discretion of the State.

13. 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 the 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 population.

14. 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.

15. SCIENTIFIC ADVISORY COMMITTEES

Scientific Advisory Committees will be established by the State to assist in the review of studies and 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.

Exhibit 4

Proposed Amendments to Exhibit D
Accounting Procedures for Determining
Net Profit Share Payment for State Oil and Gas Leases

Several changes have been made in Exhibit "D" the Accounting Procedures of the Net Profit Share Lease. These modifications are proposed based on discussions and comments from industry and the Petroleum Accountants Society of Los Angeles. Although the changes are not significant they will clarify the application of accounting procedures set forth in the original document. The clarifications included:

1. Federal windfall profit taxes are allowable costs only at times prior to the month in which net profit payments commence. Thereafter, windfall profit taxes are not an allowable cost.
2. The trust account to be established after the commencement of production based on the estimated amortized cost of dismantling, abandonment and removal of wells and facilities will include an overhead allowance. The principal of such account shall not be used for any abandonment made prior to final field abandonment which may commence before production ceases.

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MINUTE PAGE	1601

3. Overhead shall not be charged on: a) the value of windfall profit taxes; b) interest on investment; and c) the amortized dismantling, abandonment and restoration contributions because the contribution includes overhead on such estimated expenditures. Overhead will be charged and shown as a separate item on the net profit statement when dismantlement, abandonment and restoration expenditures are actually incurred.

These changes affect pages D-12, 16, 19 & 20 and are shown on Exhibit 4A.

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EXHIBIT 4A

1 (2) If surplus Material is moved from the NPSL
2 Project Area, no charge shall be made to NPSL Operations
3 for a distance greater than the distance to the nearest
4 reliable supply store, Recognized Barge Terminal or
5 Railway Receiving Point unless agreed to by the
6 Executive Officer. No charge shall be made to NPSL
7 Operations for moving Material to other properties owned
8 by or under the control of the Lessee unless agreed to
9 by the Executive Officer.

10 (3) In the application of subparagraphs d(1) and
11 d(2) of this section, there shall be no equalization of
12 actual gross trucking costs of \$400 or less, excluding
13 accessorial charges.

14 e. Contract services. Except when excluded by paragraph f
15 of this section and/or section 6c, the Cost of services and
16 utilities provided under contract by Outside Parties and which
17 constitute proper and necessary NPSL Operations or support for
18 NPSL Operations, and rental charges paid to Outside Parties for
19 the rental of equipment used in the NPSL Project Area in support
20 of NPSL Operations, may be charged to NPSL Operations.

21 f. Legal expenses. Expense of handling, investigating and
22 settling litigation or claims, discharging of liens, payments of
23 judgments and amounts paid for settlement of claims incurred in
24 or resulting from NPSL Operations, or necessary to protect or
25 recover the NPSL Property, are allowable, except those Costs
26 listed in section 6g as unallowable. Allowable charges include
27 the salaries and wages of Lessee's legal staff and expense of

D-12.

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Equipment and facilities that are not listed shall be charged on a basis consistent with the nature of the use.

(3) In lieu of charges in paragraph g(1) of this section, the Lessee may elect to use average commercial rates prevailing in the vicinity of the NPSL Project Area less 20 percent. For equipment for which no commercial rate exists, the Lessee shall submit the basis for determining such Costs to the Executive Officer for approval.

h. Damages and losses to NPSL Property. All Costs necessary for the repair or replacement of NPSL Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident or other causes not covered by insurance, except those resulting from Lessee's gross negligence or willful misconduct. Any settlement received from an insurance carrier should be credited to NPSL Operations when received.

i. Taxes. All taxes, except income taxes, federal windfall profit taxes and other taxes based upon income or profits that are assessed or levied upon or in connection with NPSL Operations and which have been paid by the Lessee. Allowed taxes shall include, but are not limited to, production, severance, State of California windfall profit taxes if applicable to total Production, excise, ad valorem, and mineral taxes. Federal windfall profit taxes are allowable ~~until~~ only at times prior to the month in which net profit payments to the State commence.

- 1 p. Dry or bottom hole contributions to wells drilled by
- 2 Outside Parties within 1,489 feet of the exterior boundary of the
- 3 NPSL for information relative to the exploration or development
- 4 of the NPSL.
- 5 q. Costs of permits and licenses for the NPSL Operation.
- 6 r. Costs of Outside Substances, less Cost recoveries, used
- 7 as injection for production, repressuring, pressure maintenance,
- 8 cycling or other primary, secondary or tertiary recovery
- 9 purposes.
- 10 s. Costs of required work commitment for the NPSL.
- 11 t. Charges for cleaning, dehydration, desulphurization and
- 12 compression required for making the Production marketable.
- 13 u. Dismantling, abandonment and restoration Costs of NPSL
- 14 Property. Following commencement of production, estimated
- 15 dismantling, abandonment and removal Costs of wells and
- 16 facilities including overhead allowance, charged as NPSL Property
- 17 and restoration of the NPSL Project Area may be included as
- 18 direct operating costs on a monthly basis and, if included, must
- 19 be amortized on a unit-of-production basis. The initial amount
- 20 amortized per BTU equivalent equals the estimated Cost (without
- 21 regard to inflation) determined in accordance with generally
- 22 accepted accounting principles as of the commencement of
- 23 production for the NPSL, divided by the number of BTU equivalents
- 24 represented by the proved reserves of the NPSL as determined
- 25 under Financial Accounting Standard Board rules as of that time.
- 26 The amount amortized per BTU equivalent may be redetermined not
- 27 more than once every two years at the commencement of the

1 Lessee's fiscal year and not later than five years prior to the
2 estimated date of final abandonment of the NPSL Tract, by
3 dividing the number of BTU equivalents represented by the proved
4 reserves of the NPSL as of the time of redetermination into the
5 difference between the then-estimated Cost for abandonment of the
6 wells and facilities on or in support of the NPSL and the
7 cumulative amortization already charged as of that time for the
8 NPSL Property. The amount of dismantling, abandonment and
9 removal Costs charged as a direct operating cost and amortized
10 shall be invested in a State of California interest bearing trust
11 account as a cash reserve for the purpose of paying the final
12 Cost of abandonment of the NPSL Project Area. The Lessee and the
13 State shall have the privilege of withdrawing their proportionate
14 net profit percentage share of the earned interest on the
15 anniversary date of the trust account. The selection of the
16 trust account, the periodic interest rates, and withdrawal and
17 use of the principal shall be approved by the State. The
18 principal shall not be used for any abandonment made prior to
19 final field abandonment which may commence before production
20 ceases. If, upon abandonment of all wells and facilities for the
21 NPSL and restoration of the NPSL Project Area, the actual Costs,
22 less salvage value (if any), are less than the total amount
23 amortized for such purposes for the NPSL Property, the excess
24 amortization funded must be included in the Production Revenue
25 Account for the purposes of determining the Lessee's Net Profit
26 Share Base. If, upon abandonment of all wells and facilities on
27 the NPSL and restoration of the NPSL, the actual Costs, less

D-20.

1 c. Overhead shall not be charged on the value of

2 (1) Legal expenses (section 4f);

3 (2) Ad valorem taxes on personal property or
4 mining rights rendered for NPSL Property;

5 (3) Windfall profit taxes;

6 (4) Amortized dismantling, abandonment and
7 restoration contributions;

8 ~~(3)~~ (5) Outside Substances charged to the NPSL
9 (section 4r);

10 ~~(4)~~ (6) Credits for Material charged under section 4c
11 that are salvaged, returned or used for the benefit of
12 non-NPSL Operations; and

13 (7) Interest for Allowance for Investment Recovery.

14 6. Unallowable Costs

15 The following Costs shall not be charged as Direct or
16 Joint Costs to NPSL Operations:

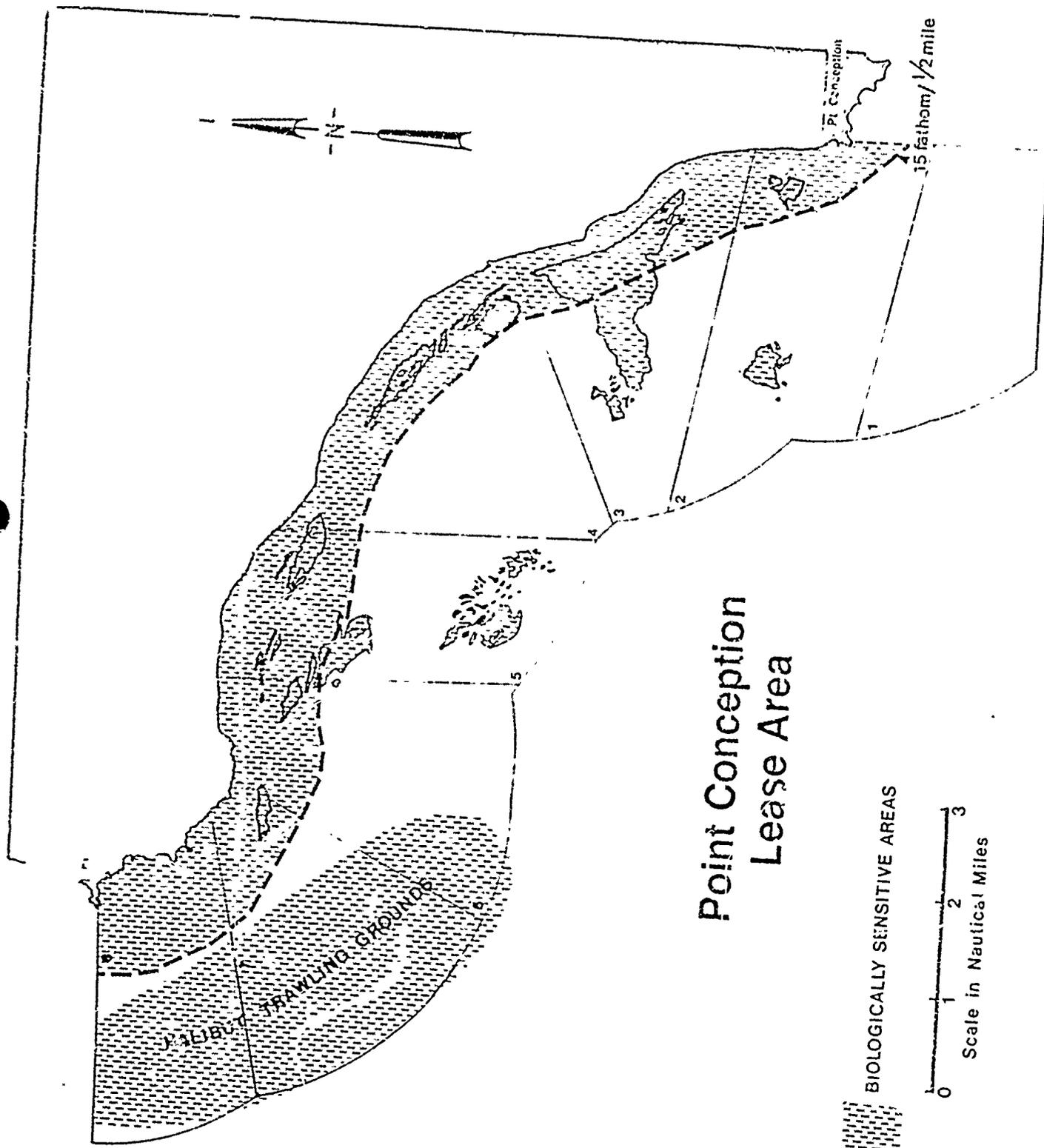
17 a. Bidding and pre-lease environmental Costs and lease
18 rentals for the first three years of the Lease;

19 b. Interest, except as permitted under sections 4g and 9;

20 c. Depreciation, depletion, amortization or any other charge
21 for investment recovery, except as explicitly provided by the
22 Allowance for Investment Recovery calculated according to section
23 9, for Material charged to a NPSL account under section 4c;

24 d. Research and development Costs, except that this type of
25 Cost shall not be construed to cover the resolution of specific
26 technical problems confronting NPSL Operations, specific
27 engineering design problems related to equipment or facilities

D-22.



Point Conception Lease Area

BIOLOGICALLY SENSITIVE AREAS

0 1 2 3
Scale in Nautical Miles

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