

MINUTE ITEM
This Calendar Item No. C79
was approved as Minute Item
No. 79 by the State Lands
Commission by a vote of 2
to 0 at its 7/11/97
meeting.

CALENDAR ITEM
C79

A 35, 37

S 18

07/11/97

W 40718

PRC 2199.1

PRC 2894.1

PRC 2920.1

A. Willard

G. Scott

J. Planck

**CONSIDER APPROVAL OF THE PROPOSED DEVELOPMENT PLAN
FOR OIL & GAS LEASE NOS. PRC 2199.1, PRC 2894.1 AND PRC 2920.1
SANTA BARBARA COUNTY**

BACKGROUND:

Oil & Gas Lease Nos. PRC 2199.1, PRC 2894.1 and PRC 2920.1 were issued between July 25, 1958, and August 18, 1962, to Chevron U.S.A. (Chevron) and Shell Western E&P(SWEPI). The Commission approved an assignment of SWEPI's interests to Molino Energy Company LLC (Molino) on August 3, 1994. A separate calendar item requests the remaining interests in these leases be assigned from Chevron to Molino, and, in turn, that a 40 percent undivided interest in these leases be assigned from Molino to Benton Oil and Gas Company Inc. (Benton).

A Final Molino Gas Project EIR was produced in June, 1996, and was approved by the County of Santa Barbara in September, 1996, subject to a number of conditions which are outlined in the County's "Conditions of Approval" dated September 3, 1996. Molino and Benton submitted a Proposed Development Plan for the leases on May 15, 1997. The applicants propose to develop the offshore gas fields by drilling from an onshore drill site in Gaviota, in an area designated by the California Coastal Commission and the County of Santa Barbara as a "Consolidated Oil and Gas Planning Area" using "extended reach" drilling technology. Commission staff recommend approval with conditions as stated in the recommendations section.

STATUTORY AND OTHER REFERENCES:

- A. Public Resources Code section 6800, et. seq.
- B. Public Resources Code section 8750, et. seq.
- C. California Code of Regulations: Title 2, Division 3, Articles 3 through 3.4 and Article 3.6

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PERMIT STREAMLINING ACT DEADLINE:

September 18, 1997

OTHER PERTINENT INFORMATION:

1. An EIR was prepared and certified for this project by the County of Santa Barbara, Sch. No. 95031016. The California State Lands Commission staff has reviewed such document and Mitigation Monitoring Plan adopted by the lead agency. On September 3, 1996, the County of Santa Barbara Board of Supervisors unanimously approved the Final Environmental Impact Report for this project (CEQA Findings attached herewith as Exhibit B), and issued the Conditions of Approval for the Final Development Plan (94-FDP-024), Conditional Use Permit (94-CP-063), and Oil and Gas Exploration and Production Plan (94-PP-001), a copy of which is attached herewith as Exhibit C.
2. On September 11, 1996, the California Coastal Commission considered and approved the Santa Barbara County Local Coastal Plan amendment which would allow Molino to proceed with the proposed development.
3. During the administrative process before the County of Santa Barbara and the California Coastal Commission all environmental groups except *Get Oil Out* withdrew their opposition to the project.
4. The onshore drilling and production site will be approximately three acres in size, and located within an area designated by the County as a Consolidated Oil and Gas Planning Area. Activities at the site will be limited to well drilling, separation of gas and natural gas liquids, and gas dehydration, in accordance with the County's site designation.
5. The project will be developed in several Phases. There will be various amounts of drilling and facility construction during each phase. A proposed schedule of the activities and the phases is attached herewith as Exhibit D.
6. The site is a marine facility as that term is defined in Public Resources Code section 8750.
7. Findings made in conformance with the State CEQA Guidelines (Title 14, California Code of Regulations, sections 15091 and 15096) are contained

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in Exhibit B, attached hereto.

8. A Statement of Overriding Considerations made in conformance with the State CEQA Guidelines (Title 14, California Code of Regulations, section 15093) is contained in Exhibit B, attached hereto.

EXHIBITS:

- A. Location Maps of Oil and Gas Leases and Proposed Facility
- B. Santa Barbara County CEQA and Administrative Findings
- C. Santa Barbara County Conditions of Approval (Sept. 3, 1996)
- D. Proposed Schedule for the Molino Gas Project

IT IS RECOMMENDED THAT THE COMMISSION:

1. FIND THAT AN EIR, EIR #95-EIR-002, STATE CLEARINGHOUSE #95031016, WAS PREPARED AND CERTIFIED FOR THIS PROJECT BY THE COUNTY OF SANTA BARBARA AND THAT THE COMMISSION HAS REVIEWED AND CONSIDERED THE INFORMATION CONTAINED THEREIN.
2. ADOPT THE FINDINGS MADE IN CONFORMANCE WITH TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTIONS 15091 AND 15096(h), AS CONTAINED IN EXHIBIT B, ATTACHED HERETO.
3. ADOPT THE MITIGATION MONITORING PROGRAM, AS CONTAINED IN EXHIBIT C, ATTACHED HERETO.
4. ADOPT THE STATEMENT OF OVERRIDING CONSIDERATIONS MADE IN CONFORMANCE WITH TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15093, AS CONTAINED IN EXHIBIT B, ATTACHED HERETO.
5. APPROVE THE LEASE DEVELOPMENT PLAN AS SUBMITTED MAY 15, 1997, BY MOLINO ENERGY COMPANY, LLC, AND BENTON OIL AND GAS COMPANY, INC., SUBJECT TO THE FOLLOWING CONDITIONS:
 - A. COMMISSION STAFF ENGINEERING APPROVAL OF INSTALLATION OF FACILITIES, WELL DRILLING AND LOCATIONS;

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- B. COMMISSION STAFF SYSTEM SAFETY REVIEW AND APPROVAL;
 - C. AN APPROVED OIL SPILL CONTINGENCY PLAN;
 - D. COMPLIANCE WITH METERING, DRILLING AND PRODUCTION INSPECTION BY COMMISSION STAFF PURSUANT TO THE TERMS AND CONDITIONS OF THE LEASES AND STATE LANDS COMMISSION REGULATIONS;
 - E. AN APPROVED OPERATIONS MANUAL, PURSUANT TO TITLE 14. CALIFORNIA CODE OF REGULATIONS SECTIONS 2170 THRU 2175.
6. APPROVE THE DEVELOPMENT PLAN AS SUBMITTED MAY 15, 1997 BY MOLINO ENERGY COMPANY, LLC, AND BENTON OIL AND GAS COMPANY, INC., SUBJECT TO THE REQUIREMENTS AND INSPECTIONS SET FORTH IN PUBLIC RESOURCES CODE SECTION 8750 ET. SEQ.
7. DELEGATE TO THE EXECUTIVE OFFICER OR HIS DESIGNEE, THE AUTHORITY TO EXECUTE ANY DOCUMENTS OR APPROVALS RELATED TO THE CONDITIONS OUTLINED IN ABOVE AND FOR ALL SUBSEQUENT PHASES OF THE PROJECT AS OUTLINED IN THE SUBJECT DEVELOPMENT PLAN.

EXHIBIT A

Figure ES-3 Proposed Project Location

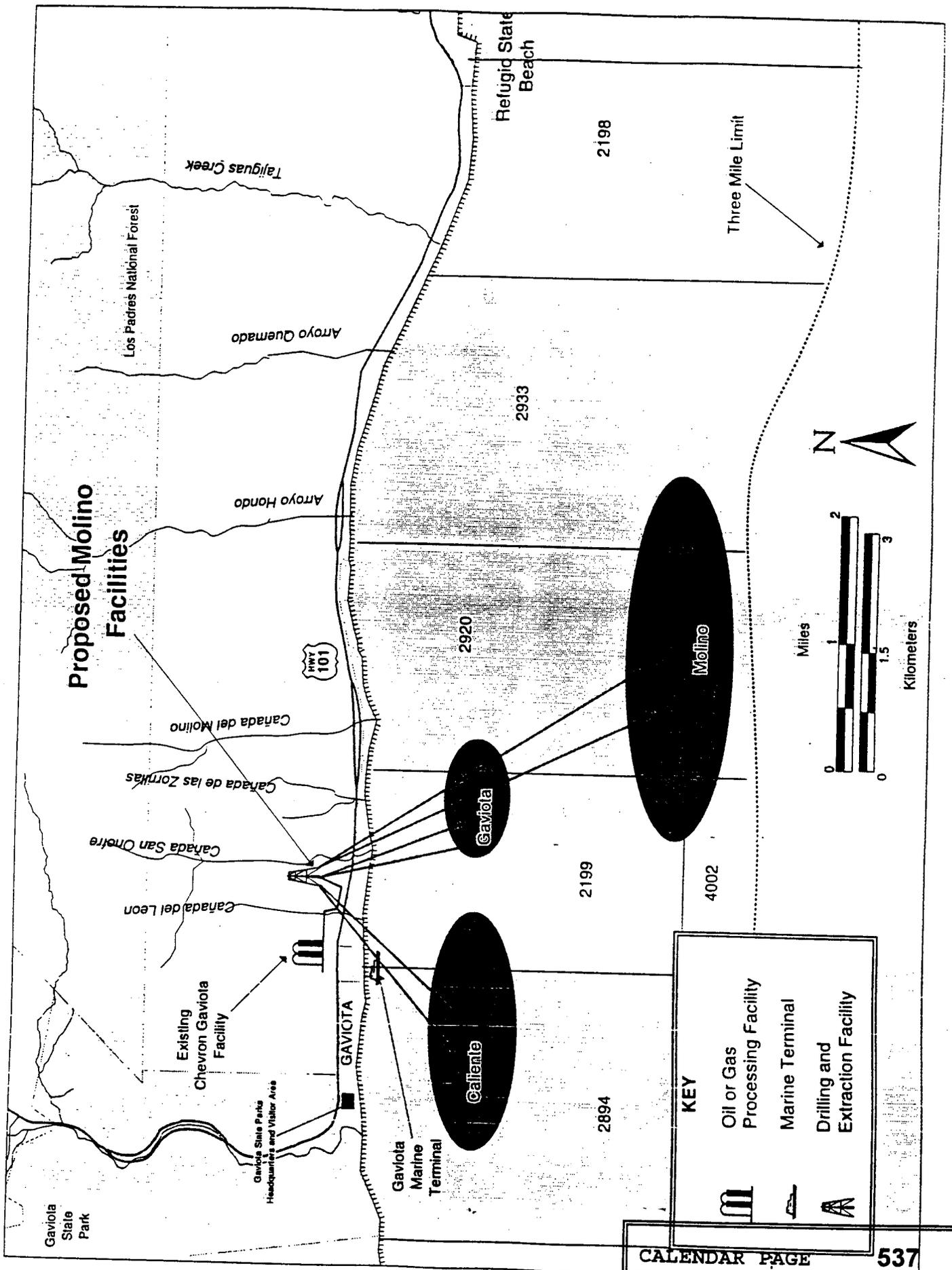


Figure ES-1 Gaviota Consolidated Oil and Gas Processing Site Boundary and Consolidated Oil and Gas Planning Area Boundary

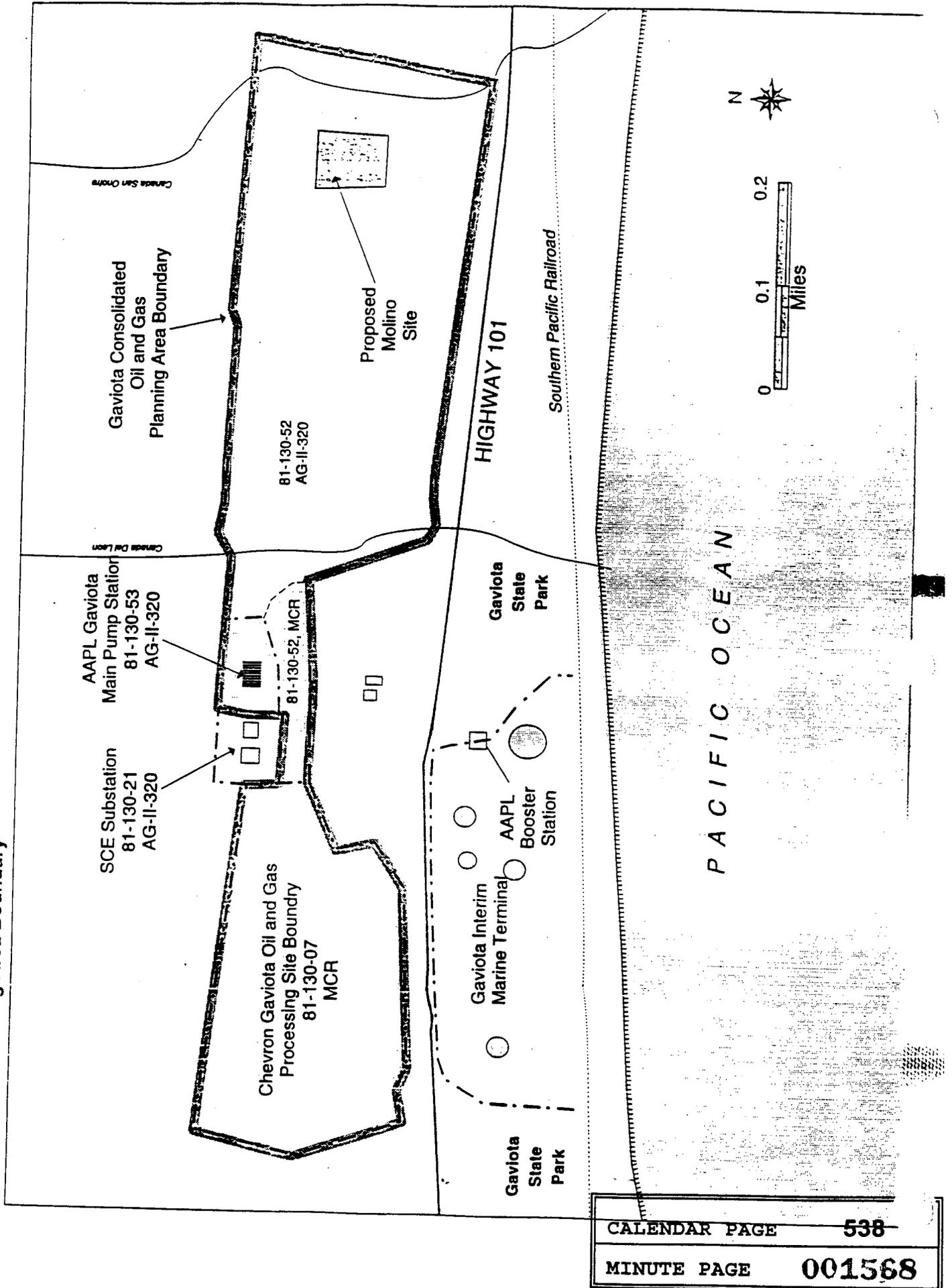


EXHIBIT B

CEQA AND ADMINISTRATIVE FINDINGS

1.0 CEQA FINDINGS

FINDINGS PURSUANT TO PUBLIC RESOURCES CODE §21081 AND THE CALIFORNIA ENVIRONMENTAL QUALITY ACT GUIDELINES §15090 AND §15091:

1.1 CONSIDERATION OF THE EIR

The Final Environmental Impact Report (EIR), 95-EIR-02, was presented to the Board of Supervisors and all voting members of the Board have reviewed and considered the EIR and its appendices prior to approving this proposal. In addition, all voting Board members have reviewed and considered testimony and additional information presented at or prior to the public hearing on September 3, 1996. The EIR reflects the independent judgement of the Board of Supervisors and is adequate for this proposal.

1.2 FULL DISCLOSURE

The Board of Supervisors finds and certifies that the Final EIR constitutes a complete, accurate, adequate and good faith effort at full disclosure under CEQA. The Board further finds and certifies the Final EIR has been completed in compliance with CEQA.

1.3 LOCATION OF RECORD OF PROCEEDINGS

The documents and other materials which constitute the record of proceedings upon which this decision is based are in the custody of the Clerk of the Board of Supervisors at 105 E. Anapamu Street, Santa Barbara, CA 93101.

1.4 FINDINGS THAT CERTAIN UNAVOIDABLE IMPACTS ARE MITIGATED TO THE MAXIMUM EXTENT FEASIBLE

The Final Impact Report for the Molino Gas Project identifies six environmental impacts which cannot be fully mitigated and are considered significant and unavoidable (Class I). The impacts occur in the following issue areas: Risk of Upset/Hazardous Materials, Biology and Visual Resources. To the extent the impacts remain significant and unavoidable, such impacts are acceptable when weighed against the overriding social, economic, legal, technical and other considerations, including effects on employment for highly trained workers set forth in the Statement of Overriding Considerations included herein. Each of the Class I impacts identified in the Final EIR is discussed below, along with the appropriate findings per CEQA Guidelines §15091.

Risk Of Upset/hazardous Materials

Impact Summary: During the exploration phase of the project, natural gas liquids (NGL) will be transported by truck to the Chevron processing facility. There is the potential for spills which could have significant consequences should the NGL ignite. During the full production phase,

NGL will be transported by a new, high pressure pipeline to the Chevron facility. There is the potential for pipeline ruptures which could result in fire and explosions.

Mitigation Measures: In order to reduce the potential impacts of NGL spills, trucking will only be permitted during the exploration phase of the project (Phase I) to minimize the volume of NGL transported by truck. In addition, the truck transportation would not be allowed to occur between the hours of 4-6 p.m. to avoid peak rush hour traffic in the area. In order to reduce the impacts of NGL pipeline transportation, Molino Energy Company will be required to implement the following safety mitigation measures: Personnel training for potential NGL accidents and spills; extensive internal and external pipeline corrosion prevention equipment and procedures; colored marker buried immediately above the pipeline to reduce the possibility of third party damage; extensive performance testing of the pipeline warning systems, pipeline block valves at creek crossings and development and implementation of Emergency Response and Hazardous Materials Management Plans. No other measures are known that would reduce the impact to a level of insignificance.

Biology

Impact Summary: During the exploration and full production phases, sensitive species or habitats may be impacted by direct or incidental damages caused by accidents associated with the project. Impacts could be caused by fire, explosions, spills of NGL or other hazardous materials and construction activities. Approximately four acres of the endangered species Gaviota tarplant would be eliminated by the project. Approximately five acres of native grassland would also be eliminated by the project.

Mitigation Measures: All emergency response and related plans will be required to include site-specific measures to protect sensitive habitats from direct or incidental damages caused by accidents. The plans will include procedures to minimize damage due to clean-up and repair operations, as well as measures for the restoration of biological resources to pre-accident conditions. A Gaviota tarplant mitigation plan will be developed, in cooperation with the California Department of Fish and Game, to reduce impacts. Molino Energy Company will also be required to contribute to the mitigation bank on the Gaviota Tarplant Reserve. To reduce the impacts to native grassland, bunch grass will be used in the revegetation effort. No other measures are known that would reduce the impact to a level of insignificance.

Visual Resources

Impact Summary: Operation of the 180 foot drill rig during the exploration and full production phases of the project would subject visual receptors on U.S. Highway 101 to partial views of the drill rig mast head.

Mitigation Measures: Because of the height and location of the drill rig in close proximity to Highway 101, there are no mitigation measures that would reduce this impact. However, future operators would have to provide funding for the Coastal Resource Enhancement Fund (CREF) for offsite coastal resource enhancement. Facility and ancillary equipment could be screened from public view by appropriate landscaping measures and facility design. The area already supports significant oil and gas development and the additional visual impact of the drill rig and production equipment, although significant, would be less obtrusive there than in other undeveloped areas of the coast.

1.5 FINDINGS THAT CERTAIN IMPACTS ARE MITIGATED TO INSIGNIFICANCE BY CONDITIONS OF APPROVAL.

The Final EIR (95-EIR-02) also identifies several subject areas for which the project is considered to cause or contribute to significant, but mitigable environmental impacts. Each of these impacts is discussed below along with the appropriate findings as per CEQA Guidelines §15091:

Risk Of Upset/Hazardous Materials

Impact Summary: There is the potential for spills of NGL and other hazardous substances within the drilling and production facility.

Mitigation Measures: Safety, Inspection, Maintenance and Quality Assurance Program and Hazard and Operability analyses will be prepared for the facility. These mitigation measures have been found to mitigate this impact to a level of insignificance.

Air Quality

Impact Summary: Reactive organic compounds emissions from operation of the Molino Gas Project would exceed the County's Significance Criteria for operational emissions and would exacerbate the existing ozone exceedances. Emissions associated with the well test flaring would lead to an exceedance of the 1-hour state NO_x air quality standard. Emissions produced during construction and pipeline installation would exacerbate the existing ozone and PM₁₀ exceedances.

Mitigation Measures: Molino Energy Company will be required to provide offsets if required by the APCD, or provide other offsite emission reductions. Molino Energy Company will have to install either a steam assisted flare, a thermal oxidizer, or an open pipe flare instead of the proposed air assisted flare to reduce operational impacts. In order to reduce overall emission levels, the following mitigation measures will be enforced: Water will be applied to all disturbed areas to reduce dust; all disturbed soils will be stabilized; a person will be designated to monitor dust control measures; all streets will be swept at the end of the day; dust control measures will be recorded on the construction plans; traffic speeds will be regulated on unpaved roads; catalytic converters will be installed on all internal combustion engines; all diesel engines will have their

timing retarded, use high pressure injectors and diesel fuels with a low sulfur content, and be maintained in proper operating condition. These mitigation measures have been found to mitigate these impacts to insignificant levels.

Geology

Impact Summary: There will be a short term increase in the amount of soil that is exposed to wind and water erosion. The topsoil has moderate to very high erosion potential and increased sedimentation may occur. The pipeline may become exposed over the long term due to flowing water. Potentially expansive soils could result in subgrade movements, causing distress to structures, slabs or equipment. Potentially liquefiable soils could result in ground failure and damage to structures. Differential settlement may occur on the equipment pad if structures are placed across cut/fill boundaries. Soil expansion potential along the pipeline alignment is potentially high, possibly resulting in differential stress. Severe, seismic-induced ground motion could occur at the site.

Mitigation Measures: Erosion control measures will be implemented. A soils engineer will complete soils analyses and review impacts and mitigation measures once the project design is complete. Expansive soils could be overexcavated or structures could be supported on shaft foundations. If necessary, facilities will be placed only on cut pads or designed to tolerate potential differential settlement. The pipeline will be required to be buried at a depth of at least six feet in the creek crossing. Drill site facilities and pipelines will be designed to withstand maximum credible earthquakes of magnitude 7.5, and associated ground accelerations. These mitigation measures have been found to mitigate these impacts to insignificant levels.

Hydrology

Impact Summary: There is the potential for short term sedimentation impacts due to grading on steep slopes and disturbance of creek bottoms for pipeline installation. The road and pipeline creek crossing could create significant impacts to the current or course of water movement during periods of high flow. Flooding may result in exposure of the pipeline, due to scour.

Mitigation Measures: Erosion and sediment control plans will be implemented. Construction that will impact waterways will be restricted to methods set forth in an approved erosion control plan, but preferably during low flow periods. These mitigation measures have been found to mitigate these impacts to insignificant levels.

Biology

Impact Summary: Construction activity adjacent to streams or wetlands could cause landslides resulting in localized burial of stream or wetland habitats. During construction and operations, spillage of motor vehicle fuels, lubricants, coolants, hydraulic fluids, etc., into streams, wetlands

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and/or Gaviota tarplant habitat could degrade these sensitive resources. The use of invasive weeds or native but non-local plant materials for facility landscaping may reduce habitat values. If water is present in Cañada de Leon during construction, aquatic wildlife may be crushed by construction traffic and downstream habitats would experience increased turbidity and sedimentation. Construction may affect oaks and other native trees in woodland habitats at Cañada San Onofre and Cañada de Leon. For sensitive wildlife species that may breed within the proposed impact areas, construction impacts could cause mortality or disruption of breeding. Disturbed areas may be colonized by non-native or non-local species.

Mitigation Measures: Construction fencing or similar barriers will be used to keep traffic away from sensitive habitats. State and local agency approved environmental monitors will be used during all grading in native habitats. Construction corridors will be clearly marked and all work will remain within the boundaries. No equipment maintenance will occur within 100 feet of a stream or wetland. Local sources for native plants will be utilized; if non-native species must be used (e.g., for facility screening), measures should be taken to prevent them from spreading beyond the facility. The construction schedule will be adjusted to coincide with periods of minimal streamflow. The creek will be flumed across the zone that would be used prior to the grading of the crossing and silt fences will be installed immediately downstream of the construction area. If avoidance of oak trees is not possible, any isolated oaks or native specimen trees (greater than six inches diameter at breast height) removed or killed as a result of the project will be replaced in the same habitat at a ratio of ten saplings for each tree removed. Pre-construction surveys will be performed to assess the occurrence of sensitive animal species and individuals will be relocated out of the impact areas (amphibians and reptiles only). Breeding sites will be avoided. In all construction areas, topsoil will be salvaged and exposed slopes will be restored and revegetated. Specific requirements will be developed in a Restoration, Erosion Control and Revegetation Plan. These mitigation measures have been found to mitigate these impacts to insignificant levels.

Archaeological/Cultural Resources

Impact Summary: The closest archaeological site boundary, based on surface artifacts alone, is 100 feet from the drill site pad area. The subsurface extent of the site has not been investigated and could potentially extend northward as far as this impact area. Due to the intact nature of the archaeological site, drill pad construction would potentially disturb these significant deposits.

Mitigation Measures: A supplemental Phase I archaeological investigation will be performed in the southern portion of the drill pad and in the vicinity of the artifact isolate. Ground disturbances in all areas containing archaeological materials will be monitored by a County-approved archaeologist to ensure that any outstanding resources previously unidentified in Phase 1, 2 or 3 investigations are recorded. Local Native American representatives will be retained by the applicant to monitor all ground disturbances, including archaeological investigations, within cultural resource areas. The applicant and the County will conduct a pre-construction workshop

with cultural resource specialists, Native American monitors and construction personnel, stressing the importance of cultural resources and discussing penalties for their illicit disturbance. These mitigation measures have been found to mitigate these impacts to insignificant levels.

Fire Protection

Impact Summary: Adequate fire protection water has not been incorporated into the project design for the exploration phase. The applicant has not yet prepared an adequate Emergency Response Plan to deal with potential construction and operational incidents. There has been no impoundment basin proposed to surround the NGL storage tanks and truck loading racks to hold any NGL release per the National Fire Protection Association (NFPA 30). The fire protection system has not been adequately designed for the facility.

Mitigation Measures: Additional fire protection water will be provided for the exploration phase. An Emergency Response Plan, approved by the County's emergency response agencies, will be in place prior to construction activities. An impoundment basin will be constructed around the NGL storage area and the truck loading racks. A Fire Protection Plan, approved by the County Fire Department, will be in place prior to construction activities. These mitigation measures have been found to mitigate these impacts to insignificant levels.

Transportation/Circulation

Impact Summary: North and southbound travelers on U.S. Highway 101 could experience unsafe driving conditions or delays as a result of construction/operation traffic entering or exiting the All American Pipeline pump station access road.

Mitigation Measures: Truck traffic entering and exiting the site will be limited to off-peak commuting hours. This mitigation measure has been found to mitigate this impact to an insignificant level.

1.6 FINDINGS THAT IDENTIFIED PROJECT ALTERNATIVES ARE NOT FEASIBLE

The Final EIR, 95-EIR-02, prepared for the project evaluated alternatives to the proposed project. A no project alternative was considered along with alternative project locations and alternative methods of transporting Natural Gas Liquids as methods of reducing or eliminating potentially significant environmental impacts. The criteria used in this analysis of the alternative project sites and transportation routes were selected to address the major environmental and safety impacts that are typically associated with oil and gas development projects. In addition, criteria were developed to address other social issues such as land use implications and federal energy strategies. Technical and economic based criteria were developed to address issues associated with reservoir development and recovery. All alternatives are considered infeasible for the following reasons:

PROJECT ALTERNATIVES

No Project Alternative: Under the No Project Alternative scenario, none of the proposed project components would be constructed or operated and the gas reservoirs would not be developed. While there would be no environmental impacts associated with the No Project Alternative, it would not meet the project objectives and was dropped from further consideration.

Offshore Platform Alternative: This alternative was found to be inconsistent with four of the screening criteria. The emissions from platform operations would exceed the APCD's offset thresholds. The use of a platform could have severe impacts on the marine environment due to a spill during construction or operations. Additionally, the platform would be visible from great distances along Highway 101 and from Gaviota State Park. Given the increased costs of construction and operation of an offshore platform, this alternative was found to be economically infeasible given today's natural gas prices and was dropped from further consideration.

Gaviota Terminal Property: This alternative was found to be inconsistent with five of the screening criteria. The site is in an area of high level air emissions due to the proximity to the Chevron processing facility. Because the site would be close to the ocean there would be the possibility of a significant impact to the marine environment due to any spill or upset condition. Because of the distance from the main target reservoir, only a portion of the gas reserves could be accessed from this site, not allowing the applicant to meet the objectives of the project. Therefore, this alternative was dropped from further consideration.

Gaviota State Park Alternative: This alternative was found to be inconsistent with eight of the screening criteria. The site is located within a popular State Park area, frequented by local residents and out of town visitors. Use of this site would expose park visitors to the hazards and impacts of a natural gas drilling and production project. The proposed project would be inconsistent with the intent of the recreation zone district. The site is also very close to the ocean, and an operational upset could expose the marine environment to severe impacts. The site location and topography suggests that cultural resources may be present onsite. Because of the distance from the main target reservoir, only a portion of the gas reserves could be accessed from this site, not allowing the applicant to meet the objectives of the project and rendering this alternative economically infeasible. Therefore, this alternative was dropped from further consideration.

Brinkman Ranch Property Alternative: This alternative was found to be inconsistent with two of the screening criteria. The drill rig would be visible from Highway 101 for a distance of approximately three miles. Use of the site would not allow the applicant to fully access the Gaviota and Caliente reservoirs, thus not allowing the applicant to meet the objectives of the project. While this site does not offer any environmental advantages over the proposed project, it was carried forth through environmental analysis at the request of the applicant.

Chevron Processing Facility Alternative: This alternative was found to be inconsistent with four of the screening criteria. The site is in an area that has a high level of baseline air emissions due to the ongoing Chevron operations and proximity to the Gaviota Terminal. Use of this site for drilling would create potentially significant safety problems associated with the hazards of a well blowout adjacent to the existing oil and gas processing facility. A well blowout could lead to an unconfined vapor cloud explosion causing sufficient overpressure to damage the propane and butane storage bullets located at the Chevron facility. In addition to the serious safety concerns, use of the site would not allow the applicant to fully access the Molino reservoir, thus not allowing the applicant to meet the objectives of the project. With technology limiting recovery of natural gas reserves from this alternative site location to 60% of what can be recovered from the proposed project site, in addition to the higher costs associated with drilling from the Chevron facility site, this alternative would be economically infeasible and was dropped from further consideration.

Exxon Las Flores Canvon Alternative: This alternative was found to be inconsistent with four of the screening criteria. The site is in an area of high level baseline air emissions due to the proximity to the Exxon and POPCO facilities. Use of this site would not allow for the development of any of the gas reserves, due to the distance from the reservoirs. Development of this site would lead to the same results as the No Project Alternative but was considered as an alternative as it is one of the County's two oil and gas consolidated processing facility sites on the South Coast.

NGL TRANSPORTATION ALTERNATIVES

Use of Trucks during Full Production Phase: This alternative was found to be inconsistent with two of the screening criteria. Truck traffic would result in a substantial increase in operational air pollutant emissions over the proposed project. This alternative would also place additional hazardous materials on U.S. Highway 101 between the drilling site and the Chevron processing facility. This alternative could lead to an increased likelihood of a spill and resulting fire due to a truck accident. This alternative was dismissed from further consideration.

Reinjection of NGL Back into the Reservoirs: This alternative was found to be inconsistent with two of the screening criteria. Reinjection of the NGL would result in increased air emissions over the proposed project. In addition, it is not clear how reinjection of the NGL would affect reservoir productivity, possible leading to reduced recovery or reserves. Also, the loss of revenue from the sale of the NGL, along with the higher operating costs due to the reinjection compressors and wells, could shorten the economic life of the reservoirs. For these reasons, this alternative was dropped from further consideration.

All American Pipeline (AAPL) Route Alternative: This alternative was found to be inconsistent with one screening criterion. This alternative would require disturbing the AAPL corridor which has been successfully revegetated. This disturbance would result in significantly greater

environmental impacts than the proposed project since the proposed route would be placed in the shoulder of an existing roadway and use of the AAPL route would not eliminate any of the road construction impacts. Therefore, this alternative was dropped from further consideration.

1.7 STATEMENT OF OVERRIDING CONSIDERATIONS

The Final EIR for the Molino Gas Project identifies project impacts to biological resources, visual resources, risk of upset and hazardous materials as significant environmental impacts which are considered unavoidable and could occur as a result of the proposed project. Although no mitigation measures can completely eliminate the above mentioned impacts, many conditions of approval have been required to ensure that they are mitigated to the maximum extent feasible. Only the No Project alternative would completely eliminate these impacts. The Board of Supervisors therefore makes the following Statement of Overriding Considerations which warrants approval of the project notwithstanding that all identified impacts are not fully mitigated. Pursuant to §15043, 15092 and 15093 of the CEQA Guidelines, any remaining significant effects on the environment are acceptable due to overriding considerations. The significant environmental impacts identified in 95-EIR-02 are described below, by issue area, and mitigation measures are identified. This section concludes with the Statement of Overriding Considerations.

Risk of Upset/Hazardous Materials

Impact #1. The significant consequences of a Natural Gas Liquid (NGL) spill as a result of truck transportation during the exploration phase of project development.

Molino Energy Company is required to limit the transportation of NGL to the exploration phase (Phase 1) of project development and will conduct training for potential NGL truck accidents and spills. NGL truck traffic will also be restricted to non-peak hours. The County recognizes that pipeline transportation is the safest mode of transporting NGL and that truck transportation of NGL has been limited to the shortest period possible (18 months). However, although construction of the full production phase (Phase 2) NGL pipeline to the Chevron facility during Phase 1 would reduce truck safety impacts, it would also result in potentially unnecessary, significant biological, air quality and geologic impacts should Phases 2 and 3 not occur. Because long term development of the reserves is speculative, construction impacts from the pipeline construction would be too destructive to merit its construction for Phase 1 of the project. Allowing truck transportation to occur during Phase 1 is acceptable because sensitive resources along the proposed pipeline route will not be disturbed if Phase 2 development never occurs and the pipeline is not built.

Impact #2. The significant consequences of a NGL spill associated with pipeline transportation during Phases 2 and 3.

Molino Energy Company is required to conduct training for pipeline accidents and implement extensive internal and external corrosion prevention measures to assure pipeline integrity. The potential for pipeline incident will be reduced by placing colored markers above the pipeline to reduce the potential for third party damage and a pipeline leak detection system will be incorporated and tested at regular intervals. The County recognizes that the pipeline is located on property controlled by Molino Energy Company and is not accessible to the public and further recognizes that pipeline transportation of NGL is the safest form of transportation based on studies by the U.S. Department of Transportation. The impact of long term NGL transportation will be removed from the highway and placed in a pipeline. The impact of a pipeline leak are acceptable because all other alternative transportation methods cause more significant safety concerns. Also development of Phase 2 will provide the County additional construction and technical employment opportunities, and increased tax base, and increased royalties for the state, as enumerated in the concluding statement.

Biology

Impact #3. Sensitive species or habitats may be impacted by direct or incidental damage caused by accidents associated with the project, such as NGL pipeline ruptures and pipeline and facility fires and explosions.

Molino Energy Company is required to develop procedures for protection of sensitive species and habitats in each of the project emergency response plans. The County recognizes that the Molino Gas Project would be sited on a parcel that is contemplated for the development of oil and gas support facilities for offshore oil and gas production. As such, the impacts to sensitive species on this parcel, although mitigated to the maximum extent feasible, must be balanced against the intent of the County's Oil and Gas Consolidation Policies which limit industrialization of the South Coast. The County accepts this impact, but only within the two Consolidated Oil and Gas Planning Areas, because it limits the potential for additional sensitive resource impacts in other areas due to this type of oil and gas development.

Impact #4. The endangered species Gaviota tarplant would be impacted by roadway and facility construction.

Molino Energy Company is required to comply with the provisions of a California Department of Fish and Game Gaviota Tarplant Mitigation Plan and contribute to the mitigation bank for the Gaviota Tarplant Reserve to offset impacts to this sensitive species. The County recognizes that other potential project sites that do not contain Gaviota tarplant or its habitat would not meet the objectives of the project and/or would result in other significant impacts that would be harmful to human health and the environment. The County further recognizes that the Molino Gas Project

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would be sited on a parcel that is contemplated for the development of oil and gas support facilities for offshore oil and gas production. As such, the impacts to endangered species on this parcel, although mitigated to the maximum extent feasible, must be balanced against the intent of the County's Oil and Gas Consolidation Policies which limit industrialization of the South Coast. The County accepts this impact to occur to the Gaviota tarplant within the two Consolidated Oil and Gas Planning Areas because consolidated development reduces other impacts such as land use or other habitat loss, including Gaviota Tarplant habitat, due to redundant construction.

Impact #5. Native grassland habitat would be eliminated as a result of the construction of the pipeline roadway and the drilling and production facility.

Molino Energy Company is required to restore all disturbed areas, as appropriate, with native bunch grass. The success of the revegetation effort will be monitored by a County-approved biological specialist. The County recognizes that the impacts to local native grasslands is temporary and losses will be mitigated through the above mentioned revegetation effort. The County further recognizes that the Molino Gas Project would be sited on a parcel that is contemplated for the development of oil and gas support facilities for offshore oil and gas production. The applicant is also required to restore the site to its original condition and revegetate the site in accordance with a County approved plan. As such, the impacts to sensitive species on this parcel, although mitigated to the maximum extent feasible, must be balanced against the intent of the County's Oil and Gas Consolidation Policies which limit industrialization of the South Coast. The County accepts this impact to occur to native grassland within the two Consolidated Oil and Gas Planning Areas because consolidated development reduces other impacts such as land use or other habitat loss, including native grassland habitat, due to redundant construction.

Visual Resources

Impact #6. The drill mast will be visible for up to six years by sensitive receptors from both the north and southbound lanes of U.S. Highway 101.

There are no physical mitigation measures that can reduce the visual impact caused by the drill rig mast. However, Molino Energy Company's contribution to the Coastal Resource Enhancement Fund (CREF) would provide funding necessary to develop alternative, offsite mitigation such as coastal land acquisitions and restoration projects. The County recognizes that the technical requirements of the project require a drill rig of this height to meet the objectives of the project. Further, the County recognizes that the project is consistent with Coastal Land Use Plan Policy 4-3 which states in part, "the height, scale, and design of structures shall be compatible with the character of the surrounding natural environment, except where technical requirements dictate otherwise." Therefore, the County accepts this type of development to occur, but only within restricted geographical areas because it will provide construction and technical

employment opportunities, provide the County with a source of income from income and property taxes, and lead to state royalties from oil and gas production.

Upon due reflection and consideration, the Board of Supervisors finds the substantial benefits provided by the physical project outweigh the significant environmental impacts. In making this statement, we recognize in particular that the County will benefit by expanded employment. During the drilling phases, the Molino Gas Project will employ up to 30 drilling technicians for four years. During operations, approximately 6 permanent employees will be employed for the duration of the project, which is estimated at 20 years. Net fiscal gains to Santa Barbara County could be approximately \$12 million for property taxes over the life of the project, and an additional \$500,000 of taxes over the life of the project for the gas facility equipment. Approximate royalties for the State could reach \$166 million over the life of the project, with approximately \$27 million coming to the County if revenue sharing as currently proposed is passed. A new supply of natural gas which will increase energy availability consistent with the Bush and Clinton Administrations' National Energy Strategy of energy independence which promotes development of recoverable reserves and the use of natural gas, which has environmental benefits over other fossil fuels. It is estimated that the Molino Gas Project will produce up to 350 billion standard cubic feet of gas and 12 million barrels of condensate. Further, the County's Coastal Plan recognizes that directional drilling is a "constantly improving technology which will allow industry to reach further distances offshore, in some cases avoiding the need for offshore platforms to recover resources." implying the County's preference for onshore drilling as opposed to offshore platform construction. Therefore, it is concluded that although the project will result in significant, unavoidable impacts to the environment, its overall benefits outweigh the consequences associated with those impacts.

1.8 ENVIRONMENTAL REPORTING AND MONITORING PROGRAM

Public Resources Code §21081.6. requires the County to adopt a reporting or monitoring program for the changes to the project which it has adopted or made a condition of approval in order to mitigate or avoid significant effects on the environment. The approved project description and conditions of approval, with their corresponding permit monitoring requirements, are hereby adopted as the monitoring program for this project. The monitoring program is designed to ensure compliance during project implementation.

These conditions also require that an Environmental Quality and Assurance Program (EQAP) be prepared to ensure compliance during project implementation with those measures included in the project description and with those conditions imposed on the project in order to mitigate or avoid significant effects on the environment.

2.0 ADMINISTRATIVE FINDINGS - MOLINO GAS PROJECT

2.1 Article II Zoning Ordinance Findings: Exploration Plan

Pursuant to §35-158.4 of the proposed amendments to Article II, in addition to the findings set forth in §35-176.5, Exploration Plans, the following findings must be made:

1. *That exploration occurring within a County designated site for consolidated oil and gas processing does not jeopardize space requirements for existing and projected consolidated processing and does not subject operations to undue risk.*

The proposed Molino Gas Project would not be sited within a consolidated processing site. The Molino facilities would be developed on a site approximately 2,000 feet east of the Chevron Oil and Gas Processing Facility. The project site lies within an area defined in the EIR as the Gaviota Consolidated Oil and Gas Planning Area. This Planning Area is reserved for potential development space for onshore facilities that support offshore oil and gas development. The project EIR analyzed siting the Molino Gas Project within the industrially developed Gaviota processing site. This alternative was dismissed from further consideration because of the significant safety impacts that could occur because of the incompatibility of well drilling within the context of a processing facility, as currently configured. Because the Molino Gas Project will not jeopardize space requirements for existing and projected consolidated processing and will not subject the Chevron operations to any undue risk, the project may be found consistent with this finding.

2. *That exploration sites are collocated with other exploration and/or production sites approved after January 1, 1996, to the maximum extent feasible.*

The intent of this finding is to reduce redundant facilities, thereby reducing impacts to the environment. The Molino Gas Project would be the first development project of this type permitted under the proposed LCP amendments. As such, the exploration/production site cannot be collocated with other sites. However, the Molino Gas Project site is designed and would be constructed in such a manner as to minimize environmental impacts. This would be accomplished by requiring the development of site specific erosion control and revegetation plans, approved by the appropriate County and State agencies. Any future development of offshore oil and/or gas reservoirs from within the Gaviota Consolidated Oil and Gas Planning Area would have to demonstrate that the Molino site is infeasible if another site is to be considered.

Pursuant to §35-176.5 of Article II, an Exploration Plan shall only be approved if all of the following findings are made:

2.1.1 There are no feasible alternative locations for the proposed exploratory drilling program that are less environmentally damaging.

The EIR (95-EIR-02) for the proposed Molino Gas Project analyzed seven alternative project sites, three alternatives for the transportation of Natural Gas Liquids (NGL), and three alternatives for the Coastal Zoning Ordinance amendments. Of the seven alternative project sites, none offered any environmental or safety advantages over the proposed site or were either technically or economically infeasible. Therefore, the proposed site is consistent with the requirements of this finding.

2.1.2 Adverse environmental effects are mitigated to the maximum extent feasible.

The EIR prepared for the project, 95-EIR-02, identifies and discusses the potentially significant environmental impacts associated with the proposed project. The EIR concludes that the project will result in Class I impacts in the issue areas of risk of upset/hazardous materials, air quality, biology and visual resources. Imposition of permit conditions of project approval for Molino Energy will mitigate these Class I impacts to the maximum extent feasible, although significant impacts will remain. All Class II impacts identified in the EIR will be reduced to less than significant levels through implementation of permit conditions. All required mitigation measures identified in the EIR have been incorporated into the conditions of approval for this project consistent with this finding.

2.1.3 The project will not be detrimental to the health, safety, comfort, convenience and general welfare of the neighborhood and will not be incompatible with the surrounding area.

As discussed in 95-EIR-02, the project poses a significant risk to the public through exposure to the hazards of natural gas and gas liquids production and transportation. Specifically, travelers on U.S. Highway 101 would be exposed to this hazard during the exploration stage of the project when gas liquids are transported by truck to the Chevron facility. During the full production phase, travelers on Highway 101 could also be affected by plant and pipeline incidents involving flammable and explosive gas and liquids. These impacts will be mitigated to the maximum extent feasible by requiring that adequate safety standards are incorporated into plant and pipeline design, including emergency shut-down systems. Plant and pipeline safety will be monitored through a comprehensive safety, maintenance and inspection program. Other developments in the area are the Chevron oil and gas processing facility and the Gaviota Terminal. The proposed Molino Energy facility should appear relatively small in comparison to these other industrial developments and will be subordinate to the backdrop of the Santa Ynez Mountains.

In determining the overall land use compatibility of the Molino Energy project, County consolidation policies and isolation from heavily populated areas must be considered. Although existing development within the immediate project vicinity is coastal-related industry, recreational and agricultural uses are more typical of the surrounding area. While the industrial nature of the

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facility is dissimilar to the recreational and agricultural uses in the surrounding area, it is not incompatible with those uses, and does not dominate any area outside the facility boundaries given the existing larger industrial developments in the vicinity and the intent of the County's consolidation policies. The proposed project can be considered appropriately sited as it is located adjacent to existing facilities in an area designated to accommodate consolidation of oil and gas development.

In addition, pursuant to the Article II Coastal Zoning Ordinance (§35-317.8), the Planning Commission may impose reasonable conditions that require redesign of the project to protect persons and property in the neighborhood and to preserve and enhance the public health, safety and welfare. A condition (P-28) has been imposed to require, under certain conditions, a study to identify measures to reduce exposure to explosion overpressure impacts to the public (e.g., highway travelers). This measure will ensure that the public health, safety, and welfare is protected by reducing the extent to which emergency response personnel would be committed to emergency response at the facility and by reducing exposure of those personnel, as well as persons onsite, to harm.

2.1.4 The development is in conformance with the applicable provisions of Article II and the policies of the Coastal Land Use Plan.

The Article II Coastal Zoning Ordinance does not permit drilling into and production of offshore oil and gas reservoirs from onshore locations. As part of its project application, Molino Energy Company has proposed changes to Article II that would allow this type of activity to occur within a defined study area and specified zone districts. The applicant has also requested that height restrictions be relaxed to allow for this type of project throughout the coastal zone. With approval of these requested changes, the proposed gas drilling and production project can be found to conform with applicable provisions of Article II. As described in Section 7.3 of this staff report dated June 18, 1996 and incorporated herein by reference, the proposed project has also been found to conform with all applicable Coastal Land Use Plan policies.

2.1.5 The site is appropriate for subsequent oil and gas production, should the proposed drilling program be successful.

The drilling and production site was chosen because it offers access to three offshore gas reservoirs from a single, onshore area. Technical advances in the area of extended reach drilling will allow the Molino Energy Company to reach all target reservoir zones, with some down-hole depths greater than 20,000 feet. If the exploration phase confirms reservoir productivity, full production will commence and be conducted from the same drilling and production pad consistent with this finding. Additionally, the drilling site is located in the vicinity of an existing oil and gas processing facility that is fully equipped and permitted to handle additional production volumes consistent with the intent of the County's South Coast Consolidation policies.

2.2 Article II Zoning Ordinance Findings: Production Plan

Pursuant to §35-158.6 of the proposed amendments to Article II, in addition to the findings set forth in §35-176.10, Production Plans, the following findings must be made:

1. *That production occurring within a County designated site for consolidated oil and gas processing does not jeopardize space requirements for existing and projected consolidated processing and does not subject operations to undue risk.*

The proposed Molino Gas Project would not be sited within a consolidated processing site. The Molino facilities would be developed on a site approximately 2,000 feet east of the Chevron Oil and Gas Processing Facility. The project site lies within an area defined in the EIR as the Gaviota Consolidated Oil and Gas Planning Area. This Planning Area is reserved for potential development space for onshore facilities that support offshore oil and gas development. The project EIR analyzed siting the Molino Gas Project within the industrially developed Gaviota processing site. This alternative was dismissed from further consideration because of the significant safety impacts that could occur because of the incompatibility of well drilling within the context of a processing facility, as currently configured. Because the Molino Gas Project will not jeopardize space requirements for existing and projected consolidated processing and will not subject the Chevron operations to any undue risk, the project may be found consistent with this finding.

2. *That production sites are collocated with other exploration and/or production sites approved after January 1, 1996, to the maximum extent feasible.*

The intent of this finding is to reduce redundant facilities, thereby reducing impacts to the environment. The Molino Gas Project would be the first development project of this type permitted under the proposed LCP amendments. As such, the exploration/production site cannot be collocated with other sites. However, the Molino Gas Project site is designed and would be constructed in such a manner as to minimize environmental impacts. This would be accomplished by requiring the development of site specific erosion control and revegetation plans, approved by the appropriate County and State agencies. Any future development of offshore oil and/or gas reservoirs from within the Gaviota Consolidated Oil and Gas Planning Area would have to demonstrate that the Molino site is infeasible if another site is to be considered.

3. *Sufficient pipeline capacity to transport processed crude oil, processed natural gas, and heavier fractions of natural gas liquids is reasonably available for the life of the project.*

Molino Energy Company will construct a Natural Gas Liquids (NGL) pipeline as part of the full production phase of the Molino Gas Project. The NGL pipeline will connect to the Chevron Gaviota Oil and Gas Processing Facility, 2,000 feet to the west. As a condition of project approval (Condition #Q-6), Molino Energy Company will be required to operate the NGL

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pipeline on a common carrier basis, providing potential, future operators at the site with an alternative to truck transportation. To ensure that the NGL pipeline is built, Molino Energy Company is required by permit Condition #O-1 to cease trucking NGLs offsite within 18 months of beginning operations. The project can be found consistent with this finding.

Pursuant to §35-176.10 of Article II, a Production Plan shall only be approved if all of the following findings are made:

2.2.1 There are no feasible alternative locations for the proposed production drilling program that are less environmentally damaging.

The EIR (95-EIR-02) for the proposed Molino Gas Project analyzed seven alternative project sites. Of the seven alternative project sites, none offered any environmental or safety advantages over the proposed site or were either technically or economically infeasible. Therefore, the proposed site is consistent with the requirements of this finding.

2.2.2 Adverse environmental effects are mitigated to the maximum extent feasible.

The EIR prepared for the project, 95-EIR-02, identifies and discusses the potentially significant environmental impacts associated with the proposed project. The EIR concludes that the project will result in Class I impacts in the issue areas of risk of upset/hazardous materials, air quality, biology and visual resources. Imposition of permit conditions of project approval for Molino Energy will mitigate these Class I impacts to the maximum extent feasible, although significant impacts will remain. All Class II impacts identified in the EIR will be reduced to less than significant levels through implementation of permit conditions. All required mitigation measures identified in the EIR have been incorporated into the conditions of approval for this project consistent with this finding.

2.2.3 The project will not be detrimental to the health, safety, comfort, convenience, and general welfare of the neighborhood and will not be incompatible with the surrounding area.

As discussed in the EIR (95-EIR-02), the project poses a potential significant risk to the public through exposure to the hazards of natural gas and gas liquids production and transportation. Specifically, travelers on Highway 101 would be exposed to this hazard during the exploration stage of the project when gas liquids are transported by truck to the Chevron facility. During the full production phase, travelers on Highway 101 could also be affected by plant and pipeline incidents involving flammable and explosive gas and liquids. These impacts will be mitigated to the maximum extent feasible by requiring that adequate safety standards are incorporated into plant and pipeline design, including emergency shut-down systems. Overall plant and pipeline safety will be monitored through a comprehensive safety, maintenance and inspection program. Other developments in the area are the Chevron Oil and Gas Processing Facility and the Gaviota

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Terminal. The proposed Molino Energy facility should appear relatively small in comparison to these other industrial developments and will be subordinate to the backdrop of the Santa Ynez Mountains.

In determining the overall land use compatibility of the Molino Energy project, County consolidation policies and isolation from heavily populated areas must be considered. Although existing development within the immediate project vicinity is coastal-related industry, recreational and agricultural uses are more typical of the surrounding area. While the industrial nature of the facility is dissimilar to the recreational and agricultural uses in the surrounding area, it is not incompatible with those uses, and does not dominate any area outside the facility boundaries given the existing larger industrial developments in the vicinity and the intent of the County's consolidation policies. The proposed project can be considered appropriately sited as it is located adjacent to existing facilities in an area designated to accommodate consolidation of oil and gas development.

In addition, pursuant to the Article II Coastal Zoning Ordinance (§35-317.8), the Planning Commission may impose reasonable conditions that require redesign of the project to protect persons and property in the neighborhood and to preserve and enhance the public health, safety and welfare. A condition (P-28) has been imposed to require, under certain conditions, a study to identify measures to reduce exposure to explosion overpressure impacts to the public (e.g., highway travelers). This measure will ensure that the public health, safety, and welfare is protected by reducing the extent to which emergency response personnel would be committed to emergency response at the facility and by reducing exposure of those personnel, as well as persons onsite, to harm.

2.2.4 The development is in conformance with the applicable provisions of Article II and the policies of the Coastal Land Use Plan.

The Article II Coastal Zoning Ordinance does not address drilling into and production of offshore oil and gas reservoirs from onshore locations. As part of its project application, Molino Energy Company has proposed changes to Article II that would allow this type of activity to occur within a defined study area and specified zone districts. The applicant has also requested that height restrictions be relaxed to allow for this type of project throughout the coastal zone. With approval of these requested changes, the proposed gas drilling and production project can be found to conform with applicable provisions of Article II. As described in Section 7.3 of this staff report dated June 17, 1996 and incorporated herein by reference, the proposed project has also been found to conform with all applicable Coastal Land Use Plan policies.

2.3 Article II Zoning Ordinance Findings: Development Plan

The pipeline portion of the Molino project requires a Development Plan. Pursuant to §35-174.7.1 of Article II, a Development Plan shall only be approved if all of the following findings are made:

2.3.1 The site for the project is adequate in size, shape, location and physical characteristics to accommodate the density and level of development proposed.

The natural gas drilling and production facility and pipeline would be constructed and operated on approximately four acres of a 80 +/- acre parcel on the Gaviota coast, approximately one-half mile east of the Chevron Gaviota Oil and Gas Processing Facility. The Chevron facility occupies a portion of the parcel that is zoned for oil and gas processing; the remaining portion of the parcel is zoned for agriculture. An air monitoring station is just north of the project site; no other development occurs on the parcel. The general character of the surrounding area is comprised of low rolling hills, riparian corridors, and native and non-native grassland vegetation in a rural setting. The area supports light grazing activities. A geologic report was prepared by Geotechnical Consultants, Inc. (1996) to specifically analyze the proposed drill site. The report concludes that the project is geotechnically feasible. However, the report also recommends that further subsurface exploration, laboratory testing of soils, and engineering analysis be conducted to determine foundation requirements and roadway sections. The major geotechnical conditions that will affect the project are the presence of boulders in areas requiring grading, control of runoff from the site, and erosion control at the stream crossings on the access road west of the site. Although the area is classified as a high seismic risk (as is the majority of Santa Barbara County), no active faults are known to exist in the vicinity of the drill site and associated pipeline. Mitigation measures identified in the EIR have been included in the conditions of approval for this project to ensure that adequate design standards are implemented.

2.3.2 Adverse impacts are mitigated to the maximum extent feasible.

The EIR prepared for the project, 95-EIR-02, identifies and discusses the potentially significant environmental impacts associated with the proposed project. The EIR concludes that the project will result in Class I impacts in the issue areas of risk of upset/hazardous materials, air quality, biology and visual resources. Imposition of permit conditions of project approval for Molino Energy will mitigate these Class I impacts to the maximum extent feasible, although significant impacts will remain. All Class II impacts identified in the EIR will be reduced to less than significant levels through implementation of permit conditions. All required mitigation measures identified in the EIR have been incorporated into the conditions of approval for this project consistent with this finding.

2.3.3 Streets and highways are adequate and properly designed to carry the type and quantity of traffic generated by the proposed use.

As discussed in the EIR (95-EIR-02) and in Section 7.0 of this staff report dated June 17, 1996 and incorporated herein by reference, Highway 101 and other area streets are adequate and properly designed to carry the type and amount of traffic estimated to be generated by the proposed project.

2.3.4 There are adequate public services, including but not limited to fire protection, water supply, sewage disposal, and police protection to serve the project.

Adequate public services are available to serve the proposed project. Fire Station #18 is located approximately two miles west of the proposed drill site and is specifically equipped to respond to emergency calls from oil and gas facilities in the Gaviota vicinity. Adequate operational and fire protection water is available from an existing well located just north of the Chevron facility. Chevron personnel are prepared to respond to emergency situations that may occur outside of their processing facility. No permanent sewage disposal system is needed for this project due to the minimal staffing requirements however, the applicant will provide portable sanitation systems and bottled water for employees during construction and drilling operations. Electricity is provided to the site by existing Southern California Edison transmission lines. A site security plan will be prepared for the facility and will be reviewed and approved by the Sheriff's Office to ensure adequate police protection. Based on this discussion, the finding can be made that there are adequate public services available to serve the proposed project.

2.3.5 The project will not be detrimental to the health, safety, comfort, convenience and general welfare of the neighborhood and will not be incompatible with the surrounding area.

As discussed in the EIR (95-EIR-02), the project poses a potential significant risk to the public through exposure to the hazards of natural gas and gas liquids production and transportation. Specifically, travelers on Highway 101 would be exposed to this hazard during the exploration stage of the project when natural gas liquids are transported by truck to the Chevron facility. During the full production phase, travelers on Highway 101 could also be affected by plant and pipeline incidents involving flammable and explosive gas and liquids. These impacts will be mitigated to the maximum extent feasible by requiring that adequate safety standards are incorporated into plant and pipeline design, including emergency shut-down systems. Overall plant and pipeline safety will be monitored through a comprehensive safety, maintenance and inspection program. Other industrial developments in the area are the Chevron processing facility and the Gaviota Terminal. Compared with these facilities, the Molino facility should appear relatively small in character and will be subordinate to the backdrop of the Santa Ynez Mountains.

In addition, pursuant to the Article II Coastal Zoning Ordinance (§35-317.8), the Planning Commission may impose reasonable conditions that require redesign of the project to protect persons and property in the neighborhood and to preserve and enhance the public health, safety and welfare. A condition (P-28) has been imposed to require, under certain conditions, a study to identify measures to reduce exposure to explosion overpressure impacts to the public (e.g., highway travelers). This measure will ensure that the public health, safety, and welfare is protected by reducing the extent to which emergency response personnel would be committed to emergency response at the facility and by reducing exposure of those personnel, as well as persons onsite, to harm.

2.3.6 The project is in conformance with the applicable provisions of Article II and the Coastal Land Use Plan.

The Article II Coastal Zoning Ordinance does not permit drilling into and production of offshore oil and gas reservoirs from onshore locations. As part of its project application, Molino Energy Company has proposed changes to Article II that would allow this type of activity to occur within a defined study area and specified zone districts. The applicant has also requested that height restrictions be relaxed to allow for this type of project throughout the coastal zone. With approval of these requested changes, the proposed gas drilling and production project can be found to conform with applicable provisions of Article II. As described in Section 7.3 of this staff report dated June 17, 1996 and incorporated herein by reference, the proposed project has also been found to conform with all applicable Coastal Land Use Plan policies.

2.3.7 In designated rural areas the use is compatible with and subordinate to the scenic, agricultural and rural character of the area.

Equipment associated with the proposed project includes a 180 foot drilling rig and numerous gas production facilities in heights up to 20 feet. The gas production facilities would be screened from public view through landscape screening and the natural topography. The drill rig, however, will not be completely screened from public views, with approximately 150 feet of the drilling mast visible from the north and southbound lanes of Highway 101. The general character of the surrounding area is comprised of low rolling hills, riparian corridors, native and non-native grassland vegetation. One-half mile to the west is the Chevron Gaviota Oil and Gas Processing Facility on the north side of Highway 101 with the Gaviota Terminal on the south side. The visible portions of the drilling rig would expand the visual impacts of coastal industrialization to a coastal plane historically used for agriculture. However, compared with the Chevron Processing Facility and Gaviota Terminal, the Molino facility, once the drill rig is removed, should appear relatively small in character and will be subordinate to the backdrop of the Santa Ynez Mountains.

In determining the overall land use compatibility of the Molino Energy project, County consolidation policies and isolation from heavily populated areas must be considered. Although

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existing development within the immediate project vicinity is coastal-related industry, recreational and agricultural uses are more typical of the surrounding area. While the industrial nature of the facility is dissimilar to the recreational and agricultural uses in the surrounding area, it is not incompatible with those uses because of the distance from those uses, and does not dominate any area outside the facility boundaries given the existing larger industrial developments in the vicinity and the intent of the County's consolidation policies. The proposed project can be considered appropriately sited as it is located adjacent to existing facilities in an area designated to accommodate consolidation of oil and gas development.

2.3.8 *The project will not conflict with any easements required for public access through, or public use of a portion of the property.*

No public access easements exist on the subject properties affected by the project.

2.4 Article II Zoning Ordinance Findings: Conditional Use Permit

Because the pipeline crosses three ESHs -- Canada de Leon, native grasslands and Gaviota Tarplant -- a Conditional Use Permit must be issued if the project is to be approved. Pursuant to §35-172.8 of Article II, a Conditional Use Permit application shall only be approved if all nine required findings can be made. The first eight findings are identical to the eight findings required to be made for approval of a Final Development Plan and are discussed in Section 2.3 above, and are incorporated herein by reference. The following is an addition to one of those findings addressed above and the ninth finding required to be made for approval of a Conditional Use Permit.

2.4.1 *Adverse impacts are mitigated to the maximum extent feasible.*

In addition to those findings made in 2.3.2 above, the following addresses the impacts from pipeline construction to Gaviota Tarplant. The Coastal Zoning Ordinance includes requirements in the ESH Overlay district for mitigation to significant environmental resources, including rare plant species. Section 35-97.7 states that the method for protecting habitat areas includes placing conditions of approval on the proposed development. The ESH Overlay section suggests as possible conditions: limiting the size of the proposed work; requiring replacement of vegetation; establishing monitoring procedures and maintenance activity; staging the work over time; deed restrictions and conservation and resource easements. All of these approaches has been applied to the Molino project to limit the extent of impact to Gaviota Tarplant habitat, and to ensure the viable habitat remains to sustain the plant (see Conditions C-1, H-1, H-5, H-6, H-7, H-8, R-2). Thus, although a CUP is required for the pipeline because of its impact to Gaviota Tarplant as an ESH, the provisions in the CZO that guide mitigation to ESHs envision the type of conditioning that has been used on the Molino project. The finding that maximum feasible mitigation can be made.

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2.4.2 The proposed use is not inconsistent with the intent of the zone district.

The purpose and intent of the AG-II-320 zone district is to provide large prime and non-prime lands in the rural areas of the County for long term agricultural use. The zone district allows industrial facilities such as oil and gas drilling and production sites pursuant to specific permits outlined in Division 9, Oil and Gas Facilities as described in §35-150 of the Article II Coastal Zoning Ordinance. The Board's recent amendments to the CZO require a Conditional Use Permit for onshore drilling into offshore reservoirs for agricultural-zoned parcels within the two consolidated planning areas. The parcel proposed for the Molino Gas Project, app. 80 acres, is zoned AG-II but has had only limited grazing on it since the Chevron Gaviota facility was constructed on an adjacent parcel. The parcel does not contain prime agricultural soils. Further, the Molino Gas Project will only use 4 acres to develop the production site, which will have a minimal impact on the limited grazing activities. At project termination, Molino Energy Company will be required to abandon project facilities and restore the site to a condition consistent with the underlying zone district designation. This shows that the Molino Gas Project can occur within an agricultural parcel and not impact the agricultural activities. Therefore, the proposed project is not inconsistent with the intent of the AG-II-320 zone district.

2.5 Article II Zoning Ordinance Findings: Oil and Gas Pipelines

Pursuant to §35-157.4 of Article II, in addition to the findings required for Development Plans set forth in §35-174.4, no Final Development Plan which proposes new pipeline construction outside of industry facilities shall be approved unless the following findings are made:

2.5.1 Use of available or planned common carrier and multiple-user pipelines is not feasible.

There are no available or planned common carrier or multiple-user pipelines that could serve the Molino Gas Project. However, the Molino Gas Project NGL line will be required by project Condition Q-6 to be operated on a common carrier basis for future, potential shippers. Therefore, the project may be found consistent with this finding.

2.5.2 Pipelines will be constructed, operated and maintained as common carrier or multiple-user pipelines unless the Planning Commission determines it is not feasible. Applicants have taken into account the reasonable, foreseeable needs of other potential shippers in the design of their common carrier and multiple-user pipelines. Multiple-user pipelines provide equitable access to all shippers with physically compatible stock on a nondiscriminatory basis.

The Molino Gas Project NGL pipeline is required by condition of approval Q-6 to be operated on a common carrier basis. Therefore, the project may be found consistent with this finding.

2.5.3 New pipelines are routed in approved corridors that have undergone comprehensive environmental review unless the Planning Commission determines that such corridors are not available, safe, technically feasible, or the environmentally preferred route for the proposed new pipeline.

The Final EIR for the Molino Gas Project (95-EIR-002) analyzed the alternative of placing the Molino Gas Project NGL pipeline within the All American Pipeline (AAPL) corridor, just north of the proposed drilling and production site. The AAPL corridor was analyzed in EIR SCH No. 83110902 and was determined to be the environmentally preferred route over other alternatives. The County's pipeline consolidation policy 6-14A requires that all new pipelines be restricted to approved corridors that have undergone comprehensive environmental review unless the Planning Commission determines that such corridors are not available, safe, technically feasible or the environmentally preferred route. In the case of the Molino Gas Project NGL line, the project EIR concluded that the alternative of placing the NGL pipeline along the existing access road to the production site was environmentally superior to the AAPL route, because placing the NGL pipeline in the AAPL corridor would result in significant, additional impacts to Gaviota tarplant which has reestablished along the AAPL route. Therefore, the project may be found consistent with this finding.

2.5.4 When a new pipeline route is proposed, it is environmentally preferable to all feasible alternative routes.

As stated in the finding analysis in 2.5.3 above, the Molino Gas Project NGL pipeline route along the site access road was determined to be the environmentally preferred alternative. The existing AAPL corridor was dropped from further consideration after it was determined that additional excavation along the right-of-way would impact the State-listed, endangered Gaviota tarplant that has reestablished along the route. Impacts resulting from the construction of the proposed NGL pipeline route were determined to be minimal. Therefore, the project may be found consistent with this finding.

2.5.5 When a new pipeline is proposed, the project's environmental review has analyzed the cumulative impacts that might result from locating additional pipelines in that corridor in the future.

The new NGL pipeline route would initially transport only the Molino Gas Project NGL production to the Chevron Processing Facility. The cumulative project analysis in the EIR determined that future projects occurring in the Gaviota Consolidated Oil and Gas Planning Area could be accomplished from the single Molino site, based on the location of the accessible, offshore reservoirs. It is likely that the Molino Gas Project NGL pipeline corridor could serve all future development from the Gaviota site. In selecting the proposed NGL pipeline route as the environmentally preferred alternative, the EIR concludes that the initial construction of the NGL pipeline route, if mitigated as proposed, would result in minimal impacts to the

environment. The majority of the proposed route would follow an existing site access road. Re-excavation of the pipeline corridor to install additional pipelines would likely result in similar impacts that also could be mitigated to a level of insignificance. Therefore, the project may be found consistent with this finding.

2.5.6 Concurrent or "shadow" construction has been coordinated with other pipeline projects that are expected to be located in the same corridor where practical.

There are no other pipeline projects that are proposed in the same corridor or area of the Molino Gas Project that could coordinate construction timing. Therefore, the project is not inconsistent with this finding.

CREF FINDING

Finding for Imposition of Mitigation Fee: requiring payment to the Coastal Resource Enhancement Fund (CREF) as a condition of permit approval to offset a Class I significantly adverse impact to the visual quality of the rural and coastal landscape.

Specific Findings Required by Law:

California enacted Assembly Bill No. 1600 (AB-1600) in 1978 which applies to any action of a local agency "establishing, increasing, or imposing a fee as a condition of approval of a development project" on or after January 1989. This legislative act requires cities and counties to identify the purpose of the fee, the use of the fee, and the reasonable relationship between the purpose and use of the fee. It further requires cities and counties to determine that the burden (i.e., amount) of the fee imposed is reasonably related to the use. Where monetary exactions are imposed on a case by case basis, the County must also meet the "rough proportionality" test set forth in *Dolan v. City of Tigard*.

Applicable Impact:

The proposed drilling rig for the Molino Gas Project is 180 feet high and, due to this exceptional height, requires an amendment to the height restrictions currently contained in the Coastal Zoning Ordinance to be permitted in the Coastal Zone. Based on the Environmental Impact Report (EIR) analysis, the introduction of a rig this high into a rural landscape constitutes a significantly adverse visual impact (its proposed location is approximately 350-400 yards from U.S. 101 and approximately 1,000 yards from the Gaviota Oil and Gas Processing Facility). While the EIR (Section 5.11.3.3) identifies this impact as unmitigable via direct measures (except for the no project alternative, the proposed location is the environmentally preferred one of all the alternatives examined) it does identify the payment of mitigation fees to the Coastal Resources Enhancement Fund (CREF) as a means of offsetting these Class I impacts to the visual quality of the area to the maximum extent feasible. The fee being imposed by condition N-1 is \$71,880 annually in 1997 dollars (i.e., as of January 1997 on the Consumer Price Index) while the drilling rig is standing for primary drilling operations and \$17,970 in 1997 dollars each time a rig is used for well workovers that entail a significantly shorter period of time than primary drilling operations.

Use of Fee Being Imposed:

The Board of Supervisors established the Coastal Resources Enhancement Fund (CREF) in the mid-1980s as a condition of permit approval on four offshore oil and gas projects. Its purpose is to offset impacts to coastal tourism, coastal recreation, coastal visual aesthetics, and coastal environmental resources that cannot be mitigated to insignificance via direct measures. It applies to both offshore platforms and onshore support facilities, including processing and storage

facilities. Visual impacts necessitating mitigation fees result from facilities that interfere with coastal terrace viewsheds; these facilities are incompatible with the otherwise rural landscape seen from U.S. 101 and the Southern Pacific's rail line. The exaction of the mitigation fee provides an alternative to prohibiting oil and gas development in scenic viewsheds by offsetting to the maximum extent feasible the impact to the public caused by the adverse visual intrusion; moreover, it provides decision-makers with evidence to support LCP policy consistency analysis and to make overriding considerations that Class I environmental impacts have been mitigated to the maximum extent feasible.

In 1987, the Board of Supervisors adopted formal guidelines for the CREF that established a methodology for calculating the amount of impact fees and established a methodology for allocating the fees to public projects (including those ventured by non-profit organizations) that ensures the use of the fees has a reasonable relationship to the purpose of the exaction.

To offset significantly adverse impacts to visual aesthetics, the Board of Supervisors typically uses CREF to fund capital improvements that help preserve relatively pristine coastal lands, either through acquisition, conservation easement, and other administrative activities such as planning necessary to accomplish the same goal. The Board of Supervisors also uses CREF to enhance public access to areas that provide special panoramic views as a means of offsetting the significantly adverse impacts posed by oil and gas facilities on the coast.

Calculation of Fees:

Since 1988, the calculation of CREF fees has been based upon a point system from 0-5 (where 5 represents the maximum impact) to classify the severity of an impact to a particular coastal resource, such as visual quality. The specific level of severity is judged in large part on a comparative basis to impacts from similar types of projects (i.e., other oil and gas projects). The severity of visual impacts is further based on the extent of intrusion by the source of the visual impact based on the existing character of the specific viewshed being impacted; i.e., erecting a new stack in the same immediate location where other stacks already exist is not considered as severe as erecting a stack in a previously unimpacted area. Exxon has been assessed 2 points annually for visual impacts of its two new platforms (Harmony and Heritage) for the life of their existence between 5-8 miles offshore in the Santa Ynez Unit. Chevron had initially been assessed the maximum 5 points annually for visual impacts from its onshore processing facility at Gaviota, the three offshore platforms associated with the Point Arguello field, and shorter-term impacts on the pipeline corridor. This assessment was adjusted to 4 points in the second five-years because the platforms are often hidden by fog and the pipeline corridor had been widely revegetated. In both Exxon's and Chevron's cases, the assessment occurs for the life of the operation.

For the Molino Gas Project, proportionality with other oil and gas projects on the Gaviota Coast would result in an assessment of 3 points annually, but only for the period of time in which the

drill rig is present. The 3 points are justified by the drill rig's proximity to U.S. 101 (between 350 and 400 yards) and the Southern Pacific railroad.

The County has equated each point assessed for CREF fees at \$20,000 in 1988 dollars, and adjusts this amount every five years to reflect inflation, using the Consumer Price Index (CPI) for the Los Angeles--Long Beach metropolitan area. There is no precise formula for determining the exact cost of offsetting the loss of visual amenities along a relatively pristine coastal terrace which is largely rural. However, mathematical precision is not required; the County is required only to "make some effort to quantify its findings" supporting any fee, beyond "conclusory statements". *Dolan v. City of Tigard* (1994) 114 S. Ct. 2309, 2322. Therefore, such efforts to quantify the visual impact fee may work best if accomplished in a somewhat fiscally conservative manner to ensure the fee does not pose an undue burden. The \$20,000 figure is based on a conservatively low estimate of incremental loss in recreational, visual, tourist amenities due to the adverse impacts of offshore and related onshore oil and gas development. The CPI adjustment after the first five years, made for 1993, changed the dollar equivalency for each point to \$23,960.

For the Molino Gas Project's drill rig, the amount of the exaction is considered to be reasonable if it equals or is conservatively less than the costs of the capital improvements required to offset the significantly adverse impact to the coastal viewshed. Such offsets are limited to acquisitions and easements, and come at high costs; for example acquisition of Santa Barbara Shores cost \$11.5 millions, acquisition of Wilcox cost \$3.5 million, acquisition of two parcels in the Carpinteria Salt Marsh cost \$0.5 million (none of these costs reflecting administrative, legal, master planning, and post-acquisitional management costs). Other coastal preservational efforts along the Gaviota coast cost \$40,000 just for preliminary tasks. The Molino drill rig is planned to be used four years for primary drilling of exploratory and production wells. Except for short-term well workovers thereafter, the total exaction will be \$287,520. Although this amount is not, in itself, sufficient to fund an entire capital improvement to offset the impact, it is determined to be a sufficient amount to leverage other funding sources.

Summary of Finding:

The CREF fee imposed is an annual assessment of \$71,880, commencing with the deployment of the drill rig and lasting until removal of the drill rig. Use of the rig thereafter for shorter workovers of wells will be limited to one-fourth the annual contribution, or \$17,970. All payments after 1997 will be adjusted according to the Consumer Price Index to reflect 1997 dollars, and will fall due in January of each year.

Considering the experience of preserving coastal land and providing coastal access, both for purposes of enhancing those remaining visual amenities of the coast and its rural landscape, this amount is considered to be fiscally conservative, and roughly proportionate to the cost of

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mitigating visual impacts of the Molino Gas Project. The fees will be dedicated towards capital improvements of the coast that enhance its visual aesthetics.

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EXHIBIT C

CONDITIONS OF APPROVAL

MOLINO GAS PROJECT
Final Development Plan (94-FDP-024),
Conditional Use Permit (94-CP-063), and
Oil and Gas Exploration and Production Plan (94-PP-001)

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MOLINO GAS PROJECT FINAL DEVELOPMENT PLAN CONDITIONS

(94-FDP-024, 94-CP-063, & 94-PP-001)

September 3, 1996

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A. GENERAL

A-1 Project Description

This Final Development Plan, 94-FDP-024, Conditional Use Permit, 94-CP-063, and Oil and Gas Exploration and Production Plan, 94-PP-001, (collectively referred to as the "FDP"), is based upon and limited to the project described in the FDP application including subsequent modifications, the EIR project description including subsequent modifications, CEQA analysis and current conditions of approval as set forth below.

In summary, the project description is as follows (see 95-EIR-002, State Clearinghouse No. 95031016 and application 94-FDP-024 for a complete project description):

Molino Energy Company will develop sweet (no Hydrogen Sulfide) natural gas reserves in State Tidelands leases PRC 2920, PRC 2199 and PRC 2894 from an onshore drilling and production site just north of U.S. Highway 101. The drilling and production pad is approximately 2,000 feet east of the Chevron Gaviota Oil and Gas Processing Facility on Assessor's Parcel No. 81-130-052. Three offshore gas fields are targeted for development: the Molino, Caliente and the Gaviota. The project will be developed in three phases. Phase 1 will involve testing of the reservoirs for productivity by drilling one or two wells and constructing minimal test production equipment at the drill site capable of handling 15 million standard cubic feet of gas per day (MMSCFD). If the test well(s) prove favorable, Phase 2 will commence and involve the drilling of additional wells into the reservoirs, construction of a 60 MMSCFD gas production facility and the construction of a 3,000 foot Natural Gas Liquids (NGL) pipeline to the Chevron Gaviota Facility for NGL transportation. Phase 3 would involve the testing and eventual full production of the additional reservoirs.

Phase 1 production is anticipated to be approximately 10 to 15 MMSCFD of sweet gas and Phase 2 and 3 gas production is anticipated to peak at approximately 60 MMSCFD. During Phase 1, the produced NGLs will be transported by truck to the Chevron Facility for processing; Phase 2 and 3 NGL production will be transported to the Chevron Facility via the new NGL pipeline. Phase 2 and 3 NGL production is anticipated to average approximately 1,030 barrels per day.

The project has an anticipated life of approximately twelve to twenty years. Upon project completion, all above ground facilities will be removed and the site will be restored consistent with a County approved abandonment and restoration plan. The NGL pipeline will be purged, capped and abandoned in place.

A-2 Acceptance of Permit Conditions

Acceptance of this permit shall be deemed as acceptance of all conditions of this permit and waiver of any objections thereto.

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A-3 Grounds for Permit Modification or Revocation

Failure to abide by and faithfully comply with any conditions for the granting of this permit shall constitute grounds for the modification or revocation of this permit by the Planning Commission

A-4 Court Costs

Molino Energy Company agrees as a condition of the issuance and use of this permit to defend at its sole expense any action brought against the County by a third party challenging either its decision to issue the permit or the manner in which the County is interpreting or enforcing the conditions of the permit. Molino Energy Company will reimburse County for any court costs and attorneys fees which the County may be required by a court to pay as a result of such action where Molino Energy Company defended or had control of defense of the suit. County may, at its sole discretion, participate in the defense of any such action, but such participation shall not relieve Molino Energy company of its obligation under this condition. County shall bear its own expenses for its participation in the action.

A-5 Costs of Implementing and Enforcing Conditions

The County's permit compliance program for oil and gas projects requires each permit holder to fund County monitoring of each permit holder's compliance efforts. This condition, along with Condition C-1, shall serve as implementation of the EIR Mitigation Monitoring Program in 95-EIR-002 for 94-FDP-024. Molino Energy Company agrees to participate in this permit compliance program and to fund all reasonable expenses incurred by the County and/or County contractors for permit condition implementation, reasonable studies, and emergency response directly and necessarily related to monitoring and enforcement of these permit conditions and applicable County ordinances. Molino Energy Company shall provide a deposit for these expenses and shall reimburse County within 30 days of invoicing by County.

A-6 Failure to Comply

In the event that Molino Energy Company fails to comply with any order of the Santa Barbara County Administrative Officer or the Board of Supervisors issued hereunder or any injunction of the Superior Court, it shall be liable for a civil penalty for each violation to the extent imposition of such civil penalty is authorized by and imposed under applicable laws, rules, or regulations.

Said civil penalty shall be in addition to Molino Energy Company's obligation to reimburse the County of Santa Barbara (and others) for actual damages suffered as a result of Molino Energy Company's failure to abide by the conditions of this permit or by the orders of the County Administrative Officer, the Board of Supervisors, or any court of competent jurisdiction.