

**CALENDAR ITEM  
C42**

A 67  
S 35

08/20/10  
WP 5636.1  
S.Young

**ASSIGNMENT AND AMENDMENT OF LEASE**

**LESSEE/ASSIGNOR:**

San Pedro Bay Pipeline Company  
111 West Ocean Blvd.  
Long Beach, CA 90802

**ASSIGNEE:**

San Pedro Bay Pipeline Company,  
111 West Ocean Blvd.  
Long Beach, CA 90802

**AREA, LAND TYPE, AND LOCATION:**

10.72 acres, more or less, of sovereign lands in the Pacific Ocean, San Pedro Bay, offshore of the cities of Seal Beach and Huntington Beach, Orange County.

**AUTHORIZED USE:**

Continued operation and maintenance of an existing 16-inch diameter crude oil pipeline serving federal oil and gas leases within the Outer Continental Shelf (OCS) in the Beta Unit Oil Field.

**LEASE TERM:**

20 years, beginning March 25, 2008.

**CONSIDERATION:**

\$190,440 per year with the State reserving the right to fix a different rent periodically during the lease term, as provided in the lease.

**PROPOSED AMENDMENTS:**

1. Amend the liability insurance provision of the Lease to increase the minimum liability insurance requirement from \$10,000,000 to \$50,000,000.

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2. Delete in its entirety the provision requiring Lessee to provide an unconditional guarantee by its parent company for the full performance by Lessee of all obligations under the Lease.
3. Lessee shall maintain the Sinking Fund Trust Agreement, as amended, for the full term of the Lease.

**SPECIFIC LEASE PROVISIONS:**

Bond:

\$3,000,000.

Additional Provisions:

1. San Pedro Bay Pipeline Company (SPBPC) shall comply with all existing and subsequently enacted laws or regulations promulgated by the federal government, including but not limited to the Department of Transportation or the National Transportation Safety Board or any other governmental agency having lawful authority and jurisdiction over the pipeline.
2. SPBPC shall obtain prior review and approval by Commission staff of any repairs or structural modifications to any portion of the pipeline or other improvements located within the Lease Premises.
3. The Commission reserves the right to examine all records and data associated with the pipeline within the Lease Premises as well as the right to go on the Lease Premises for any purpose associated with the Leases or for carrying out any function required by law, or the rules, regulations, or management policies of the Commission.
4. SPBPC will maintain all records of inspection, repair, testing, and maintenance activities in accordance with provisions of 9 CFR Part 192 and 195, and in accordance with any U.S. Bureau of Ocean Energy Management, Regulation, and Enforcement (BOEMRE) Pacific OCS Regional Manager orders, directives, or other requirements regarding pipeline testing and surveillance and provide copies of those records to the Commission.
5. SPBPC will provide copies of all pipeline inspection test procedures, prior to testing, for Commission staff's review and approval as well as submit results of all testing for Commission staff's review and approval. Under this provision, SPBPC is required to provide copies and plans for any other inspections,

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repair, or maintenance activities on the Lease Premises.

6. SPBPC will provide a copy of the current pipeline operations manual and provide updates, as they are available. SPBPC is required to conduct training classes and periodic drills simulating a pipeline leak and the procedures to be followed when a potential leak is detected.
7. Specific language is included as to Oil Spill Emergency procedures and notifications requirements.

**OTHER PERTINENT INFORMATION:**

1. Assignee has the right to use the uplands adjoining the Lease Premises.
2. On March 25, 2008, the Commission authorized the issuance of a 20-year General Lease – Right of Way for the continued operation and maintenance of the existing crude oil pipeline to San Pedro Bay Pipeline Company (SPBPC), a Wholly-Owned Managed, and Controlled Subsidiary of Pacific Energy Resources Ltd. (PERL). The lease was previously held by San Pedro Bay Pipeline Company (a subsidiary of Aera Energy LLC) and was terminated pursuant to a Lease Termination Agreement (Agreement) to which Aera Energy, PERL and the Commission were parties. The Agreement was authorized by the Commission on March 25, 2008.
3. Subsequently, on March 9, 2009, Pacific Energy Resources Ltd. and its subsidiaries filed for Chapter 11 protection under the United States Bankruptcy Code. As a result of the bankruptcy, PERL's California Beta Oil Field assets located in San Pedro Bay, including SPBPC and its pipeline, were acquired on December 23, 2009 by Rise Energy Beta, LLC (Rise) and SP Beta Properties, LLC (Silver Point). Rise is the majority owner of SPBPC. Rise is a subsidiary of Rise Energy Partners, LP, which is owned by the parent company Rise Energy Partners, GP, LLC.
4. On November 1, 1996, Aera Energy LLC and PERL entered into a Sinking Fund Trust Agreement (Agreement). The purpose of the Agreement was to establish a sinking fund under which PERL would take over all abandonment obligations of the pipeline, including decommissioning, abandonment and site clearance of the portion of the San Pedro Bay Pipeline lying with the Lease Premises of Lease No. PRC 5636.1. The Agreement also covers any other tangible assets held by SPBPC not located in federal waters. The other tangible assets not located in federal waters include that portion of the pipeline that crosses into the Legislative

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Grant to the City of Long Beach and a 10,000-barrel oil storage tank located on the upland in the Port of Long Beach. The Sinking Fund was established by an initial deposit of \$100,000 by PERL, which also agreed to make additional deposits of \$0.25 per barrel of oil and other liquid hydrocarbons produced from the Beta Unit oil field and attributable to PERL's Beta interests. The Agreement calls for deposits to be made until \$4.3 million is accumulated in the fund at which time deposits shall cease. Following its acquisition of the SPBPC, Rise and Area Energy, Inc. amended the Agreement to provide that Rise assumes all of PERL's obligations under the Agreement. As of May 31, 2010, the balance of the sinking fund was \$1,004.895. Rise has agreed to maintain the Sinking Fund Trust Agreement, as amended, for the full term of the lease, unless it is needed for decommissioning activities prior to the end of the Lease.

5. The pipeline, serving the OCS facility Platform Elly, has been inspected pursuant to a Memorandum of Understanding between BOEMRE (formerly the U.S. Mineral Management Services) and the Commission. Commission staff has reviewed the results of the inspections conducted in 2009 and the pipeline has been approved for continued use and operation.
6. BOEMRE has approved the assignment to Rise Energy Beta, LLC and SP Beta Properties, LLC of the federal oil and gas leases formerly held by PERL, and served by the State Right of Way Lease, PRC 5636.1. BOEMRE has approved Beta Operating Company, LLC, as the unit operator for the federal leases for facilities located in federal waters in the Outer Continental Shelf (OCS).
7. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines [Title 14, California Code of Regulations, section 15060(c)(3)], the staff has determined that this activity is not subject to the provisions of CEQA because it is not a "project" as defined by CEQA and the State CEQA Guidelines.

Authority: Public Resources Code section 21065 and Title 14, California Code of Regulations, sections 15060 (c)(3) and 15378.

**EXHIBITS:**

- A. Location and Site Map
- B. Land Description

**PERMIT STREAMLINING ACT DEADLINE:**

N/A

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**RECOMMENDED ACTION:**

IT IS RECOMMENDED THAT THE COMMISSION:

**CEQA FINDING:**

Find that the activity is not subject to the requirements of CEQA pursuant to Title 14, California Code of Regulations, section 15060(c)(3) because the activity is not a project as defined by Public Resources Code section 21065 and Title 14, California Code of Regulations, section 15378.

**AUTHORIZATION:**

Authorize the Assignment of Lease No. PRC 5636.1, a General Lease – Right of Way Use, of sovereign lands as shown on Exhibit A (for reference purposes only) and as described on Exhibit B attached and by this reference made a part hereof, from San Pedro Bay Pipeline Company, A Wholly-Owned Managed and Controlled Subsidiary of Pacific Energy Resources Ltd. to San Pedro Bay Pipeline Company; effective December 31, 2009.

Authorize the Amendment of Lease No. PRC 5636.1 to increase the minimum liability insurance requirement to \$50,000,000; delete in its entirety the provision for a parent guaranty; and include a provision requiring that Lessee maintain the Sinking Fund Trust Agreement, as amended, for the full term of the Lease; all other terms and conditions of the Lease remain in effect.