

STAFF REPORT

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CONSIDER DELEGATING AUTHORITY TO THE EXECUTIVE OFFICER TO ENTER INTO AGREEMENTS NECESSARY FOR ACCESS AND OPERATIONS ON FORMER STATE OIL AND GAS LEASE NOS. PRC 1466.1, PRC 145.1, AND PRC 410.1, RELATED TO RINCON ISLAND; AND PROVIDE AN UPDATE ON THE STATUS OF OIL AND GAS DECOMMISSIONING PROJECTS UNDERTAKEN BY THE COMMISSION, INCLUDING THE BECKER WELL ABANDONMENT AND REMEDIATION PROJECT AND THE DECOMMISSIONING OF FACILITIES ON FORMER LEASES ENCOMPASSING PLATFORM HOLLY AND RINCON ISLAND, OFF SANTA BARBARA AND VENTURA COUNTIES

INTRODUCTION:

This staff report provides the Commission and the public with an update regarding the status of three oil and gas decommissioning projects undertaken by the Commission. These projects involve the Becker Well Abandonment and Remediation Project and the decommissioning of Platform Holly, in Santa Barbara County, and the decommissioning of Rincon Island and associated upland facilities, in Ventura County. In addition, staff recommends that the Commission delegate authority to the Executive Officer to enter into agreements necessary to allow access across private uplands to facilitate abandonment and decommissioning of RILP's former leases, also known as Lease Nos. PRC 1466.1, PRC 410.1, and PRC 145.1.

BECKER WELL ABANDONMENT AND REMEDIATION PROJECT

Background:

The Becker well is located in the tidal zone of Summerland Beach, in the community of Summerland, Santa Barbara County. The Summerland Oil Field was developed in an area of naturally occurring oil and gas seeps in the late 1890s, first from onshore and then from piers that extended into the Pacific Ocean at Summerland. The field was the first offshore oil development in the United States. Virtually no records exist regarding the drilling and abandonment of these wells. When production ceased to be economical in the early 1900s, operators left many of the wells and piers to deteriorate. To the extent operators performed well abandonments, they used procedures that do not meet current regulatory requirements. Due to both natural seeps

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and leaks from these improperly abandoned legacy wells, oil sheens have been observed with increasing regularity on the beach and in the water near Summerland. Particularly, seepage occurring from the area around the Becker well was visible approximately 10 days every year until recently. As detailed previously ([Item 82, August 17, 2017](#)), the Commission, in coordination with federal, state, and local agencies has worked to address oil leaks from wells in the Summerland area since the late 1960s. On August 17, 2017, the Commission certified a final Environmental Impact Report (State Clearinghouse No. 2016101008), adopted a Mitigation Monitoring Program, and authorized staff to hire an engineering firm to properly abandon the Becker well to stop continued seepage from that well ([Item 82, August 17, 2017](#)). The Legislature approved a \$1.4 million appropriation for fiscal year 2017-18 to fund the project.

Status:

Pursuant to the Commission's August 17, 2017, authorization, staff published a solicitation inviting interested qualified engineering firms to develop and execute a plan to plug and abandon the Becker well, consistent with the project analyzed in the Environmental Impact Report. The Commission awarded a contract to InterAct PMTI, Inc. (InterAct), an international engineering and project management firm.

Staff and InterAct have worked to secure all necessary permits from the Coastal Commission, U.S. Army Corps of Engineers, Regional Water Quality Control Board, Division of Oil, Gas, and Geothermal Resources (DOGGR), and the County of Santa Barbara. The project, as designed by InterAct, will involve transporting the crane barge DV *Salta Verde* from Long Beach to the well location. The barge will be towed and anchored ashore loaded with all the necessary equipment. Staff believes that the work will permanently contain the Becker well, and any residual leakage, resulting in a well that is finally plugged and abandoned to the requirements of DOGGR.

All work will be handled by crew experienced in oil field operations and environmental monitoring. Marine wildlife monitors will be onsite to ensure marine mammals suffer no significant acoustic impacts from operations. The local community and stakeholders have received appropriate notice of the project.

The Becker Well Abandonment and Remediation Project was originally planned to commence January 27, 2018, and last 4 to 5 days; however, hazardous ocean conditions required rescheduling. Staff will continue to provide updates on the project, rescheduled to begin on February 26, 2018, to the public in real time.

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OIL AND GAS WELLS AND FACILITIES IN THE SOUTH ELLWOOD FIELD (PLATFORM HOLLY)

Background:

On April 17, 2017, Venoco LLC (Venoco) served the Commission with quitclaim deeds, releasing its interests in state oil and gas leases in the South Ellwood Oil Field located off the city of Goleta. Staff previously detailed previous operations in the South Ellwood Field and the circumstances surrounding the end of Venoco's leases ([Item 76, June, 22, 2017](#)). In brief, in 1964 and 1965, the Commission issued State Oil and Gas Lease Nos. PRC 3120 and PRC 3242 to Atlantic Richfield Company (ARCO), after competitive bidding. In 1966, production from the South Ellwood Field began using Platform Holly, subsea pipelines, and the Ellwood Onshore Facility (EOF). The EOF is located on privately owned lands in the city of Goleta and is not under the Commission's jurisdiction. In 1993, Mobil Exploration and Producing, Inc. (Mobil), acquired the leases from ARCO. In 1997, Mobil assigned the leases, including Platform Holly and the Ellwood Beach Piers (Oil and Gas Lease No. PRC 421), and other facilities to Venoco, which has since operated the facilities.

Since the May 19, 2015, Refugio oil spill, Line 901 (owned and operated by the Plains All American Pipeline Company), the primary transportation pipeline for oil and gas products produced along the southern central coast of California, has remained out of operation. Venoco, like most other offshore oil and gas producers in the region, ceased oil and gas production operations because there were no viable alternatives to transport their product to market. The result of this prolonged period of nonoperation, coupled with the significant decline in oil prices, caused Venoco to declare bankruptcy. Subsequently, Venoco quitclaimed its leases to the Commission and rejected its obligations to decommission and remove its facilities on State lands. Since April 2017, staff has worked to maintain safe operations on Platform Holly and the EOF by negotiating a Temporary Services Agreement with Venoco, before transitioning operations to Beacon West Energy Group, LCC (Beacon West), on September 15, 2017.

Status:

Beacon West was hired in August 2017 and began operating Platform Holly and the EOF in September 2017. Beacon West's employees have extensive experience working on Venoco's former facilities and are very familiar with the operations and regulatory environment of Platform Holly and the EOF. Additionally, in July 2017, Exxon/Mobil, the former lessee of Platform Holly and prior owner of the EOF, issued a letter of intent to participate in the plugging and abandonment of the 32 wells on the platform and the nearshore lease known as Lease No. PRC 421.1.

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Staff reached a negotiated settlement with Aspen Insurance (Venoco's surety provider) resulting in the Commission's receipt of the full penal sum of the \$22 million bond in December 2017. The bond money is being used to provide for the safe operation and maintenance of Platform Holly and the EOF. Since November 2017, technical personnel from Exxon/Mobil have toured and inspected the platform and its infrastructure and met with Commission staff to plan the future plugging and abandonment work. Exxon/Mobil has committed to making significant repairs necessary to facilitate the process, while reserving the right to challenge its responsibility on a few of the wells.

Planning and engineering is currently underway with active repair work scheduled to begin in March 2018 and downhole well work estimated to commence in the third quarter of 2018. The Commission's initial estimate that plugging and abandonment work would begin by the close of the first quarter of 2018 has been amended due to the sizable repair programs needed and an engineering analysis of the downhole well conditions that Commission engineers and ExxonMobil engineers believe will expedite the plugging and abandonment work. Commission engineers still believe that a 2-year timeframe for the plugging and abandonment portion is feasible. Staff is working with Exxon/Mobil to formalize its role through an engagement agreement. The engagement agreement will be presented to the Commission for consideration and approval at a future Commission meeting. Staff anticipates that it will begin preparation of an Environmental Impact Report in the near future (likely by the end of the first quarter of 2019) to address the decommissioning of Platform Holly.

Staff continues to negotiate with the Venoco estate regarding the final disposition and use of the EOF and continues to negotiate for a resolution that represents the best interests of the State. As soon as a formal resolution is in place, Commission staff will notify the public.

State Oil and Gas Lease No. PRC 3150.1 (Paredon Project) Quitclaimed to State:

On November 14, 2017, Venoco quitclaimed its remaining lease, PRC 3150.1 (commonly known as the Paredon project), which was located offshore Carpinteria in Santa Barbara County. Pursuant to the California Coastal Sanctuary Act, the 5,553 acres contained in the former lease area were added to the California Coastal Sanctuary (Pub. Resources Code, § 6240 et seq.). No surface infrastructure or improvements are associated with Lease No. PRC 3150.1

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Oil and Gas Wells and Facilities in the Rincon Oil Field (Rincon Island and Onshore)

Background:

Staff previously detailed its concerns regarding the operations and recent history of regulatory compliance on former State Oil and Gas Lease Nos. PRC 1466.1, PRC 410.1, and PRC 145.1, covering Rincon Island and its onshore assets ([Item 77, August 17, 2017](#), and [Item 71, November, 29, 2017](#)). In brief, in November 2014 regulatory violations were discovered on Rincon Island that posed a threat to public health and safety and the environment. By April 2016, staff sent the lessee, RILP, a notice of default and on August 9, 2016, was prepared to seek the Commission's authorization to terminate RILP's leases. On August 8, 2016, RILP declared chapter 11 bankruptcy forcing staff to seek remedy to force RILP into regulatory compliance. By July 2017, a bankruptcy trustee was appointed to oversee RILP's operations and an attempt was made between July and November 2017 to find a responsible operator to replace RILP as operator of the leases and address the ongoing safety and lease concerns. Finding no responsible operator to take over, the Commission delegated authority to the Executive Officer to terminate RILP's leases and take actions necessary to secure the leases and associated facilities ([Item 71, November, 29, 2017](#)).

Status:

Shortly thereafter, on December 6 and 12, 2017, at the request of staff, RILP delivered quitclaim deeds for all three of its leases. Pursuant to the California Coastal Sanctuary Act, the 1,551 acres of land contained in the former lease areas transitioned into the California Coastal Sanctuary leaving approximately 2.5 million barrels of oil in the ground (Pub. Resources Code, § 6240 et seq.).

On November 15, 2017, the Commission entered into an emergency contract with DrilTek, Inc. (DrilTek), a competent oil and gas services company, to monitor and maintain safe conditions on Rincon Island and its associated onshore facilities. DrilTek has maintained 24-hour monitoring on the former leases, including during the period that the Thomas Fire swept nearby. In addition, necessary repairs have been performed on lease facilities to maintain public health and safety and protection of the environment.

In August 2016, DOGGR issued an emergency order (Order 1114) requiring RILP, in part, to relieve well pressure. Consistent with Order 1114, staff directed DrilTek to execute the necessary pressure relief operations on three wells at Rincon Island, 8A, 50A, and 59. On December 21, 2017, DrilTek, using rental equipment and experienced oil field personnel, slowly and safely bled

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pressures from each of the three wells. Depressurization equipment remains on the wells as staff assesses possible long-term solutions.

During December 2017 and January 2018, various repairs and inspections were performed on Rincon Island and the onshore facilities. Repairs have been performed to restore Rincon Island's emergency generator and an onshore injection well for waste water disposal. In addition, inspections are ongoing to assess the condition of the causeway connecting the island to shore. Commission staff anticipates publishing a Solicitation of Interest for Statements of Qualifications in early March 2018. The solicitation will start the process of evaluating qualified engineering firms that may be hired to develop and execute a plugging and abandonment program for the 79 wells on Rincon Island and onshore. Staff expects the solicitation process to take 2 months and for the plugging and abandonment program to take approximately 24 to 36 months to complete. Staff will prepare an Environmental Impact Report for the final disposition of Rincon Island at a later date.

Commission staff is working with American International Group (AIG), the bond surety, to secure the full penal sum of \$10 million under the performance bond that was held by RILP. The \$10 million consists of a \$9.65 million bond for the benefit of the Commission and a \$350,000 bond for the benefit of DOGGR. DOGGR recently requested that AIG release its portion of the bond to the Commission. Staff understands, from communications with AIG's counsel, that the full \$10 million will likely be released to the Commission no later May 2018 to fund plugging and abandonment work and decommissioning activities.

DELEGATION OF AUTHORITY TO ENTER INTO AGREEMENTS TO PRESERVE NECESSARY ACCESS TO RINCON ISLAND AND THE ONSHORE FACILITIES

Staff continues to cooperate with the trustee and the court in RILP's ongoing bankruptcy proceedings, recently converted to chapter 7 of the bankruptcy code. On January 8, 2018, the trustee in RILP's bankruptcy proceedings rejected all leases RILP held with private upland owners to use private lands for access and for facilities used to operate on State lands. Staff is evaluating these upland agreements to determine whether they should be maintained by the Commission to maintain safe operations and for the plugging and abandonment work and decommissioning process.

STAFF ANALYSIS AND RECOMMENDATION:

Authority:

Public Resources Code sections 6005, 6216, 6301, 6806 and 6807.

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Public Trust and State's Best Interest Analysis:

On November 29, 2017, the Commission delegated authority to the Executive Officer to enter and secure RILP's former leases, to order RILP to abandon and decommission its facilities, to hire a contractor to conduct plugging and abandonment operations in the event RILP failed to do so, and to commence necessary legal action. At the time, staff was unaware that RILP also relied on surface use agreements with upland owners to house and access oil and gas infrastructure associated with the leases.

For example, a vault housing the access point to collect oil and fluid from wells on Rincon Island sits within a railroad right of way and must be accessed via private property. In addition, oil wells and tankage for former Lease Nos. PRC 410.1 and PRC 145.1 sit on private uplands and were the subject of surface use agreements between RILP and the upland owner. It is likely that the Commission will need to enter some form of agreement with private upland owners to maintain necessary access to oil and gas facilities serving the former leases.

Staff recommends that the Commission delegate authority to the Executive Officer to negotiate and enter into agreements for access across private uplands where necessary to effectuate the purpose of securing lease facilities and for future decommissioning of facilities on former Lease Nos. PRC 1466.1, PRC 410.1, and PRC 145.1.

Staff anticipates that any use or access agreement will not increase the intensity of land use above baseline levels and will not require the construction or enhancement of new infrastructure. Staff believes that the delegation is consistent with the authority the Commission granted on November 29, 2017, and is necessary to effectuate the Commission's directive to permanently secure RILP's former lease facilities. Securing these facilities is in the State's best interests because a potential public health and safety and environmental hazard will be permanently resolved, ensuring that Public Trust resources including the marine environment and fisheries are protected. Staff believes the decommissioning of Rincon Island and the onshore facilities is consistent with the common law Public Trust Doctrine.

OTHER PERTINENT INFORMATION:

1. Authorizing the delegation of authority to the Executive Officer is not a project as defined by California Environmental Quality Act because it is an administrative action that will not result in direct or indirect physical changes to the environment.

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Authority: Public Resources Code section 21065 and California Code of Regulations, title 14, section 15378, subdivision (b)(5).

2. This proposed delegation of authority is consistent with Strategy 1.5 of the Commission's Strategic Plan to ensure the highest level of environmental protection and public safety in the production and transportation of oil and gas resources.

RECOMMENDED ACTION:

It is recommended that the Commission:

PUBLIC TRUST AND STATE'S BEST INTERESTS:

Find that the proposed delegation of authority to enter into access agreements for the purposes described in this staff report is consistent with the common law Public Trust Doctrine and in the State's best interests.

AUTHORIZATION:

Delegate authority to the Executive Officer or her designee to negotiate and execute any agreements to provide access necessary to maintain safe operations and to facilitate the plugging and abandonment and future decommissioning of facilities on former State Oil and Gas Lease Nos. PRC 1466.1, PRC 410.1, and PRC 145.1.