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MEETING  
STATE OF CALIFORNIA  
STATE LANDS COMMISSION

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ORIGINAL

STATE CAPITOL  
ROOM 127  
SACRAMENTO, CALIFORNIA

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THURSDAY, FEBRUARY 25, 1993

1:30 P.M.

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Vicki L. Medeiros, C.S.R.  
License No. 7871

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COMMISSIONERS PRESENT

Leo T. McCarthy, Lieutenant Governor, Chairman  
Gray Davis, State Controller, Commissioner  
Steve Kolodney, Director of Finance, Commissioner

STAFF PRESENT

Charles Warren, Executive Officer  
James Trout, Assistant Executive Officer  
Robert Hight, Chief Counsel  
Paul Mount, Chief, Mineral Resources Management Division

ALSO PRESENT

Jan Stevens, Deputy Attorney General

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P R O C E E D I N G S

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3 CHAIRMAN McCARTHY: Good afternoon, ladies and  
4 gentlemen. This is the meeting of the State Lands  
5 Commission.

6 As you all know, on my right is Controller Gray  
7 Davis, Member of the Commission. On my left is Steve  
8 Kolodney, representing Director of Finance.

9 On the Consent Calendar, we're pulling off items  
10 6, 25 and 26. The rest of the Consent Calendar will be  
11 before us when we get there in a minute.

12 Without objection, I would like to approve the  
13 minutes of the previous Lands Commission meeting.

14 Without objection, it's done.

15 The Commission has the Consent Calendar before us  
16 at this moment. Are there any comments from the  
17 Commission?

18 Members of the public?

19 If not, the Consent Calendar is unanimously  
20 adopted.

21 Let's move to the first regular item, Mr. Charles  
22 Warren, our Executive Officer.

23 EXECUTIVE OFFICER WARREN: The first regular  
24 calendar item, number 38, this item requests Commission  
25 approval to sell a forty-acre parcel of State School land

1 in Kern County, which is arid desert land, consisting of  
2 forty acres, to the highest bidder.

3 This Commission authorized such a sale in its  
4 December meeting. The sale has been held. The highest  
5 bidder met the minimum bid specifications, and this gives  
6 us authority to complete the sale and deposit the proceeds  
7 in the State School Land bank file.

8 CHAIRMAN McCARTHY: Any questions by the Members  
9 of the Commission?

10 Anyone in the audience like to address Item 38?  
11 Commissioner Davis moves. Commissioner Kolodney  
12 seconds.

13 I unanimously support them to approve the  
14 recommendation.

15 Item 39.

16 EXECUTIVE OFFICER WARREN: With the Commission's  
17 approval, I would like to take Item 40 out of order and  
18 take that up next.

19 CHAIRMAN McCARTHY: All right.

20 EXECUTIVE OFFICER WARREN: Item 40 is a  
21 non-controversial item that seeks approval of this  
22 Commission by Chevron to abandon 46 oil and gas wells on  
23 Platform Hope.

24 Last month, Chevron and this Commission gave  
25 Public Notice that all four platforms used for production

1 of certain offshore leases by Chevron leases will be  
2 abandoned. Those platforms are Hope, Heidi, Hilda and  
3 Hazel.

4 That will conclude oil development in State  
5 waters off the Carpinteria coast. It's anticipated that  
6 those platforms would be removed in about two years.

7 Environmental reviews would have to be conducted  
8 before the wells are abandoned and the platforms physically  
9 removed.

10 I wanted to use Item 40 to report to the  
11 Commission the fact of that significant platform  
12 abandonment. I know of no opposition and ask for approval.

13 CHAIRMAN MCCARTHY: Any questions from either  
14 Commissioner?

15 COMMISSIONER DAVIS: What does staff estimate to  
16 be the cost of abandonment?

17 EXECUTIVE OFFICER WARREN: May I direct that  
18 question to Mr. Paul Mount, the Chief of our Mineral  
19 Resources Management Division.

20 MR. MOUNT: For all the wells and platforms,  
21 something under fifty million. I don't think we have final  
22 estimates in.

23 It's in the ballpark of \$26 to \$50 million for  
24 all the wells and four platforms.

25 COMMISSIONER DAVIS: Under the terms of the lease,

1 those costs are borne by the lessees?

2 MR. MOUNT: That's correct.

3 COMMISSIONER DAVIS: Thank you.

4 CHAIRMAN MCCARTHY: Any other questions?

5 Does any member of the public wish to address

6 Item 40?

7 All right. We're ready for action. Do I hear a  
8 motion?

9 COMMISSIONER KOLODNEY: Moved.

10 COMMISSIONER DAVIS: Second.

11 CHAIRMAN MCCARTHY: Moved by Commissioner  
12 Kolodney and seconded by Commissioner Davis.

13 It's unanimously approved.

14 Now, we're back to Item 39.

15 EXECUTIVE OFFICER WARREN: This is the last on  
16 the Regular Calendar items.

17 This item, Mr. Chairman and Members of the  
18 Commission, pertains to certain leases which are presently  
19 being produced from Platform Holly. Platform Holly is also  
20 offshore of the Santa Barbara coast and will be the last  
21 remaining platform once Hope, Hazel, Hilda and Heidi have  
22 been abandoned.

23 Platform Holly is currently producing  
24 approximately 4400 barrels of oil a day, and is presently  
25 bringing into the State revenues a little under \$5 million

1 a year. The leases are held jointly by Arco and Mobil.

2 Arco is the field operator. In June of last  
3 year, Arco met with me and staff to inform us of the  
4 uneconomics of continuing the production at those leases  
5 and advised us that they intended to proceed to field  
6 abandonment.

7 At our request, they gave us a time schedule  
8 whereby that might be accomplished. They also informed us  
9 that this would be subject to the approval of their  
10 non-operating partner, Mobil.

11 We explored, recognizing the significance of a  
12 \$5-million a year loss to general revenues, staff explored  
13 with Mobil the possibility of taking over these leases and  
14 continuing their operation in order to ensure a revenue  
15 flow.

16 We were advised by Mobil that it would be able  
17 and willing to do so only if there was an adjustment in the  
18 royalties paid under that lease. The lease provides for a  
19 minimum royalty of sixteen and two-thirds and a sliding  
20 scale thereafter based on production.

21 The present royalty is about 26 percent. Arco has  
22 advised that the leases could continue to be productive  
23 only if the royalty is reduced to a base rate of sixteen  
24 and two-thirds.

25 We have had our Mineral Resources Management

1 staff review the costs of the operation and the  
2 representative loss to the field operator. Our staff has  
3 confirmed that at present, given the royalty rate received  
4 by the State, it is an uneconomic field for the  
5 developers.

6 At the reduced rate of sixteen and two-thirds,  
7 which we propose to you today, the field would become  
8 marginally profitable for the operator. With some well  
9 work-overs, Mobil believes that the production can be  
10 increased so that the revenues to the State could  
11 conceivably be increased as well.

12 I am advised by Mobil that if this reduction is  
13 not approved, they will join with Arco forth immediately in  
14 closing the field down. The equity results of that decision  
15 will be the loss of approximately of no less than eighty  
16 jobs, locally, and a loss to the State of almost two and a  
17 half million dollars a year.

18 If operations are allowed to continue for the  
19 development of those leases, we believe that over a twenty  
20 year period revenues to the State would total approximately  
21 \$150 million.

22 The purpose of this item is to request this  
23 Commission to approve the assignment by Arco to Mobil of  
24 its share of the leases, and to approve a reduction in the  
25 royalty to be paid by Mobil upon approval of assignment to

1 the base rate of sixteen and two-thirds.

2 We believe that this is consistent with the  
3 Resources Code requirement authorizing us to do so. It  
4 would make the field an economic and viable field and is in  
5 the best interest of the State of California.

6 CHAIRMAN McCARTHY: Questions by Members of the  
7 Commission?

8 COMMISSIONER KOLODNEY: Thank you, Mr. Chairman.

9 Obviously in these times of economic difficulty  
10 the loss of \$1.3 or \$1.5 million in revenue is of  
11 considerable concern to the Department of Finance.

12 If it's in order, I would like to ask a few  
13 questions about this?

14 CHAIRMAN McCARTHY: Please do.

15 COMMISSIONER KOLODNEY: Can you tell me how long  
16 the field has been in operation, and how long under the  
17 marginal circumstances has it continued to be in  
18 operation?

19 EXECUTIVE OFFICER WARREN: May I be joined by  
20 Mr. Mount, our Division Chief, to give us a history of  
21 these leases.

22 MR. MOUNT: Approximately for 25 years there has  
23 been production there, although onshore, and at the Ellwood  
24 facility. The Ellwood facilities themselves have been there  
25 thirty years, and onshore in that area there has been

1 production for over 50 years. From Holly itself,  
2 approximately 25 years.

3 The production rate initially was -- the  
4 platforms were designed to produce from the Rincon  
5 formation, but later on they discovered the Monterey  
6 formation. When it was set, that was not recognized as a  
7 resource.

8 In 1980, they found the Monterey formation and  
9 were able to increase production and generate additional  
10 revenues to the State. That formation has not been  
11 depleted, however, because of the high royalty rate, it's  
12 difficult for the operator to make money at the current oil  
13 price.

14 There is no relief in sight for the oil price.  
15 They seek relief in royalty reduction so they can continue  
16 to produce the Monterey formation and recover those  
17 additional oil fields that they discovered a few years  
18 ago.

19 COMMISSIONER KOLODNEY: Do you have an estimate  
20 how long the field will be productive under this  
21 agreement?

22 MR. MOUNTY: That would depend on oil price.

23 We know that if the royalty is reduced, it will  
24 be profitable for at least the next four years. It's  
25 difficult to predict beyond that.

1 Over the next four years, it could generate \$11  
2 million in royalties to the State for certain.

3 COMMISSIONER KOLODNEY: I note that we're coming  
4 down from twenty-six percent to sixteen and two-thirds.  
5 Tell me how that is determined?

6 Why not twenty percent?

7 MR. MOUNT: Based on -- they wanted to come in  
8 and do some work to improve the production rate, to improve  
9 the facilities and improve the platform to make it a better  
10 operation, a more efficient operation and to make a little  
11 bit of money in doing so.

12 By allowing them to do that, we continue to  
13 receive royalties. If the operating costs are not reduced  
14 and the production rate is unbolstered, I'll put it that  
15 way, it's going to be difficult for them to make any money  
16 at all.

17 We have done a thorough analysis of their  
18 situation and concluded that a royalty rate of sixteen and  
19 two-thirds is what they need in order to invest the money  
20 it takes to enhance the oil production and to improve the  
21 facilities.

22 COMMISSIONER KOLODNEY: Thank you, Mr. Chairman.

23 CHAIRMAN MCCARTHY: Would you give us again the  
24 number, please, if it's Holly and still offshore, the  
25 number of years and the aggregate number of dollars of

1 revenue that we are talking about.

2 MR. MOUNT: That we have received to date?

3 CHAIRMAN McCARTHY: No.

4 What we would receive under the sixteen and  
5 two-thirds royalty.

6 MR. MOUNT: The best we can project is that it  
7 will be economic for just the next four years, given the  
8 scenario as we understand it from Mobil.

9 That would generate approximately \$11 million  
10 royalty to the State over the next four years. We believe  
11 there is potential beyond that which we would like to  
12 explore with Mobil, potential for additional resource  
13 development from possibly onshore, but we don't know that  
14 yet.

15 Right now, all we're looking at is the production  
16 for Platform Holly for the next four years.

17 CHAIRMAN McCARTHY: Okay. Any other questions?

18 Commissioner Davis.

19 COMMISSIONER DAVIS: When this lease was  
20 originally let, what was the life expectancy?

21 How long did we think this field would be  
22 operating?

23 MR. MOUNT: I'm not sure.

24 Generally, it was projected 25 to 30 years.

25 What we have found out, of course, is that there

1 were additional reserves in other formations that were not  
2 recognized when the field was first leased and developed.

3 COMMISSIONER DAVIS: Is there precedent in any  
4 other state for a similar reduction?

5 In other words, Louisiana or Texas or any other  
6 offshore drilling?

7 MR. MOUNT: Other states do reduce royalty.

8 In fact, a number of states, have recently  
9 reduced royalties down to a one-eighth. This is a  
10 one-sixth. We feel fairly fortunate that we are able to  
11 get a one-sixth royalty at today's oil price.

12 COMMISSIONER DAVIS: Let's assume the price of  
13 oil rises for some unforeseen reason. There's a problem in  
14 the Middle East or who knows.

15 Does our royalty go back up, or are we locked in  
16 at sixteen percent?

17 MR. MOUNT: On the current lease, it's sixteen  
18 and two-thirds, and we're proposing to set that as a locked  
19 in number.

20 COMMISSIONER DAVIS: We would not be the  
21 beneficiary of any upturn in oil prices?

22 MR. MOUNT: We would in that we get sixteen and  
23 two-thirds of that price.

24 As the price goes up, we get sixteen and  
25 two-thirds of revenue. We do take advantage of that.

1           COMMISSIONER DAVIS:  Why couldn't there be --  
2     since the theory espoused, as I understand it, is to allow  
3     this field to operate for three or four more years, and  
4     we're reducing the royalties in order to make it economical  
5     to Mobil, but if the price of oil rises, they don't need  
6     such a drastic reduction to make it economical.

7           MR. MOUNT:  Mobil and Arco have said that they  
8     don't anticipate a price increase.

9           Therefore, their intent is if they can't get a  
10    royalty reduction today to assure them that they can make a  
11    profit, their intent is to go ahead and abandon.

12          COMMISSIONER DAVIS:  I understand that.

13          Why can't you write a contract that says if the  
14    price of oil remains at its current rate, whatever it is,  
15    the State's royalty would be sixteen and two-thirds  
16    percent; however, as the price of oil rises, the State's  
17    royalty rises at an agreed upon percentage.

18          Why don't we get the benefit of an upturn in oil  
19    price?  Why can't that be done?

20          MR. MOUNT:  It's possible.

21          We would have to negotiate that with Mobil and  
22    Arco.

23          COMMISSIONER DAVIS:  Is that asking too much?

24          We shouldn't be chumps here.  We should get our  
25    fair share if the price of oil goes up.

1 MR. MOUNT: In fact, we do.

2 As the oil price goes up, we get sixteen and  
3 two-thirds of that.

4 COMMISSIONER DAVIS: They are essentially asking  
5 us -- the bottomline is they're asking us to renegotiate  
6 the thing because the price of oil is below where they  
7 thought it would be ten years ago and because it's probably  
8 relatively old and not a state-of-the-art facility.

9 Okay. I understand that.

10 I'm saying that I don't think that anyone ten  
11 years ago thought it would be this price. Nobody thinks  
12 it's going up now, but who knows?

13 MR. MOUNT: You also have to recognize that Mobil  
14 is taking the risk if the price goes down and this will  
15 become uneconomic to them as well.

16 COMMISSIONER DAVIS: What stops them from coming  
17 in a year from now and saying that the price of oil has  
18 gone down and we're going to abandon?

19 Is there any assurance that they won't do that?

20 MR. MOUNT: No.

21 But they are investigating money based on this. I  
22 wouldn't think that they would do that if they are going  
23 ahead and investing money in the hope that the oil price at  
24 least stays where it is.

25 So, they are taking somewhat of a risk in doing

1 this.

2 COMMISSIONER DAVIS: Do we have the legal  
3 authority to do this? Does this have to be ratified by the  
4 Legislature?

5 EXECUTIVE OFFICER WARREN: We have the specific  
6 authority to do this in the Public Resources Code.

7 COMMISSIONER DAVIS: Is that your reading, Robert?

8 MR. HIGHT: Yes.

9 There is a specific section in the Public  
10 Resources Code that allows the Commission to make such a  
11 finding based upon economic evaluations.

12 EXECUTIVE OFFICER WARREN: Section 6827.2 of the  
13 Resources Code.

14 COMMISSIONER DAVIS: Did we do an independent  
15 analysis or did we just use their figures?

16 EXECUTIVE OFFICER WARREN: I can reassure you, if  
17 we go back to an earlier question, you asked if similar --  
18 if other states, similar reductions have made in California  
19 by this Commission.

20 In fact, I am advised by Mr. Trout that there is  
21 no oil lease presently alive where we have not done this,  
22 except this one. So, in all other leases at one point in  
23 their development, we have undertaken to reduce the royalty  
24 in conformance with the Resources Code section mentioned.

25 We do that in order to avoid premature

1 abandonment of the field. As we have been told, the  
2 operators fully intend to abandon this field today. The  
3 only way we can avoid that, what we believe to be a  
4 premature abandonment, is by adjusting the royalty rate.

5 Staff has looked at this for a number of weeks,  
6 has reviewed the books and agrees that this seems to be a  
7 fair and reasonable rate to establish to avoid this  
8 premature abandonment.

9 COMMISSIONER DAVIS: Let me just put something on  
10 the table.

11 I have considerable reservations. As a matter of  
12 fact, I am presently a no vote on this whole notion of  
13 onshore drilling of offshore fields. I've read all the  
14 clips, State Lands Commission is going to reverse its  
15 position and is now going to drill offshore, and that isn't  
16 my position. I have made that very clear to everybody.

17 I have grave reservations about doing this. I  
18 have not closed the door to it, and I'm not sure that is  
19 legal, because a lot of this has been legislatively  
20 required once the Commission has voted.

21 The question is, were we to reduce this royalty,  
22 how does that link up with drilling onshore, onshore  
23 facilities, drilling through -- what do you call it?

24 EXECUTIVE OFFICER WARREN: Extended reach  
25 drilling from offshore lease sites.

1           It preserves that option to the Commission and to  
2 the county. If this -- it's my understanding that if this  
3 is not approved, that option is destroyed.

4           The option in its present form is that the Board  
5 of Supervisors of the County of Santa Barbara by vote of  
6 five to zero, directed and authorized its staff to meet  
7 with your staff and Mobil representative to determine if it  
8 was possible to develop a program using this new technology  
9 of extended reach drilling to develop the offshore resource  
10 any way which meets both the county and this Commission's  
11 policies and objectives.

12           We are in nothing more than an exploratory mode.  
13 It was made very clear by me to the Board that such a  
14 project would not only have to meet with their policies and  
15 objectives but with this Commission, and that in no event  
16 would this Commission undertake, in my opinion, any  
17 activity which the county opposed.

18           We are presently discussing with county staff and  
19 Mobil whether or not a project can be designed to meet  
20 those policies and objectives. We are to report back to  
21 the county on April 6.

22           COMMISSIONER DAVIS: Isn't that an onshore  
23 project?

24           EXECUTIVE OFFICER WARREN: That's an onshore,  
25 yes.

1           That option, however, if this is discontinued,  
2 that option is foregone because the whole purpose of the  
3 initiative is to bring production from Holly ashore.

4           We would like -- staff would like to see Platform  
5 Holly removed. The only way we see it and to continue the  
6 production of the field is to bring those -- or to achieve  
7 the removal of the platform is to bring the production  
8 ashore. We think that is a significant environmental  
9 benefit.

10           Having in mind the historical interest of this  
11 Commission in oil spill prevention, the proposal embraces  
12 not only the transfer of the operations from Platform Holly  
13 to shore, but also the transportation of the production by  
14 pipeline. As you know, a pipeline is desperately needed to  
15 transport the onshore oil.

16           COMMISSIONER DAVIS: Do we have assurance from  
17 Mobil that they will, anything in writing that they will  
18 transport?

19           EXECUTIVE OFFICER WARREN: It's understood that  
20 that's the only way that such a project will be permitted  
21 by this Commission.

22           Mobil has not been misled on that or any other  
23 score.

24           COMMISSIONER DAVIS: What is the total amount of  
25 royalties that we generated last year?





































