

MINUTE ITEM
This Calendar Item No. 41
was approved as Minute Item
No. 41 by the State Lands
Commission by a vote of 3
to 0 at its 6-30-92
meeting.

MINUTE ITEM 41

W 40015

Willard

Frey

CONSIDERATION OF PROPOSED CITY OF HERMOSA BEACH
OIL AND GAS LEASE FOR GRANTED TIDE AND
SUBMERGED LANDS, LOS ANGELES COUNTY

After receiving testimony from officials of the City of Hermosa Beach, its consultants and State Lands Commission staff, the Commission found that the granted tidelands of the City of Hermosa Beach are being drained.

The Commission directed staff to work with the City of Hermosa Beach to resolve the remaining leasing issues which must be approved pursuant to the Public Resources Code, including resolution of environmental concerns previously expressed by staff and report back to the Commission.

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Willard

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CONSIDERATION OF PROPOSED CITY OF HERMOSA BEACH
OIL AND GAS LEASE FOR GRANTED TIDE AND
SUBMERGED LANDS, LOS ANGELES COUNTY

The City of Hermosa Beach (City) is proposing to lease, for the exploration and development of oil and gas, certain tide and submerged lands granted in trust by the Legislature to the City in 1919.

BACKGROUND:

In October 1986, the City entered into a lease with Macpherson Oil Company for oil and gas development on the uplands from specific sites designated by the City. Although Macpherson has no rights to drill into the tidelands, it was understood that the upland drill sites would be the only drilling sites within the City. Thus, Macpherson would be the City's lessee if a tidelands lease was ever authorized. On this basis, Macpherson funded the City's preparation of an EIR for oil exploration and production from an urban drillsite. The EIR was certified by the City on May 8, 1990. The Commission staff did comment and object to the certification of the document on the belief that the analysis was deficient in several areas. The deficiencies include the need for soils testing at the drill site, the lack of an oil spill prevention and control countermeasures plan, the lack of an oil drilling contingency plan, the absence of a determination of the project's hazard footprint, the lack of a security plan, and the extent of fire suppression systems for the onshore drilling and production site. The City's response was that these concerns would be addressed later in the conditional use permit process. It is the opinion of staff that the EIR does not provide information and analyses for the consideration of oil and gas development of the offshore granted lands, assuming that the statutory requirements discussed below could be satisfied.

STATUTORY CONSIDERATIONS:

The P.R.C. sets forth the Legislature's intent for the production of oil and gas from State-owned tide and submerged lands. Section 6871.1 provides that such lands are open for leasing with the exception of those areas described in Section 6871.2. Those areas are commonly referred to as oil and gas sanctuaries. Among those lands excluded from leasing are lands within Los Angeles County from Point Fermin to the Ventura County line (Section 6871.2 (a)). The tidelands fronting the City of Hermosa Beach fall within this sanctuary.

Nevertheless, tidelands within the Los Angeles County sanctuary can be leased for oil and gas production if the State Lands Commission makes certain findings under Section 6872. These findings are: (1) oil and gas deposits are believed to be contained in the tidelands; (2) such deposits are being drained by means of wells upon adjacent lands and (3) the leasing of the tidelands for the production of oil and gas will be in the best interests of the State (Section 6872(a)). Further, lands within the sanctuary to be leased must be within one nautical mile of the ordinary high water mark, and all drilling must be done by means of slant drilling from an upland site (Section 6872(b)). The tidelands, including minerals, fronting Hermosa Beach were granted in trust to the City of Hermosa Beach in 1919. The leasing of such granted tidelands within a sanctuary area is controlled by Section 6878. This section provides that no city can lease its tidelands until the Commission has made the findings described in Section 6872. This requirement is repeated in Section 7057 which provides conditions for the leasing of city-owned property in general.

DISCUSSION:

In the 15 years that the Commission staff has dealt with the leasing of these tidelands, the focus has been almost exclusively on the statutory requirement of the presence of drainage by wells drilled along the common boundary between Hermosa Beach and Redondo Beach. When staff first investigated the drainage issue in 1977, it concluded that drainage had certainly occurred in the past, but it was unlikely that significant drainage was occurring in 1977, or that it could be projected into the future. A 1986 study showed that production rates for the boundary wells had leveled off and had done so for some time. Therefore, staff concluded that drainage could be occurring.

However, in 1989, further review of the Redondo Field by staff showed that the production rates for the border wells had dropped dramatically and that five of the eight border wells were shut in. The operator indicated that the wells were to be abandoned when they failed and that the entire field would be abandoned sometime in 1990 or shortly thereafter. Based on this review, staff concluded that it could not recommend the City's leasing proposal for approval. The City was so notified by letter on December 18, 1989.

Staff understands that all wells have been abandoned as of September 1991 and that the Redondo onshore drill site in the City of Redondo Beach is being restored for other uses. With all of these wells permanently abandoned, staff concludes that no significant drainage can be occurring from wells adjacent to the City of Hermosa Beach. Therefore, the drainage requirement of Section 6872(a) is not substantiated.

The City and Macpherson Oil disagree with the staff's conclusions on the drainage issue. They believe that past production of the City of Redondo Beach has created a pressure sink that is still causing drainage from lands within the City of Hermosa Beach. After a meeting with Commission staff on January 8, 1990, the City and Macpherson advised that they would prepare a package for the Commission showing their contentions on the amount and rate of drainage. This report was received on February 24, 1992. Staff review and analysis of the report was completed and summarized by memorandum dated April 3, 1992, and is included in the Commission's file. The City's report implies there is a significant pressure gradient across the Hermosa\Redondo boundary. The assumptions and the data used in the fluid migration calculation are subject to considerable speculation. In staff's opinion, the lack of pressure data on the offshore Hermosa side required projection of data without adequate engineering and geologic justification. The nature of the alleged fluid migration is also unclear. Staff's conclusion is that the fluid is predominately water and not much, if any, oil. The fact that wells on the Redondo side were producing at very high water cuts (percentage) prior to abandonment supports this conclusion.

The purpose of the drainage finding required by Section 6872 is to prevent a loss of oil and gas resources, in this instance by

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the City of Hermosa Beach, from producing wells on adjacent lands. Again, this situation does not exist, as all wells have been abandoned. As stated above, the assertion that drainage is occurring as a result of underground fluid migration is not correct and is not consistent with the statute, which requires a finding of drainage by production from wells on adjacent lands. This is the drainage that the Commission must find under Section 6872(a) in order to permit leasing of sanctuary lands.

AB 884:
N/A.

IT IS RECOMMENDED THAT THE COMMISSION:

1. FIND THAT THE ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF THE CEQA PURSUANT TO 14 CAL. CODE REGS. 15061 P.R.C. 21080(b)(5) AND 14 CAL. CODE REGS. 15270, PROJECTS WHICH A PUBLIC AGENCY REJECTS OR DISAPPROVES.
2. FIND THAT DRAINAGE OF OIL AND GAS IS NOT OCCURRING AS A RESULT OF PRODUCTION FROM WELLS ON ADJACENT LANDS.
3. DENY THE PROPOSAL OF THE CITY OF HERMOSA BEACH TO LEASE ITS GRANTED TIDELANDS FOR OIL AND GAS EXPLORATION AND DEVELOPMENT PURSUANT TO P.R.C. 6872(a) AND P.R.C. 6878.