

**CALENDAR ITEM
C68**

A 67
S 35

03/25/08
WP 5636.1
S. Young

**CONSIDER ACCEPTANCE OF A LEASE QUITCLAIM DEED, TERMINATION OF A
GENERAL LEASE - RIGHT OF WAY USE AND ISSUANCE OF A NEW GENERAL
LEASE - RIGHT OF WAY USE**

LESSEE:

Aera Energy LLC
10000 Ming Avenue
Bakersfield, CA 93311

APPLICANT:

San Pedro Bay Pipeline Company, A Wholly-Owned Managed and Controlled
Subsidiary of Pacific Energy Resources Ltd.
111 W. Ocean Blvd., Suite 1240
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, use 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.

CALENDAR ITEM NO. **C68** (CONT'D)

SPECIFIC LEASE PROVISIONS:

Insurance:

Comprehensive general liability insurance and property damage insurance in the amount of no less than \$10,000,000.

Bond:

\$3,000,000

Additional Provisions:

1. San Pedro Bay Pipeline Company (SPBPC) to 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. 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 Mineral Management Service 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, 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

CALENDAR ITEM NO. C68 (CONT'D)

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.
8. Pacific Energy Resources Ltd. will provide an unconditional guarantee, as the parent company, for full performance by SPBPC, of all the obligations under the lease.

OTHER PERTINENT INFORMATION:

1. Applicant has the right to use the uplands adjoining the lease premises.
2. On March 28, 1979, the Commission approved the issuance of a General Lease – Right of Way Use for a 30-year term to Shell Oil Company. The lease permitted the installation, maintenance and use of a 16-inch pipeline for the transport of crude oil extending from the Beta Oil Field through State waters and terminating within lands granted to the City of Long Beach. Subsequently and effective June 1, 1982, the Commission approved the assignment of the lease to Shell California Production, Inc., which was subsequently merged into Shell Western E&P, Inc. (SWEPI) in 1987.

As a result of the settlement of antitrust litigation in 1991, SWEPI was required to dedicate a subsidiary corporation to common carrier service for specified crude oil pipelines including the pipeline covered under Lease No. PRC 5636.1. In satisfaction of its obligations under the settlement's "Pipeline Dedication Agreement" dated August 29, 1991, SWEPI formed San Pedro Bay Pipeline Company (SPBPC). The city of Long Beach, the State of California and the Commission, both represented by the Attorney General, were parties to the agreement.

In 1993, SWEPI assigned its interest in the pipeline to SPBPC. However, SWEPI, a stockholder of SPBPC, remained the operator of the pipeline and associated facilities. In 1995, SWEPI sold its stock in SPBPC to CalResources, LLC. In 1997, CalResources changed its name to Aera Energy, LLC. On January 29, 1999, the Commission approved the assignments of interests in the lease occurring in 1995 and 1997 and

CALENDAR ITEM NO. C68 (CONT'D)

approved the assignment of the lease to Aera Energy LLC (Aera). At that time, Aera retained ownership of the capitol stock of SPBPC.

In March of 2007, in connection with the sale of Aera's interests in the Beta Oil Field in federal waters, Aera sold its capital stock of SPBPC to Pacific Energy Resources Ltd. (PERL). SPBPC is the owner of the pipeline and holder of the pipeline "right of way" in federal waters. The pipeline is operated as a common carrier.

Aera has applied to assign the lease to SPBPC, now a wholly owned subsidiary of PERL. Aera contends that the Commission's approval of the lease assignment to Aera In 1999 was in error and that the Commission should have approved SWEPI's assignment to SPBPC in 1993. However, neither Aera nor the Commission has any record of a 1993 or later application to the Commission for assignment of the lease to SPBPC. Staff has been in discussions with Aera regarding concerns as to the chain of ownership of the pipeline and the various assignments.

In an effort to resolve issues related to the prior assignments of the lease, staff is recommending that the existing lease to Aera be terminated and that a new lease be issued to SPBPC, a wholly owned subsidiary of PERL. Accordingly, staff is recommending that a Lease Termination Agreement be executed by all of the parties: the Commission, Aera Energy, LLC, Pacific Energy Resources Ltd. and San Pedro Bay Pipeline Company. A copy of that agreement is attached and identified as Exhibit C.

3. A provision of the proposed lease requires that SPBPC's parent company, Pacific Energy Resources Ltd., must provide an unconditional guarantee for full performance by SPBPC of all its obligations under the lease.
4. The Commission's Mineral Resource Management Division (MRMD), which oversees pipeline integrity testing and safety issues for oil and gas facilities located in State waters, previously expressed concerns to Aera regarding the lack of pipeline testing data available for the 16-inch diameter steel crude oil pipeline crossing state waters. In an effort to address this concern, PERL recently performed the necessary testing to gather information on the integrity of the pipeline.

CALENDAR ITEM NO. C68 (CONT'D)

The testing, which took place in August of 2007, indicated that there were no issues with the portion of the pipeline located in State waters and within the Lease Premises. However, there were issues with the integrity of the pipeline in federal waters at the location of the pipeline riser which connects to oil Platform Elly in the Beta Oil Field. Subsequently, PERL prepared a repair plan and repairs were made to the section of the pipeline at the riser in January of 2008.

The pipeline, serving the OCS facility Platform Elly has been inspected pursuant to a Memorandum of Understanding between the U. S. Minerals Management Service and the Commission. Commission staff has reviewed the results of the inspections conducted in July of 2007 and the pertinent pipeline has been approved for continued use and operation.

The U.S. Minerals Management Service has approved the assignment from Aera to PERL of the federal oil and gas leases, served by the State right of way lease, and has approved PERL as the operator.

5. **Termination of Lease:** 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 the CEQA because it is not a "project" as defined by the CEQA and the State CEQA Guidelines.

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

6. **Issuance of New Lease:** Pursuant to the Commission's delegation of authority and the State CEQA Guidelines (Title 14, California Code of Regulations, section 15061), the staff has determined that this activity is exempt from the requirements of the CEQA as a categorically exempt project. The project is exempt under Class 1, Existing Facilities; Title 2, California Code of Regulations, section 2905 (a)(2).

Authority: Public Resources Code section 21084 and Title 14, California Code of Regulations, section 15300 and Title 2, California Code of Regulations, section 2905.

7. This activity involves lands identified as possessing significant environmental values pursuant to Public Resources Code sections 6370,

CALENDAR ITEM NO. C68 (CONT'D)

et seq. Based upon the staff's consultation with the persons nominating such lands and through the CEQA review process, it is the staff's opinion that the project, as proposed, is consistent with its use classification.

APPROVALS OBTAINED:

U.S. Department of Interior - Mineral Management Service

EXHIBITS:

- A. Location and Site Map
- B. Land Description
- C. Lease Termination Agreement

PERMIT STREAMLINING ACT DEADLINE:

N/A

RECOMMENDED ACTION:

IT IS RECOMMENDED THAT THE COMMISSION:

CEQA FINDING:

TERMINATION OF LEASE: FIND THAT THE ACTIVITY IS NOT SUBJECT TO THE REQUIREMENTS OF THE 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.

ISSUANCE OF NEW LEASE: FIND THAT THE ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF THE CEQA PURSUANT TO TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15061 AS A CATEGORICALLY EXEMPT PROJECT, CLASS 1, EXISTING FACILITIES; TITLE 2, CALIFORNIA CODE OF REGULATIONS, SECTION 2905 (a)(2).

SIGNIFICANT LANDS INVENTORY FINDING:

FIND THAT THIS ACTIVITY IS CONSISTENT WITH THE USE CLASSIFICATION DESIGNATED BY THE COMMISSION FOR THE LAND PURSUANT TO PUBLIC RESOURCES CODE SECTIONS 6370, ET SEQ.

CALENDAR ITEM NO. C68 (CONT'D)

AUTHORIZATION:

AUTHORIZE EXECUTION OF A LEASE TERMINATION AGREEMENT, ATTACHED AS EXHIBIT C AND BY THIS REFERENCE MADE A PART HEREOF.

AUTHORIZE ACCEPTANCE OF A LEASE QUITCLAIM DEED TRANSFERRING ALL RIGHTS, TITLE AND INTEREST IN THE LEASEHOLD FROM AERA ENERGY, LLC TO THE COMMISSION, AND AUTHORIZE THE TERMINATION OF A GENERAL LEASE – RIGHT OF WAY USE, LEASE NO. PRC 5636.1, EFFECTIVE MARCH 25, 2008, FOR THE LANDS SHOWN ON EXHIBIT A ATTACHED AND BY THIS REFERENCE MADE A PART HEREOF.

AUTHORIZE ISSUANCE OF A GENERAL LEASE – RIGHT OF WAY USE TO SAN PEDRO BAY PIPELINE COMPANY, A WHOLLY OWNED SUBSIDIARY OF PACIFIC ENERGY RESOURCES LTD., BEGINNING MARCH 25, 2008, FOR A TERM OF 20 YEARS, FOR THE CONTINUED OPERATION, USE AND MAINTENANCE OF AN EXISTING 16-INCH DIAMETER CRUDE OIL PIPELINE AS SHOWN ON EXHIBIT A AND AS DESCRIBED ON EXHIBIT B ATTACHED AND BY THIS REFERENCE MADE A PART HEREOF; ANNUAL RENT IN THE AMOUNT OF \$190,440, WITH THE STATE RESERVING THE RIGHT TO FIX A DIFFERENT RENT PERIODICALLY DURING THE LEASE TERM, AS PROVIDED IN THE LEASE; LIABILITY INSURANCE WITH COVERAGE OF NO LESS THAN \$10,000,000; SURETY BOND IN THE AMOUNT OF \$3,000,000; AND ADDITIONAL PROVISIONS SUBSTANTIALLY IN THE FORM ON FILE IN THE SACRAMENTO OFFICE OF THE COMMISSION.