

**STAFF REPORT
C83**

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02/27/18
G 15-02
R. Boggiano

CONSIDER A REQUEST TO APPROVE AN ASSIGNMENT OF A PIER LEASE AND AN OIL AND GAS PIPELINE LEASE AND TO AMEND CERTAIN TERMS OF THESE LEASES INVOLVING CERTAIN LEGISLATIVELY GRANTED SOVEREIGN LANDS IN THE CITY OF CARPINTERIA

GRANTEE:

City of Carpinteria

LOCATION:

Granted sovereign tide and submerged lands located in the city of Carpinteria, Santa Barbara County.

BACKGROUND AND PROPOSED LEASES:

The City of Carpinteria (City) is a trustee of sovereign tide and submerged land granted by the Legislature pursuant to Chapter 1044, Statutes of 1968, and as amended, with minerals reserved to the State of California. The statutory trust grant requires the City to receive approval from the Commission before authorizing any capital outlay project, lease, or agreement for port facilities, such as marine terminals, pipelines, or other related energy facilities.

In April 2017, Venoco, LLC, (Venoco) and its subsidiary, Ellwood Pipeline, Inc., (Ellwood) filed for Chapter 11 bankruptcy. Venoco and Ellwood, as debtors in bankruptcy, negotiated a Purchase and Sale Agreement with Chevron U.S.A. Inc. (Chevron). The Agreement provides that Chevron would acquire most assets and properties held by Venoco and Ellwood within the City, including two pipelines and the Casitas Pier for the primary purpose of decommissioning Platforms Gail and Grace, located in federal waters offshore Carpinteria.

On January 4, 2018, the City submitted to the Commission two proposed lease assignments—one to assign the Casitas Pier lease to Chevron and one to assign two 10-inch-diameter pipelines lease to Chevron. The City also provided information about proposed amendments to the leases. The leases were originally located on lands granted to the County of Santa Barbara (County), pursuant to Chapter 846, Statutes of 1931, and subsequently transferred to the City, pursuant to Chapter 1044, Statutes of 1968.

STAFF REPORT NO. **C83** (CONT'D)

Casitas Pier Lease

In 1965, the County granted a 30-year lease to Standard Oil Company of California to construct the Casitas Pier and associated facilities on lands granted to the County. The lease was amended on December 6, 1985 without review or approval by the Commission. The City and Chevron, successors in interest to the original parties, respectively, subsequently amended the lease on October 28, 1980, to increase the rent and extend the lease an additional 35 years. The Commission approved the amendment on December 16, 1980 ([Item 33, December 16, 1980](#)). In January 2001, the Commission approved the assignment and amendment of the lease from Chevron to Venoco ([Item C14, January 30, 2001](#)). The amendment increased the annual rent to \$150,000, included a provision for Consumer Price Index (CPI) rental adjustments every 2 years, and included a provision to increase the insurance requirement for Venoco to \$10 million. The lease will expire on October 31, 2030.

Oil and Gas Pipeline Lease

In 1965, the County granted a 50-year lease to Standard Oil Company of California, authorizing the installation and operation of two 10-inch-diameter pipelines through a 3-mile long right-of-way of submerged lands granted to the County. The purpose of the lease was to transport oil and gas from offshore federal platforms to the Carpinteria onshore processing facility. The City and Chevron became the successors in interest to the original parties, respectively. In 2002, the City authorized the assignment of the lease to Ellwood, and authorized certain lease amendments. The Commission approved the assignment and amendments on January 30, 2001 ([Item C14, January 30, 2001](#)). The lease amendment increased the annual rent to \$25,000, included a provision for CPI rental adjustments every 2 years, and increased the insurance amount to \$10 million.

The pipeline lease was set to expire on September 27, 2015. Before that date, Ellwood requested to extend the lease for 40 years. The City, County, and Ellwood met on several occasions to discuss various considerations related to the request. On September 15, 2015, the City Council approved an amendment to the lease granting Ellwood an 18-month extension, providing more time to gather additional information. On March 15, 2017, the City authorized an additional amendment extending the pipeline lease through September 26, 2018. The City did not seek Commission approval for the short-term lease extensions.

STAFF REPORT NO. C83 (CONT'D)

During the short-term extension periods, the City's consultant, Robert Brown Engineers, worked with Ellwood to collect and evaluate information on pipeline integrity, operational safety, and monitoring programs. Robert Brown Engineers issued a final report dated December 9, 2016, finding that the pipelines do not pose an immediate risk of failure. The County also obtained an opinion from the federal Bureau of Safety and Environmental Enforcement (BSEE) regarding the integrity of the pipelines. BSEE stated that the pipelines are regularly inspected and concluded that, based on recent inspection results, no remedial action or further analysis was required.

Pier and Pipeline Lease Assignments and Amendments

Chevron will use the Casitas Pier and pipelines to assist in the offshore plugging, abandonment, and decommissioning of the oil and gas facilities at platforms Gail and Grace that Chevron is acquiring from Venoco. The natural gas pipeline will continue to deliver fuel to generators on platforms Gail and Grace, which will be used to power equipment during platform decommissioning. Chevron will use the pipeline to transport waste products associated with the plugging and abandonment work from the platforms to an upland oil storage tank at the Carpinteria Processing Facility for proper disposal. Chevron will use the Casitas Pier to transport equipment, supplies, materials, and crews to conduct the plugging, abandonment, and decommissioning work.

The terms of the Casitas Pier lease will remain unchanged. The City, however, is requiring Chevron to provide and comply with a repair plan for the pier as a condition of the assignment. City staff believes additional repairs may be necessary to bring the pier into compliance with the standards required in the lease. Within three months of executing the lease agreement, the City and Chevron must come to an agreement on repairs to be made.

The pipeline lease will be amended to extend the lease until September 23, 2023, and the purpose of the lease will be amended to reflect the changes in use for the decommissioning activities. Lease payment obligations under the pier and pipeline leases will remain unchanged for the remainder of the lease terms or until Chevron elects to terminate the leases. The current annual pier and pipeline lease rates are approximately \$216,000 and \$35,000, respectively. The proposed lease amendments require a \$7,500 payment to the City for processing costs.

STAFF REPORT NO. C83 (CONT'D)

The City Council approved the assignments and amendments on December 11, 2017, and the Purchase and Sale Agreement was executed on November 13, 2017. The City is requesting approval from the Commission for the assignment and amendment of the leases.

STAFF ANALYSIS AND RECOMMENDATION:

The statutory trust grant requires the City to obtain approval from the Commission before authorizing a capital outlay project, lease or agreement for port facilities on granted public trust lands, except for piers of which a substantial portion is devoted to recreational and fishing uses.

Section 3 of Chapter 1044, Statutes of 1968, as amended by Chapter 697, Statutes of 1978, of the City's statutory trust grant allows a variety of uses on the granted lands, including commercial and industrial uses and purposes, and the construction, reconstruction, repair, and maintenance of commercial and industrial buildings, plants, and facilities. The granting statute allows the City to lease the lands for periods not to exceed 66 years.

Before approving any project, lease, or agreement subject to Section 6.5 in the granting statute, the Commission must consult with other governmental agencies to determine whether the project, lease, or agreement is in the best interests of the State. Staff consulted with other governmental agencies, including the California Coastal Commission, Central Coast Regional Water Quality Control Board, California Department of Fish and Wildlife, and the National Oceanic and Atmospheric Administration regarding the proposed leases and assignments. Staff has not received any objections by the various governmental agencies.

The proposed lease amendments and assignments are intended to facilitate the decommissioning of two platforms in federal waters—Gail and Grace. The use and lease term, including all extensions, appear to be consistent with the City's granting statute. Staff recommends that the Commission find that the proposed amendments and assignments are consistent with the City's granting statute.

OTHER PERTINENT INFORMATION:

1. This proposed action is consistent with Strategy 1.2 of the Commission's Strategic Plan to provide that the current and future management of ungranted sovereign lands and resources and granted lands, including through strategic partnerships with trustee ports and harbor districts, are consistent with evolving Public Trust principles and values.

STAFF REPORT NO. **C83** (CONT'D)

2. Approving the City's lease assignments is not a project as defined by the California Environmental Quality Act because it is an administrative action that will not result in direct or indirect physical changes in the environment.

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

EXHIBIT:

- A. Location and Site Map – Casitas Pier and Oil and Gas Pipelines

RECOMMENDED ACTION:

It is recommended that the Commission:

AUTHORIZATION:

1. Find that the lease assignments and amendment of certain terms of those leases, as referenced above, conform with the provisions of Section 6.5 of Chapter 1044, Statutes of 1968, as amended by Chapter 697, Statutes of 1978.
2. Find that any revenues generated as a result will be allocated in accordance with the provisions of Section 10 of Chapter 1044, Statutes of 1968, as amended by Chapter 697, Statutes of 1978.
3. Find that the assignment of the two leases for an existing pier and oil and gas pipeline from Venoco, LLC, and Ellwood Pipeline, Inc., respectively, to Chevron U.S.A Inc., and the amendment of certain terms of those leases is in the best interests of the State.
4. Approve the City's lease assignment for two oil and gas pipelines from Ellwood Pipeline, Inc., to Chevron U.S.A. Inc., and the amendment of certain terms of the lease, in substantially the same form as that on file at the Commission's Sacramento Office, pursuant to Chapter 1044, Statutes of 1968, and as amended.
5. Approve the City's lease assignment for an existing pier from Venoco, LLC, to Chevron U.S.A. Inc., and the amendment of certain terms of the lease, in substantially the same form as that on file at the Commission's Sacramento Office, pursuant to Chapter 1044, Statutes of 1968, and as amended.

NO SCALE

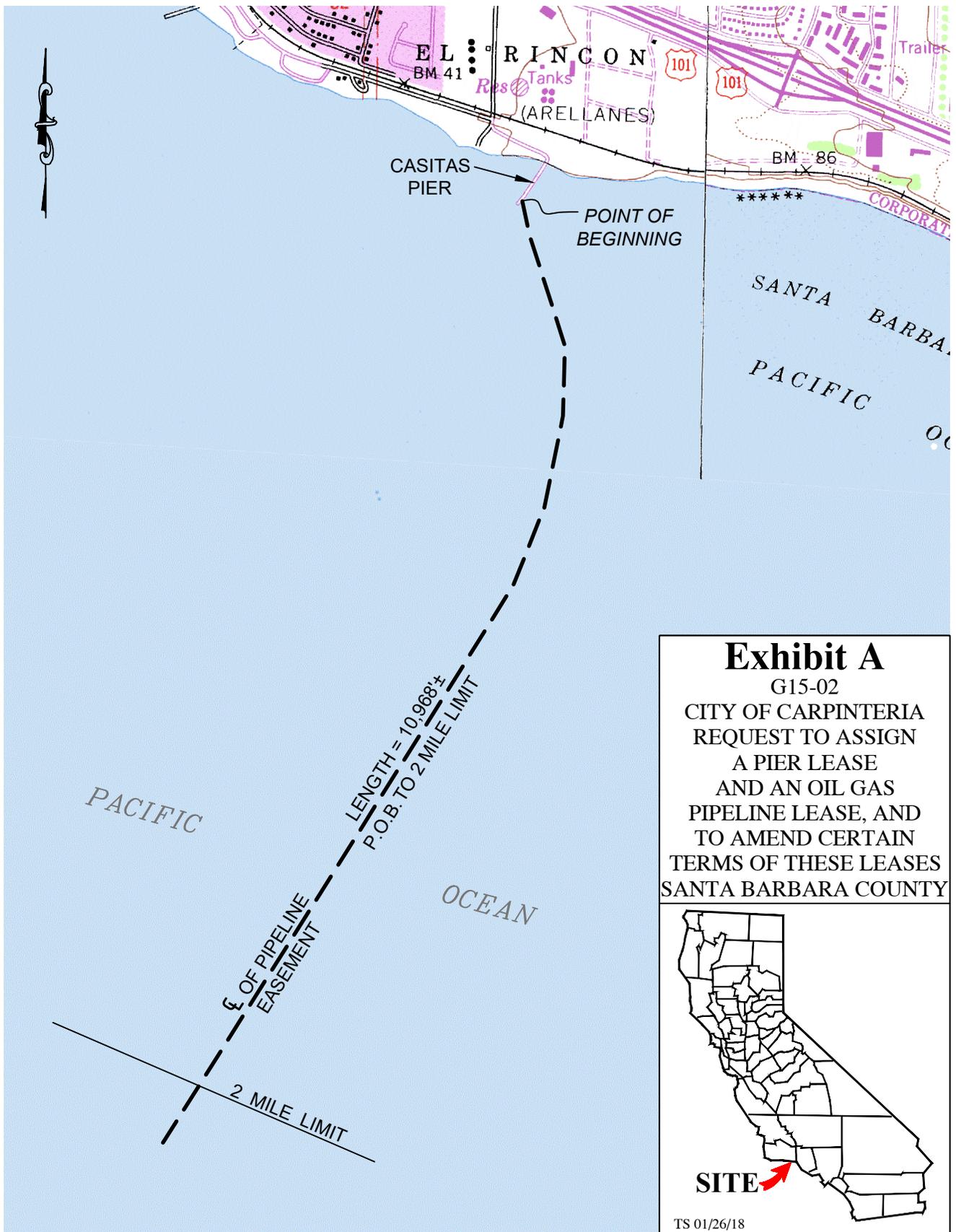


Exhibit A
G15-02
CITY OF CARPINTERIA
REQUEST TO ASSIGN
A PIER LEASE
AND AN OIL GAS
PIPELINE LEASE, AND
TO AMEND CERTAIN
TERMS OF THESE LEASES
SANTA BARBARA COUNTY



MAP SOURCE: USGS QUAD

This Exhibit is solely for purposes of generally defining the lease premises, is based on unverified information provided by the Lessee or other parties and is not intended to be, nor shall it be construed as, a waiver or limitation of any State interest in the subject or any other property.