

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

MEETING  
STATE OF CALIFORNIA  
STATE LANDS COMMISSION

--o0o--

ORIGINAL

STATE CAPITOL  
ROOM 127  
SACRAMENTO, CALIFORNIA

--o0o--

THURSDAY, FEBRUARY 25, 1993

1:30 P.M.

--o0o--

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

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

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

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

I N D E X  
--o0o--

	<u>Page</u>
Proceedings	1
Confirmation of Minutes for the meeting of December 17, 1992	1
Consent Calendar Items Pulled off Calendar:	
C06, C25, C26	1
Consent Calendar	1
Item 38, Douglas E. Younkin (Applicant)	1
Item 40, Chevron U.S.A. Inc. (Lessee)	2
Item 39, Atlantic Richfield Company (Assignor) Mobil Oil Corporation (Assignee)	4
<u>Public Comment</u>	
Ms. Byth, Mobil Oil	19
Mr. Caldwell, COLAB	31
Commission Action	35
Adjournment	35
Certificate of Reporter	36

--o0o--

P R O C E E D I N G S

--o0o--

1  
2  
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?

1 EXECUTIVE OFFICER WARREN: On Holly?

2 COMMISSIONER DAVIS: No. Statewide.

3 EXECUTIVE OFFICER WARREN: In your folder is an  
4 Annual Report of the Revenues Produced by the Activities of  
5 this Commission last fiscal year.

6 It's broken down by source I'm not sure it's  
7 broken down as you requested. Let me see.

8 Counting Long Beach unit, Santa Barbara, Orange  
9 and Orange County -- by the way, in Orange County,  
10 Huntington Beach Operation, we received notice from Shell,  
11 our lessee, that it intends to assign its lease or suspend  
12 operation.

13 In any event, I'm told that it was \$240 million  
14 last year in oil and gas revenue.

15 COMMISSIONER DAVIS: Offshore as opposed to Kern  
16 County?

17 EXECUTIVE OFFICER WARREN: Yes.

18 MR. HIGHT: That includes gas in the Delta.

19 COMMISSIONER DAVIS: Within our jurisdiction?

20 MR. HIGHT: Yes. Totally State Lands.

21 COMMISSIONER DAVIS: This particular field  
22 generated about five million last year?

23 EXECUTIVE OFFICER WARREN: Yes.

24 CHAIRMAN MCCARTHY: All right.

25 I have three requests for testimony from members

1 in the public in the audience.

2 Mr. James Caldwell, Executive Director of COLAB,  
3 Coalition of Labor, Agriculture and Business of Santa  
4 Barbara.

5 Mr. Steve Greig, and is that the right  
6 pronounciation, Mr. Greig?

7 MR. GREIG: Yes.

8 CHAIRMAN McCARTHY: Then Ms. Jan Byth.

9 All right.

10 EXECUTIVE OFFICER WARREN: Could Ms. Byth go  
11 first, Mr. Chairman?

12 CHAIRMAN McCARTHY: All right. Ms. Byth, would you  
13 step forward, please.

14 Would you like to use the last chair there.  
15 Thank you.

16 MS. BYTH: Honorable Commissioners, Mr. Chairman,  
17 good afternoon. My name is Jan Byth.

18 CHAIRMAN McCARTHY: Representing Mobil Oil.

19 MS. BYTH: I'm a Producing Manager with Mobil  
20 Oil.

21 I'm please to be here today to have the  
22 opportunity to address you on the important issue of the  
23 future of our operations in the South Ellwood Fields. We  
24 are here today to ask for an economic decision which is in  
25 the best interest of the people of the State of California.

1           We ask to you adopt staff's recommendation to  
2 approve the assignments from Arco and to reduce the oil  
3 royalty to the current gas royalty rate of one-sixth. We  
4 had maintained that one-eighth royalty was really called  
5 for because of the high costs in the field.

6           We spent several hours discussing this with your  
7 staff and negotiating and have agreed with their  
8 recommendation of one-sixth. This rate will allow us to  
9 continue current operations from the existing permitted  
10 facilities, thereby preserving jobs and revenue to the  
11 State and county.

12           We are not asking for approval or review of a new  
13 project but simply to maintain the status quo. I might  
14 just note that OCS D standard is one-sixth on leases of this  
15 kind.

16           I would like to address your question on a  
17 sliding-scale royalty. There are two areas that are  
18 important.

19           One, the current operations are not economic at  
20 this time because of the high cost. This is a low gravity  
21 sulfur crude, and that's one of the lowest grade crudes  
22 that we have. Therefore, the margin on that is very narrow.

23           A sliding-scale royalty is a disincentive for any  
24 production increases, or any money to be spent in the  
25 field. We feel it it were a sliding-scale royalty, even if

1 the price is increased, it would be difficult for us to  
2 provide money to do any more work that would increase the  
3 production in the field.

4           If we have a flat one-sixth royalty as is the  
5 standard in OCS, we feel that we could justify spending  
6 money to maintain production and keep production levels  
7 up. Otherwise, that money would need to be spent where  
8 other projects are more economical.

9           As has been recognized by EDC in a letter of  
10 February 25, 1993, Mobil has been evaluating the State  
11 Lands staff proposal with the county for additional  
12 production from the South Ellwood Field using extended  
13 reach drilling from onshore.

14           Our discussions to date with the decision-makers  
15 of the county have been favorable. We are addressing the  
16 issues posed in a February 2 Board meeting in Santa Barbara  
17 by the Board of Supervisors and the environmental  
18 community. If we decide to go forward with the project, it  
19 will undergo an extensive environmental review addressing  
20 all environmental issues, including those raised by EDC as  
21 part of the CEQA process. Again, this is not the issue  
22 today.

23           The EDC letter, because of its focus on the  
24 Clearview project, incorrectly states the royalty reduction  
25 issue before you today. The royalty reduction is necessary

1 to make the current operations economic.

2 Contrary to EDC's assertion that royalty  
3 reduction will result in a loss of revenue to the State of  
4 \$1.8 million annually, royalty payments will actually  
5 increase in excess of \$140 million, if the lease maintains  
6 its economic status.

7 COMMISSIONER DAVIS: Could you just explain what  
8 that means?

9 MS. BYTH: I think Mr. Mount had said that they  
10 could only foresee the next four years that the economic  
11 viability of the lease could be maintained.

12 If prices held, and if we were at a flat  
13 one-sixth royalty, the possibility is there that we would  
14 recover the remaining reserves on the lease, then that  
15 could be in excess of \$140 million over the next several  
16 years beyond the four-year period.

17 Without a reduction in royalty, however, we would  
18 begin immediate abandonment, and at completion of  
19 abandonment the royalties would cease. There would be no  
20 royalties.

21 With a one-sixth royalty rate, production could  
22 continue from Platform Holly and result in estimated,  
23 again, over \$140 million, if the economics continue to be  
24 viable. Thus, rather than losing the \$1.8 million annually,  
25 as asserted by EDC, the State would actually be earning

1 revenue.

2 In order to make operations economic and continue  
3 production from Platform Holly, we foresee, if this royalty  
4 reduction is granted, spending as much as \$6 million in the  
5 next few years to increase production and maintain  
6 operations at efficiently as possible.

7 As a result, the economic viability of these  
8 leases is not contingent upon approval of an extended reach  
9 drilling project.

10 At a time when State and local governments are  
11 struggling to balance budgets, and provide demanded-for  
12 services, it would seem prudent to prevent the premature  
13 abandonment of a valuable producing asset.

14 Perhaps to some these numbers are insignificant,  
15 but no single action can by itself solve 100 percent of the  
16 fiscal and unemployment problems of this State.

17 I might mention also that if the Clearview  
18 project was to go forward, and if it was something that the  
19 Commission deemed it wanted to pursue, that could result in  
20 royalties to the State of anywhere from \$600 to \$800  
21 million.

22 If you like, I would be willing to discuss the  
23 aspects of the Clearview project referred to you by EDC.  
24 However, in determining what is in the best interest of the  
25 people of California, it's important to note that your

1 actions today will not create any new or any greater  
2 environmental risks.

3 All production from Platform Holly will continue  
4 to be produced within the current permitted limits and in  
5 complete compliance with all applicable local and State  
6 regulations. Platform Holly is an existing facility and has  
7 been in State waters producing oil and gas for almost  
8 thirty years.

9 Furthermore, the Ellwood plant where Holly's  
10 production is processed has been in operation for a longer  
11 period of time.

12 I appreciate your attention to Mobil's position.  
13 I hope that you'll act in accordance with staff's  
14 recommendation.

15 If you have any questions, I will be happy to  
16 answer those.

17 COMMISSIONER DAVIS: Yes. The most compelling  
18 argument that you make from my perspective, both as a  
19 Member of this Commission and also as the Chief Fiscal  
20 Officer of the State, is that you're going to keep 80  
21 people, will allow 80 people to keep working.

22 Would you put in writing that if we reduce the  
23 royalties as you request that you will keep those people  
24 employed at least for four years?

25 MS. BYTH: Of those 80 people, some of those are

1 not direct employees of Mobil.

2           There are some 40 people directly employed by  
3 Mobil. The rest of those people are indirectly employed  
4 through services that some provide. We have no control  
5 over those people.

6           COMMISSIONER DAVIS: That's the figure that is  
7 being batted around here, 80 people.

8           You know, my experience with oil companies has  
9 not been terribly favorable. I believe in the possibility  
10 of redemption. I know that I make mistakes. I would like  
11 to believe that you'll operate in good faith.

12           If you're asking us to do something, give us  
13 something in return. Give us a written contract that  
14 certain people will not lose their job.

15           Will you go for forty?

16           MS. BYTH: We will be glad to go on record saying  
17 that we will employ people to run the Platform here in the  
18 State.

19           COMMISSIONER DAVIS: If you spell that out in a  
20 contract, I'm a great believer in contracts, all the people  
21 currently employed will be employed for at least four  
22 years, that would have a --

23           MS. BYTH: I would like to point out that we  
24 cannot make people currently working in the field, those  
25 people right now work for Arco directly.

1           If Mobil were to take over the operation of the  
2 field, we cannot say that all of them would agree to stay  
3 on and continue employment.

4           COMMISSIONER DAVIS: I'm sure your lawyers can  
5 figure out a way to respond to the request.

6           MS. BYTH: It's our intent to maintain the jobs  
7 currently in the field.

8           COMMISSIONER KOLODNEY: Help me understand the  
9 industry a little bit. When you abandon a platform because  
10 it's not economic under the current circumstances, does  
11 that mean that that well is forever abandoned?

12           If prices were to rise, can you reopen that  
13 platform?

14           MS. BYTH: If we decide to go into the mode of  
15 abandonment, this well will be permanently plugged and  
16 abandon the platform.

17           There would be nothing there to re-enter. There  
18 would be no means.

19           COMMISSIONER KOLODNEY: So, there is never a  
20 situation in which you stop production because of the  
21 economic consequence and then reinstitute production when  
22 the economic conditions change?

23           MS. BYTH: There have been instances where in a  
24 given field you might want to shut one or two wells because  
25 of a high water production or high cost.

1           Any time you discontinue a full field production  
2 like this because of overall royalty regime, then we would  
3 plug it and not look back.

4           I might also say that if the royalty reduction is  
5 not granted, and we enter into the abandonment mode, there  
6 will be no turning back. We will sign a contract with Arco  
7 and go ahead, and we will be contractually obligated to  
8 complete the abandonment.

9           COMMISSIONER DAVIS: Charlie or Bob, let's assume  
10 the field is abandoned.

11           I assume that then all rights to that are  
12 surrendered by the lessee?

13           MR. HIGHT: At the end of the abandonment process,  
14 yes.

15           CHAIRMAN McCARTHY: Which is two years, a year?

16           MR. HIGHT: Probably two, two and a half years.

17           EXECUTIVE OFFICER WARREN: We have an abandonment  
18 schedule prepared for us by Arco.

19           COMMISSIONER DAVIS: What kind of employment is  
20 there during the two and a half year time?

21           MR. HIGHT: There will be people to do the  
22 physical work of the abandonment as well as continue  
23 running the wells that would be running. They can't shut  
24 them all off tomorrow.

25           You would run some as you abandon some. It's

1 jobs for two to two and a half years. The exact number, I  
2 don't know.

3 COMMISSIONER DAVIS: I assume, if you went back  
4 and took a look, you could make a reasonable estimate of  
5 how many jobs?

6 MR. HIGHT: Yes.

7 COMMISSIONER DAVIS: It would be some portion of  
8 the forty jobs?

9 MR. HIGHT: Yes.

10 COMMISSIONER DAVIS: Once it's abandoned, I  
11 assume that at some subsequent point we could lease that  
12 facility out again?

13 MR. HIGHT: Once it's abandoned and quit claimed,  
14 yes.

15 COMMISSIONER DAVIS: How long does it take to quit  
16 claim?

17 MR. HIGHT: As soon as they get everything off  
18 the land, then they would.

19 COMMISSIONER DAVIS: I didn't want the  
20 Commissioner to be under the impression that it was a  
21 resource that State could no longer exploit at some future  
22 date if prices and circumstances were to warrant it.

23 CHAIRMAN McCARTHY: Isn't there a provision in  
24 the original lease that says when wells are abandoned that  
25 the lessee under the original lease abandons the right to

1 drill and extract?

2 MR. HIGHT: The provisions in the lease that we  
3 are working on says that when the lease becomes uneconomic  
4 they, lessee, Arco-Mobil, may abandon and quit claim to the  
5 State.

6 CHAIRMAN McCARTHY: Who makes the judgment  
7 whether it's economic?

8 MR. HIGHT: It's a dual purpose.

9 If the lessee says it's economic, the Commission  
10 could look at it and say, no, we think you're wrong, and it  
11 could ultimately wind up in a lawsuit.

12 CHAIRMAN McCARTHY: If Arco wants to abandon, and  
13 they say we're not going to do this because it simply isn't  
14 making enough profit for us, and we have that in writing  
15 from them, doesn't Arco or any assignee waive its rights to  
16 sit on it and go back to it in ten years?

17 That goes back to the control of the State Lands  
18 Commission, doesn't it? We then could lease it. It's a  
19 resource that could be extracted in the future, but it  
20 would then be open to bids once again to any company.

21 EXECUTIVE OFFICER WARREN: Assuming --

22 COMMISSIONER DAVIS: Including the --

23 MR. HIGHT: The quit claims, they could bid on it  
24 too because it's open to anybody.

25 CHAIRMAN McCARTHY: If it's not otherwise

1 prohibited by law, such as sanctuary?

2 MR. HIGHT: Yes.

3 MS. BYTH: May I make a comment?

4 I would just like to comment that when we abandon  
5 the field, of course, all facilities and all wells would be  
6 gone. There would be nothing left. It's as we got it when  
7 we originally leased the property. It will be bare.

8 One of the important aspects of this particular  
9 proposal is that because of the existing facilities being  
10 there and not having the expense of having to build  
11 facilities, that is the reason we can make it viable at  
12 one-sixth royalty. If we had to install and make tremendous  
13 capital investments, as if another company were taking over  
14 the lease, it would not be economic.

15 The one-sixth royalty, again, we first maintained  
16 that one-eighth would be the best, but at one-sixth we see  
17 that we can maintain the operations because of the existing  
18 infrastructure is there. Without that infrastructure, it  
19 would not be possible.

20 COMMISSIONER DAVIS: It would all be subject to a  
21 competitive process and whatever the best bid if we had to  
22 re-lease the property.

23 MS. BYTH: I guess I'm just explaining that our  
24 economics are very similar to other companies' economics,  
25 and because we have an existing infrastructure we can

1 continue the operations at the one-sixth royalty.

2 Someone else coming in with no infrastructure  
3 would have a difficult time making it economic.

4 CHAIRMAN McCARTHY: Thank you.

5 Mr. Caldwell.

6 MR. CALDWELL: Commission Members, my name is  
7 Andy Caldwell.

8 I'm not here representing Mobil. Mobil is not a  
9 member of the organization that I represent. I represent a  
10 phenomena in California, called the Coalition of Labor,  
11 Agriculture and Business of Santa Barbara County.

12 Things are so bad in our county that we all got  
13 together. We refer to ourselves as a common interest group  
14 because we don't have any special interests in common.

15 I represent over 60,000 members of organized  
16 labor, every farming association in our county and every  
17 business association in our county.

18 We urge you, the State Lands Commission, to  
19 approve the assignment from Arco to Mobil and to amend the  
20 royalty structure at the appropriate South Ellwood field  
21 leases and preserve the existing operations.

22 Members of the Commission know all too well the  
23 difficulties that our State and counties are facing in  
24 terms of attracting and keeping jobs as well as providing  
25 revenues for the social services our citizens need and

1 expect.

2           The decisions of our elected officials must  
3 consider economic necessities of our businesses while doing  
4 what is best in the interest of the people in the State of  
5 California.

6           Our organization primarily was founded because we  
7 didn't think that our representatives were balancing  
8 environmental and economic considerations. We formed, and  
9 we believe that we represent a majority of the citizens in  
10 our county.

11           We have actually been asked to expand into San  
12 Luis Obispo County, Ventura and have had inquiries in three  
13 to five other counties as well because there is a  
14 widespread sentiment similar in our county and others.

15           We believe that the royalty reduction proposal  
16 does balance environmental need and economic  
17 considerations. Based on your staff's presentation, it's  
18 clear that the proposal before you will help maintain the  
19 economic viability of the South Ellwood Field.

20           It will preserve forty well-paying steady jobs  
21 and forty other jobs that have been created as an indirect  
22 result of these ongoing operations.

23           I grew up in Santa Barbara County. I was  
24 fortunate enough to go to college. Many of my friends were  
25 not. The only chance that they have of getting a decent

1 paying job is to work in industry.

2 This is one of the best industries in our county  
3 in the area. It allows people to get jobs paying \$15 to  
4 \$20 an hour. It allows them to buy houses.

5 The long-term residents of our county are not  
6 happy to be relegated to working in hotels, motels and  
7 restaurants. We want good paying jobs. This industry  
8 represents that.

9 We believe that as well as the forty jobs and the  
10 forty contractual jobs that it will also make possible the  
11 additional South Ellwood production needed for our economy.  
12 It will generate more than \$150 million in royalty for the  
13 State and millions more in tax revenues for our county.

14 Perhaps more important, we look at this as an  
15 indication that our State is serious in its effort to do  
16 the right thing for both the environment and the economy.

17 Thank you.

18 CHAIRMAN McCARTHY: Thank you, Mr. Caldwell.

19 Mr. Greig.

20 MR. GREIG: I will decline commenting.

21 CHAIRMAN McCARTHY: Your here in support?

22 MR. GREIG: Yes.

23 CHAIRMAN McCARTHY: All right. Thank you.

24 Does anyone else in the audience wish to address  
25 this item?

1           The matter is before the Commission.

2           Do I hear a motion?

3           I'll make a motion that the staff recommendation  
4 be approved.

5           Do I hear a second?

6           Lacking a second --

7           COMMISSIONER KOLODNEY: Second, Mr. Chairman.

8           CHAIRMAN MCCARTHY: Seconded by Mr. Kolodney.

9           The matter is before the Commission.

10          COMMISSIONER DAVIS: I am sympathetic to the  
11 economic arguments made.

12          In reference to the last speaker, there are no  
13 comments out of any of the Commissioners at all relative to  
14 the environment. We have all been discussing economics.

15          I think that the people of this State and this  
16 Commission would be better served if we had a contractual  
17 commitment from Mobil specifying the jobs that would be  
18 saved so that we can answer the public why we participated  
19 in at first what appears to be a generous reduction in the  
20 royalty rates.

21          I also think that we would be better served if  
22 the contract allowed the State royalties to increase as a  
23 percentage as the price of oil rose, and the flip side of  
24 that would probably be for royalties to diminish if the  
25 price of oil dropped.

1 I think both of those goals are very achievable.  
2 Absent that, I'm just going to abstain from the vote.

3 I'm very sympathetic to the economic arguments  
4 but feel with proper staff work and cooperation from Mobil  
5 those two goals could be achieved.

6 CHAIRMAN McCARTHY: The matter is approved with  
7 two votes.

8 That concludes the calendar for today. Thank you  
9 very much ladies and gentlemen.

10 (Thereupon the meeting of the State Lands  
11 Commission was adjourned at 2:30 p.m.)

12 --o0o--

13

14

15

16

17

18

19

20

21

22

23

24

25

1                                    CERTIFICATE OF SHORTHAND REPORTER

2

3                    I, VICKI L. MEDEIROS, a Certified Shorthand

4 Reporter of the State of California, do hereby certify:

5                    That I am a disinterested person herein; that the

6 foregoing hearing was reported in shorthand by me, Vicki L.

7 Medeiros, a Certified Shorthand Reporter of the State of

8 California, and thereafter transcribed into typewriting.

9                    I further certify that I am not of counsel or

10 attorney for any of the parties to said hearing nor in any

11 way interested in the outcome of said hearing.

12                    IN WITNESS WHEREOF, I have hereunto set my hand

13 this fourth day of March, 1993.

14

15

16

17 

18                    VICKI L. MEDEIROS  
19                    Certified Shorthand Reporter  
20                    License No. 7871