

STAFF REPORT

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08/23/19
PRC 8100.1
C. Hudson

**ACCEPTANCE OF A PARTIAL LEASE QUITCLAIM DEED
AND AMENDMENT OF LEASE**

LESSEE:

Chevron Environmental Management Company

AREA, LAND TYPE, AND LOCATION:

2.48 acres, more or less, of sovereign land in the Pacific Ocean at Estero Bay, near the city of Morro Bay, San Luis Obispo County.

AUTHORIZED USE:

Continued use and maintenance of three existing pipelines, including one 20-inch-diameter and one 18-inch-diameter, non-operational petroleum transfer pipeline, and one active 16-inch-diameter wastewater outfall pipeline.

LEASE TERM:

5 years, beginning June 1, 2015.

CONSIDERATION:

\$31,680 per year, with an annual Consumer Price Index adjustment.

PROPOSED AMENDMENT:

The amendment is conditioned upon the Commission's acceptance of a partial lease quitclaim deed for the sovereign land associated with Load Line 2 (LL2) - which includes one 20-inch-diameter, non-operational petroleum transfer pipeline - upon satisfactory evidence of the transfer of ownership of LL2 to the Cayucos Sanitary District and execution of a lease from the Commission to the Cayucos Sanitary District.

The following sections of the lease are proposed to be amended:

Section 1, Basic Provisions:

- a. Replace the existing Exhibit A, Land Description, and Exhibit B, Site and Location Map, with the attached Exhibit A, Land Description, and Exhibit B, Site and Location Map.

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- b. Delete from Land Use or Purpose, the existing 20-inch-diameter, non-operational petroleum transfer pipeline, known as Load Line 2 (LL2).
- c. Extend the term of the lease to May 31, 2025.
- d. Revise the base annual rent from \$31,680 to \$23,391, with an annual Consumer Price Index adjustment and the State reserving the right to fix a different rent periodically during the lease term, as provided in the lease.

Section 2, Special Provisions:

- e. Add the following: Lessee shall submit a new Project Execution Plan for the removal or other disposition of the remaining existing facilities under lease.
- f. Add the following: Pursuant to its continuing maintenance authorization, Lessor shall pig¹ and flush each pipeline until the residual hydrocarbon levels are 15 parts per million (ppm) or less with confirmation of laboratory test results. The test results shall be promptly submitted at no cost to Lessor.

All other terms and conditions of the lease shall remain in effect without amendment.

STAFF ANALYSIS AND RECOMMENDATION:

Authority:

Public Resources Code sections 6005, 6216, 6301, 6501.1, and 6503; California Code of Regulations, title 2, sections 2000 and 2003.

Public Trust and State's Best Interests Analysis:

On June 29, 2015, the Commission authorized a General Lease – Industrial Use to Chevron Environmental Management Company for the continued use and maintenance of three existing pipelines, including one 20-inch-diameter and one 18-inch-diameter, non-operational petroleum transfer pipelines, and one active 16-inch-diameter wastewater outfall pipeline ([Item C73, June 29, 2015](#)). That lease will expire on May 31, 2020.

Chevron is now applying for an amendment to the lease and acceptance of a partial lease quitclaim deed for the existing 20-inch-diameter non-

¹ Pigging is a process in which a device is moved through the inside of the pipeline in order to clean and/or monitor its condition.

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operational petroleum transfer pipeline, known as Load Line 2 (LL2). Chevron is also requesting that the Commission authorize extending the lease term for 5 years to allow time to prepare the appropriate environmental documentation in support of the proposed final dispositions of the remaining existing non-operational petroleum transfer pipeline and active wastewater outfall.

Chevron entered into a sales agreement with the Cayucos Sanitary District (Cayucos), whereby Chevron will sell the existing LL2 to the Cayucos Sanitary District. Cayucos will repurpose it as the new treated wastewater outfall for the proposed Cayucos Sustainable Water Project. Cayucos intends to reuse the existing LL2 infrastructure by pulling a 12-inch-diameter nominal High-Density polyethylene (HDPE) pipeline through the existing LL2 casing and installing a 200-foot-long diffuser at the offshore end of the HDPE pipeline. The proposed Cayucos Sustainable Water Project Ocean Outfall application is a separate Commission item for consideration on the August 23, 2019 Commission meeting agenda ([Item 45, August 23, 2019](#)).

Chevron will conduct “pigging and flushing” as a maintenance activity to LL1, LL2, and the outfall prior to the transfer of LL2 to the Cayucos Sanitary District. In this case, pigging and flushing will be performed to remove or recover residual liquid that remains in the pipeline. LL2 was previously pigged and flushed in 1999. But, additional volumes of water will be flushed through the pipeline, as necessary, to achieve a residual total petroleum hydrocarbon content of less than 15 parts per million. Pigging and flushing is anticipated to take approximately 2 weeks to complete. Chevron will retain full liability for LL2 until the Commission has executed a lease to the Cayucos Sanitary District and Chevron has sold or otherwise transferred ownership of LL2 to the District.

Conclusion:

For the reasons stated above, staff believes the partial quitclaim of the existing offshore LL2 pipeline and proposed lease amendment will not result in significant changes in the use of, or impacts to, Public Trust resources; does not substantially interfere with Public Trust needs and values at this location, at this time, and for the foreseeable term of the proposed lease; and is in the best interests of the State.

OTHER PERTINENT INFORMATION:

1. Approval or denial of the application is a discretionary action by the Commission. Each time the Commission approves or rejects a use of sovereign land, it exercises legislatively delegated authority and

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responsibility as trustee of the State's Public Trust lands as authorized by law. Upon expiration or prior termination of the lease, the lessee also has no right to a new lease or to renewal of any previous lease, including but not limited to extending the lease term.

2. This proposed action is consistent with Strategy 1.1 of the Commission's Strategic Plan to deliver the highest levels of public health and safety in the protection, preservation, and responsible economic use of the lands and resources under the Commission's jurisdiction; Strategy 2.1 to optimize returns for the responsible development and use of State lands and resources, both onshore and offshore; and Strategy 2.2 to ensure timely receipt of revenues and royalties from the use and development of State land and minerals.
3. Acceptance of a partial lease quitclaim deed and amendment of the lease is not a project as defined by the California Environmental Quality Act (CEQA) 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).

EXHIBITS:

- A. Land Description
- B. Site and Location Map

RECOMMENDED ACTION:

It is recommended that the Commission:

PUBLIC TRUST AND STATE'S BEST INTERESTS:

Find that acceptance of the partial lease quitclaim deed and the proposed lease amendment will not substantially interfere with the Public Trust needs and values at this location, at this time, and for the foreseeable term of the lease; and is in the best interests of the State.

AUTHORIZATION:

1. Authorize the Executive Officer or her designee to accept a partial lease quitclaim deed for the sovereign land associated with LL2, one 20-inch-diameter, non-operational petroleum transfer pipeline, upon satisfactory evidence of the transfer of ownership of LL2 to the Cayucos Sanitary District and execution of a lease for LL2 to the Cayucos Sanitary District.

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2. Upon acceptance of the partial lease quitclaim deed described in item 1 above, authorize the amendment of Lease No. PRC 8100.1, a General Lease – Industrial Use, effective upon execution, to make the following changes:

Section 1, Basic Provisions:

- a. Replace the existing Exhibit A, Land Description, and Exhibit B, Site and Location Map, with the attached Exhibit A, Land Description, and Exhibit B, Site and Location Map.
- b. Delete from Land Use or Purpose, the existing 20-inch, non-operational petroleum transfer pipeline, known as Load Line 2 (LL2).
- c. Extend the term of the lease to May 31, 2025.
- d. Revise the base annual rent from \$31,680 to \$23,391, with an annual Consumer Price Index adjustment and the State reserving the right to fix a different rent periodically during the lease term, as provided in the lease.

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EXHIBIT A

PRC 8100.1

LAND DESCRIPTION

A parcel of tide and submerged land lying in the bed of the Pacific Ocean, Estero Bay, approximately 4 miles northerly of Morro Bay, San Luis Obispo County, California, and lying immediately adjacent to and west of Lot 31 of the Rancho Morro Y Cayucos as shown on that certain map entitled "Map of the Subdivision of the Rancho Morro Y Cayucos" and filed in the Office of the County Recorder of said county, in Map Book "A" at page 160, and more particularly described as follows:

PARCEL 1

A strip of tide and submerged land 20 feet wide, lying 10 feet on each side of the following described centerline:

COMMENCING at the corner common to Lots 30, 31 and 32 of said Rancho Morro Y Cayucos; thence S 45°14'30" W along the southeasterly boundary of Lot 31 2438.73 feet to an iron pipe; thence N 08°05' W 592.55 feet to an iron pipe, said iron pipe being on the base line control system for Standard Oil Company of California's Estero Marine Terminal; thence along said base line N 24°34' W 1330.00 feet; thence N 24°34' W 274.40' feet to an existing 18" diameter pipeline also being the POINT OF BEGINNING; thence along the centerline of said pipeline S 48°15' W 3200.00 feet to the end of the herein described centerline.

EXCEPTING THEREFROM any portion lying landward of the ordinary high water mark of the Pacific Ocean.

END OF DESCRIPTION

REVISED 7/17/19 BY THE
CALIFORNIA STATE LANDS COMMISSION BOUNDARY UNIT.
ORIGINAL DESCRIPTION FOUND IN SECTION 3
OF LEASE FILE PRC 8100 AUTHORIZED 6/14/1999.



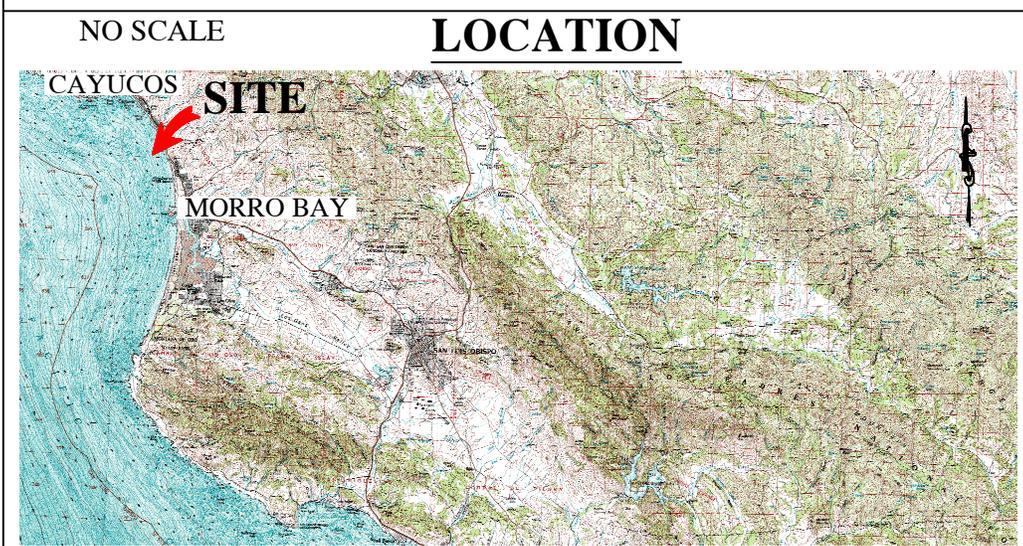
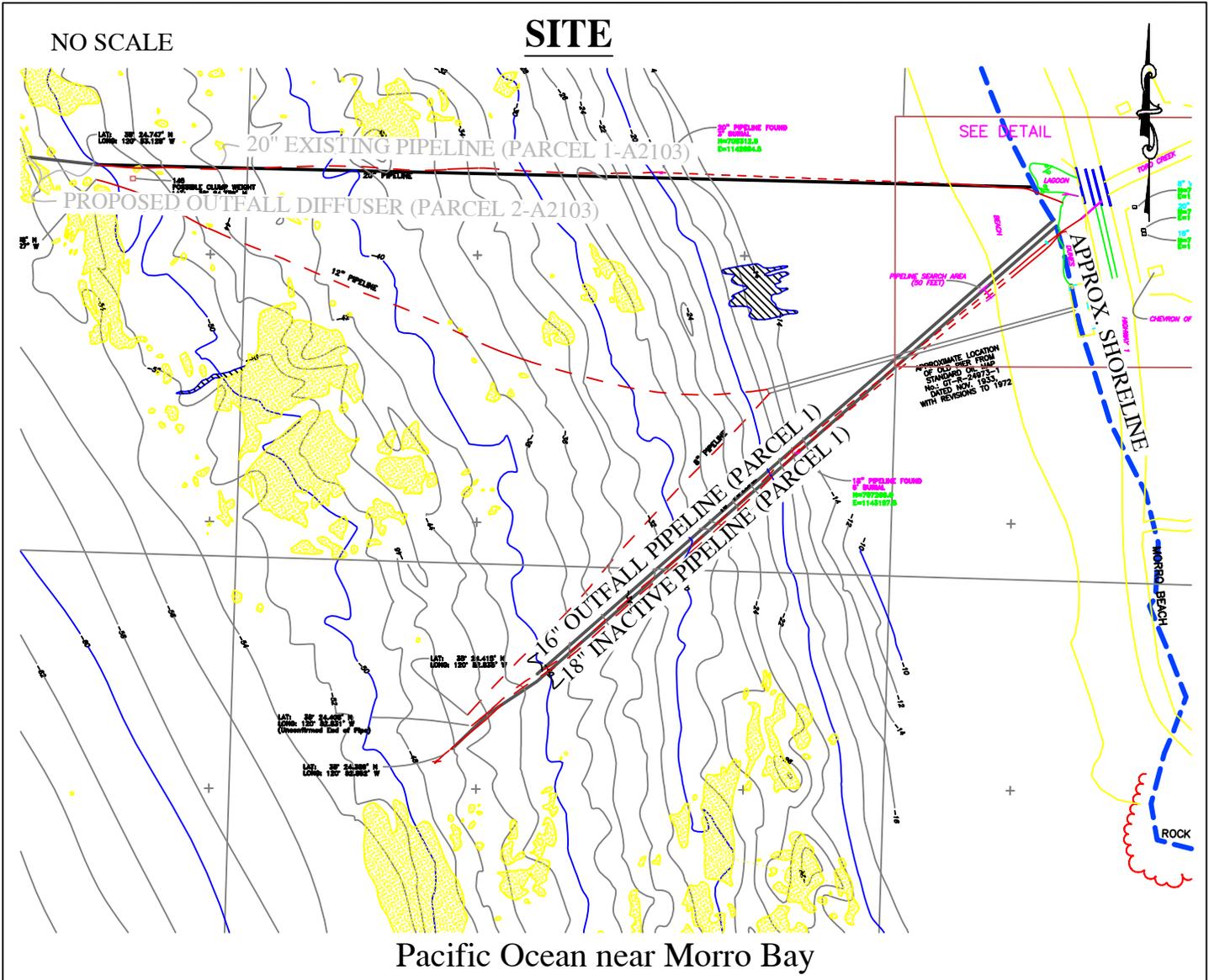


Exhibit B
 PRC 8100.1
 CHEVRON
 ENVIRONMENTAL
 MANAGEMENT COMPANY
 GENERAL LEASE -
 INDUSTRIAL USE
 SAN LUIS OBISPO COUNTY



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.