



October 26, 2009

TRANQUILLON RIDGE: FREQUENTLY ASKED QUESTIONS

Background Information and Context

There are 27 platforms offshore California, 20 of which are located offshore Santa Barbara County. Although some of these platforms are more than 40 years old, they continue to operate utilizing new technology (e.g. slant drilling) that allows oil companies to access additional reserves up to 5 miles from a platform. EDC and our partners have worked since 1969 to put an end to drilling offshore California, most of which has occurred in our service area of Ventura, Santa Barbara and San Luis Obispo Counties. We have supported the Federal oil moratorium, and helped craft the California Coastal Sanctuary Act, which permanently bans new oil leasing in State waters unless reserves are being drained from a Federal facility. EDC represented the public on the Federal COOGER (California Offshore Oil and Gas Energy Resources) Steering Committee, which addressed potential development of 36 undeveloped leases off Santa Barbara, San Luis Obispo and Ventura Counties, and we initiated the successful lawsuit which has resulted in the termination of all of those leases.¹

However, through the COOGER process and a FOIA request to the Minerals Management Service (MMS), EDC learned that industry and the MMS interest in drilling offshore California extends beyond the 36 leases, and includes additional leasing in the area surrounding the Pt. Arguello and Pt. Pedernales platforms near northern Santa Barbara County (see attached map). In fact the EIR/EIS for the Pt. Arguello Project included several leased and unleased tracts that extend beyond the Pt. Arguello Unit.²

EDC's and our clients' goal for the last several decades has been to prevent new offshore oil leasing and development, and to get rid of existing facilities that not only present a daily threat of an oil spill, but can also support new leasing and production off the California coast. ***In particular, the four platforms in the Pt. Arguello and Pt. Pedernales Units present the most significant threat for new leasing offshore California due to the existence of known economically recoverable reserves that can be drilled from existing platforms and processed at existing onshore facilities.***

¹ As a result of our litigation, 29 of the 36 leases have been extinguished (with the rest to be extinguished soon), but the Federal government has to pay \$1 billion dollars in restitution. The likelihood that the tracts near Pt. Arguello and Pt. Pedernales will be proposed for new leasing in the future is great, given the government's desire to recoup its money and the fact that the tracts include known reserves and available infrastructure.

² *Point Arguello Field and Gaviota Processing Facility Area Study and Chevron/Texaco Development Plans EIR/EIS Final Report*, County of Santa Barbara, November 1984.

Therefore, when PXP approached EDC and the Environmental Coalition with a proposal to shut down these four platforms and associated onshore support facilities, we realized a unique opportunity to both eliminate existing development *and* avert the biggest threat of new leasing off the California coast.

This memo sets forth the terms of the agreement and explains how the agreement is enforceable by the Environmental Parties (Get Oil Out! and Citizens Planning Association of Santa Barbara County), The Trust for Public Land, and the State of California. This memo also explains why the Federal government cannot interfere with the end dates stipulated in the agreement, because PXP has the right to return its leases at any time, and the only remedy for the government if PXP terminates its leases “prematurely” is for PXP to pay the Federal government for any lost production. PXP will still be bound to shut down the platforms and cease production under its agreement.

▪ **What are the terms of the Agreement?**

The Tranquillon Ridge Agreement contains the following unprecedented terms:

- **End Dates for Existing Oil Development:** The importance of this Agreement is that it puts an end to existing offshore oil and gas development, without allowing any extension of existing operations or any new construction. In order to obtain our support, PXP had to agree to shut down *existing* oil drilling operations, that otherwise can continue indefinitely and support new leasing. Under the agreement:
 - The Tranquillon Ridge leases will terminate by December 31, 2022, approximately 15 years prior to the projected life of the leases. These leases will be developed using existing infrastructure and will not extend the life of such infrastructure. Under the agreement, PXP will quitclaim the Tranquillon Ridge leases to the State upon abandonment of the project.
 - Platform Irene and the Lompoc Oil and Gas Plant (LOGP), existing facilities that produce oil and gas from the Pt. Pedernales Unit offshore northern Santa Barbara County and would be used to develop the Tranquillon Ridge leases, will shut down by December 31, 2022. **These facilities currently operate without any end dates.**
 - Platforms Hidalgo, Harvest and Hermosa and the Gaviota processing site, existing facilities that support oil production from the Pt. Arguello Unit offshore Pt. Conception in Santa Barbara County, will shut down within 9 years of project approval by the State Lands Commission. **These facilities currently operate without any end dates.**
- **Conveyance of Approximately 4,000 Acres of Land for Public Benefit:** To assure that oil development from the platforms will cease, all of the land containing facilities supporting both offshore and onshore production will be conveyed and preserved in perpetuity for public conservation purposes. An additional 1,200 acres will also be conveyed to the public. The Trust for Public Land (TPL) has an agreement with PXP to ensure timely conveyance to TPL, who will then convey the land to the appropriate long term steward (a governmental entity or conservation organization). Under the agreement, all facilities will be removed and the properties remediated prior to conveyance.

- Lompoc Lands: PXP will convey approximately 3,700 acres of land, including hundreds of acres currently used for onshore oil and gas production, adjacent to the Burton Mesa Ecological Reserve in the Lompoc Valley. The conveyance of these lands requires removal of all oil and gas facilities and remediation of the land. The lands will be preserved for the benefit of the public and will be permanently dedicated for purposes of open space preservation, management and restoration of natural resources, as well as passive recreation, education and research. In addition to the Environmental Parties' agreement, TPL has its own agreement to enforce the conveyances. These lands will most likely be added to the State's Burton Mesa Ecological Reserve and managed by the California Department of Fish and Game (CDFG).
- Gaviota Lands – Sunburst and Sunset Properties: PXP will convey an additional 148 acres on the Gaviota Coast (the Sunburst and Smith parcels). The lands will be preserved for the benefit of the public and will be permanently dedicated for purposes of open space preservation, management and restoration of natural resources, as well as passive recreation, education and research. In addition to the Environmental Parties' agreement, TPL has its own agreement to enforce the conveyances. The Smith property contains Gaviota Tar Plant, and a portion of this site is already slated to be conveyed to CDFG for a Tar Plant Reserve. PXP and TPL will work with CDFG to seek inclusion of the entire parcel in the Reserve. The Sunburst property is located immediately adjacent to Gaviota State Park, owned by California State Parks (CSP). The agreement identifies CSP as an appropriate steward for the Sunburst parcel.
- Gaviota Lands – Gaviota Processing Site: PXP will take steps to effectuate conveyance of the 56-acre Gaviota processing site, also located on the Gaviota Coast. (The land is owned by the Pt. Arguello partnership, of which PXP is the majority owner.) The agreement identifies CSP as an appropriate steward for the Gaviota processing site.
- Of the total acreage involved in this agreement, an initial conveyance of up to 1,200 acres (lands not currently encumbered with oil and gas development facilities – approximately 1,000 acres of the Lompoc lands as well as the Sunburst and Smith properties on the Gaviota Coast) would occur in less than two years following project approval. The remainder of the lands would be conveyed following abandonment of the oil production facilities.
- Greenhouse Gas Emission Mitigation: All greenhouse gas emissions from the Tranquillon Ridge Project will be mitigated or offset, resulting in carbon neutrality.
 - The Agreement requires PXP to reduce or offset *all* of the greenhouse gas emissions from the project. First, PXP will hire an independent auditor to determine whether there are any feasible measures that can be implemented to reduce greenhouse gas emissions from the Tranquillon Ridge project. Any measures that are identified as being feasible shall be implemented within six months following completion of the audit. The Environmental Parties must approve the auditor. Any remaining emissions will be reported on an annual basis (to be verified by the Santa Barbara County Air Pollution Control District) and offset on a 1:1 basis through payment of

\$10 per ton³ to an entity that will use the funds to purchase offsets. The Environmental Parties will choose the entity that will purchase the offsets to make sure that they are real, additional, and verifiable.

- PXP will donate an additional \$1,500,000 to reduce greenhouse gas emissions in Santa Barbara County. This fund will be administered by the Santa Barbara County Air Pollution Control District to administer a transit bus technology program and may be used to fund the purchase of hybrid buses in Santa Maria, Lompoc, and on the south coast.

▪ **Is this a new oil project?**

The Tranquillon Ridge project would use all existing facilities and infrastructure, and would not require any new construction. PXP would drill from an existing Platform (Irene) that is located in Federal waters and currently produces oil and gas in the Pt. Pedernales Unit. This platform also produces oil and gas from the portion of the Tranquillon Ridge field that lies in Federal waters, and is currently draining from the portion of the field that lies in State waters. The oil and gas produced on Platform Irene is transported to shore by pipeline and processed at the LOGP. The Tranquillon Ridge project, as modified by the agreement with Environmental Parties, would terminate the existing operations at Platform Irene and the LOGP, which otherwise have no end date. In addition, the agreement would shut down three other platforms and associated onshore facilities (the Pt. Arguello platforms and Gaviota processing site), which are not even part of the Tranquillon Ridge project.

▪ **Is the Tranquillon Ridge agreement enforceable?**

Yes. There are several opportunities to enforce the agreement.

- First, the Environmental Parties to the PXP agreement can enforce the agreement in court (for breach of contract). The sole remedy identified in the agreement is specific performance, which requires compliance with the terms of the agreement. Damages are not a substitute or an option under the agreement.
- TPL can also enforce the terms of its agreement through specific performance, thereby requiring the removal of the onshore support facilities, remediation of the property, and conveyance of the lands for public conservation purposes. TPL's agreement ensures the removal of onshore processing facilities that are critical to offshore oil and gas production.
- The County, through its approval of the project, can enforce the Tranquillon Ridge end dates.
- The State Lands Commission can incorporate the terms in the leases, thus making them enforceable by the Commission and State Attorney General. The State has grounds to include these terms because (a) a lease is a contract, and allows the State to negotiate terms, and (b) approval of the lease requires a finding that the lease is in

³ At the time of the agreement, the cost of offsets was around \$7.00 per ton. Subsequently, both State Lands Commission and Coastal Commission staff have offered alternative language to ensure 1:1 offsets. Both agencies retain the ability to add their own conditions to ensure 1:1 offsets.

the best interests of the State. In the alternative, if the project is approved but the terms are not included in the leases, PXP and the Environmental Parties will grant the State the right to enforce their agreement.

▪ **Do we have full approval of the end dates by the owners and operators?**

Yes. PXP is the sole owner and operator of Platform Irene and the LOGP, and has agreed to all terms. PXP is the majority owner of the Pt. Arguello partnership, which operates the three Pt. Arguello platforms and Gaviota onshore facilities. The Pt. Arguello partnership has agreed to the end dates for those facilities. [See discussion below about decommissioning and platform removal.]

▪ **What if PXP sells or transfers its interests in these projects and facilities?**

The Agreement is binding upon any successors. In addition, a Memorandum of Agreement has been filed with the Santa Barbara County Clerk-Recorder.

▪ **Can the Federal government pre-empt the agreement and condemn the facilities?**

No. PXP has the right to shut down production and return its existing leases to the Federal government at any time. (30 CFR § 256.76.) MMS has conceded that the Tranquillon Ridge end date is reasonable. In the unlikely scenario that MMS were to determine (in the future) that PXP has terminated its leases prematurely, the remedy would be the requirement that PXP pay the Federal government for any lost production. (30 CFR 250.204(a).) *Production would still cease under our agreement.*

▪ **What about the concern that PXP will leave oil and gas in the ground, thereby giving the Federal government reason to step in and extend the end dates?**

The agreement requires PXP to shut down production of the new Tranquillon Ridge lease by December 31, 2022. This date is approximately 15 years earlier than the predicted life of the project without our agreement. (The date was picked to coincide with the projected life of the existing facilities, to avoid any risk that MMS would interfere.) *Any oil and gas that would be left in the ground would be in State waters, not Federal waters.* MMS does not have any jurisdiction over State waters. State law allows an oil lessee to stop producing a field. In fact, ever since the passage of the California Coastal Sanctuary Act in 1994 (prohibiting new leasing in State waters), the State Lands Commission has encouraged oil companies to quitclaim their leases, even when oil and gas reserves are present.

▪ **Would approval of the Tranquillon Ridge Project encourage new Federal leasing?**

No. The purpose of the Tranquillon Ridge proposal is to **END** oil development offshore California and **STOP** new leasing. Approving this project is probably the most important step that can be taken to protect the California coast from new Federal leasing because it will eliminate the infrastructure that is now available to support development into known economically viable oil and gas reserves.

Our message to the Federal government is that California continues to do everything in its power and authority to protect our coast from offshore oil development, including: supporting the moratorium, pursuing legal action to block the extension of existing but undeveloped

Federal leases, opposing new leasing through the 5-Year Leasing Program process, and now – taking the unprecedented step of shutting down existing oil platforms and removing infrastructure so it cannot be used to support new leasing.

In fact, now that the Federal moratorium has expired, shutting down these facilities is all the more important.

▪ **Is the Tranquillon Ridge agreement pro-oil?**

No. In fact, the opposite is true. For the first time in the nation's history, the public will be able to shut down existing offshore oil and gas production. The agreement forces the cessation of production from four platforms and the removal of the onshore support facilities. Without this agreement, these facilities can operate indefinitely. Perhaps more importantly, their continued existence would support slant drilling into new Federal leases in the future. The areas surrounding these platforms hold known reserves that are economically attractive to industry because of the current availability of infrastructure. *The supporters of this agreement believe that the most effective action we can take to prevent future Federal oil leasing off the California coast is to shut down these platforms.*

▪ **Does the agreement change State leasing laws?**

No. The agreement is consistent with the California Coastal Sanctuary Act of 1994, which prohibits any new leasing in State waters unless drainage is occurring from wells on adjacent Federal lands and the lease is in the best interests of the State.⁴ In this case, drainage is occurring both from a well on Platform Irene that extends to the State waters boundary, and also from production within the portion of Tranquillon Ridge that overlaps into Federal waters.⁵ We believe that this project is in the best interests of the State because it will end existing offshore oil production and help prevent new leasing and development.

▪ **Is there an onshore drilling alternative that would reduce project impacts?**

No. First, there is no onshore drilling alternative. Sunset and ExxonMobil proposed to drill into the Tranquillon Ridge Field from an onshore site on Vandenberg Air Force Base, but the Air Force denied them access.⁶ Second, even if there were an onshore site available, drilling from onshore would be much worse from an environmental standpoint because there would be two oil drilling projects, both without end dates. PXP would continue to operate Platform Irene, and could use the platform to support new leasing and development in the future. Sunset and ExxonMobil would construct all new drilling, production and processing facilities, creating significant new impacts and risks, and be able to operate them indefinitely. In addition, the three Pt. Arguello platforms and Gaviota processing site would continue operating indefinitely, likely into new leases in the future.

⁴ California Public Resources Code §6244.

⁵ *Tranquillon Ridge Prospect, Volume I, Drainage from the Tranquillon Ridge Prospect by Well A28 (Tranquillon Ridge Unit)*, prepared for California State Lands Commission, June 2008; *Tranquillon Ridge Prospect, Volume II, Drainage of the Tranquillon Ridge Prospect By The Point Pedernales Oilfield*, prepared for California State Lands Commission, July 2008.

⁶ Air Force letters to ExxonMobil and Sunset, April 25, 2008 and June 25, 2008.

Finally, in approving the Tranquillon Ridge project, the County of Santa Barbara found that the PXP project, as amended to include the end date, was environmentally superior to any onshore drilling alternative.⁷

▪ **Will the project increase the risk of an oil spill?**

No. By imposing the end dates, the agreement will actually reduce the risk of an oil spill by shutting down four platforms that otherwise can continue to operate indefinitely. During the life of the Tranquillon Ridge project, there would be a small increase in the risk of an oil spill on an annual basis due to the larger volume of oil crude oil in the pipeline, but this small increase is outweighed by the fact that there will be a dramatic decrease in the risk (*to 0*) within 9 years for the three Pt. Arguello platforms and 14 years for Platform Irene.

▪ **Are there any title issues pertaining to the land conveyances?**

No. The lands will be conveyed to TPL for re-conveyance to an appropriate governmental or conservation grantee, such as California State Parks (for part of the Gaviota lands) and CDFG (for the Lompoc lands, which would be added to the State's Burton Mesa Ecological Preserve, and for the Smith parcel on the Gaviota Coast, which would be included in a Tar Plant Reserve).

PXP possesses 100% interest in the 3,700 acres contained in the Lompoc Lands, and in the Sunburst and Smith parcels (102 and 46 acres, respectively) on the Gaviota Coast. The portions of the Sunburst, Smith and Lompoc lands that are not currently encumbered with oil and gas production will be conveyed in Phase 1, within two years following project approval. The other Lompoc lands would be conveyed following decommissioning and remediation of the onshore production sites and the LOGP. The remaining parcel on the Gaviota Coast, which contains the onshore processing site and supports the Pt. Arguello production, will be conveyed following shut down of the facilities (in 9 years) and remediation of the site. PXP holds a majority interest in this 56-acre site and is required to support conveyance to TPL. If there is a dispute over conveyance by the minority owners, the property still cannot be used to support oil production.

Hence, the worst case scenario is that approximately 3,850 acres will be conveyed to the public, and the remaining 56 will be used for non-industrial purposes (including removal of the existing facilities and remediation of the property). More likely, TPL will be able to negotiate with the remaining property owners to receive the property and donate it to a governmental or conservation organization.⁸

▪ **Will the agreement interfere with the ability of other onshore producers to process oil and gas in Santa Barbara County?**

No. No one uses the LOGP other than PXP. To the extent other producers would like to use the LOGP, they have no right to do so as this is a private facility. The County of Santa Barbara rejected a proposal to make the LOGP a consolidated (open access) facility, finding the site to be inappropriate for expanded or extended use.⁹

⁷ *Tranquillon Ridge Findings for Approval*, County of Santa Barbara, April 11, 2008.

⁸ Note: we have consistently represented that PXP will convey approximately 3,700 acres near Lompoc and "up to" 200 acres on the Gaviota Coast, and our materials have explained that the Gaviota processing site is owned separately from the Sunburst and Smith parcels.

⁹ *North County Siting Study*, County of Santa Barbara, October 2000.

▪ **Does the agreement result in the removal of the oil platforms?**

Only MMS can decide whether the platforms will be removed or allowed to remain in place. This decision will not be made until production ceases and PXP submits a decommissioning plan to MMS. In our agreement, PXP has committed to apply for removal of Platform Irene, which it owns and for which it has decommissioning liability. Chevron, the prior owner and operator of the Pt. Arguello project, is not a party to our agreement and retains decommissioning liability for the three Pt. Arguello platforms. Under current law, the platforms must be removed as part of decommissioning. If the law changes in the future, however, Chevron may seek permission to leave the platforms or only partially remove them. In such instance, PXP has agreed not to take any action to oppose the complete removal of the three Pt. Arguello platforms. The Environmental Parties can ask MMS to require full removal of all four platforms (in other words, we would be in no less advantageous a position than now exists).¹⁰

If you have any further questions or concerns, please call me at (805) 963-1622, x106.

Thank you for your consideration,



Linda Krop,
Chief Counsel

Att: Santa Barbara County Energy Division Map

¹⁰ Note: we have consistently stated that the platforms will be “shut down,” since we do not know what will happen regarding removal until production ceases and MMS acts on an abandonment and decommissioning application.