

STAFF REPORT

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CONSIDER REJECTION OF APPLICATION FOR GENERAL LEASE – RIGHT-OF-WAY USE

APPLICANT:

Signal Hill Service, Inc.

APPLICATION REQUEST:

PROPOSED AREA, LAND TYPE, AND LOCATION:

Sovereign land in the Santa Barbara Channel, Pacific Ocean, near Rincon Point, Carpinteria, Santa Barbara and Ventura Counties.

PROPOSED USE:

Continued use and maintenance of four existing pipelines and an outfall serving federal Platform Hogan.

STAFF ANALYSIS AND RECOMMENDATION:

Authority:

Public Resources Code sections 6005, 6216, 6301, and 6501.1; California Code of Regulations, title 2, sections 1906 and 2000.

Public Trust and State's Best Interests Analysis:

On June 28, 2019, the Commission terminated Lease No. PRC 3914.1, a 10-year General Lease – Right-of-Way Use, to Signal Hill Service, Inc. (Signal Hill), which authorized the use and maintenance of four pipelines, and an outfall serving Platform Hogan in federal waters, for failure to secure and maintain a \$50,000 surety bond as required by the Lease, and for failure to pay rent for the period from November 2015 to June 2019, with \$282,094.34 in unpaid rent still owed to the State at that time ([Item 99, June 28, 2019](#)).

On July 1, 2019, staff sent a termination letter directing Signal Hill to submit, by July 14, and execute, by July 31, a plan to clear, flush, and inert its pipelines in order to ensure the preservation of public health and safety and the environment. (see Exhibit A, attached). In addition, Signal Hill was directed to submit a plan, by September 30, for the safe and permanent abandonment and decommissioning of the pipelines and restoration of the Lease Premises as required under the Lease. Signal Hill

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responded with a letter, dated July 12, claiming procedural deficiencies in the Commission's June 28 termination, and an inability to meet the deadlines set by staff (Exhibit A). Signal Hill also sent a check payment for \$282,094.34 with acceptance made conditional on the Commission either rescinding the termination or considering rescission at the next Commission meeting.

Leases operate and are governed like contracts. In California, a contract once terminated cannot be revived. (see *Citizens for Amending Proposition L v. City of Pomona*, (2018) 28 Cal. App. 5th 1159, 1189). Although certain covenants of the Lease survive after termination, like the obligation to decommission lease facilities and restore the lands, the entitlements granted to Signal Hill under the lease cease to exist. Because the Commission is unable to rescind a termination and revive a terminated lease, on July 26, staff returned the conditional payments made by Signal Hill with a request that those payments be resubmitted, unconditionally. In addition, staff rejected the claim that procedural defects negated the June 28 termination and declined to extend the time for Signal Hill to submit and execute a pipeline shut-in plan on the basis that Signal Hill provided no suitable explanation or reasonable alternative deadlines for staff to consider.

The Commission filed suit against Signal Hill and Pacific Operators Offshore, Inc.

Due to Signal Hill's failure to comply with the Commission's directives as outlined in the July 1 termination letter, on August 14, 2019, the Commission filed suit against Signal Hill, and an associated company, Pacific Operators Offshore, Inc. (Pacific Operators), in the Superior Court of California, County of Santa Barbara, Case No. 19CV04295, for breach of contract and recovery of unpaid rent; trespass and ejectment for the ongoing and continuing unauthorized occupation of its improvements on state land; and declaratory relief affirming that Signal Hill is obligated to provide the Commission with a plan for the removal of all improvements and restoration of all state land subject to the lease. Pacific Operators was included in the suit because staff understands that it owns the oil that is transported through Signal Hill's pipelines. The Commission alleges harm from the nonpayment of rent, failure to maintain the required surety bond, and failure to take all required actions after termination to ensure the safe and permanent abandonment and decommissioning of all pipelines within the previously-leased lands and restoration of the lands as the Lease required. The suit is in its early stages and staff expects Signal Hill and Pacific Operators to file their initial responses by mid-October.

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Signal Hill applied for a new lease for the lands involved in the June 28 termination

On August 12, 2019, the Commission's Huntington Beach field office received an application from Signal Hill for a new right-of-way lease for the facilities covered by the previously terminated Lease. The application did not include payment of outstanding rent nor acknowledge the termination or post-termination directives by the Commission. On August 28, 2019, staff sent a letter to Signal Hill acknowledging receipt of the application but also noting that Signal Hill had not addressed any of the defaults justifying Lease termination and had ignored every staff directive since. (see Exhibit B, attached). Given the outstanding issues and the recently filed litigation against Signal Hill, staff treated the application as an offer of settlement and indicated it would recommend denial of the application, based on the following: 1) the improper submission of the application to a field office, rather than the Commission's principal office as required by regulation (2 CCR §§ 1901, 2001); 2) the failure to submit the required \$25 filing fee (although a check for the \$2,500 deposit was paid) ; 3) the failure to comply with special submission requirements for pipeline leases; 4) the failure to provide outstanding consideration for rental payments owed the State; 5) the failure to address performance guarantees, including bonding sufficient to cover the full cost to abandon and decommission Signal Hill's pipelines (which could possibly reach \$4-\$7 million); and 6) the failure to address the pending litigation.

Signal Hill, as an applicant and former lessee, has a history of poor lease compliance and is not in good standing with the Commission. Signal Hill's history of non-compliance has left the Commission with no alternative, other than to file suit to remedy the State's harm and enforce the Commission's directives designed to protect public health and safety. For over 4 years Signal Hill failed to pay its rent in full and on time as required by its prior leases with the Commission, failed to maintain the required surety bond intended to protect the State against liability, and failed to take all required actions after termination to ensure the safe and permanent abandonment and decommissioning of all pipelines within the previously-leased lands and restoration of the lands as required by the surviving obligations of the Lease. The underlying issues that resulted in the June 28 Lease termination have not been appropriately addressed and staff directives, post-termination, have went unheeded—all actions consistent with Signal Hill's prior record as a lessee. As such, staff recommends rejection of the application.

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Pacific Operators indicated that it will cease production from Platforms Hogan and Houchin

In September 2019 Pacific Operators notified, by mail, the U.S. Bureau of Safety and Environmental Enforcement (BSEE), the Santa Barbara County Air Pollution Control District, the Ventura County Air Pollution Control District, and the County of Ventura County Resources Management Agency, that it intended to “cease all crude oil and natural gas production operations” from platforms Houchin and Hogan, effective September 30, 2019 (see Exhibit C, attached). The platforms are used to produce oil that moves through Signal Hill’s pipelines. As of early October, production continues from the platforms. In past communications, Signal Hill indicated that ceasing pipeline use can take many days or weeks. But in this instance, neither Signal Hill nor Pacific Operators have provided staff with any information or definitive plan for its pipelines on state lands, plan for shutting in production, or plan for infrastructure decommissioning. As such, staff are unable to recommend considering an application for a right-of-way lease of state lands.

Conclusion

Signal Hill has a poor record of lease compliance which resulted in the June 28 termination of its Lease and a recent lawsuit against it by the Commission. Not one of the underlying reasons for either action has been resolved. Staff recommends rejecting the application given the failure to unconditionally pay the outstanding rental amounts, the failure to maintain the required surety bond to protect the Commission from liability, and the failure to take all required actions after termination to ensure the safe and permanent abandonment and decommissioning of all pipelines within the previously-leased lands and restoration of the lands as the Lease required – all of which formed the basis for both the June 28, 2019 Lease termination and the current litigation; the numerous deficiencies in its application, as described in staff’s July 26, 2019 letter; and, the fact that Signal Hill has informed BSEE, the Santa Barbara County Air Pollution Control District, the Ventura County Air Pollution Control District, and the County of Ventura County Resources Management Agency of its work to shut-in its platforms and its intent to cease production by October 25, 2019, without providing any detailed information, including a specific timeline, to the Commission.

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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 responsibility as trustee of the State's Public Trust lands as authorized by law. Upon expiration or prior termination of the lease, the lessee has no right to a new lease or to renewal of any previous lease.
2. This 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.
3. Staff recommends that the Commission find that this activity is exempt from the requirements of CEQA as a statutorily exempt project. The project is exempt because CEQA does not apply to projects which a public agency rejects or disapproves.

Authority: Public Resources Code section 21080, subdivision (b)(5), and California Code of Regulations, title 14, section 15270, subdivision (a).

EXHIBITS:

- A. Staff's July 1, 2019 termination letter and Signal Hill's July 12, 2019 response
- B. Staff's August 28, 2019 letter to Signal Hill
- C. Letters to the U.S. Bureau of Safety and Environmental Enforcement, the Santa Barbara County Air Pollution Control District, the Ventura County Air Pollution Control District, and the County of Ventura County Resources Management Agency notifying and acknowledging intended cessation of production

RECOMMENDED ACTION:

It is recommended that the Commission:

CEQA FINDING:

Find that the activity is exempt from the requirements of CEQA pursuant to California Code of Regulations, title 14, section 15061 as a statutorily exempt project pursuant to Public Resources Code section 21080, subdivision (b)(5) and California Code of Regulations, title 14, section 15270, subdivision (a), projects which a public agency rejects or disapproves.

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PUBLIC TRUST AND STATE'S BEST INTERESTS:

Find that denial of the application will not interfere with Public Trust needs and values at this location, at this time, or for the foreseeable future; and that such action is in the best interests of the State.

AUTHORIZATION:

Reject Signal Hill Service, Inc.'s August 12, 2019 application for a General Lease – Right of Way Use, for four existing pipelines and an outfall previously under lease PRC 3914.1, effective immediately.

**CALIFORNIA STATE
LANDS COMMISSION***Established in 1938***EXECUTIVE OFFICE**
100 Howe Avenue, Suite 100-South
Sacramento, CA 95825-8202**JENNIFER LUCCHESI, Executive Officer**
(916) 574-1800 Fax (916) 574-1810
California Relay Service TDD Phone 1-800-735-2929
Voice Phone 1-800-735-2922**DELIVERED VIA EMAIL AND CERTIFIED MAIL**

July 1, 2019

File Ref: PRC 3914.1

Charles Cappel
Signal Hill Service, Inc.
1145 Eugenia Pl., Suite 200
Carpinteria, CA 93013

**RE: Termination of Lease PRC 3914.1 – Order to Secure and
Decommission Lease Infrastructure**

Dear Mr. Cappel,

On June 28, 2019, the California State Lands Commission terminated General Lease – Right-of-Way Use, PRC 3914.1, issued to Signal Hill Service, Inc. (Signal Hill). As such, Signal Hill is no longer authorized to occupy state-owned Sovereign Lands for the use and operation of 4 pipelines servicing platforms Hogan and Houchin. Despite the termination of PRC 3914.1, Section 2, Paragraph 12 of the lease, obligates Signal Hill to safely and responsibly abandon its pipelines and restore the property to the Commission's satisfaction.

Consistent with the authorization given by the Commission, to ensure the preservation of public health and safety and the environment, Signal Hill is hereby directed to conduct the following activities on its infrastructure occupying state lands, no later than July 31, 2019:

1. Perform pigging and flushing of hydrocarbons from the 10-inch oil pipelines and the 4-inch produced water pipeline and fill the pipelines with inhibited seawater.
2. Perform pigging and purging of the 12-inch gas pipeline and the gas lift line with the addition of corrosion inhibitors and fill the pipelines with inert gas or air.
3. Close and lockout the last valve to shore on platform Hogan and the first valve onshore at La Conchita Vault for the gas pipeline and 2 oil pipelines.

Signal Hill shall also, on an ongoing basis:

1. Maintain the cathodic protection system to the gas pipeline and 2 oil pipelines.
2. Maintain a one call notification system for the onshore underground portions of the pipelines which are in highly sensitive areas or areas of environmental consequence.

The above are in addition to all requirements and directives of federal, state, and local agencies.


Signal Hill shall submit a detailed procedure to implement the above actions for review and approval by the Commission, U.S. Bureau of Safety and Environmental Enforcement and the U.S. Department of Transportation's Pipeline and Hazardous Materials Safety Administration, no later than July 14, 2019.

In satisfaction of its removal and restoration obligations Signal Hill must provide Commission staff with a plan for the safe and permanent abandonment, the decommissioning of all existing pipelines within the lease premises, and restoration of the lease premises, pursuant to Section 2, Paragraph 7 of Lease No. PRC 3914, by September 30, 2019.

Signal Hill will be invoiced separately for the final rental amount owed, along with calculated penalties and interest, pro-rated to the date of termination.

If you have any questions, please contact both the Land Management Division, Chief Brian Bugsch at (916) 574-1940 or by email at brian.bugsch@slc.ca.gov, and the Mineral Resources Management Division, Chief Marina Voskanian at (562) 590-5201 or by email at marina.voskanian@slc.ca.gov.

Sincerely,



JENNIFER LUCCHESI
Executive Officer

Charles Cappel
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cc: Joan Barminski, Regional Director, Bureau of Ocean Energy Management
Mark Fesmire, Regional Director, Bureau of Safety and Environmental
Enforcement
Theresa Bell, Bureau of Safety and Environmental Enforcement
Marion Garcia, U.S. Department of Transportation
Ken Harris, CA Department of Conservation
Tom Cullen, CA Department of Wildlife
Alison Dettmer, CA Coastal Commission
John Zorovich, County of Santa Barbara
Bonnie Luke, County of Ventura
David Durflinger, City of Carpinteria
Will Daniel, Exxon Mobil Corporation

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1421 STATE STREET
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July 12, 2019

Jennifer Lucchesi
Executive Officer
California State Lands Commission
100 Howe Ave., Suite 100 South
Sacramento, CA 95825-8202

via fax (916) 574-1810
and Overnight Delivery

- Re: 1. Request for Reconsideration of Termination of Lease PRC 3914 and/or Reinstatement;
or, alternatively:
2. Request to place the issue of Reconsideration and Reinstatement on the Agenda for CSLC's August 23, 2019 Meeting or to schedule a Special Meeting.

Dear Ms. Lucchesi:

I. REQUEST FOR RECONSIDERATION OF TERMINATION OF LEASE PRC 3914.1.

We represent Signal Hill Service, Inc., the lessee under California State Lands Commission ("CSLC") right-of-way lease PRC 3914.1 ("Lease"), for "[t]he use and maintenance of four pipelines from Platform Hogan to an onshore point" discussed further in this letter. Under its terms, the Lease expires on February 28, 2023. The annual rent is \$57,575.

Staff Report No. 99, dated June 28, 2019, recommended termination of the Lease for nonpayment of rent and failure to maintain a surety bond. (Staff Report, p. 5, "Authorization," ¶ 1.) By correspondence from you dated July 1, 2019, Signal Hill was informed that CSLC terminated the Lease on June 28, 2019.

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Signal Hill respectfully asks CSLC to reconsider and rescind the termination for the reasons stated herein. Enclosed with this letter are two checks to cure the defaults that were the grounds for termination:

(a) one in the amount of \$282,094.34, which constitutes the full amount of rent due under the Lease thru February 28, 2020, plus all penalties and interest as stated in Staff Report No. 99; and

(b) one in the amount of \$50,000 as a cash payment in lieu of a \$50,000 bond.

The termination is about money, nothing else, as evidenced: (i) by the demand for payment of the lease thru February 28, 2020, even though the termination is allegedly effective June 28, 2019, and (ii) by the recommendation in Staff Report No. 99 that the Lease be terminated "for failure to cure" the defaults in payment of rent and provision of a surety bond. The enclosed funds cure those defaults.

CSLC is authorized to deposit and/or negotiate these checks conditioned upon it: (i) rescinding the termination and reinstating the Lease; and (ii) amending the Lease to correct the legal description for the Right of Way ("ROW") for the pipelines (see discussion in Point III.F. below). If the CSLC does not rescind the termination and reinstate the Lease, as amended, please return the checks to this office. For the avoidance of doubt, if the checks are deposited and/or negotiated Signal Hill's position will be that the termination has been rescinded and the Lease reinstated.

II. REQUEST TO BE PLACED ON THE AGENDA OR TO SCHEDULE A SPECIAL MEETING.

If the CSLC: (i) despite Signal Hill's tender of the full amount to cure the defaults that were the basis of the termination; and (ii) after considering the information discussed below, believes the request to rescind the termination and reinstate the Lease requires further discussion, Signal Hill respectfully requests that this issue be added to the agenda for CSLC's August 23rd regular meeting (or to some future regular meeting) or that a special meeting be scheduled to discuss the issue.

III. THE TERMINATION SHOULD BE RESCINDED AND THE LEASE, AS AMENDED, REINSTATED, FOR THE FOLLOWING REASONS:

A. The Defaults Have Been Cured.

Signal Hill is tendering with this letter the full amount CSLC stated is due under the Lease, plus \$50,000 in lieu of posting a \$50,000 bond. Signal Hill can, should CSLC request, obtain the

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bond but not until the Lease is reinstated. Obtaining a bond after the Lease was terminated is difficult, if not impossible.

B. No Evidence Was Presented Tying Unpaid Rent To A Failure To Maintain The Pipelines.

Speculation at the June 28th hearing that Signal Hill's failure to pay the rent increased the risk that the pipelines would not be properly maintained was just that, speculation. Not an iota of evidence was presented to support that suggestion. Nor can such evidence be presented for one simple reason, there is none, as discussed next.

C. The Evidence Conclusively Demonstrates That The Pipelines, And The Entirety Of Signal Hill's Oil And Gas Operation, Are in Compliance With All Governmental Regulations.

As Mr. Alberts informed the Commission at the hearing, Platforms Hogan, Houchin, and the pipelines from the platforms to shore are in full compliance with all federal, state, and local environmental, compliance, and safety regulations. Enclosed with this letter marked as Exhibit "1" is a July 11, 2019 memorandum from Mr. Alberts, who oversees Governmental Regulatory Agency Compliance for Pacific Operators Offshore, LLC, an affiliate of Signal Hill, which is the authorized operator of the oil and gas operations on the Federal Lease. This memorandum lists:

- the governmental agencies possessing jurisdictional authority over Pacific Operators Offshore's offshore and onshore operations ((1) Santa Barbara County Air Pollution Control District; (2) Ventura County Air Pollution Control District; (3) County of Ventura, Environmental Health Division; (4) Environmental Protection Agency, Region IX; (5) Department of Transportation — DOT PHMSA — 49CFR 195 - Hogan to La Conchita Offshore Pipeline; (6) Cal Fire — DOT PHMSA MOU — 49CFR 195 La Conchita CPS Line to ROSF Onshore Pipeline; (7) Department of the Interior — 30CFR 250 - Bureau of Safety & Environmental Enforcement (BSEE); and (8) Department of Fish & Wildlife (OSPR); and
- the reporting requirements of each of those 8 agencies.

An even cursory glance at the reporting requirement listed on Exhibit "1" confirms not just the pipelines, but the entire oil and gas operations, are monitored, checked, repaired and maintained on a regular basis. Were it otherwise, any one of those agencies could shut down operations.

The pipelines exist for one purpose only — to serve as arteries as part of Signal Hill's Outer Continental Shelf oil and gas operations on platforms Hogan and Houchin in Federal Waters upon

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a Federal Oil and Gas Lease. As such, the entirety of the operation is governed by Title 30 (Mineral Resources), Chapter II (Bureau Of Safety And Environmental Enforcement, Department Of The Interior), Subchapter B (Offshore), Part 250 (Oil And Gas And Sulphur Operations In The Outer Continental Shelf.) (hereafter "Part 250") Subpart J of Part 250 deals with pipelines and pipeline rights-of-way. Among the numerous regulations governing operations under Part 250, is Section 250.1010 entitled "General requirements for pipeline right-of-way holders." Subsection (a) of Section 250.1010 states that the "right-of-way holder shall comply with applicable laws and regulations and the terms of the grant." Those applicable laws and regulations include adherence to safety and maintenance mandates for all operations, not just pipelines. As CSLC knows, the pipelines at issue cross Federal and Santa Barbara County waters. Signal Hill maintains the entire length of the pipelines to comply with the most stringent requirements of those three jurisdictions. In fact, on July 8, 2019, mere days after the Lease was purportedly terminated, the BSEE approved the Annual Plan of Operation for 2019-2020 period submitted by Pacific Operators Offshore, LLC. The plan of operation would not have been approved if operation of the Lease, including operation of the pipelines, did not comply with Part 250. A copy of the BSEE's letter approving the plan of operation is enclosed marked as Exhibit "2."

Moreover, paragraph 8 of Section 2 of the Lease sets forth inspection and testing protocols on certain pipes in the ROW. These tests and inspections are conducted as required. Not once has there been a failure or a problem needing attention that was not fixed. The CSLC has never claimed that Signal Hill has breached any pipeline repair, maintenance, or inspection provision.

Signal Hill, through the operator, Pacific Operators Offshore, is in compliance with all agency requirements. This state of compliance is consistent with the operating history of the platforms and pipelines since February 1991 when the Lease was assigned to Signal Hill. Other than the financial lapses at issue, Signal Hill has always been a good tenant and has always been a good guardian of California's coast.

D. Terminating The Lease Will Result In Severe Economic Harm To Employees And Creditors.

Signal Hill understands that the CSLC is aware of the severe economic hardships that will befall all of the men and women who work for the various companies that work the rigs, process the oil and gas, and support those operations. But it bears repeating. Terminating the Lease cuts the umbilical cord required to operate Hogan platform, Houchin platform and the onshore processing plant at La Conchita. The abandonment of the pipelines, as demanded in your July 1 letter, leads swiftly and surely to a cornucopia of economic harm, including, but not limited to:

- The loss of 49 full-time jobs, both on and off shore. The average annual salary for all of these jobs is approximately \$87,602. It is ironic that despite the extreme drop in oil prices and the Thomas Fire, among other economic hardships that caused Signal Hill

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to not pay the lease fee, each one of those employees was paid but will now lose their jobs.

- Millions of dollars lost by lenders, whose loans are secured by the federal oil and gas lease and the production from that lease.
- Millions of dollars lost by creditors that have serviced and supported Signal Hill and its affiliates over the past 30 years, most of which are located in Ventura and Santa Barbara counties.
- The losses incurred by the owner of the land upon which the processing plant sits. The owner will not only lose the rent payments made to it, it will be left with a white elephant – an oil and gas processing plant that cannot be used because the means by which oil and gas are delivered to the plant will be lost.
- The Federal government will be deprived of the 16.6% royalty paid on every barrel of oil and every BOE of gas produced. That loss, at current production levels (using a \$65 per barrel price) is approximately \$2.2 million per year and \$250 million over the life of the field.
- Approximately \$12 million in revenue poured back into the general economy in payments made to vendors and suppliers on a yearly basis.
- The loss of \$19,692 paid yearly to Santa Barbara County in rent for the right-of-way through County waters (This equates to \$1.00 per lineal foot vs. the \$4.11 per foot charged by CSLC) and approximately \$50,000 paid yearly to Santa Barbara County for property taxes and air pollution control requirements.
- The \$172,725 due under the Lease to the State of California for the remaining term of the Lease. That revenue cannot be replaced. The State cannot grant a third party a ROW to use just the portion of pipelines that cross State lands. There is no economic value to the land upon which the pipeline sits other than allowing the privately owned pipelines to lay at the bottom of the Pacific Ocean.
- Approximately \$300,000 yearly in withholding, workers compensation insurance, and franchise taxes paid to State of California on behalf of the entities and employees working on the platforms.

Signal Hill realizes that an argument can be made that it is the ultimate cause of the economic loss that these employees, creditors, vendors, and citizens of the nation, state and counties of Santa Barbara and Ventura will incur. Signal Hill is doing everything it can to prevent

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those losses from happening and to repair a relationship that has existed for over 30 years. But it cannot do that without CSLC's support. Signal Hill respectfully requests the CSLC rescind the termination for the good of all noted above.

E. The Economic Factors That Caused The Delinquency.

As indicated, Signal Hill and its predecessors have leased the ROW for more than 50 years. Signal Hill was assigned the Lease in 1991. Since that time, until shortly after the 2013 renewal, payments were made without issue, through good times and bad. To borrow a phrase, it took a "perfect storm" of events to change that unbroken record. CSLC may contend these economic factors are not relevant because "a deal is a deal." But we believe they are for a variety of reasons, not the least of which is fundamental fairness.

For example, previous to 2013 Signal Hill leased the ROW for \$12,895 per year. But for some reason the Commission raised the rent 346%, to \$57,575 beginning March 1, 2013. One of the reasons given to justify the increase was that the price of oil was extremely high (the price was \$92.05/barrel on February 28, 2013). Signal Hill pointed out these were historical all-time highs that could not be maintained, as opposed to the "average price/barrel" over time. Because the pipeline was needed for operations to continue Signal Hill had no choice but to accept the deal or go out of business.

The "bust" that always comes in the oil business came with a vengeance. The price quickly and steadily dropped, reaching a low of \$18/barrel by February 2016. The price recovered to just below \$50/barrel by June of 2016, fluctuated between \$40-\$60/barrel until 2018, briefly fluctuated between \$60-\$75/barrel from early 2018 to October 2018, then plummeted again to \$46/barrel by the end of December 2018. Oil has traded mostly between \$50-\$60/barrel since that time. At the end of June 2019 the price was approximately \$58/barrel - 36% lower than when the Lease price was negotiated. The low price of oil is the main reason for Signal Hill's financial difficulties.

Then came the Thomas Fire in late December 2017. A mandatory evacuation was imposed for approximately 16 days. Before that, however, Signal Hill had already shut the plant down and stopped shipping oil. This was because the fire was approaching from the south and the oil is shipped south to Ventura in pipelines that run south along the railroad tracks. Because the plant had to be closed down, so too did production on the platforms. As discussed elsewhere in this letter, there is no storage for oil and gas on the platforms. Thus, oil and gas production had to stop because those flammable substances could not be sent for storage to the plant when a fire was approaching it.

The fire caused terrible damage at the plant. It burned so hot equipment and supplies melted. All electrical lines were lost. Electricity to the plant was not restored for at least two

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weeks after the mandatory evacuation was lifted. All of the plant's internal electrical lines and electronic equipment were burned and fried. The damage was so severe that even when production was restored it was only restored to a low level.

In addition, the shut down on the platforms was an emergency shut down. An emergency shut down causes the mechanical rods to part from stress and pumps to freeze up from sand in the column of oil falling on top of the pumps. It took months and months to get oil moving to the well bore after the emergency shut down, which of course drastically reduced Signal Hill's income.

Following quick on the heels of the Thomas Fire was the Montecito Debris Flow, which arrived as Signal Hill was attempting to repair and bring the plant back on line. The Debris Flow caused huge personnel & supplies logistical problem due to the closure of the 101.

In all, Signal Hill incurred in excess of \$3,000,000 in uninsured losses as a result of the Thomas Fire and the Debris Flow.

Signal Hill respectfully requests the Commission to weigh its long history of compliance against its short history of non-compliance, factoring in the reasons for that non-compliance. Could Signal Hill have handled the situation better? Obviously so in retrospect. Should it be put out of business due to factors beyond its control, especially given that it has tendered the full amount the CSLC asserts is due? No.

F. The Lease Fee Was Mistakenly Set Too High.

One of the consequences of this process is that the parties' attention has been directed to the legal description of the ROW set forth on Exhibit "A" to the Lease. That description, in relevant part, is:

A strip of tide and submerged land fifty (50) feet wide, lying in the Pacific Ocean, Counties of Ventura and Santa Barbara, State of California, the centerline of which is described as follows:

BEGINNING at a point having CCS27, Zone 5 coordinates of East (X) = 1,516,525 feet and North (Y) = 319,420 feet; *thence S 54°30'00" W 14,010 feet* to the easterly boundary of the lands granted in trust to the County of Santa Barbara pursuant to Chapter 846, California Statutes of 1931, and the terminus of said centerline. (emphasis added.)

That description, according to Exhibit "A" to the Lease, was "[p]repared 4/19/2012 by the California State Lands Commission Boundary Unit."

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Signal Hill engaged Numeric Solutions LLC, ("NSLLC") a geo-information management company in Ventura, CA, to plot that legal description. NSLLC plotted the point/geographic position described on Exhibit A to the Lease (i.e. "BEGINNING at a point having CCS 27, Zone 5 coordinates of East (X)= 1,516,525 feet and North (Y) 319,420 feet..."). This location ("The Position") is depicted as a red star plotted on a map NSLLC generated. That map is attached as Exhibit "3." The Position is located close to the boundary between California State Waters and US Federal waters offshore Carpinteria, CA. As you can see, The Position (i.e., the point where the legal description for the Leased Premises begins) does not correspond to the pipeline's actual "beginning" point, near La Conchita. In fact, The Position is 8.6 miles west of the pipeline origination point described on Exhibit A to the Lease. Moreover, if the bearings stated in the legal description are followed the "pipeline" goes from The Position 14,010 into federal waters towards Santa Cruz Island, running nowhere near platform Hogan, where the pipeline actually goes. Apparently, no one at CSLC or at Signal Hill picked up this mistake when the Lease was signed.

The location of the pipelines, as they exist, was plotted by Furgo West, Inc. in a survey done in 1998. The Furgo Survey shows that the actual length of the pipelines crossing State lands is 8,602 feet, not 14,010 feet as stated in the Lease.

The Lease has an implied rent rate of \$4.11 per lineal foot (\$57,575 annual rent ÷ 14,010 feet = \$4.11 a foot.) But the Furgo Survey proves the intended ROW is actually only 8,602 feet long. $8,602 \times \$4.11 = \$35,354.22$. Using the actual length of the intended ROW as a yardstick and the implied per foot rental rate, the annual rent in the Lease is 61% higher than it should be. Stated otherwise, using this rental rate and the actual number of lineal feet of State land occupied by the pipelines, Signal Hill owes the State a maximum of \$193,211.22, not the \$282,094.34 claimed. Adjustment of interest and penalties would further reduce this amount.

That said, Signal Hill is NOT requesting an adjustment. It is tendering the entire amount the CSLC claims is due. Signal Hill points out the discrepancy between the legal description in the Lease and the actual location of the pipelines so that if the termination is rescinded the Lease can be amended to insert the correct legal description. Following rescission of the Termination and full reinstatement of the Lease, Signal Hill would appreciate CSLC's consideration of an adjustment in the annual rent to correspond with the actual length of the ROW over State lands as a matter of fairness, but will not pursue it.

G. Signal Hill Would Be Entitled To Relief From Forfeiture.

An additional reason to rescind the Termination is that Signal Hill can pursue statutory remedies for relief from forfeiture of the Lease based on the economic hardship to Signal Hill (and numerous third parties) resulting from losing the Lease. (See 10 Miller & Starr, Cal. Real Estate (4th ed. 2019) § 34:224.) As stated, this dispute is about money, nothing else. There are no safety or environmental concerns. Signal Hill owes the State money and is tendering the full amount the State asserts is owed with this letter. There will be no hardship or damage to the State if Signal

Jennifer Lucchesi
California State Lands Commission
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Hill brings the Lease current. But if Signal Hill is forced to abandon the ROW, it will also have to decommission Platforms Hogan and Houchin, and close the processing plant, which will cause economic hardship not only to Signal Hill, but also to its employees, lenders, creditors, vendors, suppliers, the Federal Government, and Santa Barbara and Ventura Counties. There are no comparable consequences to the CSLC or the State if the Lease stays in place.

Three statutes "may create an avenue of equitable relief to a tenant who has defaulted under the terms of the lease," Civil Code section 3275, and Code of Civil Procedure sections 1174 and 1179. (Miller & Starr, *supra*, § 34:224.)

- Civil Code section 3275 "allows for the granting of relief upon the tenant making full compensation to the landlord, provided the nature of the breach was not a result of the tenant's gross negligence, willful or fraudulent breach of the lease." (Miller & Starr, *supra*, § 34:224 (fn. omitted).) There has been no gross negligence or willful or fraudulent breach of the Lease by Signal Hill.

- Under Code of Civil Procedure section 1174, in an unlawful detainer action a tenant "whose only default is the nonpayment of rent may be entitled to relief from the forfeiture by payment of the delinquent rent to the court within five days after the unlawful detainer judgment." (Miller & Starr, *supra*, § 34:224 (fn. omitted).)

- Code of Civil Procedure section 1179 "is the specific authorization by the unlawful detainer law for relief from forfeiture of any lease or rental agreement, whether written or oral, which may be granted at any time on the court's own motion or on verified petition for relief from forfeiture of the leasehold estate on the basis of hardship to the tenant." (Miller & Starr, *supra*, § 34:224 (fn. omitted).) Under section 1179, "[a] tenant in default may be relieved from a forfeiture of the leasehold upon a showing of hardship if he or she applies to the court at any time prior to restoration of the premises to the landlord." (*Ibid.* (fn. omitted).) Under section 1179, the court may consider equitable issues and defenses. (*Ibid.*) Relief is available under this statute even if "the default is intentional and the tenant has not tendered the amount of delinquent rent or other restitution to the landlord. Relief based on hardship may be granted whether the default is the nonpayment of rent or a breach of some other covenant in the lease." (*Ibid.* (fns. omitted).)

Although the parties' relative economic hardships are the primary factor the court considers in determining whether to grant relief under section 1179, the court may also consider: (i) the nature and character of the breach, (ii) the value of the remainder of the term of the lease, (iii) the improvements the tenant has made to the premises, (iv) the amount of the tenant's invested capital in the business being operated on the premises, (v) the extent to which the tenant's breach can be cured or compensated for by conditions imposed in the equitable discretion of the court, and (vi) the extent that any losses to the landlord arising out of the tenant's breach can be compensated by money or nonmonetary breaches can be performed or compensated by the tenant. (Miller & Starr, *supra*, § 34:224 (fn. omitted).) Every one of these factors weighs in favor of Signal Hill.

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A court would consider the same factors in determining whether to grant relief in a non-unlawful-detainer situation under Civil Code section 3275, which is broader in scope than section 1179. (*Superior Motels, Inc. v. Rinn Motor Hotels, Inc.* (1987) 195 Cal.App.3d 1032, 1063.) Furthermore, both Civil Code § 3275 and CCP § 1179 “vest near plenary discretion in the trial court.” (*Id.* at p. 1064.) So as long as there’s no “grossly negligent, willful, or fraudulent breach of duty” (Civil Code § 3275), the trial court can do what it thinks is right, without fear of reversal.

IV. LEGAL DEFICENCIES EXIST WITH THE PURPORTED TERMINATION.

Signal Hill hopes the Commission will accept the amount it contends is owed, rescind the termination, and allow Signal Hill to access the portion of the pipelines that lie on State land and which are the only means Signal Hill has to transport the oil and gas from the platforms to the plant. If, however, the Commission does not rescind the termination we believe the purported termination is nonetheless invalid due to a number of legal deficiencies.

A. Erroneous Legal Description Of The ROW.

As discussed above, the “leased premises” described in Exhibit A of the Lease is not the ROW that Signal Hill actually uses. Thus, the termination letter orders Signal Hill to stop using a ROW it does not use and does not order Signal Hill to stop using the ROW it does use. This discrepancy renders the termination letter invalid on its face.

B. The Termination Is Invalid Because CSLC Failed To Follow CEQA.

Staff Report No. 99 states that termination of the Lease is not a “project” for CEQA purposes “because it is an administrative action that will not result in direct or indirect physical changes to the environment.” (Staff Report, p. 4, “Other Pertinent Information,” ¶ 4.) We disagree. We believe that a court would find the termination is a “project” for CEQA purposes if the termination were challenged.

The statement that termination of the Lease “will not result in direct or indirect physical changes to the environment” is belied by the mandates of the July 1 letter as well as by the terms of the Lease. The second paragraph on page 1 of the July 1 letter states that “to ensure the preservation of public health and safety and the environment, Signal Hill is hereby directed to conduct the following activities on its infrastructure occupying state lands, no later than by July 31, 2019.” The letter then directs Signal Hill to:

1. Perform pigging and flushing of hydrocarbons from the 10-inch oil pipelines and the 4-inch produced water pipeline and fill the pipelines with inhibited seawater.

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2. Perform pigging and purging of the 12-inch gas pipeline and the gas lift line with the addition of corrosion inhibitors and fill the pipelines with inert gas or air.

3. Close and lockout the last valve to shore on platform Hogan and the first valve onshore at La Conchita Vault for the gas pipeline and 2 oil pipelines.

The third to last paragraph of the letter orders Signal Hill to "provide Commission staff with a plan for the safe and permanent abandonment, the decommissioning of all existing pipelines within the lease premises, and restoration of the lease premises pursuant to Section 2, Paragraph 7 of the Lease ... by September 30, 2019."

Section 2, Paragraph 7 of the Lease requires "[a]ll plans for abandonment and/or removal and restoration" to be completed within 90 days after the Lease is terminated "*or after Lessee has obtained all required permits or other governmental approvals that may be required by lawful authority and has complied with all applicable laws.*" (emphasis added.) Further, Section 2, Paragraph 11 of the Lease requires the lessee, prior to the termination of the Lease, to provide "a plan for the restoration of the Lease Premises"

CEQA Guideline 15378 (14 Cal. Code of Regs. 15378) defines "project" as "the whole of an action, which has a *potential* for resulting in *either a direct physical change* in the environment, or a *reasonably foreseeable indirect physical change* in the environment, and that is any of the following ... [a]n activity involving the issuance to a person of a lease, permit, license, certificate, or other entitlement for use by one or more public agencies." (emphasis added.)

The tasks Signal Hill has been directed to perform before leaving the leased premises undeniably have the potential for resulting in either a direct physical change or a reasonably foreseeable indirect physical change in the environment, and involve the issuance of permits or similar approvals by the State government and – just as importantly – by the Federal government and the County of Santa Barbara. Undertaking the activities mandated in the termination letter will cause a ripple effect throughout the entire oil and gas operation. Signal Hill can't just clear the pipes in the 8,602 feet that occupy State Lands, close the valves onshore and leave. The closing of the pipelines inevitably leads to closing the wells and decommissioning the platforms. Those activities cause direct and indirect physical changes to the environment.

Under CEQA, the term "project" "is given a broad interpretation to maximize protection of the environment." (*Center for Sierra Nevada Conservation v. County of El Dorado* (2012) 202 Cal.App.4th 1156, 1170 (citations and internal quotation marks and ellipses omitted).) Only "where it can be seen *with certainty* that there is *no possibility* that the activity in question *may* have a significant effect on the environment," will the activity not be subject to CEQA. (*Ibid.* (italics added; citations and internal quotation marks and brackets omitted).)

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If it were certain that there was no possibility that the required abandonment and decommissioning activities might have a significant effect on the environment, there would be no need for the protocols and approvals required by the Lease and by your July 1 letter. In short, CEQA review will be required before Signal Hill can undertake any of the demanded tasks.

V. THE DEADLINES SET BY CSLC ARE UNREALISTIC.

A. Signal Hill Requests The July 14th Deadline Be Extended.

The termination letter directs Signal Hill to submit "for the review and approval by the CSLC and two federal agencies a "detailed procedure" to implement the pigging, flushing, plugging, and purging of the pipelines as well as the closing and locking of valves associated with the pipelines. These activities cannot be done unilaterally to the portion of the pipelines occupying State lands. CSLC knows the pipelines on State land are part of a system crossing multiple jurisdictions and cannot be closed, purged, flushed, plugged, etc. without taking the same actions over the entire length of the pipelines. But that is not the biggest problem.

The pipelines cannot be closed, purged, flushed, etc. until perhaps years after the wells have been shut in. There is no storage for Hydrocarbons on the platforms. Consequently, if the pipelines crossing State lands are purged, plugged, flushed, etc., before the wells are completely shut in there is no place to put the oil and gas that come out of the wells during the shut in process. Further, when it rains, all rainwater which touches the platforms is collected in gutters and placed in the pipelines for disposal. If the pipelines are closed that water, which inevitably comes into contact with oil in trace amounts on an operating platform, goes into the ocean.

Shutting in wells is not a matter of simply turning a valve and walking away. It is a complicated process that requires permits, engineering, and considerable time. The reality of the situation is the CSLC is mandating Signal Hill come up with a detailed plan to shutdown, decommission, and abandon 51 oil wells (both producing and non-producing) served by two offshore oil and gas platforms in less than two weeks. It simply cannot be done. CSLC Staff knows that it cannot be done in the two week time period stated in your letter.

B. Signal Hill Requests The July 31st And September 30th Deadlines Be Extended.

CSLC's timing deadlines ignore the fact that the pipelines cross Federal lands and Santa Barbara County lands, in addition to State lands. As stated, there is no cut-off valve such that only the 8,602 feet of the pipelines occupying state lands can be pigged, plugged, flushed, purged and closed. Such activities would have to occur over the entire length of the pipeline through at least three jurisdictions. Not only must those activities be done over the entire length of the lines, they cannot, as explained above, be done prematurely. Those activities would be among the last things

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done in connection with an overall plan to decommission the platforms. Coming up with an overall decommissioning plan by the end of September is unrealistic for a number of reasons, not the least of which is that obtaining the various permits required to decommission the platforms and shut in the wells will take many, many months.

Further, assuming, arguendo, the termination is held to be valid, the terms of the Lease do not require abandonment or restoration until "*after Lessee has obtained all required permits or other governmental approvals that may be required by lawful authority and has complied with all applicable laws.*" (Lease, Section 2, Paragraph 7). Signal Hill does not control and cannot predict how fast any particular agency will respond to requests to approve a plan and/or to issue permits to carry the plan out.

If the termination is rescinded, rather than setting hard deadlines Signal Hill suggests that the CSLC direct Signal Hill to use reasonable efforts to obtain all approvals and permits required to accomplish the permanent abandonment and decommissioning of the pipelines. Such a directive is consistent with paragraph 7 of Section 2 of the Lease.

VI. CONCLUSION.

CSLC is aware that its action, if not rescinded, will put Signal Hill and the all the companies involved in producing oil and gas on its federal lease out of business and its highly paid, mostly minority, employees out of work. It respectfully requests CSLC to reconsider and rescind the termination of Lease 3914.1. The termination was based solely on monetary defaults, which the enclosed checks cure.

If the CSLC is not inclined to rescind the termination and reinstate the Lease based on this request and the payment of all sums due, Signal Hill requests the issue be placed on the agenda for CSLC's next regular meeting, at some future regular meeting, or at a special meeting at CSLC's convenience.

Given the drastic consequences that result from a termination, I'm sure CSLC is not surprised that Signal Hill will challenge the termination if required. Signal Hill does not want to take that path but it will have to given the alternative. Signal Hill wants to stay in business and continue to add significantly to the Central Coast's economy. If CSLC insists on going forward with the termination, Signal Hill will have no choice but to file suit seeking a reformation of the Lease, declaratory and injunctive relief, and any other relief to which Signal Hill may be entitled.

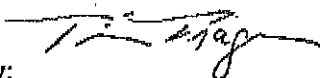
There is a better way that ends with a better result for all – the State gets fully paid, the State will continue to be paid, dozens of high paid jobs will be saved, and the economic hardships for multiple vendors and creditors will be avoided. Signal Hill respectfully asks the CSLC to rescind the termination, reinstate the Lease, and modify it to correct the legal description of the ROW to reflect the land actually occupied by the pipelines.

Jennifer Lucchesi
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Thank you for your consideration of this request. Please direct all further communications about this matter to me. I look forward to hearing from you.

Sincerely,

REICKER, PFAU, PYLE & McROY LLP



By:
Timothy J. Trager

TJT:ks

Encls.: Checks
Exhibits

cc: Joan Barminski, Regional Director, Bureau of Ocean Energy Management
Mark Fesmire, Regional Director, Bureau of Safety and Environmental Enforcement
Marion Garcia, U.S. Department of Transportation
Ken Harris, CA Department of Conservation
Tom Cullen, CA Department of Wildlife
Alison Dettmer, CA Coastal Commission
John Zorovich, County of Santa Barbara
Bonnie Luke, County of Ventura
David Durflinger, City of Carpinteria
Seth Blackmon, California State Lands Commission

EXHIBIT “1”

MEMORANDUM

Date: July 11, 2019

To: Robert Carone

Fr: Clement Alberts 

Re: Governmental Regulatory Agency Environmental Compliance

Follows is a listing of those governmental agencies possessing jurisdictional authority over Pacific Operators Offshore's offshore and onshore operations and their individual reporting requirements. We are currently in a state of compliance with all agency requirements.

EXHIBIT “2”



United States Department of the Interior
BUREAU OF SAFETY AND ENVIRONMENTAL ENFORCEMENT
PACIFIC OCS REGION
760 Paseo Camarillo, Suite 102
Camarillo, CA 93010-6964

JUL 08 2019

Mr. Chris Magill
Pacific Operators Offshore, LLC
1145 Eugenia Place, Suite #200
Carpinteria, Ca 93013

Re: Annual Plan of Operations Review Lease OCS-P 0466 Platforms Hogan and Houchin,
Carpinteria Offshore Field.

Dear Mr. Magill:

The Bureau of Safety and Environmental Enforcement (BSEE) annual review meeting to discuss Pacific Operators Offshore, LLC's development activities during 2018 and the proposed Plan of Operations for 2019 for Platforms Hogan and Houchin in the Carpinteria Field was held at the Bureau of Safety and Environmental Enforcement's office in Camarillo, California on April 30, 2019. Pacific Operators Offshore, LLC provided the BSEE with a letter dated May 14, 2019, requesting approval of the proposed Plan of Operations.

We have completed our review of the information provided and have determined that the development and operation activities of the past year and the proposed activities for the 2018/2019 year are in conformance with your previous Plan of Operations for Platforms Hogan and Houchin.

Pursuant to 30 CFR 250.1303, the BSEE Office of Production and Development hereby accepts your proposed Plan of Operations for 2019-2020 period. This plan will remain in effect through April 2020, or until a subsequent review meeting is held. Pacific Operators Offshore, LLC is reminded that BSEE approval of this plan does not relieve you of responsibility for obtaining all necessary approvals, remaining in compliance with permitting requirements outlined in the Code of Federal Regulations and all BSEE-issued NTLs from the Office of Field Operations; in order to properly achieve the development activities outlined in your Plan of Operations. You are also advised to keep the BSEE apprised of any significant changes to the plan.

Should you have any questions, please contact Mr. John Bain at (805) 384-6376.

Sincerely,

A handwritten signature in black ink, appearing to be "Bobby Kurtz".

Bobby Kurtz,
Regional Supervisor
Office of Production and Development

EXHIBIT

2

EXHIBIT “3”



Numeric Solutions LLC
Geoinformation Management

1536 Eastman Ave, Suite D, Ventura, CA 93003

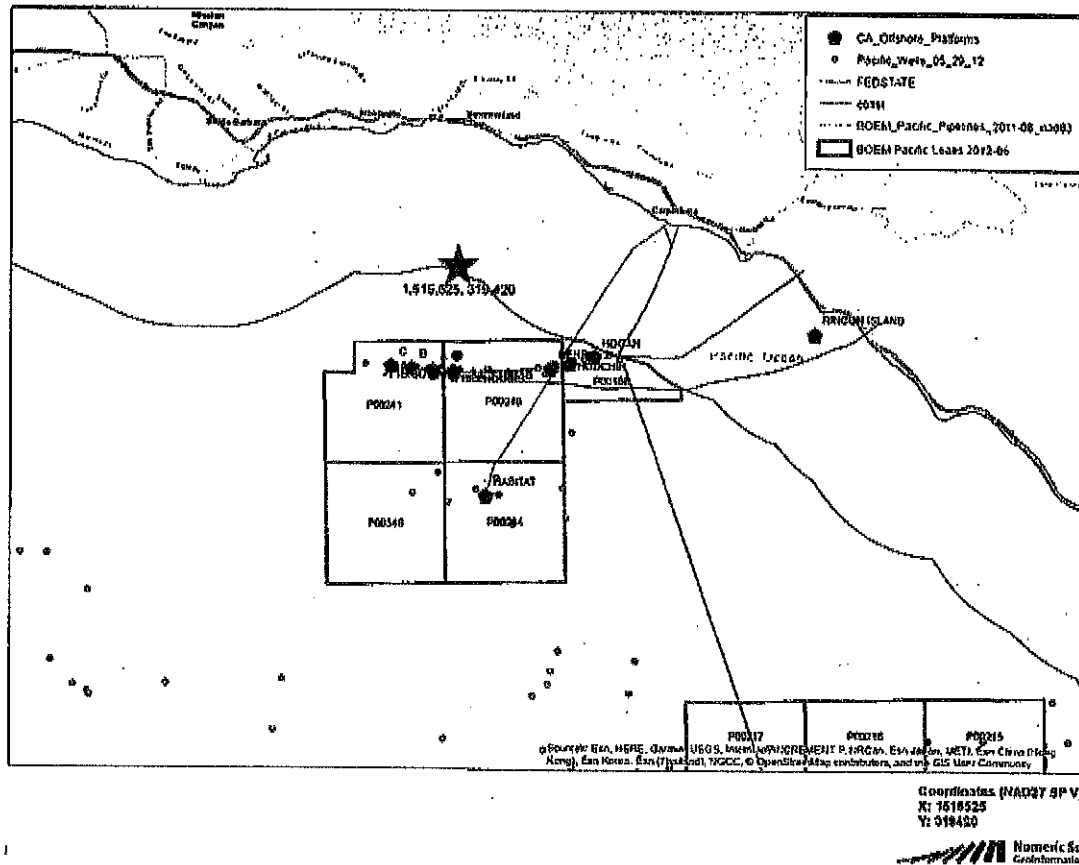


Exhibit B – Map prepared by Numeric Solutions LLC showing the Position defined as (East (X))= 1,516,525 feet and North (Y) 319,420

EXHIBIT 3

Pacific Operators Offshore LLC
1145 Eugenia Pl Suite 200
Carpinteria, CA 93013

VENDOR

CHECK DATE

006560

ST1113

07-11-19

INVOICE NUMBER	INVOICE DATE	DISCOUNT TAKEN	AMOUNT PAID
-------------------	-----------------	-------------------	----------------

07-11-19

07-11-19

\$50,000.00 cash deposit in lieu of bond for Lease
PRC 3914.1. Deposit and/or negotiation of this
check constitute rescission of the termination of
said Lease and its reinstatement by the Ca. State
Lands Commission.

\$50,000.00

THE FACE OF THIS DOCUMENT HAS A VOID FEATURE, MICRO PRINTING AND AN ARTIFICIAL WATERMARK ON THE BACK.



Pacific Operators Offshore LLC
1145 Eugenia Pl Suite 200
Carpinteria, CA 93013

ReboBank
Carpinteria Branch
(800) 942-6222
90-3842/1222

006560

CHECK NO.

006560

Pay

DATE

AMOUNT

*****50,000 Dollars and 00 Cents*****

07/11/19

\$50,000.00

TO THE
ORDER OF:

California State Lands Commission
Attn: Accounting
100 Howe Ave, Suite 100-South
Sacramento, CA, 95825-8202

AUTHORIZED SIGNATURE

006560 01222384202

4559637470

Pacific Operators Offshore LLC
1145 Eugenia Pl Suite 200
Carpinteria, CA 93013

VENDOR

ST1113

CHECK DATE

07-11-19

006559

INVOICE
NUMBERINVOICE
DATEDISCOUNT
TAKENAMOUNT
PAID

07-11-19

07-11-19

\$282,094.34 full payment of past due rents, interest,
& penalty for Lease PRC 3914.1 as stated in Staff
Report 99, dated June 28, 2019. Deposit and/or
Negotiation of this check constitute rescission of the
Termination of said Lease and its reinstatement by the
Ca. State Lands Commission.

\$282,094.34

THE PAGE OF THIS DOCUMENT HAS A VOID FEATURE, MICRO PRINTING AND AN ARTIFICIAL WATERMARK ON THE BACK



Pacific Operators Offshore LLC
1145 Eugenia Pl Suite 200
Carpinteria, CA 93013

FirstBank
Carpinteria Branch
(800) 942-8222
90-8842/1222

006559

CHECK NO.

006559

Pay

*****282,094 Dollars and 34 Cents*****

DATE

AMOUNT

07/11/19

\$282,094.34

TO THE
ORDER OF

California State Lands Commission
Attn: Accounting
100 Howe Ave, Suite 100-South
Sacramento, CA. 95825-8202

AUTHORIZED SIGNATURE

006559 122238420

455963747

REICKER, PFAU, PYLE & MCROY, LLP

1421 State Street, Suite B
Santa Barbara, California 93101

Fax: (805) 966-3320 Tel: (805) 966-2440

www.rppmh.com

FACSIMILE TRANSMITTAL MEMORANDUM

DATE: July 12, 2019

TO: Jennifer Lucchesi, Executive Officer, CA State Lands Commission

FAX NO.: 916-574-1810

TELEPHONE NO.:

FROM: Marcia Gehringer, Legal Assistant

NO. OF PAGES: 22
(including this transmittal sheet)

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If you experience problems receiving this transmission, contact our front desk at (805) 966-2440.

CALIFORNIA STATE LANDS COMMISSION

100 Howe Avenue, Suite 100-South
Sacramento, CA 95825-8202



Established in 1938
August 28, 2019

JENNIFER LUCCHESI, Executive Officer

(916) 574-1800 FAX (916) 574-1810

California Relay Service From TDD Phone **1-800-735-2929**
from Voice Phone **1-800-735-2922**

Contact Phone: (916) 574-1858

Contact FAX: (916) 574-1925

File Ref: PRC 3914.1; A2209

Clem Alberts
Signal Hill Services, Inc.
1145 Eugenia Place, Suite 200
Carpinteria, CA

Subject: Status of Application for General Lease- Right-of-Way Use, for Four Existing Pipelines in the Pacific Ocean, near Carpinteria, Santa Barbara and Ventura Counties

Dear Mr. Alberts:

California State Lands Commission (Commission) staff received Signal Hill Services Inc.'s (Signal Hill) application for a General Lease – Right-of-Way Use. The Commission terminated Signal Hill's previous lease, Lease No.PRC 3914.1, at its June 28, 2019 meeting for Signal Hill's failure to maintain a bond as required by the lease and failure to pay annual rent since November 22, 2015. As of August 13, 2019, \$286,967.67 in unpaid rent is owed to the Commission.

Signal Hill, as the applicant, is not in good standing with the Commission. None of the outstanding deficiencies that were the basis for terminating the prior lease have been cured and Signal Hill has ignored every post-termination directive by the Commission. Signal Hill's continued use of sovereign land for the four pipelines connected to Pacific Offshore Operator's OCS Platform, Hogan, is unauthorized. Additionally, both Signal Hill's and Pacific Offshore Operator's knowing use of the unauthorized pipelines to transport hydrocarbons to shore remains in contravention of the Commission's termination of Signal Hill's Lease and the subsequent order to cease any ongoing use of state sovereign land. As such, the Commission has directed staff to take legal action seeking the ejectment of Signal Hill's infrastructure from state sovereign land and the cessation of all operations in state waters. Because the legal action is to eject Signal Hill, and the application essentially asks for Commission authorization to continue use of state land, staff will treat the application as an offer of settlement based on the conditions presented in the application and Signal Hill's course

of performance over the last three months. However, because the defaults leading to the termination and ejectment action have not been resolved, staff will recommend denial of the application given the following deficiencies: 1) the improper submission of the application to a field office, rather than the Commission's principal office as required by regulation. (2 CCR §§ 1901, 2001; 2) the failure to submit the required \$25 filing fee; 3) the failure to comply with special submission requirements for pipeline leases (attached); 4) the failure to provide outstanding consideration for rental owed the state; 5) the failure to address performance guarantees, including bonding sufficient to cover the full cost to abandon and decommission Signal Hill's pipelines; and 6) the failure to address the pending litigation.

Please be aware that upon expiration or termination of the lease, a lessee has no right to a new lease or to a renewal of any previous lease. Approval or denial of an 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 responsibility as trustee of the State's Public Trust lands, as authorized by law. Until the Commission approves a lease authorizing the use of lands, which approval is not guaranteed, Signal Hill's occupation remains a trespass.

With this in mind, please note that, if Signal Hill wishes to withdraw its application, it can do so by written request. To the extent staff does not receive a withdrawal within 30 days of the date of this letter, staff will proceed to process the application for consideration at the October 2019 Commission meeting and Signal Hill will be responsible for all processing fees incurred.

This letter does not waive and is without prejudice to the Commission's rights and claims whether based on PRC 3914.1, the matter of *California State Lands Commission v. Signal Hill Service, Inc., et al.* (Sup. Ct. Santa Barbara County, No. 19CV04295), or otherwise, against Signal Hill or any other entity or person liable for all or part of its claims or rights under applicable law.

If you have any questions pertaining to the application matter, please contact Joseph Fabel, Senior Attorney, at (916) 574-0964 or by email at Joseph.Fabel@slc.ca.gov.

Sincerely,



Robert Brian Bugsch
Chief, Land Management Division

cc: Seth Blackmon
Joseph Fabel
Legal

Lucien Pino
LMD

EXHIBIT C

CERTIFIED MAIL
TRACKING NO.: 70153010000017086331
RETURN RECEIPT REQUESTED

Mr. Robert P. Carone
President and Chief Financial Officer
Pacific Operators Offshore, LLC
1145 Eugenia Place, Suite 200
Carpinteria, CA 93013

Re: Decommissioning of Lease OCS-P 0166 Platforms Hogan, Houchin, and Associated Pipelines

Dear Mr. Carone:

On September 5, 2019, you informed Mr. Michael Mitchell of my staff, that Pacific Operators Offshore, LLC (POO, LLC) will cease production from Platforms Hogan and Houchin on September 30, 2019. The purpose of this letter is to inform you of the Bureau of Safety and Environmental Enforcement (BSEE) requirements for decommissioning planning, preservation plans for shut-in platforms and pipelines, and site security.

Once POO, LLC ends production and operations on lease OCS-P 0166 (the Lease), it will expire one year after operations stop unless you receive a Suspension of Operations or a Suspension of Production from the Regional Supervisor (or resume operations). You will then have one year from the date the Lease expired to complete decommissioning of the Lease. POO, LLC may submit a request to BSEE for an extension of the one year decommissioning period.

Platform Shutdown Procedures

BSEE expects that POO, LLC would, at a minimum, properly shutdown both platforms before ending operations. An itemized shutdown procedure is provided in the attached **ENCLOSURE**. Note that all safety devices must remain in operation and in proper working order until both facilities (including wells, piping and pipelines) are shutdown and the **removal of all hydrocarbons from the facilities is complete**. BSEE is to be contacted prior to initiating these Platform Shutdown Procedures so that this work can be witnessed and verified by BSEE personnel. Gas and smoke detectors in the wellbays and living quarters must remain in-service and be properly maintained and monitored until both platforms are decommissioned.

Platform Security

Security of the platforms is under the jurisdiction of the United States Coast Guard (USCG), which requires operators to address security threats, incidents, or concerns related to their facilities. BSEE will work closely with the USCG on this and related matters. Security details are to be submitted to:

Bruce H. Hesson, P.E., Regional Supervisor
Office of Field Operations
Pacific OCS Region
Bureau of Safety and Environmental Enforcement
760 Paseo Camarillo, Suite 102
Camarillo, CA 93010

Initial Platform Removal Application

Per 30 CFR 250.1704(a), an initial platform removal application must be submitted for leases and pipeline rights-of-way in the Pacific OCS Region at least two years before production is projected to cease. The initial platform removal application must include the information required under 30 CFR 250.1726, including a projected decommissioning schedule. In light of the fact that POO, LLC plans to end production by the end of 2019, and you have not submitted an initial platform removal application, the application is to be submitted as soon as possible, but no later than November 1, 2019, to:

Theresa Bell, Regional Supervisor
Office of Strategic Operations
Pacific OCS Region
Bureau of Safety and Environmental Enforcement
760 Paseo Camarillo, Suite 102
Camarillo, CA 93010

Platform Removal and Pipeline Decommissioning/Removal Applications

According to 30 CFR 250.1725(b)-(c), you must submit a final removal application to BSEE for approval; and you must remove a platform or other facility according to the approved application. Pipeline decommissioning/removal requirements are in 30 CFR 250.1750-250.1754. The regulations specify that pipeline decommissioning or removal applications must be submitted to BSEE for approval before the proposed activity is performed and identify the information to be included.

These applications, along with confirmation that the nonrefundable payment of the service fees listed in 30 CFR 250.125 have been made electronically through the Fees for Services page on the BSEE Website at <http://www.bsee.gov>, are to be submitted to:

Theresa Bell, Regional Supervisor
Office of Strategic Operations
Pacific OCS Region
Bureau of Safety and Environmental Enforcement
760 Paseo Camarillo, Suite 102
Camarillo, CA 93010

Environmental information must be included in the initial and final platform removal applications, as well as pipeline removal applications. The process of removing the facilities has the potential to cause adverse impacts to water quality, air quality, sensitive species, habitats, commercial and recreational fishing, and other resources. You should consider potential adverse impacts when formulating decommissioning applications and develop effective measures to minimize such impacts.

Preservation Plans

BSEE Pacific OCS Region requires a preservation plan for platforms and pipelines that will be shut-in for an extended period. The plan is to include how the platform, including its wells, and the portion of the pipelines on the OCS, will be monitored, inspected, and maintained in accordance with the 30 CFR Part 250 regulations until they can be properly decommissioned.

During a shut-in period, POO, LLC must continue to meet all its obligations, including, but not limited to, performing the required pipeline external inspections and the API RP 2A platform jacket inspections. Submit the preservation plan for the platform structure and pipelines to:

Theresa Bell, Regional Supervisor
Office of Strategic Operations
Pacific OCS Region
Bureau of Safety and Environmental Enforcement
760 Paseo Camarillo, Suite 102
Camarillo, CA 93010

Submit the preservation plan for the platform equipment and well information to:

Bruce H. Hesson, P.E., Regional Supervisor
Office of Field Operations
Pacific OCS Region
Bureau of Safety and Environmental Enforcement
760 Paseo Camarillo, Suite 102
Camarillo, CA 93010

Any requests or submissions related to flaring, metering, production accounting, or suspensions should be submitted to:

Mr. Robert P. Carone

4

Bobby Kurtz, Regional Supervisor
Office of Production and Development
Pacific OCS Region
Bureau of Safety and Environmental Enforcement
760 Paseo Camarillo, Suite 102
Camarillo, CA 93010

We look forward to receiving the Initial Platform Removal Application. For questions regarding this letter, please contact Theresa Bell with the Office of Strategic Operations at theresa.bell@bsee.gov or (805) 384-6334; Bruce Hesson with the Office of Field Operations at bruce.hesson@bsee.gov or (805) 384-6373; or Bobby Kurtz with the Office of Production and Development at bobby.kurtz@bsee.gov or (805) 384-6359

Sincerely,

**MARK
FESMIRE**

Digitally signed by
MARK FESMIRE
Date: 2019.09.09
14:58:14 -08'00'

Mark Fesmire, PE JD
Acting Regional Director
BSEE Pacific OCS Region

Enclosure

bcc: DOI Office of the Solicitor
Attention: Eric Andreas
Division of Mineral Resources
1849 C. Street, NW, MS 5358
Washington, DC 20005

Mr. James Carlton, Land Manager
ConocoPhillips Company
P.O. Box 2197
Houston, TX 77252-2197

Subject File: 5D(4) Carpinteria Field-Decommissioning Plans,
Platform Hogan
Platform Houchin

5D(2) Carpinteria Field-Pipeline Permits,
Segment # 0110166
Segment # 0220166
Segment # 0440166

Segment # 0330166

Segment # 410166

Segment # 1520166

Segment # 1720166

Segment # 1630166

ecc: Subject File: P:\BSEE\OSO\5D(2) Lease Term and Right-of-Way (ROW) Pipeline
Permits (ABU)\2019\2019_09_09 POOLLC Decommissioning of Lease
CS-P 0166

P:\BSEE\OSO\5D(4) Structure Decommissioning Plans and Related
Permits (ABW)\2019\2019_09_09 POOLLC Decommissioning of Lease
CS-P 0166

BSEE PAC Managers/Supervisors

BOEM PAC Managers/Supervisors

BSEE PAC OSO

OSO:TBell:\re\P:\BSEE\OSO\5D(2) Lease Term and Right-of-Way (ROW) Pipeline Permits
(ABU)\2019\2019_09_09 POOLLC Decommissioning of Lease CS-P 0166

OSO:TBell:\re\P:\BSEE\OSO\5D(4) Structure Decommissioning Plans and Related Permits
(ABW)\2019\2019_09_09 POOLLC Decommissioning of Lease CS-P 0166



PACIFIC OPERATORS OFFSHORE, LLC

RECEIVED
VENTURA COUNTY
2019 SEP 16 AM 10:22
C.D.

September 12, 2019

Mr. John Harader
Ventura County APCD
669 County Square Drive
Ventura, CA 93003

Re: Notice of Intent to Cease Operations – La Conchita Onshore Processing Facility

Dear Mr. Harader,

This is to inform District that, effective September 30, 2019, Pacific Operators Offshore will cease all crude oil and natural gas processing operations relating to Permit to Operate 0033.

Please feel free to contact me directly should you have any questions or concerns.

Sincerely Yours,

Clement Alberts
Environmental Coordinator



SEP 25 2019

PACIFIC OPERATORS OFFSHORE, LLC

September 24, 2019

Ms. Bonnie Luke, Planner IV
Commercial and Industrial Permits Section
Ventura County Resource Management Agency | Planning Division
800 S. Victoria Ave., L #1740 | Ventura, CA 93009-1740

RE: Cessation of Operation | CUP 3149

Dear Ms. Luke,

This is to inform you of Pacific Operators Offshore intention to cease all crude oil and natural gas production operations at its La Conchita onshore processing facility effective September 30, 2019. I have been given to understand that it is the company's intention to thereafter make all liquid and gas equipment inert, i.e. to blow down all gas lines and to replace HC's in pipelines, tanks and vessels with seawater. I am at present unsure as to how the crude oil pack in CPS line between La Conchita and ROSF is to be dealt with. I will advise you at such time as I am able to. I encourage you to contact me directly in the event you have any questions, concerns or require clarification.

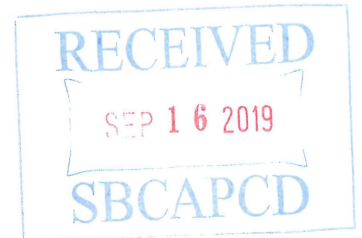
Sincerely Yours,

Clement M. Alberts
Environmental Coordinator



PACIFIC OPERATORS OFFSHORE, LLC

September 12, 2019



Mr. Michael Goldman
Santa Barbara County APCD
260 North San Antonio Road, Suite A
Santa Barbara CA 93110-1315

Re: **Notice of Intent to Cease Operations – OCS Platforms Hogan & Houchin**

Dear Mr. Goldman,

This is to inform District that, effective September 30, 2019, Pacific Operators Offshore will cease all crude oil and natural gas productions operations relating to Permits to Operate 9108 and 9109. Please feel free to contact me directly should you have any questions or concerns.

Sincerely Yours,

Clement Alberts
Environmental Coordinator