Meeting Date: 02/25/22
Staff: S. Pemberton

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PROPOSED ACTION:

Consider supporting legislation that would direct the State Lands Commission to develop a cost study that measures the fiscal impact of a voluntary buy-out of the remaining lease interests in actively producing offshore oil and gas leases in state waters.

BACKGROUND AND PURPOSE:

Climate change is an existential threat that grows more urgent each passing day. Average global temperatures are on track to rise by nearly two and a half degrees Celsius this century. The State of California, the fifth largest economy in the world, is aggressively pursuing various options to reduce greenhouse gas emissions and de-accelerate the impacts of climate change. The United Nation's Intergovernmental Panel on Climate Change has found that emissions from fossil fuels are the dominant cause of global warming. Oil, a fossil fuel that releases an enormous amount of carbon when burned, exacerbates climate change.

The advances in clean energy development enable California to transition from fossil fuels to clean energy, a transition that will reduce the impacts of climate change. Although California, in 1994, banned new offshore oil and gas leases through the California Coastal Sanctuary Act, the remaining offshore oil and gas leases continue as long as the lessee either produces or is capable of producing oil in paying quantities from the lease, that is, the leases lack an end date and may continue so long as production is economically viable.

There are 11 actively producing oil and gas leases in state waters, all of which were issued in the 1940s and 1950s and are managed by the Commission. There are three offshore oil platforms producing in state waters, Eva and Emmy offshore Huntington Beach, and Esther offshore Seal Beach. One state lease is associated with Platform Esther, two leases are associated Platform Eva, and five leases are associated with Platform Emmy. The remaining three leases are not associated with platforms in state waters. One is associated with Island Chafee offshore Seal Beach. The other two are drilled from onshore locations to offshore reservoirs in Ventura County. Platform Holly in Santa Barbara County is no longer producing and is undergoing decommissioning. The Long Beach Unit, which includes four oil islands and the West Wilmington operation (a reservoir primarily located under the Port of Long Beach) is operated by California Resources Corporation and managed by the City of Long Beach.

In October 2021, an underwater pipeline operated by Amplify Energy Corp ruptured, spilling nearly 25,000 gallons of oil into the Pacific Ocean and causing beach closures, damaging the environment, and harming the regional and state coastal economies. The spill triggered an outcry from elected officials, environmental groups, and others to end offshore oil and gas development. The Legislature held three hearings focused on the spill and to learn more about state and federal offshore oil and gas development and decommissioning options. In October, just after the spill, Senator Dave Min announced that he would introduce legislation to ban all existing oil and gas operations in state waters. Governor Newsom has called for California to end on and offshore oil development by 2045, and several major oil companies have committed to zero net energy emissions by 2050. A cost study that assesses the fiscal impact of buying out the remaining interests in the State's actively producing offshore oil and gas leases will provide the knowledge necessary to embark on a formal effort to end offshore oil and gas development. The cost study can also assess ways the State can propel oil and gas companies toward voluntarily ending offshore oil and gas production as a component of a credible strategy to reach net zero energy emissions by 2050 or sooner.

California’s coastal economy employs 12.3 million people annually, earning a total of almost $883.5 billion and equating to over $2 trillion in gross domestic product. The risk of an oil spill, and the economic and environmental catastrophe that could follow, coupled with the fact that fossil fuels exacerbate climate change, call for California to seek out ways to quicken the end of offshore oil and gas development. A cost study that assesses the fiscal impact of buying out the remaining lease interests in the State’s actively producing offshore oil and gas leases is consistent with that goal. It is also consistent with California’s role as a global leader in the fight against climate change.

The proposed legislation would require the Commission to develop, on or before December 31, 2024, a cost study that measures the fiscal impact of a voluntary buy-out of the remaining lease interests in actively producing offshore oil and gas leases in state waters. The cost study would consider factors such as, but not limited to, unrealized state revenues, reasonably anticipated lost profits, life of the reservoir based on proven reserves, and decommissioning costs. The proposed legislation would appropriate $1 million to the Commission to develop the cost study.

RECOMMENDED ACTION:

It is recommended that the Commission:

Support legislation that would direct the State Lands Commission to develop a cost study that measures the fiscal impact of a voluntary buy-out of the remaining lease interests in actively producing offshore oil and gas leases in state waters.