

# Staff Report 43

**LESSEE:**

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San Pedro Bay Pipeline Company

**PROPOSED ACTION:**

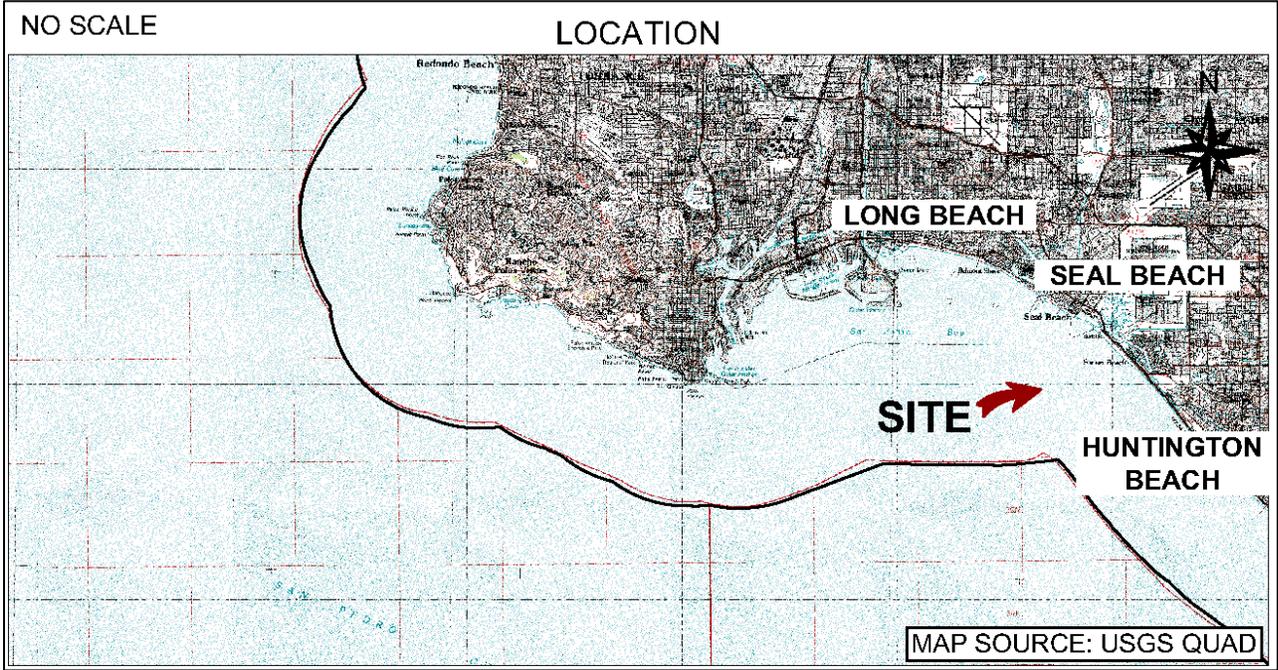
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Revision of Rent and Surety Bond.

**AREA, LAND TYPE, AND LOCATION:**

10.72 acres, more or less of State sovereign land in the Pacific Ocean, San Pedro Bay, near Seal Beach and Huntington Beach, Orange County (as shown in Figure 1).

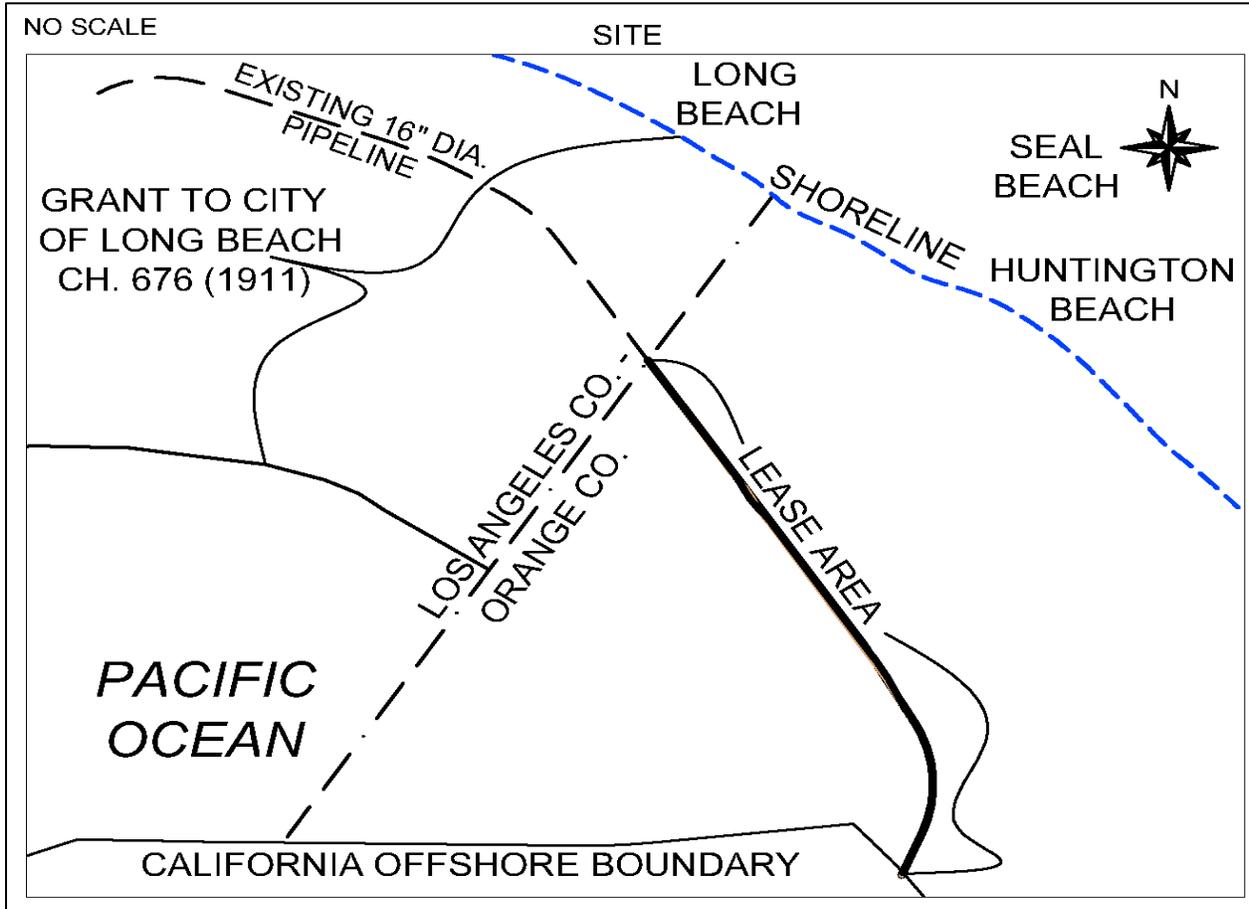
**Figure 1. Location**



**AUTHORIZED USE:**

Continued use and maintenance of a crude oil pipeline (as shown in Figure 2).

**Figure 2. Site Map**



NOTE: This depiction of the lease premises is based on unverified information provided by the Applicant or other parties and is not a waiver or limitation of any State interest in the subject or any other property.

**TERM:**

20 years, beginning March 25, 2008.

**CONSIDERATION:**

The lease provides that Lessor may modify the rent and surety bond periodically during the lease term. Pursuant to this provision, staff has conducted a review of the rent under this lease and recommends a revision of rent from \$104,958 to \$140,350 and an increase in the surety bond from \$8,900,000 to \$11,000,000, effective March 25, 2024.

## OTHER PERTINENT INFORMATION:

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1. Approval or denial of the revision of rent and surety bond is a discretionary action by the Commission. Each time the Commission approves or rejects a revision of rent and surety bond, it exercises legislatively delegated authority and responsibility as trustee of the State's Public 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. The original lease was authorized by the Commission on March 28, 1979, to Shell Oil Company for the construction and operation of a 16-inch crude oil pipeline to carry product from the proposed Outer Continental Shelf (OCS) Beta Unit Development. The line was installed in 1980 with the construction of the platforms in the OCS Beta Unit. On March 25, 2008, the Commission authorized a General Lease - Right-of-Way Use to the Lessee ([Item 68, March 25, 2008](#)) for the continued use, operation, and maintenance of the existing facilities in San Pedro Bay, Orange County. A portion of pipeline is located on sovereign lands; however, a smaller portion of the pipeline is within the grant to the City of Long Beach. The subject lease premises extends from state/federal offshore boundary to the offshore boundary of the grant to the City of Long Beach. On August 20, 2010, the Commission authorized an assignment and amendment of lease ([Item 42, August 20, 2010](#)). The assignment was due to the bankruptcy of the Lessee's parent company, and the lease amendment increased the liability insurance requirement from \$10 million to \$50 million; and required that the Lessee maintain the 2006 Sinking Fund Trust Agreement for a portion of the decommissioning costs and activities for the full term of the lease. On February 22, 2013, the Commission authorized a revision of rent ([Item 79, February 22, 2013](#)) from \$190,440 to \$205,050, effective March 25, 2013. On August 23, 2019, the Commission authorized a revision of rent ([Item 58, August 23, 2019](#)) from \$205,050 to \$104,958, effective March 25, 2019; a revision of the bond from \$3 million to \$8.9 million; acceptance of a parent guaranty from Amplify Energy Operating, LLC; and authorization of the Executive Officer or designee to enter into an agreement ensuring the Lessor's right to access the sinking fund account established to perform Lessee's abandonment obligations in the event that the other parties in the agreement are unable to fulfill their obligations under the Lease, effective August 23, 2019, respectively. The sinking fund has a current balance of \$4.3 million.

3. In October 2021, the pipeline experienced a leak with approximately 25,000 gallons of oil spilled into the ocean. The spill led to the closure of beaches and harbors from Huntington Beach to Dana Point for a week and a half as extensive cleanup efforts were undertaken. Furthermore, a two-month fishing ban encompassed 650 square miles of marine water and approximately 45 miles of shoreline, including all bays and harbors from Seal Beach to San Onofre State Beach.

Amplify Energy is the owner of the Elly platform, with subsidiary Beta Operating Co. operating the same platform and San Pedro Bay Pipeline Co. managing the pipeline. San Pedro Bay Pipeline Co. holds the lease for the pipeline within State waters. In 2022, Amplify Energy and its subsidiaries, Beta Operating Co. and San Pedro Bay Pipeline Co., reached a plea agreement related to federal environmental charges as part of the agreement, Amplify Energy, Beta Operating Co. and San Pedro Bay Pipeline Co., will be subject to stricter regulatory oversight. Shortly after, Amplify Energy and its subsidiaries pleaded no contest and agreed to pay \$4.9 million in fines to resolve the complaint filed by state prosecutors. The pipeline resumed operation in April 2023.

A Natural Resource Damage Assessment (NRDA) is being conducted by the Natural Resource Trustees including, the California State Lands Commission, California Department of Fish and Wildlife, California Department of Parks and Recreation, the National Oceanic and Atmospheric Administration, and the Department of Interior through the U.S. Fish and Wildlife Service, National Park Service, and Bureau of Land Management. The Trustees are continuing to conduct assessment activities in the Technical Working Groups, assessing injuries to marine mammals, marsh, fish, rocky intertidal, sandy beach, birds, and human use. The Trustees have also been focusing on identifying feasible restoration options and conducting restoration scaling on those project types in order to meaningfully engage with the Responsible Party, Amplify Energy Corporation. The Trustees and Responsible Party have participated in four formal settlement negotiation meetings. Assessment work and settlement discussions are expected to continue throughout 2024.

4. Lessee has reported pipeline inspections were completed in 2022 and 2023 consisting of hydrotest after pipeline repair, ROV external video and cathodic potential survey, and smart pig of the pipeline. Lessee is in the process of submitting the results of the inspections to staff as required by the lease.

5. On December 5, 2023, the Commission authorized staff to develop an Analysis of Public Trust Resources and Values (APTR) to evaluate the long-term risks and impacts to the Public Trust of 12 offshore oil and gas pipeline leases under the Commission's leasing jurisdiction with a target completion date of the end of 2026 ([Item 59, December 5, 2023](#)). The subject lease is one of those 12 pipelines. As part of this action, the Commission also authorized a moratorium on acceptance and consideration of new applications for these 12 offshore oil and gas pipeline leases until after the ATPR is completed and its results considered by the Commission. This moratorium applies to applications for a new lease, but does not include other actions on the leases such as rent reviews, which is the subject of this action.
6. Under the terms of the current lease, the lessee holds a surety bond in the amount of \$8,900,000 and a parent guaranty for all of lessee's obligations under the lease. The bond amount is subject to increases over the lease term and serves the purpose of being able to mitigate costs that might otherwise be shouldered by the state, including where the state must take restorative actions with the leased premises upon lease termination or lease premises abandonment. A bond adjustment is currently appropriate with an increase in rent and to keep it consistent with estimated removal costs for similar facilities. Staff recommends increasing the bond from \$8,900,000 to \$11,000,000. The lease will expire on March 24, 2028.
7. This action is consistent with addressing the challenges and opportunities described in the Commission's 2021-25 Strategic Plan.
8. Approving the revision of rent and surety bond is not a project as defined by the California Environmental Quality Act because it is an administrative action that will not result in direct or indirect physical changes in the environment.

Authority: Public Resources Code section 21065 and California Code of Regulations, title 14, section 15378, subdivision (b)(5).

## **RECOMMENDED ACTION:**

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It is recommended that the Commission:

**AUTHORIZATION:**

Approve the revision of rent for Lease PRC 5636 in the amount of \$104,958 to \$140,350 and an increase in the surety bond from \$8,900,000 to \$11,000,000, effective March 25, 2024.