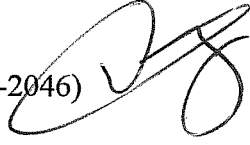


#7

**COUNTY OF SANTA BARBARA
PLANNING AND DEVELOPMENT**

MEMORANDUM

TO: Board of Supervisors

FROM: Doug Anthony, Deputy Director (568-2046) 

DATE: September 5, 2008

RE: Tranquillon Ridge Appeals; Condition Q-9

Following the Board's continuance of the PXP Tranquillon Ridge appeals hearing on August 19, staff and PXP discussed revisions to PXP's Final Development Plan Condition Q-9 regarding identification of the rate PXP would charge for other users of the Lompoc Oil and Gas Plant gas processing facilities. Mr. Ken Hunter of Vaquero Energy (an Appellant) requested that PXP identify the rate it would charge for use of the gas processing facilities at the LOGP prior to initiation of the Vaquero Energy permitting process so that Vaquero Energy could factor this into its decision whether or not to proceed with its project. PXP's Condition Q-9, as currently written, provides the County with the authority to request that rate from PXP, and this request was recently made of PXP (see P&D letter to PXP, attached). However, to provide additional clarity in Condition Q-9 regarding the rate, and a timeline to ensure prompt response, staff recommends that the Board adopt the following revisions in the last paragraph of PXP's Condition Q-9:

Q-9 Consolidation of Oil and Gas Facilities

...

Prior to the issuance of the Land Use Permit for the HS&PLompoc Oil and Gas Plant and at any time thereafter, as requested by the County, PXP shall submit to the Director of Planning and Development terms under which other producers in the area would be permitted to enter and use either the facilities or property for oil and/or gas processing or storage facilities, or ancillary facilities including but not limited to electrical substations, water treatment facilities, and wastewater loading facilities. Such terms shall include PXP's proposed rate to be charged for access and shall include any costs, assumptions and methodology used to calculate the proposed rate. PXP shall submit these terms within 30 days of a request by the Director, who may grant reasonable extensions for good cause. **If these terms are determined by the Director to be unreasonable, unacceptable to potential users of the facility and if agreement cannot be reached,** the County reserves the right to impose additional conditions as described

above to amend the permit. The intent of this condition is to ensure the efficient and maximum multi-company use of oil and gas transportation and processing facilities.

The full text of Condition Q-9 as it would read if this revision is approved is attached for your reference.

Attachment A – Revisions to Condition Q-9

Attachment B – P&D August 27, 2008 Letter to PXP

Revisions to PXP Condition Q-9**Q-9 CONSOLIDATION OF OIL AND GAS FACILITIES**

PXP shall operate its facilities as consolidated oil and gas facilities, including gas reinjection facilities, with access for use available on a nondiscriminatory and equitable basis. County retains the right to verify that the use of the facility is conforming with State and County policies on consolidation and to impose additional permit conditions where necessary to assure these policies are being fulfilled to the extent feasible. The intent of this condition is to ensure the multi-company use of oil and gas transportation and processing facilities.

Regarding the consolidation of oil and gas processing, and gas reinjection facilities, in the event that the need for such facilities is demonstrated by other developers to the Planning Commission, PXP shall make available to such other developers any excess capacity of the PXP project facilities. In the event that sufficient excess capacity does not exist within the PXP project facilities to serve the needs of such other developers as demonstrated to the Planning Commission, PXP shall make its Lompoc ~~Heating, Separating, and Pumping Facility~~ Oil and Gas Plant property available to other developers for the construction of additional permitted oil and gas-related facilities. In the event that such necessary facilities are not permissible pursuant to the County's consolidation policies, PXP shall reduce its throughput on a pro-rata basis to accommodate such other developers.

Prior to the issuance of the Land Use Permit for the ~~HS&P~~ Lompoc Oil and Gas Plant and at any time thereafter, as requested by the County, PXP shall submit to the Director of Planning and Development terms under which other producers in the area would be permitted to enter and use either the facilities or property for oil and/or gas processing or storage facilities, or ancillary facilities including but not limited to electrical substations, water treatment facilities, and wastewater loading facilities. Such terms shall include PXP's proposed rate to be charged for access and shall include any costs, assumptions and methodology used to calculate the proposed rate. PXP shall submit these terms within 30 days of a request by the Director, who may grant reasonable extensions for good cause. If these terms are determined by the Director to be unreasonable, ~~unacceptable to potential users of the facility and if agreement cannot be reached,~~ the County reserves the right to impose additional conditions as described above to amend the permit. The intent of this condition is to ensure the efficient and maximum multi-company use of oil and gas transportation and processing facilities.

County of Santa Barbara Planning and Development

John Baker, Director

Dianne Black, Director Development Services

John McInnes, Director Long Range Planning



August 27, 2008

Steven P. Rusch
Plains Exploration and Production Company
5640 S. Fairfax Avenue
Los Angeles, CA 90056

Re: **Rate Factors for Access to Gas Processing at LOGP**

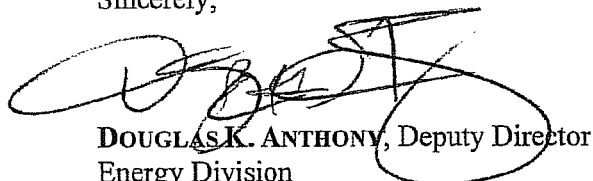
Dear Steve:

We request that PXP provide to P&D the cost-of-service rate PXP would charge Vaquero Energy for access to gas processing at the Lompoc Oil and Gas Plant (LOGP), using the wet-gas specifications Vaquero Energy has provided to PXP. Please include the formula used to calculate this rate and other supporting calculations, assumptions, and information sufficient for the County to conduct a thorough, independent review. The rate should be expressed in dollars per unit of gas (e.g., \$/1000 mcf) and should be established consistent with the Federal Energy Regulatory Commission's Cost-of-Service Rates Manual (copy previously provided to David Rose via e-mail and available at <http://www.ferc.gov/industries/gas/gen-info/cost-of-service-manual.doc>).

The formula should specifically identify each factor included and be clearly defined and well-documented. This formula should result in a rate that is sufficient to recover cost of service, plus a reasonable rate of return, for access to gas processing at the LOGP and should be modeled after the formula presented on page 6 of the FERC manual.

This request is made pursuant to Condition Q-9 of the Point Pedernales Final Development Plan and is in addition to the general terms of consolidation PXP submitted previously to the Energy Division. Your prompt attention to this request is appreciated. If you have any questions, please contact me or Kevin Drude at the Energy Division.

Sincerely,



DOUGLAS K. ANTHONY, Deputy Director
Energy Division
Planning and Development Department

cc: David Rose, PXP, 201 South Broadway, Orcutt, CA 93455

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Building & Safety
Energy, Administration
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FAX: (805) 568-2030

Long Range Planning
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Phone: (805) 568-3380
FAX: (805) 568-2076

Building & Safety
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Buellton, CA 93427
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FAX: (805) 686-5028

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FAX: (805) 934-6250