

SANTA BARBARA COUNTY BOARD AGENDA LETTER



Clerk of the Board of Supervisors
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Agenda Number:
Prepared on: 8/15/03
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If Yes, date from:

TO: Board of Supervisors

FROM: Valentin Alexeeff, Director
Planning and Development Department

STAFF CONTACT: Steve Chase, Deputy Director
Energy Division (568-2520)

SUBJECT: Offshore Platform Inspection Programs

Recommendation(s): That the Board of Supervisors: Receive and file this informational document, receive a presentation from the Energy Division and U.S. Minerals Management Service on the offshore platform inspection programs, and receive public comments accordingly.

Alignment with Board Strategic Plan: The recommendation aligns with Goal No. 2. A Safe and Healthy Community In Which to Live, Work and Visit.

Executive Summary and Discussion: The Board of Supervisors set a hearing for August 26 to receive a report from the Energy Division on reductions in offshore platform inspections by the U.S. Minerals Management Service. This staff report is in fulfillment of that directive.

Introductory Remarks

The Energy Division is constantly engaged in discussions with public agencies that have regulatory authority over offshore oil and gas activities, including the U.S. Minerals Management Service, U. S. Environmental Protection Agency, National Oceanographic and Atmospheric Administration, State Lands Commission, California Coastal Commission, California Division of Oil, Gas and Geothermal Resources, and Santa Barbara County Air Pollution Control District. Over the last couple of years, staff has actively queried our colleagues in these agencies on the question of how they are addressing the large downturn in offshore leasing and development activities. What steps are being taken to shift the regulatory programs from an emphasis on a *leasing and development phase* by multi-national, well integrated oil giants to a *processing phase* by younger, smaller independent companies with limited financial capacity? What steps are being taken to address safety/risk factors and environmental protection relative to ageing infrastructure? What steps are being taken to prepare for the eventual decommissioning and abandonment of facilities, the quitclaiming of leases, and the decline and loss of lease revenues and mineral royalties?

This report focuses on one of the more crucial aspects of that dialogue: workforce reductions in public agencies that regulate offshore oil and gas activities and the effects of such on inspections and compliance monitoring. In particular, this report focuses on a performance based platform inspection program currently employed by the U.S. Minerals Management Service (MMS) in federal waters of the Pacific Outer Continental Shelf (Pacific OCS Region). This report examines the net change in structure, frequency and comprehensiveness of the MMS platform inspection program. This report also looks at inspection programs of other agencies. Lastly, this report addresses variable factors that can make or break the effectiveness of any inspection program and affect the public's confidence in our respective roles and functions.

In the preparation of this report, staff met with MMS managers on five occasions to exchange information and perspectives on inspection frequency, staffing, responsiveness to incidents, enforcement power, as well as field protocols and checklists. Staff also invited the MMS to submit a working paper and present PowerPoint slides at the Board of Supervisors hearing on August 26. Mr. Rishi Tyagi, Chief of Office of District Operations for Pacific OCS Region, will make that presentation.

Clarifying Statement

Attention is herein drawn to changes that have been made to the MMS platform inspection program. However, it needs to be said that those changes are but a part of a larger, universal change that is occurring in the players, issues and regulation throughout the Pacific OCS Region and State Tidelands. In no way should this report be taken as a definitive examination of another public agency. This report intends to raise public awareness and move the ongoing dialogue between agencies into the public domain.

Downturn in Offshore Activities

Workforce reductions and reorganizations have been felt across all of the local energy companies, supply firms, consulting firms and public agencies. It is a direct result of a decline in development interest, activity and production throughout the Pacific OCS Region. The causative factors are varied and subject to debate amongst industry, public agencies and interest groups, but the bottom-line is that local drilling activity has been nominal and local production is down sixty percent off its peak in 1995.

Initial signs indicate that large market forces have shifted away from the area, creating a hanging-on effect and a period of uncertainty. The low price of oil does little to engender market investment in new infrastructure to develop untouched reserves. Moreover, the federal government and industry are reportedly engaged in negotiations for a buy-back of some or all of 36 undeveloped leases that were subject to landmark litigation under *California v Norton*, of which the County was a successful co-plaintiff.

The oil industry is undergoing significant change through consolidations, reorganizations, relocations and downsizing. There are fewer large, multi-national companies and their holdings and operations are less integrated. Locally, we have seen a change in owners and operators from Chevron, Texaco, Shell, ARCO, Phillips, Conoco and Union to young, independent firms such as Nuevo, Arguello, Venoco, Pacific Operators Offshore and Greka. The independent firms have far less financial capacity and operate at less cost. Those factors have a bearing on their responsiveness to compliance monitoring and enforcement measures.

As such, drilling activity in federal waters has been largely relegated to well work-over projects and reservoir delineation wells. The focus of activity has shifted to processing, shipment and marketing of what's left. One exception is ExxonMobil's continued development of the Santa Ynez Unit off of Refugio and Gaviota. The Secate Project recently set world records for the length of extended reach drilling, as commercial yields were tapped in several locations. Only one other federal project is under active consideration at this time: extended reach drilling into the eastern half of Lease 451 off of Point Arguello.

Much the same holds true for declining drilling and production activity in local, near shore waters of the State Tidelands. All six platforms that were decommissioned and removed from local waters, once produced from the State Tidelands. Furthermore, the California Sanctuary Act precludes new leasing within the tidelands, with a few limited exceptions.

In recent years, several quitclaims were filed with the State Lands Commission for tidelands leases whose underlying reservoir had reached full maturity and declined. The State Lands Commission is now receiving quitclaims for local undeveloped leases. Over the next year or so, a few development proposals in the local tidelands may emerge. Those projects will be fraught with planning challenges, compatibility issues and tremendous public controversy, given their urban settings.

Structural Realignment of Public Agencies

The MMS has undergone a major reorganization and downsizing of operations within the Pacific OCS Region. Exhibit 1 provides a chart and brief description of the organizational structure of the region, effective May 2003. The structure includes two District Offices: Santa Maria (representing operations west of Point Conception) and Camarillo (representing operations east of Point Conception). The platform inspection program is a core function of the district offices. Under the new alignment, the role and work of the District Offices are provided equal stature to geology, safety and environmental functions. The intent is to elevate compliance monitoring and provide it with priority attention throughout the agency. The intent is also to improve communication between the District Offices and other offices at the regional headquarters.

The Santa Maria District Office is staffed with a District Supervisor, Drilling Engineer, Production Engineer, Inspector and clerical support. This office has one less inspector than this time last year. The Camarillo District Office is staffed with a District Supervisor, Engineer, Engineer Inspector, three inspectors and clerical support.

Collectively, the number of inspectors in the Pacific OCS Region has been reduced from eight to five. The MMS has also reduced its flight operations to one 8-seat helicopter, hangared at Camarillo Airport. The lease on a smaller helicopter at Santa Maria Airport has been allowed to expire.

The State Lands Commission and California Division of Oil, Gas and Geothermal Resources have also made staffing cutbacks, largely by not backfilling vacancies. The California Coastal Commission energy branch has not backfilled its vacancies, while also taking on offshore telecommunication projects. The County Energy Division has done likewise. Staffing has been reduced from 21 to 15 positions over the past 2.5 years, following an enterprise budget model that shrinks or swells commensurate with workload. We too have taken on the permitting of telecommunication projects and other collateral assignments from overflow demands on the department. The Energy Division has also undergone a realignment of structure, from five to four teams (administration, policy and two project teams).

Inspection Programs

Exhibit 2 is a working paper prepared by the MMS for inclusion in this report. The paper describes the reorganization and workforce reductions at play, as well as the effects of such on the type, frequency and comprehensiveness of their platform inspection program. The entire paper is recommended reading, particularly Attachment 1, Summary of Pacific OCS Region Inspection Program.

MMS has reduced the frequency of meter proving/site security inspections (which involve revenue management rather than safety at onshore sites). MMS has also reduced the frequency of Partial Facility Inspections from monthly to quarterly, where there is a track record of good operational performance. What remains unchanged or enhanced are the frequency of Focused Facility Inspections, Annual Production Inspections, Drilling and Workover Inspections, U.S. Coast Guard Inspections, U.S. EPA Inspections, Oil Spill Drills and records review of operator drills. MMS conducts a mix of announced and unannounced inspections, as well as a mix of comprehensive and discreet item inspections. Several inspection types are designed to overlap and provide redundant compliance monitoring, particularly the quarterly, unannounced Partial Facility Inspections. The intent is to inspect critical items at least five times per year (annual plus four partials) and more frequently as determined by operator performance. Lastly, all safety devices are tested at least annually, rather than spot checked or random sampled as elsewhere.

MMS provides a rationale that, taken as a whole, their current platform inspection program provides a superior, comprehensive level of compliance monitoring. While the number of inspectors, as a job classification, has been reduced from eight to five since FY2001-02, three district engineers and one environmental scientist are now routinely involved in inspections, plan checking and safety system reviews. Inspectors and engineers are also required to conduct compliance monitoring on all platforms across the Pacific OCS Region, not just those in their respective district. This arrangement is intended to enhance the quality of the inspections, promote uniformity, and provide greater flexibility for deployment of inspectors and engineers to where they are needed the most at any time.

By comparison, a State Lands Commission inspector is onboard Platform Holly at least weekly, announced or unannounced. Drilling and well workover require more frequent inspection, as dictated by the drilling plan and downhole conditions. A five-year comprehensive audit is conducted of the entire platform, safety systems, and operator responsiveness and training program. Annual structural reviews and pipeline integrity tests are also conducted. The State Lands Commission also participates in the meetings of the County Systems Safety and Reliability Review Committee and the onshore and near shore facility audits conducted under those auspices.

Also by comparison, the County Systems Safety and Reliability and Review Committee (SSRRC) conducts a comprehensive annual audit of all onshore and near shore energy facilities under its purview. SSRRC conducts more frequent inspections as warranted by operator performance. SSRRC also conducts announced and unannounced operator drills at onshore facilities and the members also participate in the planning, conduct and debriefing of drills coordinated by the MMS and State Lands Commission. One such drill was conducted on July 8 from Platform Harmony and ExxonMobil's Las Flores Canyon operating room. The drill was coordinated by the MMS and members of the SSRRC participated or observed from both the platform and operating room.

Historic Understanding

Local offshore oil and gas exploration and development dates back to the late 1800's. Oil piers were erected from beaches and headlands at Summerland and Ellwood. Formal leasing began in 1929 by the State. Over time, thirty five parcels were leased in the State Tidelands between Carpinteria and Point Conception. Twenty of those leases have since been quitclaimed, three are pending quitclaim, and two are awaiting resolution of shell mounds left in-place after removal of platforms. Today, only two local State Tidelands leases are under production (Venoco's Platform Holly at Ellwood).

The U.S. Department of the Interior leased 371 tracts in federal waters offshore California, between the mid 1960's and 1980's. The majority of those tracts were located offshore Santa Barbara County. Over time, 176 of those leases were relinquished. An additional 116 leases expired or were terminated. None of those leases ever produced oil or gas. Today, the remaining leases include: four off of Orange County; 11 off of Ventura County; 62 off of Santa Barbara County; and 2 off of San Luis Obispo County. Only 30 of the 79 remaining leases are actively producing.

The result of those leasing activities was the installation of seven drilling and production platforms in the State Tidelands, from Carpinteria to Point Conception, between 1956 and 1966. All but one of those platforms has been decommissioned and removed. Another fifteen platforms were installed in federal waters along the south coast, Gaviota and off of Vandenberg Air Force Base between 1967 and 1986. That leaves a balance of sixteen platforms that are currently located off of the county coastline.

The 1969 oil spill off of Santa Barbara considerably changed the tenor and process by which offshore oil and gas leasing and development is examined, permitted and operated. Environmental laws enacted during the 1970's and 1980's brought about extensive requirements to eliminate, or significantly reduce, adverse effects on the environment. Those laws also required the state and federal government to engage local authorities and the public in all aspects of offshore policy, planning and permitting.

In the mid 1980's, a set of principles came forward that provided a middle ground that the Board of Supervisors could live with, that federal and state agencies could abide by, and that the industry could agree to. These are the principles upon which several of our nation's largest offshore projects were ultimately approved and built, including the Santa Ynez Unit, Point Arguello Unit and Point Pedernales Unit:

- Mitigation to the maximum extent feasible;
- Heightened review and monitoring of safety/risk factors (SSRRC and SIMQAP);
- Heightened review, protection and monitoring of environmental factors (EQAP);
- Permit re-openers for condition effectiveness (Condition B-2) and declining operations (Condition R-1);
- Offsets that provide benefits (CREF, FEF and air emission banking); and
- Moderate production curves rather than a boom-bust cycle or expansive life-cycle.

Upholding these principles has been a mainstay of the County and one of the underlying purposes for having an Energy Division. But that is only a piece of the puzzle, for the County is also reliant upon other public agencies to apply the principles as well, on a consistent and ongoing basis. The County maintains a vigilant watch over federal and state legislative bills, rule-making proposals, budget appropriations, environmental documents and public hearing agendas of those agencies. The County has exerted political, legal and legislative pressure, when necessary.

There are many variable factors that can obstruct the fulfillment of these principles and, when that happens, staff brings these matters to the Board for direction or decision. Some of them pertain to challenges to the County's powers and authorities and the enforceability of permit conditions (e.g. federal preemption on pipeline safety matters). Others pertain to competing and conflicting missions and regulations between public agencies (e.g. a proposed softening of provisions of the Coastal Zone Management Act). Still others pertain to reorganization of services and workforce reductions.

In closing, it is of priority interest to local residents and businesses that the enforceability of permit conditions and compliance monitoring are receiving attention, funding and staffing within all public agencies that serve as stewards of our coastal resources. Changes in any of these factors are treated with utmost sensitivity, which gives rise to this report and the public hearing on August 26.

Mandates and Service Levels: None

Fiscal and Facilities Impacts: Expenses incurred in analyzing and preparing this report are budgeted in Fund 0001, Program 5000, General Administration as shown on page 296 of the FY2003-04 Budget.

Special Instructions: None

Concurrence: N/A

Exhibits:

1. Organizational Structure of MMS Pacific OCS Region
2. MMS Working Paper on Platform Inspection Program

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