

CALIFORNIA COASTAL COMMISSION

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February 22, 2013

TO: Commissioners and Interested Parties

FROM: Charles Lester, Executive Director
Alison Dettmer, Deputy Director

RE: Proposal by Plains Exploration and Production Company (“PXP”) to Drill and Develop Electra Field from Platform Hidalgo

Attached for your consideration is a draft letter addressed to PXP and the federal Department of the Interior’s Bureau of Ocean and Energy Management (“BOEM”) concluding that a revision to the Development and Production Plan (“DPP”) for Platform Hidalgo proposed by PXP, the operator of Hidalgo, to drill two oil and gas wells into an oil field called the “Electra Field,” located in the western half of federal OCS lease OCS-P 0450, will not cause effects on coastal resources and uses substantially different than those understood when the Coastal Commission concurred in a consistency certification for the original Hidalgo DPP to produce oil and gas from the Point Arguello Field. Therefore, it is the Commission staff’s position that no federal consistency review is needed for this proposed DPP revision. The basis of the Commission’s staff determination is attached to the letter.

Because this is an offshore oil and gas drilling proposal, which typically attracts significant public interest, staff scheduled this matter for public comment and Commission input prior to finalizing its determination.

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March __, 2013

Joan Barminski
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Pacific OCS Region
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David Rose
Manager, Environmental Health & Safety
Plains Exploration and Production Company
201 S Broadway Street
Orcutt, California 93455

RE: Proposed Revisions to Platform Hidalgo DPP to Develop Western Half NW/4 of Lease OCS-P 0450

Dear Ms. Barminski and Mr. Rose:

On November 19, 2012, the Bureau of Ocean Energy Management (“BOEM”) submitted to the Coastal Commission Plains Exploration and Production Company’s (“PXP”) proposed revisions to the Platform Hidalgo Development and Production Plan (“DPP”) to drill two wells from Platform Hidalgo to produce oil and gas from the Electra Field, a previously undeveloped field located in the western half of the northwestern quarter of Federal Lease OCS-P 0450, and an accompanying consistency certification to meet the requirements of 15 CFR § 930.76(d).

PXP currently produces oil and gas from the Point Arguello Field using three platforms: Hermosa, Harvest and Hidalgo. Its proposal to drill and produce oil and gas from the Electra Field (located approximately three miles west of the Point Arguello Field) would be accomplished by drilling two extended-reach wells from Hidalgo using existing well slots, pipelines, and facilities. The only new equipment that may be needed is the addition of a crude stabilizer on the platform. PXP estimates that drilling and production of the Electra Field would be completed within six years and within the remaining productive life of the Point Arguello Field (currently estimated by BOEM to be until 2022).

Electra Field oil and gas would be comingled with Point Arguello Field oil and gas. Oil is processed on the platform (i.e., dehydrated and stripped of light hydrocarbons and hydrogen sulfide gas out of the production stream) and then transported to the onshore Gaviota facility via

an existing oil pipeline. At Gaviota, the oil is metered and heated, stored temporarily in storage tanks, and then transported via the All American Pipeline to various refinery destinations. Electra Field gas would be combined with Point Arguello Field gas and then sweetened for platform use or sale to shore via an existing gas pipeline.

In 1984, under the federal consistency review requirements of the Coastal Zone Management Act (“CZMA”) (15 CFR Part 930), the Coastal Commission concurred in consistency certification CC-24-84 for Platform Hidalgo. The approved Hidalgo DPP provided for a 56-slot platform producing up to 20,000 barrels per day (“BPD”) of oil and 10 million cubic feet per day (“MCFD”) of gas from the Point Arguello Field. Production was expected to last 30-35 years (until 2021 -2026). At its peak production, only 27 of the available well slots were used producing on average 12,784 BPD of oil and 7,023 MCFD of gas. Hidalgo’s current daily production average is significantly lower, about 1,200 BPD of oil and 1,200 MCFD of gas. PXP expects peak Electra Field production to be 6,400 BPD of oil and 2,500 MCFD of gas. Combining Point Arguello and Electra Field production thus would not result in an expansion of operations or production volumes greater than what the Coastal Commission originally considered when it concurred in the consistency certification for the Platform Hidalgo DPP.

The BOEM has determined that PXP’s Electra Field project is a new activity that was not previously identified and evaluated in the existing approved Point Arguello Unit DPP for Platform Hidalgo and therefore the proposed DPP revision is subject to all the procedures of 30 CFR 250.266 through 250.273, including the potential for federal consistency review by the Coastal Commission under the CZMA. The DPP revision constitutes a “major amendment” of a federal permit activity as that term is defined in Section 930.51(c) of the CZMA regulations. A “major amendment” is “...any subsequent federal approval that the applicant is required to obtain for modification to the previously reviewed activity...” However, Section 930.51(c) of the regulations also provides that no further federal consistency review is required if the activity will not “affect any coastal use or resource in a way that is substantially different than the description or understanding of effects at the time of the original activity.”

After careful review, the Commission staff has determined that the proposed DPP revision will not cause effects on California’s coastal uses and resources substantially different than those originally considered by the Commission when it concurred in the original Hidalgo DPP. Thus, the proposed revision will not require federal consistency review by the Coastal Commission. A discussion of the basis for the Commission staff’s determination is provided in Attachment A to this letter.

If you have any questions, please call me at 415/904-5201 or Alison Dettmer, Deputy Director, at 415/904-5205.

Sincerely,

CHARLES LESTER
Executive Director

ATTACHMENT A

Determination that PXP's Proposal to Develop the Electra Field Will Not Cause Effects on Coastal Resources and Uses Substantially Different than Those Originally Reviewed by the Coastal Commission

On November 19, 2012, the Bureau of Ocean Energy Management (“BOEM”) submitted to the Coastal Commission PXP’s proposed revisions to the Platform Hidalgo Development and Production Plan (“DPP”) to drill two extended-reach wells from an existing oil and gas platform called “Hidalgo” to produce oil and gas from the western half of OCS-P 0450 (called the Electra Field), and an accompanying consistency certification to meet the requirements of 15 CFR § 930.76(d).

Platform Hidalgo is one of three oil and gas production platforms located in federal waters northwest of Point Conception offshore of Santa Barbara County that comprise the Point Arguello Unit and produce oil and gas from the Point Arguello Field underlying Federal Leases OCS-P 0315, OCS-P 0316, OCS-P 0450 and OCS-P 0451. Under the federal consistency requirements of the Coastal Zone Management Act (“CZMA”) (15 CFR Part 930), the Commission previously concurred in consistency certifications CC-12-83, CC-27-83, and CC-24-84 for Platforms Hermosa, Harvest, and Hidalgo, respectively.

A 1984 Environmental Impact Report/Environmental Impact Statement (“EIR/EIS”) for the development of the Point Arguello Field anticipated the drilling of a total of 154 wells (using the three platforms) and a peak production of 120,000 barrels per day (“BPD”) of oil. Of that total, Chevron (the lessee/operator at that time) expected Platform Hidalgo to produce at its peak 20,000 BPD. Actual peak production of the Point Arguello Field reached only 80,000 BPD of oil using 54 wells (and of this total Hidalgo produced 12,784 BPD of oil at its peak). Current Hidalgo oil production is 1,200 BPD.

For the proposed project, PXP proposes to drill two wells into the Electra Field (located about three miles west of the Point Arguello Field) using existing well slots. The only new equipment that may be required is the possible addition of a crude stabilizer on Platform Hidalgo.¹ PXP estimates peak Electra Field oil production to be 6,400 BPD. Oil production from the Electra Field will be combined with Point Arguello Unit oil and transported to Gaviota in the existing PAPCO oil pipeline. From Gaviota, the combined oil production will be transported to refineries in the existing All American Pipeline. Gas from the western half of OCS-P 0450 will be combined with Point Arguello

¹ In 1998, the MMS (now BSEE/BOEM), County of Santa Barbara, and Coastal Commission separately approved requests by Chevron, the original operator of the Point Arguello Unit, to “reconfigure” the Point Arguello Project to process (dehydrate and stabilize) all oil offshore on Platforms Harvest and Hermosa instead of at the onshore Gaviota Facility.

gas on the production platforms. The combined gas will be processed for platform use or sale to shore via the existing PANGL pipeline. Excess gas will be re-injected into the production reservoir for later recovery.

PXP estimates that drilling and producing the Electra Field will take six years and occur within the timeframe of the existing Point Arguello Unit facilities as foreseen and evaluated in the 1984 EIR/EIS and approved DPP. The EIR/EIS and DPP estimated that producing the Point Arguello Field would last 30-35 years (until 2021-2026). BOEM currently estimates that producing the Point Arguello Field will likely become “uneconomic” in 2022. Drilling and production of the Electra Field therefore is to be completed within the anticipated productive life of the Point Arguello Field.

Coastal Commission’s Review of an Amended DPP

BOEM has determined that PXP’s Electra Field project is a new activity that was not previously identified and evaluated in the existing approved Point Arguello Unit DPP for Platform Hidalgo and therefore the proposed DPP revision is subject to all the procedures of 30 CFR 250.266 through 250.273, including the potential for federal consistency review by the Coastal Commission under the CZMA. Accordingly, the DPP revision constitutes a “major amendment” of a federal permit activity as that term is defined in Section 930.51(c) of the CZMA regulations. A “major amendment” is “...any subsequent federal approval that the applicant is required to obtain for modification to the previously reviewed activity...” However, Section 930.51(c) of the regulations also provides that no further federal consistency review is required if the activity will not “affect any coastal use or resource in a way that is substantially different than the description or understanding of effects at the time of the original activity.”

After careful review, the Commission staff has determined that the proposed DPP revision will not cause effects on California’s coastal uses and resources substantially different than those originally considered by the Commission when it concurred in the original Hidalgo DPP. Thus, the proposed revisions will not require federal consistency review by the Coastal Commission. A discussion of the basis for the Commission staff’s determination is provided below. Since there is no new onshore or offshore infrastructure needed for this project (the existing platform, pipelines and onshore facilities will be used), the Commission staff focused on the key Coastal Act issues of concern for a proposed change in platform drilling and production operations: (1) marine resource and water quality; (2) oil spills; and (3) air quality.

Coastal Act Issues

Marine Resources and Water Quality

Developing the Electra Field could affect marine resources (e.g., fish, marine mammals and hard substrate) and water quality due to discharges of muds, cuttings and produced water.

Produced Water

Development of the Electra Field will result in an estimated 4% increase over the volume of existing produced water discharges. Produced water refers to the total water discharged from the oil and gas extraction process. It is the largest single source of material discharged during oil and gas operations. Typically, produced water consists of formation water, injection water, and chemicals used in the oil and water separation process. Constituents found in produced water are iron, calcium, magnesium, sodium, bicarbonate, sulfates, and chloride. Produced water can also contain entrained petroleum hydrocarbons and trace metal concentrations. Relative to ambient water, produced water contained increased organic salts and trace metals, decreased dissolved oxygen and is higher in temperature. These properties could adversely affect the marine environment by increasing the concentration of suspended solids/turbidity, oxygen demand, oil, grease, and trace metals at the discharge point.

In 1984, the year the Coastal Commission concurred in the consistency certification for the Platform Hidalgo DPP, the Coastal Commission concurred in a separate consistency certification submitted by the federal Environmental Protection Agency (“EPA”) for a National Pollutant Discharge Elimination System (“NPDES”) General Permit CA0110516 for platform discharges, which also covered the three Point Arguello platforms. That NPDES General Permit had no limit on the amount of produced water that could be discharged from Platform Hidalgo. Subsequently, EPA revised and renewed the NPDES General Permit for platform discharges. In 2001, the Coastal Commission concurred in a consistency certification (CC-126-00) for NPDES General Permit CAG280000. This NPDES General Permit for oil and gas platform discharges, which is currently in effect, allows for the discharge from Platform Hidalgo of about 50,000 barrels per day (“BPD”) of produced water. All produced water is sent first to water treatment facilities located on the platform. Treatment consists of a skim tank for removal of oil and suspended solids by gravity separation. The water is then passed through a flotation cell to remove suspended oil. The water can then be discharged to the ocean if it meets the NPDES General Permit’s discharge limitations and other requirements.

Current Platform Hidalgo operations result in 7,000-12,000 BPD of produced water. PXP estimates that producing the Electra Field will result in a 4% increase in produced water (for a total of 7,280-12,480 BPD). Therefore, the volume of produced water generated by producing the Electra Field, in combination with Point Arguello Field production, is within the discharge volume considered by the Coastal Commission when it concurred in the consistency certification for NPDES General Permit CAG280000.

Muds & Cuttings

Drilling of the two new wells will be done with water-based muds only (no oil-based muds will be used). Drilling muds are used in exploratory and production drilling to control well hydrostatic pressure, lubricate the drill bit, and remove drill cuttings from the well. They are generally composed of mixtures of water, clay, barium sulfate, lignite, lignofulfonate, and other additives. Water-based muds, as compared to oil-based, are relatively non-toxic. The project will also result in the discharge of “cuttings.” Cuttings are small pieces of formation rock cut by the drill bit. They are carried to the surface of the well with circulation of the drilling muds and are separated from the muds on the platform. The principle impact of muds and cuttings discharges is the burial of benthic organisms in the immediate area of the discharge due to high solids content.

NPDES General Permit CAG280000 allows for the discharge from Platform Hidalgo of 23,000 BPD of drilling muds and 6,000 BPD of cuttings. For both wells, PXP anticipates generating a total of 27,611 BPD muds and 11,209 BPD cuttings. If the two wells are drilled within the same year, PXP would be precluded from discharging the entire volume of muds and cuttings by the current permit discharge volume limits. The EPA is in the process of revising and renewing the NPDES General Permit for oil and gas operators, which will require concurrence in a consistency certification by the Coastal Commission before the new NPDES General Permit can be issued. PXP has requested a revision to the annual permitted discharge limits for muds and cuttings so that PXP could drill the two wells in the same reporting year. If the proposed revision is not approved, PXP will drill one well in each of two successive reporting years so that it complies with the current discharge limits of its NPDES General Permit. Thus, the Coastal Commission will have the opportunity to review any revision of the NPDES General Permit that would increase the permitted discharge of muds and cuttings, or PXP will be required to comply with the existing limits, which the Coastal Commission has already reviewed.

Oil Spills

Developing the Electra Field will increase somewhat the risk of an offshore oil spill over current conditions due to drilling and producing two additional wells from Platform Hidalgo. However, because Point Arguello Field production has been significantly lower than originally expected, combined with significant improvements to oil spill equipment and response capabilities, the proposed project is well within the magnitude of oil spill risk and potential impacts previously considered by the Coastal Commission in 1984.

Current federal regulations governing oil spill response plans (“OSRPs”) for federal OCS facilities require operators to calculate worst-case discharge volumes using the criteria specified in 30 CFR §254.47. These include (1) the maximum capacity of all oil storage tanks and flow lines on the facility, (2) the volume of oil calculated to leak from a break in any pipelines connected to the facility, and (3) the daily production volume from an uncontrolled blowout of the highest capacity well associated with the facility. These are worst-case estimates, intended to insure that the operator has the capacity to respond to the largest spill as required by federal regulations in 30 CFR §254.26.

PXP estimates the Electra Field project to increase the worst-case pipeline oil spill volume by roughly 9 barrels as compared to existing operations. The current worst-case spill volume for the offshore pipeline is estimated to be 2,502 barrels of oil. Due to a marginal increase in flow rates, the proposed drilling of two new wells into the Electra Field would slightly increase the maximum oil spill volume from the offshore pipeline to 2,511 barrels. This worst-case pipeline spill volume is nevertheless less than the 7,600 barrels of oil calculated as the worst-case spill volume in the 1984 EIR/EIS for the Point Arguello Project, which the Commission relied upon when it concurred in the consistency certification for the Hidalgo DPP.

The proposed project's maximum worst-case spill risk is a well blowout. Should a well blowout occur, PXP has calculated the worst-case spill volume to be 1,190 BPD of oil, which could result in a total volume of 132,090 barrels of oil released over a period of 111 days, the time PXP estimates to mobilize a drilling rig and drill a relief well. The 1984 EIR/EIS for the Point Arguello Project did not calculate a "worst-case" blowout spill volume. Instead, it evaluated the probability of a range of blow-out events that ranged from a 10 barrel spill to more than a 10,000,000 barrel spill event. The Commission staff believes that the "worst case" spill scenario for the original 1984 Point Arguello Project would have been significantly greater than the proposed project since the number of wells expected to be drilled and the volume of oil to be produced back in 1984 were substantially higher. Therefore this DPP revision will not result in an increased spill risk as compared to what the Commission understood when it concurred in the original Hidalgo DPP.

The original DPP's for the Point Arguello platforms included oil spill prevention measures and an oil spill contingency/response plan. Critical to the Commission's decision to concur in the consistency certifications for the platforms was Chevron's (the original operator) commitment to adopt "maximum feasible mitigation measures" for responses to spills. These included: (1) specific onsite oil spill containment and cleanup equipment (open ocean boom, skimmers, sorbents, and deployment vessels); (2) procedures for responding to large spills; and (3) membership in the Clean Seas oil spill response organization.²

However, since the DPPs were approved many improvements have occurred in oil spill response resources and regulatory requirements. The federal Oil Pollution Act of 1990 (OPA 90) passed, and the MMS (now BSEE/BOEM) adopted new regulations governing oil spill response. Federal regulations at 30 CFR Part 254 require that each OCS facility have a comprehensive oil spill response plan ("OSRP"). Response plans include an emergency response action plan, and supporting information that includes an equipment inventory, contractual agreements with subcontractors and oil spill response cooperatives, a worst-case discharge scenario, and details on training and drills. Following the 2010 Deepwater Horizon well blowout and oil spill, BSEE required all of the OCS platforms to

² Since 1970, oil companies operating the Santa Barbara Channel and Santa Maria Basin have funded and operated an oil spill response organization called Clean Seas. Clean Seas provides an inventory of state-of-the-art oil spill response equipment and trained personnel. Clean Seas personnel and equipment are on standby, ready to respond to an oil spill, 24 hours a day, 365 days a year.

review their worst-case discharge well blowout scenarios. The new regulations and OSRP requirements are more comprehensive and robust as compared to what the Commission and other agencies required when approving the Point Arguello platforms in 1984. The Commission's Oil Spill Program staff now reviews each OSRP update (required every two years) to make sure that the capability of responding to a worst-case spill meets or exceeds what existed for PXP's facilities prior to the revision.

Also, since the original Hidalgo DPP was approved, Clean Seas, the company contracted to respond to oil spills associated with Hidalgo, has undergone some major operational changes and equipment reconfigurations, replacing their existing two OSRV's, the Mr. Clean III and the Clean Ocean, with four smaller, faster OSRV's (*Clean Seas LLC Proposed Oil Spill Response Vessel (OSRV) Plan & Concept of Vessel Operations, June 26, 2010*). The Commission's Oil Spill Program staff reviewed the proposed equipment changes and concluded these modifications improve oil spill response capability (NE-028-10). The Commission staff believes PXP's current spill response capabilities constitute best available technology.

For the reasons described above, the Commission staff believes PXP's proposed revision to the Hidalgo DPP will not affect any coastal use or resource in a way that is substantially different than the understanding of effects at the time of the original approval.

Air Quality

Drilling operations will result in an increase in criteria pollutant emissions³ as compared to current operations due to an increased load placed on offshore turbines due to the drill rig and mud handling equipment. The exact electrical load will not be known until a rig is chosen, however PXP states that all expected emissions are already permitted and offset per the rules and requirements of the Santa Barbara County Air Pollution Control District ("APCD"). Also, during drilling there will be an increase in supply boat trips from one per week to two per week. All boats are permitted with the APCD. Since the 1984 EIR/EIS for the Point Arguello project assumed 13 supply boat trips per week during drilling operations and 4.5 trips per week during production, the anticipated two trips per week is much less than what the Coastal Commission understood when it concurred in the consistency certification for Platform Hidalgo.

During the production phase, there also will be additional emissions as compared to existing operations due to fugitive emissions from the wellheads and possibly additional oil processing equipment on the platform. These emissions are also covered under PXP's current APCD permits. Since the combined expected production of the Electra

³ In 1984, the effects of greenhouse gas ("GHG") emissions were not well understood and not evaluated in the EIR/EIS for the original project or regulated by the APCD. This project would result in GHG emissions from the generator turbines, drill rig mud system, the supply vessel, and onshore transportation equipment. PXP estimates total GHG emissions from the project to be 9,186 tonnes per year (includes drilling and production phases). The APCD has set a temporary 10,000-tonne significance threshold for GHG emissions. If the project results in GHG emissions greater than 10,000 tonnes, PXP must reduce emissions to below the significance threshold or work with APCD to provide offsets of emissions.

Field, in combination with Point Arguello Field production, is significantly less than what was understood in 1984, the proposed modification to the Hidalgo DPP will not result in air emissions substantially different than the understanding of effects at the time the Coastal Commission concurred in the consistency certification for Platform Hidalgo.

Conclusion

In conclusion, based on the above evidence, the Commission staff has determined that PXP's proposed revisions to the Platform Hidalgo DPP to drill two new wells into the Electra Field will not cause effects on California's coastal resources and uses substantially different than those originally reviewed by the Commission when it approved the Point Arguello Unit Project. Thus, the proposed revisions will not require federal consistency review by the Coastal Commission.