

# Coastal oil drilling backers aim to sidestep state's barrier

Marc Lifsher, Los Angeles Times, 10-5-09

A Texas oil company's campaign to drill the first new wells in 40 years off the California coast continues despite setbacks in both the Legislature and at a key regulatory agency.

The measure, which passed the state Senate but failed in the Assembly in August, would authorize drilling from an existing maritime platform in state waters off the northern Santa Barbara County coast. Supporters now hope for action this fall.

Boosters of the project say state government stands to get an estimated \$14 billion in potential new money to run schools, build prisons and strengthen a tattered social-welfare safety net.

But opponents say they worry about the possibility of an oil spill that could threaten the California coast, an internationally renowned tourism magnet.

Houston-based Plains Exploration & Production Co. and its chief legislative ally, Assemblyman Chuck DeVore (R-Irvine), say they hope to move a bill through the Legislature in a fall special session or early next year.

"We are going to keep trying on this. We need the revenue," DeVore said. "I think it's environmentally sound and sound from an economic standpoint. We need the jobs."

Plains, the Texas firm, is asking the Legislature to endorse an unprecedented agreement it has reached with anti-offshore-oil activists in Santa Barbara.

The deal would let the company tap reserves in the Tranquillon Ridge oil field from the active Platform Irene, near Point Arguello. The company agreed to remove Irene and three other platforms after 14 years and to donate 4,000 acres of land on the Gaviota coast as parkland.

"The reality is this project ends oil production on a fixed date," said Plains spokesman John Martini. "It's a win-win for all stakeholders."

But a majority of the members of the State Lands Commission disagreed when it rejected the proposed Plains agreement in January. The commission is a little-known but powerful panel made up of the lieutenant governor, the state controller and the governor's finance director. It must approve projects in state waters and the coastal tidal zone.

Supporters of the drilling proposal want to get around the commission's opposition by passing a bill that would create a government panel appointed by the governor that could approve the Plains project on its own authority. They also hope to see a change in the political makeup of the lands commission that would favor drilling.

Both advocates for more drilling and opponents agree that even a limited lifting of the state's 15-year-old ban on offshore oil production could lead the way to more extensive exploitation of California's potentially large petroleum reserves.

"California has some of the lower-hanging fruit on the outer continental shelf," said Bob Fryklund, a vice president with IHS-Cambridge Energy Research Associates, an international energy consulting firm in

Cambridge, Mass. "It seems to me we're cutting our noses off if we don't access places within the United States where there is a high probability of finding oil that we can deliver cheaper than imported oil."

But coastal Democratic lawmakers and some statewide environmental groups have stymied the drilling project in the state-controlled zone. They argue that allowing even one project would send the wrong signal to the federal government, which is studying an expansion of offshore oil exploration.

If the state needs more money, it should raise taxes on existing California oil production and not allow more drilling on the ecologically sensitive coast, said Assemblyman Pedro Nava (D-Santa Barbara).

"I'm going to introduce a severance tax [on oil] at the first opportunity I can," Nava said. "We've been building a coalition of labor, educators, environmentalists and others that recognizes it's time for the oil companies to pay their fair share."

Slapping a tax on California oil -- similar to levies collected by all major oil-producing states -- would generate about \$1.5 billion a year, more than three times the revenue that would come from the Plains lease proposal, Nava said.

The oil industry can be expected to fight the proposed extraction tax as it has on many past occasions. Led by San Ramon-based Chevron Corp., it spent just over \$100 million to defeat a 2006 ballot measure that would have set aside tax revenues to develop renewable energy resources. Chevron alone spent \$42.4 million, while the smaller Plains contributed \$2.9 million to the No on Proposition 87 campaign.

DeVore's fervor for the project and Republican opposition to any new taxes, including one on crude oil, is echoed by Gov. Arnold Schwarzenegger, who has taken seemingly contradictory stands on both sides of the drilling and tax issues over the last year.

Schwarzenegger last month wrote Interior Secretary Ken Salazar "to again deliver California's clear position" against "any new leasing of the Outer Continental Shelf for oil and gas exploration, development and production."

But the governor insists that cutting a deal with Plains to pump an estimated 100 million barrels of crude from the offshore Tranquillon Ridge field makes sense.

"We have all this oil sitting offshore," said Tom Sheehy, chief deputy director for policy in Schwarzenegger's finance department. The oil can be safely extracted from an existing, operating platform without violating California's ban on new offshore drilling in the three-mile, state-controlled coastal zone, he said.

No significant oil-rig-related spill has occurred in California since 1969, when a blowout spilled more than 80,000 barrels of crude in the Santa Barbara Channel, Sheehy said.

Schwarzenegger also reversed himself on the oil extraction tax. On New Year's Eve, he proposed a 9.9% tax on crude oil at the wellhead. But he switched to a blanket no-new-taxes-of-any-kind position in May after voters turned down some revenue-raising ballot measures. The governor's earlier endorsement of the oil tax was "a one-time shot," said press secretary Aaron McLearn.

While the governor has blocked Democratic efforts to revisit his original offer to raise taxes on oil, he's had no success gaining approval for Plains to drill off Santa Barbara.

His luck could swing the other way early next year if there is a change in the political makeup of the State Lands Commission. One of its three members -- Lt. Gov. John Garamendi, a Democrat -- is expected to win a November special election for a seat in the U.S. House of Representatives. Garamendi had cast one of two "no" votes that shot down the proposed drilling. The governor's representative provided the sole "yes" vote.

That could change if the governor appoints -- and the Legislature supports -- a pro-oil-drilling successor to Garamendi, DeVore speculated. By law, to fill a vacated constitutional office, either the Assembly or the Senate (or both) must vote to confirm a proposed successor -- and neither house can vote to deny confirmation.

"This is absolutely not dead," DeVore said. "There's an urgency for this measure."