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Directional Drilling

An oil production facility is located on or near a beach and is 700 to 800 feet from the ocean. The oil wells are drilled 8,000 to 10,000 feet straight down and then angle out towards the marine waters to between 12,000 to 14,000 feet below the ocean floor. Since the oil production facility is not located in marine waters, the facility is not required to register or pay the fee. 4/16/98. (M99-1).

Memorandum

To: Mr. Ed King, MIC: 33

Date: April 16, 1998

From: Ms. Monica Gonzalez Brisbane
Tax Counsel

Subject: **Potential Feepayer – (Redacted)
Oil Spill Response, Prevention Fee and
Administration Programs**

Your memorandum dated March 16, 1998 was referred to me for reply.

FACTS:

According to your memorandum, your staff has been corresponding with (redacted) for several months do determine if its operations require that it be registered in the Oil Spill Response, Prevention Fee and Administration programs.

(Redacted) (“redacted”) operates multiple wells that are located on the beach at (redacted) oil field located in Southern California. According to (redacted)’s environmental manager, Mr. (Redacted), the wells at issue are directionally drilled to the production areas of these oil field areas. The wells are drilled at depths of 8,000 to 10,000 feet straight down (from the beach location) and then bend out towards the marine waters at a slope of roughly 30 degrees. The depth of these wells is between 12,000 to 14,000 feet below the ocean floor. According to production reports, the wells currently produce approximately 13,000 barrels of crude oil a month.

QUESTION

Is (redacted) required to register and remit fees under the Oil Spill Prevention and Administration Fee program?

BRIEF ANSWER:

No, (redacted) is not required to register, since the oil does not come from a production facility in marine waters.

DISCUSSION

Government Code Section 8670.40 provides, in part, that:

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“every operator of a pipeline shall pay the oil spill prevention and administration fee for each barrel of crude oil originating from a production facility in marine waters and transported in the state by means of a pipeline operating across, under, or through the marine waters of the state.” (Emphasis added.)

Based on the information provided by (redacted) that the wells at issue are located approximately 750 to 800 feet from the Pacific Ocean (see attached diagram), (redacted) is not required to register for the Oil Spill Prevention and Administration Fee Program because the production facility is not located in marine waters. It is therefore irrelevant whether (redacted) transports the oil into the State by means of a pipeline operating across, under, or through marine waters of the State.

Additionally, I spoke with Mr. Carlton Moore, Special Counsel to the Administrator, Oil Spills Prevention and Response at Fish and Game, and he agreed with this analysis. He did state, however, that Fish and Game intends to propose an amendment to Section 8670.40(b)(1) as follows:

“every operator of a pipeline shall pay the oil spill prevention and administration fee for each barrel of crude oil originating from a production facility in marine waters ~~or and~~ transported in the state by means of a pipeline operating across, under, or through the marine waters of the state.”

If the Legislature adopts such an amendment, (redacted) would need to register and remit any required fee since the pipelines in question operate “under . . . the marine waters of the state,” even though the production facility is on land.

Please contact me at 322-0438 if you have any further questions on this issue.

MGB:es

Attach.

cc: Mr. Carlton Moore, Department of Fish and Game
Ms. Janet Vining
Mr. Robert Frank, MIC: 30
Mr. Doug Shepherd, MIC: 30
Mr. Hal Lovell, MIC: 30

TYPICAL STATE LEASE WELL IN THE
WEST MONTALVO OIL FIELD
VENTURA COUNTY, CA.

