MEETING
STATE LANDS COMMISSION

ROOM 2170
STATE CAPITOL
SACRAMENTO, CALIFORNIA

THURSDAY, DECEMBER 19, 1974
10:00 A. M.
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MEMBERS PRESENT

Mr. Houston I. Flournoy, Controller, Chairman

Mr. John L. Harmer, Lieutenant Governor

Mr. Verne Orr, Director of Finance

MEMBERS ABSENT

NONE

ALSO PRESENT

Mr. Donald J. Everitts, Manager, Energy and Mineral Resources Development

Mr. Dennis Goldstein, Deputy Attorney General

Mr. Edward N. Gladish, Executive Officer

Mr. Jay L. Shavelson, Assistant Attorney General

Mr. Gregory Taylor, Deputy Attorney General

Mr. James F. Trout, Manager, Lands Operations, State Lands Commission

APPEARANCES

Mr. Gary Hart, Assemblyman

Mr. William L. Cole, Vice President, Southern California Gas Company

Mr. A. Howard Hogue, Vice President, Tidewater Marine Service of Santa Barbara

Mr. A. Barry Cappello, City Attorney, City of Santa Barbara

Mr. Alvin C. Weingand Get Oil Out Inc.
Mr. Kenneth Cory, Assemblyman

Mr. Richard W. Mansfield, Legislative Advocate,
State Building Construction Trades Council

Mr. George Kelty
Oil Chemical Atomic Workers International Union

Mr. Omer L. Rains, Senator

Mr. Jeff Pendergraft, Attorney,
Atlantic Richfield
CHAIRMAN FLOURNOY: The meeting of the State Lands Commission will come to order. In terms of the normal procedure, we will try to dispose of those items about which there is no request from anyone to address the Commission, and bypass the ones for discussion until the end of the calendar. Unless there is some discussion or objection the minutes will be confirmed of the last meeting of November 21. Hearing none, so ordered.

Item number 4. "Permits, easements, and rights-of-way granted to the public and other agencies at no fee, pursuant to statutes."

We have three items, and now if anyone wishes to talk to any one of those or if there is some objection or discussion?

They will be approved as indicated.

Number 5. "Permits, easements, leases and rights-of-way issued pursuant to statutes and established rental policies of the Commission." It is my understanding that there is no one who wants to address themselves to Item 5B, D, E or F. We will skip 5A and 5C for later. Is there any questions on Items 5B, D, E and F? If not these items will be approved as indicated.

Hearing none, so ordered.
Item number 6. Energy and Mineral Resources -- Statewide. I understand there is no one wishing to address himself to Item 6A. We will skip 6B. Unless there is some discussion or objection Item 6A will be approved as indicated.

Hearing none, it is so ordered.

Item number 7. Energy and Mineral Resources -- Long Beach. A, B, C, D, E, F. I have a notation at the Chair that no one wishes to address themselves to any of those items. Unless there is some discussion or objection those items will be approved as indicated.

Hearing none, it is so ordered.

Item number 8. A and B.

MR. GLADISH: Mr. Chairman, we have had a considerable amount of correspondence on Item 8A.

CHAIRMAN FLOURNOY: Okay. We will put that over.

MR. GLADISH: It would be valuable for you to authorize the staff to hold a public hearing to receive comments on the draft prior to formal action by the Commission and I request that you authorize that.

CHAIRMAN FLOURNOY: Instead of approving it, we authorize a hearing on Item 8A? Is that what you are suggesting?

MR. GLADISH: Yes, Mr. Chairman.

CHAIRMAN FLOURNOY: Unless there is some discussion
or objection we will so revise it and authorize a public hearing instead of approving it.

It is so ordered.

Item 8B. No problem with that?

MR. GLADISH: Mr. Chairman, yes. We have had indications of some legal problems with adopting an emergency regulation in this instance and in lieu of adopting an emergency regulation, we request your authorization to file a notice under the Administrative Procedures Act, to promulgate regulations, and the forms are attached to the minutes. This would go through the normal procedure.

CHAIRMAN FLOURNOY: All right. Unless there is some discussion of that change, we will so authorize the normal procedure.

Hearing none, it is so ordered.

Item number 9. Annexation of Tide and Submerged Lands. I have no indication of anyone wishing to address himself to that matter. If there is no discussion of it or objection, it will be approved as indicated.

Hearing none, it is so ordered.

Item number 10. Retrocession of Exclusive Jurisdiction. The same situation. Unless there is some objection that will be approved as indicated on the calendar.

Hearing none, it is so ordered.

Item number 11. There are two items. Unless there
is some discussion or objection they will be approved as indicated.

Hearing none, it is so ordered.

Skip 12 and 13. Well, now we will go back. And you had a couple of items, Mr. Gladish, that you wanted to report on under 3 on the calendar?

MR. GLADISH: Yes, Mr. Chairman. As follow-up to the meeting last month, I indicated to you that we would submit to the Commission at this time a critique of the report of the Auditor General regarding trespass. And at this time I'd like to submit that report for the record.

In addition, Mr. Dick Golden, as Assistant Executive Officer, has a report and a request for a resolution regarding back payment, or payment due in regards to over payment from Standard Oil on the pricing dispute we had earlier this year. I'd call Mr. Golden.

MR. GOLDEN: This item is the supplemental calendar item at the end of the calendar and it is strictly a clarification of your policy. We understood that on August 29 we were talking about all of the oil companies who had paid under protest, and on the assumption that we had the right to bill October 25 to February 21 of this year at the exemption price amount. We have subsequently in court been found to be wanting in that regard and therefore we have to refund those amounts. All of the other
oil companies but Standard paid under protest and those protest amounts went forward pursuant to your resolution of August 29. We find, however, that where the case of Standard Oil, they did not pay under protest and they agreed with our interpretation of the law, and therefore they are caught. We have to go through the procedure with the State Board of Control. That requires that that is done with the approval of the State Lands Commission, and that really is the technical we are asking for approval of today. We are treating them the same.

CHAIRMAN FLOURNOY: That is Item 14 on the calendar?

MR. GOLDEN: Right.

CHAIRMAN FLOURNOY: Is there any discussion of that Item 14 with regard to approving? They showed prudence in agreeing with us.

MR. ORR: Well, I'd like to be sure I understand. They will apply for a refund through the State Board of Control?

MR. GOLDEN: They have.

MR. ORR: They have at this time?

MR. GOLDEN: They have at this time, and the State Board of Control went forward on my authorization because, as I understood the policy, it was to refund these amounts in accordance with your August 29 memo or resolution.
if we just left them off the list because Standard was not under protest. This is to clarify that they are being treated no different than any of the other companies who did give in on this basis.

CHAIRMAN FLOURNOY: Is there any further discussion on that matter?

Hearing none, we shall ratify your action.

MR. GOLDEN: Thank you.

CHAIRMAN FLOURNOY: I wonder if the -- the report critique is submitted, I take it?

MR. GLADISH: Yes, sir.

CHAIRMAN FLOURNOY: Well, let's get on to item 6B then.

MR. GLADISH: Mr. Chairman, this is an application for the resumption of drilling operations on State Oil and Gas Leases known as PRC 3120 and PRC 3242 in the Santa Barbara Channel. Mr. Everitts is now moving to the wall and will point out the location of these lease applications to you.

These leases were issued in 1964 and 1965 for a total cash bonus in excess of 4 million dollars. Production to-date from these leases is more than 8 million barrels of oil and 8-1/2 billion cubic feet of gas. Total royalty received by the State to-date has been about 10 million dollars.
The purpose of the project is the extraction of oil and gas from the Monterey Zone underlying the subject leases from the existing Platform "Holly". It is anticipated that in addition to certain redrilling and recompletion of the existing 13 wells, 17 new wells would be drilled from "Holly". Production is estimated to be increased from the present 3,000 barrels per day to approximately 20,000 barrels per day with State revenue increased by $100,000 per day at the height of this production. It should be noted, however, that the proposed project will depend upon the lessee obtaining approvals for necessary modifications to onshore oil and gas processing facilities. However, in the event these approvals cannot be obtained, or are delayed, the lessee is prepared to implement a partial interim development program. This partial program would involve the initial drilling of 8 to 10 new wells, a reduced rate of Monterey oil production (12,000 barrels per day rather than 20,000 barrels per day), reinjection of Monterey gas at Platform Holly, and use of existing onshore facilities. Such a partial program would reduce State revenue to about $50,000 per day.

Because this project involved the development of a reservoir which may, upon expanded drilling, lead to a significantly larger productive limit, the staff required an environmental impact report. Such report was prepared.
by Dames and Moore, a well-known environmental consulting firm, under the direction of the Division staff with advice from concerned units of the Resources Agency. The report was processed in accordance with the State Guidelines and CEQA. On September 21, 1974, a public hearing was held in Santa Barbara for the purpose of receiving comments on the draft report and all comments were considered and incorporated into the final environmental impact report.

Mr. Chairman, at this time I would like to call on Mr. Don Everitts to summarize the EIR and describe the containment and curtailment plans. At the close of his presentation, I will conclude with my recommendation.

Mr. Everitts: This fourteen hundred page Environmental Impact Report is even bigger than Gaul, because if I remember my Latin, all of Gaul was divided into three parts and this is divided into five parts. The five parts concern geotechnical items, meteorological aspects of it, terrestrial biology, marine biology, and the social environment. The report addresses the proposed development program with an emphasis on base line environmental conditions at the project site, significant environmental impacts, should the program be implemented, and mitigating measures planned for adverse impacts.

Other major considerations included in the report include alternatives of the proposed project and growth.
inducing impacts. The scope of the investigation for the report included a thorough literature search along with some limited field surveys to establish base line environmental conditions onshore and offshore in the project area.

The environmental impacts associated with new drilling on Platform Holly were then assessed at the regional and local levels. The potentially significant adverse impacts associated with the program were grouped into three areas, the physical, biological, and the social environment. Within those areas, the potentially significant adverse impacts fall into categories including geologic hazards, air emissions, traffic, and the impact resulting from possible oil spills.

Beneficial impacts primarily related to the maintenance and preservation of open space at the project site and to the increased production of oil, gas and other petroleum products that could result should the program be implemented.

The revenues that would accrue to the county and State are a beneficial impact as well as those impacts which can result from additional employment and the local spending of wages and salaries.

Mitigating measures, for the most part, deal with oil spill prevention and control procedures. Such procedures
involve the use of appropriate safety equipment during drilling production phases and strict compliance with other applicable state codes and regulations which are now the most stringent in the world.

In addition to imposed requirements for well casing, blowout prevention, drilling mud programs and facility inspections, et cetera, special training programs for drilling personnel have been established, and which incidentally have been attended by some of the State Lands Commission Staff just recently. Other potential impacts involving emissions to the environment, such as noise, air pollution, et cetera, will be mitigated, whenever possible, through the careful selection of tanker and tank truck routes, the kind of operations, the monitoring and modification of emissions sources, and by compliance with all applicable local and International Maritime safety navigation regulations.

I just stated that special emphasis on mitigation of oil spills has been written into the report. This does not mean that we anticipate oil spills. We have said in the past however that the best efforts still may fail and there may be some oil on the water. Plans must be made to minimize that possibility and minimize any effect on the environment of such possibility. There is therefore a contingency plan which is part of this Environmental Impact
Report. It is a plan designed to provide an outline of appropriate action to be taken in event of a spill. It discusses the initial abatement of an incident, it discusses reporting methods, and it discusses containment and containment of oil spilled, and ties in to the oil spill co-op this industry has in the area, Clean Seas Incorporated.

In addition, during the drilling of a well, certain operations are conducted which offer a greater than normal chance for a pollution incident. Remote as that possibility may be, a critical operation and curtailment plan has been prepared for the conduct of such operation. The plan lists many critical operations. They include such pertinent items as the fact that they will not start a new well in close proximity to another pressurized well during certain conditions. They will not go into a formation that has a potential of flowing oil or gas to the surface under certain conditions. They will not drill in a geologic formation of unknown producing capabilities under certain conditions, nor will they do first drilling for production of other items.

Those critical operations will not be started or continued in operation if one or more of the following conditions arise or are anticipated, such as fire, an earthquake, or an unusual storm threatening the integrity
of the platform, when natural elements cause winds of forty
knots, or waves of eight feet, or when there is dense fog,
if any of the safety alarms have been activated, if any of
the blowout prevention equipment fails to test properly,
if there is a shortage of mud control material in the well,
if there is not a full inventory of oil spill clean up
material, and many of these others.

I don't really know what else to say. We feel
that we have thoroughly investigated all of the possibilities
and we feel that we can operate with absolute minimum
effect on the environment.

MR. GLADISH: Mr. Chairman, the Office of
Attorney General has reviewed the applications, the applicable
statutes, and the rules and regulations of this Commission
and has concluded that the application is in compliance with
law.

The successful development of this lease has been
under way for many, many years. The Commission's back
record offshore is good. Over 1400 wells have been drilled
without serious incident. The new procedures, partially
described by Mr. Everitts, have evolved over many, many
years of experience and are the best that we know how to
develop. The clean-up and containment equipment is the best
available.

Further successful development of these leases
will materially contribute to the State's energy needs and add considerable amounts of non-tax revenue to the State Treasury.

The application filed by Atlantic Richfield Company for the resumption of drilling operations is complete and in compliance with your policies and regulations. It is the staff's recommendation that it be approved and that the Executive Officer be authorized to issue the necessary permits to complete development of these leases.

Mr. Chairman, that concludes our presentation. I have several letters which I am prepared to present to you at this time.

CHAIRMAN FLOURNOY: Okay.
LIEUTENANT GOVERNOR HARMER: Mr. Chairman, if I might just ask one question?

CHAIRMAN FLOURNOY: Go ahead.
LIEUTENANT GOVERNOR HARMER: What was the situation on the gas? If the county approves the onshore processing facility, gas will be able to be processed and distributed. If not, it will be reinjected, yes, sir.

MR. GLADISH: I believe Mr. Everitts has it.
MR. EVERITTS: When you are talking about a
oil ratio of about a thousand MCF, you are talking about
20,000 barrels a day.

MR. GLADISH: Mr. Chairman, I will summarize the
correspondence. I have a letter from the Chamber of
Commerce of Port Hueneme. This letter urges an affirmative
support of this item. I have a letter from Tidewater Marine
Service Inc. They are also supporting the item. I have a
telegram from Mr. Firman F. Feuerborn, Secretary of the
Santa Barbara Building and Construction Trade Council in
support of the item. I have a telegram from Mr. V. L.
McKendree, Acting Director, OCAW, District 1, Oil Chemical
Atomic Workers International. It urges favorable considera-
tion of this item.

I received a message that Senator Rains' flight
went to Oakland and he is enroute and will be late. I
believe it was on this item. That appears to be the extent
of the correspondence, Mr. Chairman.

There are a number of people here who wish to
speak to this issue. We received indications earlier that
Assemblyman Gary Hart, or Assemblyman-Elect Gary Hart
requested appearance, and Senator Rains, I mentioned earlier.
Mr. William Cole of the Southern California Gas Company,
Mr. Howard Hogue of Tidewater Marine Service, Mr. A. Barry
Cappello, City Attorney of the City of Santa Barbara and
Mr. Alvin C. Weingand of Get Oil Out, Santa Barbara.
CHAIRMAN FLOURNOY: Okay. Do you have that --

MR. GLADISH: Excuse me. And Assemblyman Cory has requested also.

CHAIRMAN FLOURNOY: Okay. You have got a better list than I do, so in terms of who we ought to hear from first, I suppose we start with Gary Hart if he is here, Assemblyman-Elect Hart or Assemblyman Hart? The returns got me all confused.

ASSEMBLYMAN HART: Mr. Chairman, members of the Commission, and Mr. Gladish, it is Assemblyman Hart. It is a common confusion that it is Assemblyman-Elect but I was sworn into office on December 2.

CHAIRMAN FLOURNOY: I apologize.

ASSEMBLYMAN HART: My name is Gary Hart. On September 21 I appeared before you, along with many other concerned individuals and organizational representatives, to voice my opposition to ARCO's proposed resumption of drilling operations from Platform Holly. I spoke to you at that time as a resident of Santa Barbara for 15 years and, as a member of the South Central Regional Coastal Commission, while my concerns about this proposal remain the same now as they were then, as the new Assemblyman from Santa Barbara County I feel an increased responsibility to the overwhelming majority of my constituents who have expressed themselves for many years and continue to express themselves in
opposition to petroleum operations in the Santa Barbara Channel.

The testimony raised on September 21 indicated this to be an unacceptable project, and it remains unacceptable in my view. Although the revised EIR does fill some of the glaring omissions in the original, it still fails to satisfactorily deal with the most critical issues raised by ARCO's proposal.

There are many areas where the final draft does not satisfactorily answer important questions previously raised. I will confine my testimony today to the lack of adequate responses in three major areas: specific environmental concerns; the failure to demonstrate the need for this project in terms of a Statewide comprehensive energy policy; and the unacceptability of vesting in the present State Lands Commission the authority to rule on this proposal.

First in regards to environmental considerations. The first point I'd like to make is in regards to tanker traffic. In Santa Barbara Channel, which is heavily travelled by many different kinds of vessels from small sailboats to oil tankers, the dangers of increased tanker traffic are of substantial concern to us. Although the problem is incremental in nature with each new project proposed, the 600% increase in tanker activity which would result from this project demands attention.
The EIR states:

"The position of the Coast Guard is that rerouting of supertanker traffic outside the Channel Islands is desirable, in the interest of increased safety. However such a plan is not viable from a legal standpoint."

We must ask, what does "viable" mean here? Just last week the Coast Guard made the announcement that ships carrying oil from the Alaskan North Slope would be routed outside of the Channel. Does "not viable" in the EIR mean that the oil company can't be forced to re-route? If so the question remains, in the acknowledged interest of safety, what prevents them from agreeing to this?

The second environmental question I'd like to raise is in regards to present technology.

Many questions have been raised regarding the effectiveness of present technology and training programs to prevent blowouts and contain spills, and other witnesses will have more to say about this. I would like to state, however, that this whole area of concern has not received sufficient attention in the final EIR. It is not enough to respond to challenges made by knowledgeable individuals who maintain that deficiencies exist in spill control systems by merely saying, "We have spelled out our program for you. It can be found on page such - and - such."
Throughout the report these systems are referred to as "tested and proven techniques" although we do, finally, find the admission that "under certain conditions, even the best spill control systems are rendered useless."

One of the most interesting comments in the entire EIR is made on page G - 15 of Volume III:

"The leasee under the (State) lease is prohibited from polluting or contaminating the ocean, tidelands, or navigable rivers or lakes."

It is the very existence in the law of just such a prohibition that demands that a failsafe technology be demonstrated.

The third environmental concern that I would like to raise is in regards to water supply.

I have been asked to submit to the Commission this letter from the Goleta County Water District, which I would like to read into the record. It is addressed to Mr. Gladish:

"Dear Mr. Gladish: By letter dated October 8, 1974, this District, Goleta Water District, advised the State Lands Commission that the ARCO preliminary Environmental Impact Report contained misstatements regarding the District water allotment to supply the proposed Ellwood onshore facility. Contrary to statements..."
contained in the preliminary report, ARCO did not possess a District allotment to supply water to the facility and did not submit their project plans to the District for our review and comment.

"This is still the case even though the final environmental report contains the statement that 'Atlantic Richfield is presently applying for a water allocation from the Goleta County Water District.' The fact is that ARCO had not applied to the District for water to supply the facility and has not submitted project plans that would enable the District to determine if the facility could be served.

"The final environmental report contains the additional statement that 'in the event that the allocation cannot be obtained, alternative sources of water supply will be considered.' The Goleta County Water District is in a present water-shortage emergency. In fact three of the five governmental entities supplying water on the south coast now have declared a water shortage emergency. Within such a water-shortage area the question of water supply for the proposed offshore..."
facility should be thoroughly investigated and reported in the final Environmental Impact Report before it is accepted by this Commission. The District strongly feels that this has not been done and the final report should not be accepted until it is. Very truly yours, Goleta County Water District. Signed Robert A. Paul, the General Manager and Chief Engineer."

"The fourth issue that, from an environmental standpoint I'd like to raise, is in regards to air pollution. As an ocean and tourist oriented community, Santa Barbara County is especially dependent on maintaining a high level of air quality. It is a serious inadequacy, therefore, that of all the potentials for environmental degradation that are reviewed in this EIR, the whole question of air pollution has been most irresponsibly addressed.

When asked by Mr. Reynolds the county environmental officer why the emissions from the proposed Stretford gas processing unit are not being reviewed as a part of this project, the response is simply that it has "already been proposed as an independent project" and will be the subject of a County EIR.

The projects may be independent, but the emissions surely are not.
Other speakers also have received totally unsatisfactory answers to the questions they raised at the first hearing regarding air quality, and they will respond to these in greater detail. What this EIR does acknowledge is the lack of the baseline data necessary to make adequate assessments at this time. Yet ARCO is not willing to pursue a meteorological monitoring program until, and only if, it decides on further expansion of the South Ellwood field.

Finally, I would like to submit for the record this letter from the Northwest Goleta Homeowners Association which I have given to Mr. Gladish, which identifies still additional deficiencies. This association represents the residents of almost 500 houses, all within a distance of from 3/4 of a mile to 2 miles from the present ARCO onshore installation. This may come as some surprise to the writers of the EIR, who used 12-year old maps of the area which indicate incorrectly that present land use is not substantially residential. In fact, it is estimated that 4,000 people live within that 2 mile radius. What are the homeowners' experiences with air pollution from the existing facility and their concerns about the future? I quote briefly from the letter submitted to the Commission.

"Nearby homes are directly and continually affected by air pollution emitted by the facility. This now causes frequent odor problems and
occasional toxicity problems, and the APCD has been unable to eliminate the pollution. Hydrocarbons, which have been even more of a problem than hydrogen sulfide, are projected to increase under either partial or complete development. The EIR states that this is all right since background levels are so high, and since pollutants are unlikely to impinge on areas other than an uninhabited canyon. We disagree! Local pollutant levels are now high because of present operations at this site, and we in our homes are subjected weekly to odors. Even since this Commission's hearing in Santa Barbara, an incident occurred in which the very strong odor of hydrocarbons permeated inside houses here. AN EMISSIONS INVENTORY IS NEEDED FOR THE PRESENT EIR, and long- and short-term health effects and effects on property values of residences must be considered. Pollution will increase unless extremely strict mitigation measures are imposed, and this will result from your granting the permit whether or not the County allows expansion of onshore facilities. Thus this is your responsibility."

Now, in addition to the environmental consideration,
I would like to raise the question of energy coordination.

As a nation, our greatest energy need at present is for a coordinated policy to make wise decisions affecting energy development, consumption, and conservation. Here in California we are fortunate to be taking definite steps towards just such a comprehensive energy program. The State and Regional Coastal Commissions have been working long and hard for almost two years and are in the final stages of formulating a Coastal Zone Plan which includes important energy policies. This plan has received broad public input all along the way, and should be regarded by the State Lands Commission as a useful tool in helping them to make wise decisions in the future. So should the newly formed California Energy Commission which will soon be reviewing our energy needs and supplies. It is the height of folly, given such existing "helping" agencies, for any one to proceed unilaterally with any new energy development where so much is at stake.

The final point that I would like to make is in regards to the State Lands Commission, itself, namely, the propriety of the presently-constituted State Lands Commission to rule on this project. I raised this question last September and it, too, was not answered in the final draft.

Public confidence in our political system is now
at an all-time low. To allow a decision on a project of this significance to be made by the present members of the Commission, with but two weeks remaining until their replacement, would not only be a gross environmental mistake but also another instance where public confidence in our elected officials and governmental institutions will be further eroded.

At the beginning of my statement I spoke of some of the important environmental questions which have been raised, but left unanswered. Some of these are acknowledged in the EIR to fall into the category of "unknowns." And, what does the EIR say about "unknowns"?

I quote from Volume III:

"The assessment of merit or significance of the unknowns, as they affect a decision to deny or approve a particular project, must in the end result become the responsibility of the decision-makers."

I submit to you that not only in the end, but always, the responsibility of the decision-makers is to heed the needs of their constituents.

The public comments which have been raised and continue to be raised in opposition to ARCO's proposal, represents the sentiments of hundreds of thousands of people as expressed by individuals, and representatives of civic
groups, environmental groups (both regional and statewide),
special districts, the City of Santa Barbara, the
environmental office of the County of Santa Barbara, and
representatives to State government such as Senator Rains
and myself.

It is my hope that the State Lands Commission will
listen carefully to the clear consensus of this constituency,
and for the many reasons offered to you today, refuse to
permit this project at this time.

Thank you very much, Mr. Chairman.

CHAIRMAN FLOURNOY: Are there any questions of
Assemblyman Hart?

Thank you very much.

MR. GLADISH: Mr. Chairman, the next one I have
on the list that I read you earlier is Senator Rains and I
don't know if he has arrived or not.

CHAIRMAN FLOURNOY: He's probably half way between
here and Oakland. Go ahead.

MR. GLADISH: Okay. Well, the next one,
Mr. Chairman, was Mr. William L. Cole, Vice President
Gas Supply, Southern California Gas Company.

CHAIRMAN FLOURNOY: Is he here?

MR. COLE: Yes, I am here, Mr. Chairman.

CHAIRMAN FLOURNOY: Okay.

MR. COLE: Mr. Chairman, members of the Commission,
I am William L. Cole, Vice President - Gas Supply for Southern California Gas Company. I am appearing here today to speak in favor of Atlantic Richfield's proposed development plan for the South Ellwood Offshore Oil Field and Exxon's request relating to the Santa Ynez field, which is also on your agenda. On September 27, 1974, I submitted a letter to the Commission concerning ARCO's proposed development. That letter appears in Volume III of its Final Environmental Impact Report beginning at page G-200.

The Southern California Gas Company is a public utility subsidiary of the Pacific Lighting Corporation and has been distributing natural gas to Southern California homes, businesses and industry for more than 100 years. My company currently provides the majority of gas service to an area having a population in excess of 12 million people through more than 3 million customer meters. It is the largest single gas distribution system in the United States. As a measure of the importance of natural gas to Southern California, I would like to point out that on the basis of surveys our company has made some 94 percent of Southern California residents use gas for water heating; 92 percent of them heat their homes with gas; and approximately 77 percent use natural gas for cooking. In 1973, as in the four prior years, our customers received about 1 trillion cubic feet of natural gas annually. This
is approximately 5 percent of the total gas produced within the United States.

These statistics provide an indication of the importance of a reliable gas supply to the Southern California population. It is our belief that the health and well-being of all of Southern California's population is significantly affected by the availability of natural gas. This area has long been dependent upon natural gas as the primary fuel for homes and industry. Coal has never been an important source of energy locally and fuel oil has been used principally by our electric generating customers as a substitute for gas. It is our understanding that there are only a very few homes within our service territory which are equipped with oil-fueled appliances. Consequently, it is readily apparent that the availability of an adequate gas supply is important not only to the health and comfort of Southern Californians, but an inadequate supply of this fuel can have a major adverse economic impact on the people of this area.

Until the late 1960's our company was able to acquire sufficient gas to meet all the needs of our residential and commercial customers, almost all the requirements of our large industrial customers and about 80 percent of the fossil fuel requirements of our utility electric customers. However, since 1969, we have not been
able to acquire any additional supplies of gas from our out-
of-state suppliers - El Paso Natural Gas Company and
Transwestern Pipeline Company. On the contrary, under
decisions issued by the Federal Power Commission we have
been subjected to major curtailments of supply by these
companies - curtailments which are expected to grow larger
in the months and years ahead. In addition, since 1968 the
quantity of gas we have been able to obtain from California
producers has declined about 80 percent.

I have attached to the copies of my statement a
chart which illustrates the significance of this supply
situation on your system.

And I might digress to say that I have a limited
number of additional copies, but that anyone that wishes
a copy of the statement that will give me their name, I
will see that they are sent one.

By examining this chart you will note the
anticipated continuing moderate growth in requirements
expected for our service area and you will also note the
significant drop in actual and forecast gas supply available
to meet those requirements. It is necessary to point out
that this forecast trend in supplies is based upon sources
currently available to our system and does not include the
possibility of receiving additional supplies which I will
discuss shortly. The chart indicates that by 1975 gas
service to utility electric-generating plants from our system will be virtually non-existent, while our other interruptible customers will receive severely diminished supplies. You will also note that in the period of 1978 to 1979 supplies available are estimated to be inadequate to meet the requirements of the firm residential customers in Southern California. This is a dangerous prospect for our community. Adequate energy supplies for industry are essential if we are to avoid an even higher level of unemployment than exists today. The effect of such unemployment on the economy of Southern California, and on the State of California as a whole, would be so great that it is — in our view — a completely unacceptable alternative to providing an adequate energy supply. Beyond these arguments for increased supply is another important fact — recognized in Southern California for almost 20 years — that natural gas should be burned by industry to the extent possible for environmental reasons.

Now I would like to turn to a short discussion of our gas procurement program. We began our search for new sources of supply several years ago when it became apparent that we could no longer rely completely on California producers and our two existing out-of-state suppliers to provide us with enough additional gas to meet our future needs.
To help develop additional domestic supplies, we are participating in gas exploration in our traditional supply areas of the southwestern states - New Mexico, Oklahoma and Texas.

An affiliated company is participating in the planning and financing of a coal gasification facility to be constructed in northwest New Mexico. If approval is obtained from the necessary governmental authorities in a manner which will allow this facility to be financed satisfactorily, gas could be available from that facility to Southern California by 1979.

Another project of major importance involves potential gas supplies from the North Slope of Alaska and northern Canada. One of our corporate affiliates is a member of the Arctic Gas group which is seeking Canadian and United States regulatory authority for a pipeline from Alaska's Prudhoe Bay Field through Canada's McKenzie River Valley to supply markets in eastern Canada and the United States. Gas from this project is not expected until 1980 at the earliest.

An affiliated company is also participating in another consortium, the Polar Gas Group, which is making preliminary plans to pipeline Arctic Islands gas to eastern Canada and United States markets. The mid-80's are the earliest we can expect to obtain this gas.
Yet another affiliate, the Pacific Alaska LNG Company, has long been active in south Alaska negotiating for sufficient reserves to support a liquefied natural gas project from that area. We are hoping for these supplies to come in by 1979.

Other Pacific Lighting companies are attempting to obtain supplies to support an LNG project in Indonesia, and we are also investigating the possibility of developing sufficient gas reserves in South American locations to support similar projects.

Now, with that background let me address the two matters which I mentioned earlier in my statement, ARCO's proposed development plan for the South Ellwood Offshore Oil Field and Exxon's proposal relating to the Santa Ynez Field. In the case of ARCO's proposal, the proposed development will, by ARCO's estimates, increase its ability to produce natural gas from that field in volumes that are now negligible to in excess of 7 billion cubic feet per year as early as 1976. I can't emphasize too strongly the importance to the Gas Company of obtaining additional supplies of gas in that time frame. As I mentioned, the long term projects we are attempting to develop are all going to take a substantial period of time before deliveries can commence under any of them. The ability to get increased local gas production earlier is most important.
With respect to Exxon's request relative to the Santa Ynez Unit, while it will not result in gas supplies as early as 1976, still the ability to have access to increased local production from that area in a relatively early time frame is likewise very important. For these reasons we are in full support of the requests of both of these companies.

We understand the environmental concern relating to offshore drilling. We recognize the need for appropriate safeguards, such that the developments we are talking about can be accomplished in an environmentally safe manner. We believe that this can be done, otherwise we would not support this or any other proposal.

One final matter. I have been talking about supply. We also recognize the need for conservation of energy. Maximum conservation steps are absolutely essential. However, in our view, even these will not be sufficient to eliminate the necessity of developing additional supplies to substitute for the depletion of our existing sources and to meet the growth and demand for energy which will exist even with maximum conservation efforts.

In conclusion, let me summarize with a few clearly stated points: (1) Southern California is an energy short region, (2) alternative forms of energy will not solve the needs of our domestic natural gas consumers, (3) we feel that the drilling proposed in these projects can be
accomplished in an environmentally safe manner, (4) additional
supplies of gas are needed just as soon as possible in the
Southern California area even with conservation efforts,
and, (5) without such gas supplies the economy of Southern
California is severely jeopardized.

Thank you, Mr. Chairman, for the opportunity to
appear here today.

CHAIRMAN FLOURNOY: Are there any questions of
Mr. Cole?

Thank you very much, Mr. Cole. I think next,
Mr. Gladish, we should probably call Mr. Cory even though
he isn't --

ASSEMBLYMAN CORY: The existing order is fine.

CHAIRMAN FLOURNOY: Okay.

MR. GLADISH: Next on the list, Mr. Chairman, is
Mr. A. Howard Hogue, Vice President, Tidewater Marine
Service of Santa Barbara.

CHAIRMAN FLOURNOY: What was the last name?

MR. GLADISH: Hogue, H-o-g-u-e, as I understand
it.

MR. HOGUE: Mr. Chairman, members of the State
Lands Commission, my name is Howard Hogue and I have been
a resident of Santa Barbara for approximately fifteen years.
The aspects of the engineering and the Environmental
Impact Report will be adequately covered and has already
been covered at this meeting and I would like to touch principally on the social aspect and how that affects the flora and fauna, with man being probably the most important fauna that we have in Santa Barbara County.

I'd like --

LIEUTENANT GOVERNOR HARMER: Mr. Hogue, could I have a clarification? Are you representing your company or just yourself?

MR. HOGUE: My company, sir, Tidewater Marine Services. The purpose of my appearance at this meeting is not to emphasize the widely recognized national and local need for hydrocarbon products or to dwell on the safety or expertise of the equipment or installations, rather I would like to take a few minutes to state that there is a large segment of working and business people in the Santa Barbara County area who are vitally interested in an ongoing program of safe and orderly development of well thought out and designed offshore and onshore petroleum development projects.

Two principal areas that I feel may not have been touched on at hearings such as this are the effects that a resumption or increase in oil drilling and production in the Santa Barbara Channel would have directly on such areas as Santa Barbara County employment and taxation.

Our company which employs the largest number of seagoing people in the Santa Barbara Channel in the operation
of vessels for research and development and in support of
the oil industry has suffered the following reduction in
operations between the years 1968 and 1974.

Our wages and benefits have dropped off 60%. Our
expenditures for repair and maintenance and other services
have dropped 67%. Material, goods and supplies purchases
are down over 80%.

On Monday of this week I was advised by the state
unemployment office that Santa Barbara County's estimated
unemployment figure was 6.3% in the years 1970 through 1974
inclusive. President Ford has indicated that he was willing
to concede that the country was in a recession should
unemployment figures be over 6%. In this context, Santa
Barbara County has been in a recession for the last four
years.

I was further advised that Santa Barbara County
has 2,600 families on food stamps, and a recent article in
the Santa Barbara News Press indicated that so many people
were pouring into the food stamp center to sign up under
the new, broader federal program that it necessitated them
having to hire a number of new employees to handle the
increased load.

In view of these facts I can state categorically
that there are a large number of citizens in Santa Barbara
County who would be most appreciative of new jobs and a
new flow of business income which would be created by the orderly development of offshore oil in the Santa Barbara Channel. These jobs are needed now.

The 17 wells that ARCO would like to develop from their existing platform would produce 17,000 barrels of new oil per day under full production. Royalty to the state would accrue in the amount of 8,500 barrels per day valued at $10.55 per barrel under full production would pour $89,675 per day to the state which, annually would amount to $32,731,375 new income which will not be taken away from any other source or entity and which would provide much needed employment on a local basis at the same time.

In addition to royalties paid to the State of California, Santa Barbara County which is very much in need of new funds would see an increase in property tax payments from ARCO from $500,000 in 1973 to $800,000, an increase of $300,000; based on the value of the new wells and equipment and reserves. This is property tax alone. Santa Barbara having very little taxable industry, the only other real source to raise this kind of tax money used by the County would be to continue to increase either the tax rate or valuation on existing personal property of individual home owners and small businessmen.

I feel that this Board is uniquely equipped to pass judgment on this question due to its long exposure
and experience with related problems. I fear any postpone-
ments will result in long delays detrimental to the State,
Santa Barbara County and its people.

I hope these modest facts will encourage you to
give favorable consideration to some of the salient facts
related to the increase of offshore development in the
Santa Barbara Channel at an early date. I would like my
comments to be included as in support of Exxon's request
which also appears on this same agenda.

CHAIRMAN FLOURNOY: Thank you very much, Mr. Hogue.
Are there any questions of Mr. Hogue?

Thank you very kindly.

MR. GLADISH: Mr. Chairman, next on the list is
A. Barry Cappello, City Attorney, City of Santa Barbara.
While Mr. Cappello is coming up, I will transmit two pieces
of correspondence to Mr. Gary Hart. One is from the County
Environmental Quality Office and the other is from the
Alta Vista Community Council.

MR. CAPPELLO: Mr. Chairman and members of the
Commission, I am here to read a prepared statement, but
having the problem of being an attorney and listening to
two of the speakers before me, I'd like to have just a
brief rebuttal, if I may, extemporaneously.

Both Mr. Hogue and Mr. Cole, who spoke before
you, just prior to my appearance, have indicated the need
for the energy. The hearing before you is whether the
Environmental Impact Report is an adequate report, and prior
to the decision on whether this Commission needs the energy,
and should approve the application, it must make the decision
first on whether the environmental impact of this project
will be significant.

Now, Mr. Cole's remark, we feel, raised the
question of the specter of unemployment and shortages. This
begs the question. The country needs major energy conservation
leadership. The word is conservation. Now, if in fact --
and I don't even begin to accept the fact -- that the
Public's appetite for energy is insatiable, we should curb
that appetite rather than feed it until we run out of food.

Now the City of Santa Barbara has engaged a
consultant, and I shall read his statement last, if I may --
his name is Don McFarland -- concerning aspects of the EIR.
And I have given copies to the Commission. I believe you
have copies of my prepared statement.

Gentlemen: I am A. Barry Cappello, the City
Attorney for the City of Santa Barbara; I am here representing
the City Council on behalf of the City of Santa Barbara, to
oppose approval of the application for the resumption of
drilling operations in the South Ellwood Offshore Oil Field
from Platform Holly. We oppose this application because
adequate safeguards to protect the environment have not
been imposed by this Commission. Also, we oppose this
application because the State Lands Commission has not
complied with the Environmental Quality Act in the prepara-
tion of the Environmental Impact Report required for this
project.

This application is the result of the Commission's
decision last year to consider applications for drilling
on existing platforms on a platform by platform basis.
That decision was made without preparation of an environmental
impact report. The E.I.R. submitted by your staff for
Platform Holly does not evaluate alternatives to this project
taking into consideration total offshore drilling operations
which may occur in the Santa Barbara Channel in the future.
The State Lands Commission has not informed the public of
the applications for drilling it expects, based upon data
within its files. It has not required the oil companies to
reveal their intentions for future oil drilling in the
Channel. In other words, the State Lands Commission has
decided without an environmental assessment, that new
platforms expected in the Channel will not be considered
in evaluation of this project. This is contrary to the
Environmental Quality Act which requires that environmental
impact reports discuss the cumulative impact of a project
in view of the future. It is obvious that the scope of
environmental review has been narrowed because a look at
the total drilling to be anticipated by the 1980's would show
that this project should not be approved.

The E.I.R. attempts to isolate for consideration
the environmental impact of Phase 1 of this project. We
all know that it is unrealistic to assume that the State
Lands Commission will not receive many requests over the
next five to ten years for approval of drilling in the
Santa Barbara Channel. We know that this decision will be
the standard to justify additional requests for drilling
on the grounds that the new application does not impose a
greater threat to the environment than the platform Holly
application; yet, with each approval the potential for a
platform blow-out or a massive spill due to a tanker
accident in the Channel comes closer and closer. Based
upon the experience of the 1969 oil spill, we cannot pretend
or gamble that such a spill will not occur. You must also
be aware that the adverse effects last many years. For
example, property values and use of City beaches continue
to be lower now, some five years after the 1969 spill, than
they would have been, had there not been a spill.

By approval of this application the State Lands
Commission is indicating its approval to the concept of
transporting oil drilled from State Lands in the Santa
Barbara Channel by use of tankers. Yet the State Lands
Commission has not thoroughly studied whether onshore pipe-
lines should be constructed or that use of tankers should not be permitted until there is a higher safety level. Obviously, to build an onshore pipeline for one platform is not economically feasible. However, in the long term, an onshore pipeline may eliminate or greatly reduce the need for tanker traffic in the Channel, not only for oil drilled from State Lands, but also for oil drilled in federal waters. By approving this project the Commission is forcing itself to a gradual increase in tanker traffic until the inevitable, a "Torrey Canyon" type accident and a massive oil spill resulting therefrom.

One assumption made by the State Lands Commission staff in the preparation of this E.I.R. is that the drilling on Standard Oil Company platforms Heidi, Hilda, Hazel, and Helen, would have no adverse impact on the environment. I stress that again, that in the preparation of the E.I.R. for Platform Holly, that those particular platforms, the drilling from Standard Oil Company platforms, Heidi, Hilda, Hazel, and Helen, would have no adverse impact on the environment. They relied upon negative declarations. As you know, there was extensive opposition to the filing of negative declarations when the Standard Oil applications were approved by the Commission. We are confident that the outcome of the litigation we have filed will require preparation of a full E.I.R. by the State Lands Commission.
Because this E.I.R. on Platform Holly is based upon that erroneous assumption, it is imperative that approval of this E.I.R. be withheld until the impact of the Standard Oil projects is known, and gentlemen, that is probably going to be two or three months.

Prior to your decision on this application, I am asking you to obtain the opinion of the Attorney General whether this E.I.R. complies with the Environmental Quality Act. Does it meet the requirement to take into consideration and to discuss the impact of this project on future projects in view of all the data to which the Commission has access regarding offshore drilling? Whether this environmental impact report is adequate can only be determined and will be evaluated by the Courts in light of all the information now known to the Commission. That question should be asked, Mr. Chairman and gentlemen of the Commission, to the Attorney General's Office, before you vote on this E.I.R. and this application.

The adverse environmental impact of this project will be great. Air quality standards will be violated, normal tanker operations will pollute the Channel, scarce water resources will be consumed, oil spills, large and small, will disrupt and prevent use of oceanfront property.

I have provided to you and your staff the comments of Donald L. McFarland regarding his review of the final
E.I.R. report. He states that tankers going to South Ellwood would be ballasted with sea water which must be pumped out prior to arrival at South Ellwood. The sea water is taken directly into the oil storage tanks and when pumped out into the ocean, carries many barrels of crude oil with it. This is a known source of deliberate pollution which must be eliminated prior to approval of any drilling operations.

As I indicated, I will read you Mr. McFarland's statement right after this.

The E.I.R. rejects the request we made at the hearing on the draft E.I.R. that Atlantic Richfield be required as a condition of drilling to assume liability for all damages including tax losses to be incurred as a result of an oil spill. The E.I.R. states that existing laws provide adequate method of recovery of damages. That is erroneous. The City of Santa Barbara had to litigate for five years to be compensated for damages. While we were establishing through oil company records their liability and while we were establishing through experts that the City had incurred millions of dollars worth of damages, the City of Santa Barbara had to reduce its payroll and services because of one type of oil spill damage -- a reduction in tax revenues. We were never paid for our tax losses. We believe that the State Lands Commission has the authority
and should require as a condition of approval of any off-
shore drilling the assumption of liability by the applicant
for all damages including tax losses. If the State Lands
Commission believes that it does not have such authority,
it would be entirely appropriate to delay any action on
approving offshore drilling and to request from the State
Legislature such authority.

In summary, it is our position that the E.I.R.
submitted for approval does not meet the requirements of the
Environmental Quality Act and that approval of offshore
drilling should not be granted until the total impact of
offshore drilling is evaluated and studied. Secondly, the
adverse environmental impacts identified in this E.I.R.
require that the State Lands Commission deny this application
until such time that the industry is able to show that it
is willing to take the necessary steps to preserve the
environment, not to sacrifice it.

Now, I'd like to read the comments of Mr. Donald
McFarland, who was retained by the City of Santa Barbara.
Mr. McFarland's comments are as follows:

"I am a resident of Santa Barbara and owner of a
consulting design engineering business. I am also Commodore
of the Santa Barbara Yacht Club for 1975 and sail a great
deal in the Channel waters. I have been very concerned
about the safety problems inherent in the proliferation of
oil platforms and tanker traffic. In addition, I have made every effort to be abreast of containment and recovery technology.

"Relative to these concerns, I have examined the Ellwood environmental impact report and urge you to reject the application for additional production wells on Platform Holly for the following reasons:

"1. As a general observation it is misleading and inaccurate to consider this E.I.R. report as though it were the only increase in operations under consideration now or in the future. Many other applications for renewed operations as well as entirely new installations are known. Each instance, when viewed in isolation, appears to cause negligible damage to the environment. However, when viewed in context with the accumulation of all the anticipated applications, the result may well be far more serious.

"2. The report is filled with statistics to show that although accidents do happen, the likelihood in this case is minimal. For example, this request adds only 60 more tanker trips per year to the Channel's shipping lanes. In view of the well over 6,000 trips per year currently sailing through the Channel, the increase is a modest 1%. However, by 1980, the traffic will increase to 12,000 trips per year -- of which 84% will be tankers! Does it not make sense to consider the impact of an additional 6,000 tankers?
per year on the Channel's environment rather than view South Ellwood's additional 60 tankers per year in isolation?

"3. Considerable data is presented to impress the reader with safety measures and accident free operations. Yet nothing is said about the deliberate pollution of the Channel waters by tankers. The South Ellwood tankers must arrive at the loading terminal empty. However, tankers cannot safely travel in the empty condition, and therefore the oil tanks are ballasted with sea water to approximately 40% capacity. The sea water is taken directly into the oil storage tanks and when pumped out carries many barrels of crude oil with it. 46% of all pollution caused by marine operations results from ballast and bilge pumping. This is deliberate -- not accidental pollution. Sixty additional tanks per year approaching South Ellwood terminal, pumping out their ballast water, will have a significant effect on the Channel's environment.

"4. Much is made of Clean Seas' ability to contain and recover spilled oil. However, by their own admission, operations are limited to waves of 5 - 6 feet and winds of 20 knots. This is only a normal condition in the Channel waters. The 1969 Spill was carried on shore by wind and waves considerably in excess of that. Fishermen and offshore sailors frequently encounter conditions far more severe. Clean Seas has only one storage barge with a
capacity of 7,840 barrels and no shoreside facility to empty it. The 1969 Spill was in excess of 80,000 barrels! On hand is 1,000 feet of heavy duty containment barrier. This will only surround an area smaller than a football field! The capacity and equipment available in the event of a major spill is completely inadequate. The fact is, if the 1969 Spill were repeated tomorrow, the results would be exactly the same. It is little comfort to know that there are 1,000 tons of baled straw available in El Monte to soak up the oil on the beaches.

In conclusion, until the long-range environmental impact is studied, the deliberate pollution of the Channel waters by tankers is evaluated and prevented, and until the capability to control spills from platforms and/or tankers exists, an intelligent and rational decision to approve this application cannot be made. I urge the Commission to deny this application at this time."

It is signed by Mr. Donald L. McFarland on December 18, 1974.

And may my statements, Mr. Chairman, and Mr. McFarland's statements be made part of the written record as well?

CHAIRMAN FLOURNOY: They will be.

MR. CAPPELLO: I will be happy to answer any questions, if you have them.
CHAIRMAN FLOURNOY: Apparently there are none.

Thank you very much.

MR. CAPPELLO: Thank you.

MR. GLADISH: Mr. Chairman, the next one on the list was Mr. Alvin C. Weingand of Get Oil Out, Santa Barbara.

MR. WEINGAND: Mr. Chairman and members, I wonder why there are no ladies on this Commission.

CHAIRMAN FLOURNOY: That is a matter that consequence has voted a decision on.

MR. ORR: The new Governor may change that.

MR. WEINGAND: I see. Thank you.

MR. GLADISH: I would offer the knowledge that my secretary is here and does function with the Commission.

MR. WEINGAND: That's all right. I will proceed.

I am Alvin Weingand from Santa Barbara, a founder of Get Oil Out Inc., known as GOO. I am speaking today for that organization.

Nearly six years ago, as Mr. F lournoy will recall, following the disastrous Union Oil Co. spill on January 28, 1969, I first appeared before this Commission. The purpose of that meeting was an urgent one - to ask for a moratorium on further drilling operations in the Santa Barbara Channel.

The Commission at that time consisted of Lt. Gov. Reinecke, Comptroller Houston Flournoy and Finance Director Casper Weinberger.
Our arguments happily then were obviously compelling. Despite the recommendations from the Lands Commission staff, who in my experience in the State Senate, and subsequently have consistently and unwaveringly favored the oil industry against the public interest. Nevertheless, the Commission supported our request.

Their decision was a momentous one. It reassured the people of Santa Barbara and millions of concerned citizens that at least one official body would not countenance further pollution of an area noted throughout the world for its unique scenic and recreation values.

Unhappily, the Commission on December 11, 1973 voted to lift the restriction and as was easily foreseen, ARCO, Standard and others applied for permits to expand their drilling and production operations.

Before you is ARCO's application for the resumption of drilling from Platform Holly off Ellwood. I should say that before leaving Santa Barbara yesterday, a lawsuit that GOO has filed against the State Coastal Commission, the judge granted a temporary restraining order prohibiting any operations, any extension of operations, by ARCO until next year when the Court will hear the argument. Now, that suit challenged the Coastal Commission's agreement to permit further drilling without an Environmental Impact statement, as you probably recall.
I don't even believe Mr. Cappello was aware of that action that was taken within the last 36 hours. We say that this application must be denied and I am not going into all the excellent arguments against further oil operations in the Santa Barbara Channel because they have been advanced to you today, and there will be more expert witnesses.

What is incomprehensible to me, with all this experience, is the failure generally of this Commission to heed these arguments, most of which are not new, and to disregard and ignore them.

You all know the Channel area. You know it is visited by millions annually. Its one hundred mile long beaches are unmatched on the Pacific Coast. You know that the threat of oil pollution is a ghastly one to these visitors and the thousands who make their home and earn their living in this paradise of the Pacific.

You are also thoroughly aware of the fragile structure of the Channel ocean floor, the frequency of earthquakes, and the proximity of oil platforms to the shoreline. These factors make the region deadly hazardous.

Certainly you are familiar with inherent dangers of offshore oil drilling - and the complete and utter inability of the oil companies to prevent, contain, recover, or control oil spills. You have had countless examples
over the period of the last six years, and even before, indicating this problem.

According to the industry's publication OCEAN OIL WEEKLY, an ARCO well in the South China Sea has been blowing wild since 1972 in spite of every conceivable effort to control it. And I am also informed by the same Industry journal that in the last twenty years, ARCO has experienced twenty-one serious blowouts! That is better than one a year. I'd like to know where these much ballyhooed prevention and control systems are, even today, if such things are occurring.

The ARCO Final Environmental Impact Report states that in drilling a certain degree of risk-taking is tolerable and a certain degree of failure and pollution is acceptable. By whose standards? Certainly not by those who have experienced such a disaster as that which occurred in Santa Barbara in 1969.

We have been told frequently about the cumulative effect of oil operations and that it is impossible to calculate what the future will hold if you allow the extension of this business in that Channel. To ignore this impact of offshore drilling, of the increased tanker traffic, the mish mash of onshore and offshore pipelines, and the vehicular traffic of oil trucks and whatnot is unpardonable. Oil operations certainly long before this should have been regarded as ultra-hazardous - and be subject
as Mr. Cappello said, to unlimited liability for the pollution
of the air, the ocean, and our environment, and for tax
purposes, when accidents occur, not if they occur. And I
would certainly propose to our good legislators that
legislation is urgently needed to further this reasonable
objective.

Now, you have also heard people yak about the
natural seeps. There has never been an oil spill on the
beach, and I have lived on the beach for forty years in
Santa Barbara, there has never been oil on the beach but
what some governmental agency, including the Coast Guard,
immediately says, "Well, it's from a natural seep." That
monotonous explanation gets awfully tiresome. Now, many
reputable engineers claim that pressurization of these
offshore wells in State waters, by the way; could well be
and probably are, responsible for the seeps in that ultra-
Fragile channel floor.

And you have heard about the tanker problem this
morning, but I don't think it has been mentioned that
every tanker that comes in to Ellwood would have to cross
the north bound sea lane in order to get into the south
bound one and to the refineries off Los Angeles.

Now, the hazards of shipping can't be over-
emphasized, and I hope you gentlemen will consider this
a threat to the environment that is extremely serious.
Gentlemen, we simply ask you to review all the evidence submitted by responsible people. A former President, whose name I won't mention, did have this to say:

"Immediate economic gains are not the only, or even the major way, of measuring the value of a geographic area. The ability of that area to sustain wildlife and its capacity to delight and inspire those who visit it for recreation can be far more important characteristics."

Gentlemen, in your last ten days on this Commission you have the golden opportunity, it seems to me, to act on behalf of the people of this State and countless people throughout the country, and be exalted by generations to come.

If you can't in conscience so act, then I would strongly urge that you defer action on oil matters until after January first. Then there will be a new agency. At least let us wait until the California Energy Commission is created next year. I understand that its duty will be to establish Energy Policy and set priorities, including the use of Tideland resources.

I just think it would be prudent and wise for you to give serious consideration to this thought.

Merry Christmas to you all.
CHAIRMAN FLOURNOY: Thank you, Al. Is there any question of Mr. Weingand?

I wish you wouldn't rush us, Al. We have a few more days than ten. We have until the fifth.

Thank you very much.

MR. GLADISH: Next on the list, Mr. Chairman, is Mr. Kenneth Cory. And we have added another name after Mr. Cory, a Mr. Dick Mansfield.

ASSEMBLYMAN CORY: Mr. Chairman and members, I have some comments with respect to this particular lease. I also have a request and I don't know if it is appropriate to make it at this time or another time. I couldn't see where it would fit into the agenda, but a request that Senator Dymally had made with me in suggesting that you set a meeting for January 7th of the State Lands Commission, and instruct the staff to issue it, if that would be possible, so that we could have a meeting on the seventh of January.

CHAIRMAN FLOURNOY: We shall note your request at this time and take it up later.

ASSEMBLYMAN CORY: On the question of this particular application I would like to concur in the statements of Assemblyman Hart, and the City Attorney of Santa Barbara. I think they dealt with the environmental one. I would like to stress the lack of a requirement for
full or complete liability on the part of the applicant.

The conditions that have been suggested by the staff as being adequate, I think are inadequate in that regard and we do wish you would proceed.

But I would like to take just a brief time to make an additional plea to each of you three men as individuals, that as you have sat, or your predecessors have sat, on this Commission for eight years, you have had the capacity to see the implication of this individual act, and it is sort of an extension of Mr. Cappello's argument. We are not talking here about a single application in my opinion, but we are talking about whether or not the State Lands Commission will have this arrow removed from its quiver in dealing with the overall energy crisis that this State and this nation faces. And you can use that same argument, and say "No, we must proceed immediately because here is 17,000 barrels of oil."

I would suggest to you that that is not the way to go because it has been that kind of piecemeal approach that has led the major consortium of oil companies in this country to get us into this fix we are currently in. They have never wanted us to ask questions as to its impact upon our energy policy. And particularly Mr. Orr, when we were talking sometime ago at the height of the so-called energy crisis, the fact that our oil was being taken. Yet
those same major oil companies were not so generous in whether
or not they were going to supply us with oil at all, or
gasoline products. That's the kind of consideration that I
think we are giving up if we allow this individual company
to expand upon this platform, that we need to have that
available as negotiation for getting total information from
the oil industry. We do not have information available
to us in California as to how much oil is really available.
We do not know what the reserves are. That has got to come
to an end if we are going to develop a rational energy policy.
And we need not just this platform, we need a lot
of things to negotiate with that industry to get them to
change their policies, because their policies must change
if we are going to have a rational energy policy, a policy
which will enable the Los Angeles Department of Water and
Power to have fossil fuel and will allow the Department of
General Services to supply petroleum products for the
Highway Patrol and the Division of Forestry. Those kinds of
things are long-term negotiations. I would suggest to you
that this application has been focused down very narrowly
to just these additional wells and the short-term income.

Both the Lieutenant Governor and the Controller
are well aware, in your legislative capacity previously,
that one of our chronic problems in the State Government is
the long-range planning versus the short-range gain. In
prior administrations, neglecting this one, one of the
chronic arguments that the minority party was making was
that we were being -- to save this dollar now we were
wasting future income. And I would suggest to you that that
is what this kind of approach of letting out these leases
and under these conditions, and permitting these additional
wells is foregoing the opportunity for us to negotiate
a better deal next month or next year. I think it has to
go into the total question of long-range budget, not just
the immediate cash needs of today. The question of whether
or not we should, for example, not lease out unless we get
something in return, or not grant those permits unless we
have some understanding that we are going to have a supply
of petroleum products for the State of California, and will
ARCO bid on our petroleum needs? Those kinds of questions
are really not looked at, and if you act now, if it were
not for the TRO that was spoken of earlier that was granted
yesterday, we will not have that opportunity to negotiate
those things, and I think if each of you think about the
long-range implications and the broad spectrum of duties of
legislators, the Lieutenant-Governor, the Controller, the
Director of Finance, I think you will realize that those are
the kind of things that a government, a new Administration,
needs, and you are taking that away from them.

That is something that I'd like for you to
consider before you make that decision. I do concur with the statements of the other two individuals, as I indicated, but I think not just as you are sitting there as members of the Lands Commission, but as Controller, what it means to the long-range future of this State and this nation; as you are sitting there as the Director of Finance, the current Director of Finance, and John, you as the Lieutenant Governor, because I think it really is part of that question that I would hope to leave with you and hope that you consider that before you make up your decision.

CHAIRMAN FLOURNOY: Thank you very much. Any questions?

MR. GLADISH: Yes, Mr. Chairman. Next I have Mr. Richard W. Mansfield with the State Building and Construction Trades Council of California.

MR. MANSFIELD: Thank you, Mr. Chairman. My name is Dick Mansfield and I am the legislative advocate and representative for the State Building Construction Trades Council. Our Council consists of about 480 affiliated craft councils and local unions that are involved in the construction industry. We have approximately 380,000 members in the State of California.

Our Council is viewing with growing concern the problem of the energy crisis and the impact that it is having on California's economy, and the economic outlook.
for the nation in general. The membership of my Council right now is facing a 32% unemployment factor. Housing is off better than 50% what it was over a year ago. The lumber industry is practically shut down.

Now obviously we have to look at what some of these causes are. And in trying to reach some kind of a rational conclusion, we examined the effect of the environmental movement upon employment, upon manufacturing, upon the use of sources of energy. And as a result of the environmental movement, not taking into consideration socio-economic factors, we put ourselves in a position where as an importer of oil and petroleum products, we are at the mercy of those nations who are exporting those products.

Even today, Canada has served notice upon the United States that after I think it is five or six years, they are not longer going to export any oil to this country. Nor are they going to sell any natural gas to this country because they want to become a self-sufficient energy producing nation, and if they continue to export then they will not be self-sufficient. They have taken the right approach and I think it is the approach that this country must take.

Recently in Washington, one of President Ford's aides states that on a short term basis the development of all of our sources of energy in this country must be undertaken at once. The result of that policy of course
is the current federal leasing program in the Santa Barbara Channel and the Continental Shelf off the coast of Southern California.

On that Continental Shelf, it is estimated that there is 32 to 26 billion barrels of oil. This oil, if it were developed, would certainly go a long way toward alleviating the energy crisis.

Now second, I would like to touch upon what impact direct impact, that this is having upon our economy. With the world market of oil at $10.55 a barrel, or whatever it is -- and the Arabs just recently stated that they were going to increase the price another 5% -- this automatically raises the cost of every single thing that is manufactured.

It raises the cost of my people, who some of them have to drive a hundred miles a day to go to work. They are going to end up paying in the future 75¢ or maybe a dollar for a gallon of gasoline.

And gentlemen, our Council is going to do something about it. We are going to get deeply involved in all of these decisions which are going to directly affect employment.

Now, directing my comments towards the current application that you have in front of you. Obviously, I fully support the EXXON application and the Atlantic Richfield application. I am a long-time resident of Santa
Barbara. My family moved there in 1929. I was educated in the Santa Barbara City School System, and I lived there until 1967 when I moved here to Sacramento. Right after the war I was employed by the Signal Oil and Gas Company on their Ellwood lease, and I was employed by that company for seven years. I worked on well drilling rigs and I worked in construction and just about all the facets of that particular company's activity in the Ellwood area.

And I might say this, that that Ellwood lease with the condition that was kept in, the screening, the plantings that were placed around the pumping units, the screening and plantings were placed around all areas, in the operation of that lease during the time that I worked there, we never had any oil spill at all, none whatsoever. We did have a blowout and a well fire, and even on that occasion there wasn't any oil that ever reached the ocean.

But that lease was maintained, and looked better than a major portion of the City of Santa Barbara, down on the lower east side, where even today you have such conditions that are absolutely intolerable.

(Laughter.)

MR. MANSFIELD: I know that might sound funny but gentlemen this is the truth. The policy of the City of Santa Barbara, ever since I can remember, has been against any oil exploration whatsoever, regardless of what
effect it would have on the environment. And I think today we have to get our heads out of the sand and we are going to have to take a look at where we are going. And I think the environmental groups are going to have to take into consideration socio-economic factors. You have a fourteen hundred page report there but the socio-economic impact only consists of about a page and a half. And gentlemen, I think somewhere along the line that's going to have to be brought into balance.

Now, I recall, as I testified before you gentlemen on the other applications last month, I recall as a boy down on the beaches, Santa Barbars, down off the Carpinteria, there is a bluff right adjacent to the beach itself which is composed entirely of tar. It is a natural tar seep and on hot days that tar will actually ooze out of that bank and come right down onto the beach. Years ago they used to mine that tar for asphalt. They had a plant in there.

You go further north along the coast to Summerland. In the nineteen hundreds, there were actual springs in which petroleum bubbled up out of the ground. And at one time there were well over 200 wells offshore in the Summerland area, around 1904, 1905.

Off of the coast of Isla Vista, an area known as Coal Oil Point, which is where Platform Holly is just about off of that point, I have fished out off of that
point, and there is a natural seep there where about five
or six barrels a day of oil, seep up right off the ocean
floor, and there is gas bubbles that come up with it. Off
of Gavolta you have had other natural tar seeps. And all of
these petroleum products, or petroleum, whatever you want
to call it, wash up on the beach, obviously, and people
get it on their feet and so on and so forth. Every time
the wind shifts down there, you get an accumulation of that
building up in the Channel, it comes up on the beach and
somebody says, "Well, there has been another oil spill
somewhere."

Well gentlemen, that is just not true. That oil
has been on these beaches for years. In the log of, I
believe it was Sir Francis Drake, and other early explorers,
ye brought their ships in to the Goleta Slough area at
low tide and they used the tar that they found along the
beach to re-calk the ship, and that is a matter of record.

And I think that, gentlemen, we are going to have
to take a real close look at this situation, and we
strongly urge you to approve these applications. We think
that all of the proper measures have been taken to protect
the environment. That oil belongs to the citizens of the
State of California and not the citizens of Santa Barbara.
And we all have a stake, a very critical stake, in that
development. And I strongly urge that you approve the
applications.

CHAIRMAN FLOURNOY: Thank you very much, Mr. Mansfield. Any questions?

Thank you.

MR. GLADISH: Mr. Chairman, I have a note here that there is a speaker from the Oil Chemical Atomic Workers International Union. I don't have a name.

MR. KELTY: My name is George Kelty, Mr. Chairman, and rather than be repetitive I would just like to say that as far as we are concerned, the Oil Chemical and Atomic Workers, we are for granting this drilling operation. The reason for that is that we do have a, as you well know in the State of California, a very high unemployment ratio. By the way, this won't give us one member. We have no jurisdiction on the rigs. Our jurisdiction ends at the coast. And so consequently we won't gain one member from it. But we are interested in people working. At the present time we have a high ratio of unemployment. We also feel that as far as any energy is concerned, that this will aid in refinery operation in the area and consequently I can do no more than to urge you to adopt this resolution.

CHAIRMAN FLOURNOY: Thank you.

MR. GLADISH: Mr. Chairman, the last name I have on the list is Senator Omer L. Rains from Ventura and Santa Barbara Counties.
CHAIRMAN FLOURNOY: Senator Rains.

How was the bus ride?

SENATOR RAINS: Not very comfortable.

Good morning, Mr. Chairman, members, the statement that I just gave Mr. Gladish is a statement that I gave on September 21st. I will also distribute before the morning is over the statement that I give today. I gave you only the statement of September 21st because I would like to incorporate that by reference in the remarks that I intend to make at this time. I do this because I do not feel that the points of concern which I raised at that time have, for the most part, been adequately answered in the Final Environmental Impact Report.

I hasten to add, however, that to the extent that revised EIR does address itself to the concerns voiced on September 21st, the State Lands Commission and the consultant are to be commended.

Today, however, I wish to direct my oral remarks to three areas that I feel to be in particular need of additional clarification and/or revision.

First of all, Mr. Barry Cappello, City Attorney, for the City of Santa Barbara, and I, both raised the question of liability at the September 21st hearing. The response to that question, in the final EIR, and I have the page numbers if you so desire, is in my opinion
inadequate, to say the least. To state that "existing
state and federal laws, oil industry compensation funds,
current lease arrangements, and the judicial process
adequately provide for all costs incurred by public entities
resulting from oil spills" is to deny the experience of
Santa Barbara over the past five years.

As I pointed out at the time of the earlier hearing,
shoreline public and private property, including property
owned by local governmental entities, experienced
unconscionable delays in receiving compensation following
the 1969 spills. Although liability for damages was
seemingly clear under California law, over four years of
negotiations and litigation were required before damaged
public entities were compensated. Moreover, there was no
compensation whatever for loss of tax revenues and the
resulting diminution in public services.

In substance, due to the great difficulties involved
in securing even partial compensation for damages resulting
from the 1969 oil spill, the assurances set forth in the
final EIR are simply not acceptable to the majority of the
people in my district. And my district, by the way, does
include the two coastal counties most affected, Santa Barbara
and Ventura.

Given this situation, it is my feeling that the
State Lands Commission should demand that ARCO accept strict
and unlimited liability for all damages that result from their conduct on state leases whether or not negligence is established. Should the State Lands Commission feel that it lacks such authority under Section 6829(e) of the Public Resources Code, I urge that remedial legislation be sought to clear up any existing ambiguity in this area. I stand ready, as a member of the State Senate, to support such legislation.

Until this question is resolved, I believe this Commission would be prudent in delaying its decision with respect to this particular application.

I would now like to turn my attention to two closely related issues which I feel must be addressed in greater detail and with greater care than has been done in the final Environmental Impact Report. The first of these concerns personnel training in blowout prevention. According to the BIR, it is the policy of ARCO to send drilling personnel to the Louisiana State University Blowout Prevention School. While we are assured that company drilling foremen and supervisors are required to attend LSU or an equivalent school, it is interesting to note that ARCO requires only "on-the-job training" for its crews. In other words, those most immediately involved in a drilling operation are being given in-house, or on-the-job training, and this does not, from all evidence, compare well with
formal blowout prevention school training.

My suggestions here are twofold. One, the State Lands Commission should not rely on ARCO to continue a policy of unsupervised in-house training. Rather the Commission should require supervised and adequate training. And two, such training should include attendance at blowout prevention courses by all platform personnel from roughnecks to supervisors.

A related issue is the question of cleanup capability. This question has, of course, been rehashed time and time again. Yet it remains one of the weakest points in the entire Environmental Impact Report, and therefore requires still further discussion. Several pages of the report in Volume I, p15 through 18, are devoted to a discussion of various types of available cleanup equipment. Yet there is no discussion whatever of the amount of oil which each available piece of equipment will pick up. We are informed that equipment today can pick up oil in five-to-six foot swells at 20 knots. But the question remains, how much oil will these pieces of equipment pick up? Until this question is answered, I do not feel that ARCO has supplied vitally needed information.

Moreover, concerning the aforementioned size of the waves and the winds in which such equipment is effective, it is important to remember that such conditions are
normal in the channel waters. Indeed, the 1969 spill was carried onshore by winds and waves considerably larger than those mentioned.

Yet another problem is the fact that emergency supplies must still be brought from Port Hueneme, a distance which causes considerable loss of time in trying to stop an oil spill before it reaches major proportions. Notwithstanding the discussion on page 297 of the EIR, nowhere is there any assurance that if the 1969 oil spill were to occur tomorrow, the results would be any less disastrous than they were in 1969. For this reason I cannot accept the rather categorical assertion that the cleanup capability is now sufficiently advanced that we may proceed without considerable danger to our shores.

The third question I wish to raise today is that of increased tanker traffic in the Channel. Obviously, the chance of one tanker colliding with another tanker or ship or platform goes up as the number of ships increase, from perhaps the present 6,000 a year to somewhere around 10,900 in the 1980's, if we are to accept most of the estimates now being advanced. The Coast Guard is apparently now taking a position that pursuant to the provision of the Jones Act it will route tankers outside the Channel, a step in the right direction to be sure. But, will it be enforced, and if so, how?
Tankers moving into shoreline installations, such as the Ellwood field, or the proposed EXXON installation at Las Flores, or to an LNG Terminal at Point Conception, all that cross traffic will greatly increase the chance of collision. This, of course, does not even take into consideration the continued possibility of increased tanker and super-tanker traffic through the Santa Barbara Channel from the Alaska Pipeline Terminal at Valdez or from the EXXON development off Gaviota.

Lest you think that I am exaggerating the possibilities of an accident, allow me to cite but a few statistics. In only the first quarter of 1974, according to the Tanker Advisory Center, there were 326 tanker accidents reported. The more serious ones included 18 fires, 29 breakups due to weather and 15 major collisions. Overall, from 1959 to 1968 there were 50,559 tankers of various sizes afloat. Of these 13,379 reported some kind of accident resulting in significant damage, often the total loss of the ship.

There are several recommendations which might lessen the dangers in this area. A) Re-route tankers and large vessels outside the Channel islands, a detour which would add approximately 24 nautical miles to the passage of such vessels along the coast. This could be done by the Intergovernmental Maritime Consultative Organization.
IMCO, international agreements. In addition to such agreements, or in lieu of such agreements, if they are not feasible, a traffic control system based on the experience of France and the United Kingdom in the English Channel should be established. And most important of all, we should make every effort to decrease, not increase, such traffic, by not allowing the expansion of the present drilling operation or the installation of new drilling operations in the Santa Barbara Channel at this time.

One final comment. Without going into the detail I did on September 21st, I remain deeply concerned about the cumulative effect of all the contemplated oil activities in the Santa Barbara Channel. To virtually ignore the cumulative impact of onshore and offshore drilling, of increased tanker traffic, of the mish-mash of onshore and offshore lines, and of vehicular traffic, is a travesty to meaningful ecological thought.

In my opinion the final Environmental Impact Report remains seriously deficient in this regard. Thank you.

CHAIRMAN FLOURNOY: Are there any questions of the Senator?

Thank you very much, Senator.

MR. GLADISH: Mr. Chairman, I have a note that the counsel for Atlantic Richfield would like to make a
brief statement and clarify something. Mr. Jeff Pendergraft.

MR. PENDERGRAFT: Gentlemen, my name is Jeff

Pendergraft, attorney for Atlantic Richfield. I had not

intended to make any remarks today so I will keep them

rather brief. I just wanted to clear up the record on one

or two points.

First of all, Mr. Weingand, President of GOO,

indicated that a court in San Francisco had issued a TRO

preventing Atlantic Richfield from conducting operations in

the Santa Barbara Channel, pending a hearing. That is not

accurate. The regional Coastal Commission, sometime ago,

granted Atlantic Richfield an exemption for operations in

the Santa Barbara Channel. That exemption was affirmed

by the State Commission. The Attorney General agreed with

the recommendations of both the regional -- or the findings,

of the regional Commission and the State Commission.

A hearing was held in the San Francisco Superior

Court in October, and last Monday the Court asked, or ordered,

that new drilling not be commenced until a decision could

be prepared, which is expected within a week or two.

The second statement that was made, I believe it

was Mr. Cappello, indicated that Don McFarland, his

consultant, advised that there is a possibility of pollution

from pumping ballast water from the tankers. That statement

is also inaccurate. The Environmental Impact Report
indicates that all ballast water from the tankers will be handled at an onshore disposal facility.

I just wanted to clear the record up on those two points. I might also make one other comment. Several of the speakers have indicated that this Commission is not the proper Commission to decide this matter. It seems to me that, at least Mr. Flournoy, you were on the Commission that originally imposed the moratorium. This Commission is the Commission that has studied the problem and has been involved with it for several years, and I think that they are the only ones with the experience and the knowledge to decide this matter today. Thank you.

CHAIRMAN FLOURNOY: Thank you very much, Mr. Pendergraft.

MR. GLADISH: Mr. Chairman, that exhausts the list of people that I am aware of that wish to speak on this subject.

CHAIRMAN FLOURNOY: Are there any others here who wish to speak to the Commission on this matter?

Okay.

LIEUTENANT GOVERNOR HARMER: Mr. Chairman, I will move the adoption of the application.

CHAIRMAN FLOURNOY: Mr. Harmer has moved the adoption of the recommendation. Is there a second?

MR. ORR: I will second it.
CHAIRMAN FLOURNOY: Is there any discussion?

MR. ORR: Yes. I have sympathy with the position that was expressed, as I think all members of the Commission do. I think it is pertinent to state that this Commission has heard geothermal drilling, and has had an audience not quite this large but equally opposed to geothermal drilling. We had an audience at least this large when we talked about the atomic plant in the south coast, and there was strong objection to that.

I think it was Mr. Cappello that indicated it would be more advantageous to get the American people to cut their consumption of energy. That's a laudable thought but apparently quite impracticable. I note that since oil became available the sale of small cars has practically ceased and the American public has gone back to the purchase of large cars.

So, while I have sympathy for the position, I think the overwhelming problem that this country faces is the importation of oil in such quantities that our balance of payments over the next five or ten years will be horribly deficient. For that reason I feel that I am fully in sympathy with the motion to approve the drilling.

CHAIRMAN FLOURNOY: I would just like to make a couple of comments with regard to this motion. I think they particularly relate to the appropriateness of this
Commission, acting because I think it is true that this Commission, and I am the only one, I suppose, who was here at the beginning and at the end of the last eight years, heard all the arguments a year ago or more when we made the original decision with regard to both lifting the moratorium and requesting lease-by-lease proposals from the various lessees so that they could be considered.

I think that we have been very very responsive over the years to environmental considerations in the Santa Barbara Channel. I think that we are so today. I think that we have to face the horns of a dilemma in terms of the optimum or ultimate total recognition of both values that are involved here, those that are environmental and those that are economic, and some that are legal that haven't even been mentioned. And I think that we have tried, throughout this whole process, which culminates in this proposal, to reconcile these competing demands and to realize the optimum protection of the environment as well as the optimum utilization of our resources. It is on that basis that I too will support the recommendation.

It has been moved and seconded. All those in favor say aye.

LIEUTENANT GOVERNOR HARMER: Aye.
MR. ORR: Aye.
CHAIRMAN FLOURNOY: Aye. It is unanimous and
the recommendation will be approved. Let's see. We then have left for consideration, I think -- we are going to put 5A last. Is there someone who wishes to address 5C, the Sequoia Refining Corporation item? If there is no one who wishes to address the 5C operation --

ASSEMBLYMAN CORY: I would like to speak on it.

MR. TROUT: Mr. Chairman, and certainly Mr. Orr, will remember that over the past two to three years we have brought before you a number of renewals of old leases to the oil companies operating marine terminals and pipeline facilities in California waters under the Commission's jurisdiction. I think we told you at the time the Auditor General made a report about the lease-rental rates that we had substantially, in some cases in the neighborhood of a thousand to fourteen hundred percent, increased the rent of that company. The only remaining company at that time who had not renewed their lease was Sequoia, and as a result of our negotiations, and the Commission's backing, Sequoia has now succumbed or agreed to the revised-rent schedules. Their rent will go up very substantially as a result of this lease.

It is an existing lease. It is a detached wharf for tankers and a pipeline from that detached wharf to their
petroleum processing plant near Hercules. It is a facility that has been in existence for some period of time. The rent has gone up about $10,000 from what it was originally, and the rent now will be $14,500 per year. It is based on the present rental rates applying to appraised value plus the costs or the rental rates for the pipelines.

It is an extension of a lease that had been formerly entered into, with amendments to reflect a recent boundary line agreement that was approved fixing the boundary, relating to Hercules, Sequoia, and I believe the third party was Phillips. Anyway, there was a boundary line agreement of which Sequoia was a party.

So this also amends the lease description. It is an existing industrial lease.

MR. ORR: Could I ask what the most recent rent was before this?

MR. TROUT: Excuse me?

MR. ORR: Could I ask what was the most recent rent before this?

MR. TROUT: Well, they had been paying $10,000 a year until the rental rate figures had been resolved and we had come up with an agreed rental procedure. They will also have to pay us back rent to the effective date of this lease which was November, 1965.

MR. ORR: I see.
MR. TROUT: They are paying $4,000 --

MR. ORR: Oh, nine years back dating it?

MR. TROUT: Forty-five hundred dollars a month back dating.

MR. ORR: Now, is this a lease that has been leased on a percentage of the appraised -- for instance six percent or seven percent or eight percent?

MR. TROUT: The area occupied by the wharf and its useable areas surrounding it is based on six percent of appraised value of the lands.

Then there is a pipeline bundle that runs from the refinery to the detached wharf, and that is at the current regulations of one cent per diameter inch per linear foot.

MR. ORR: I thought we talked here about not continuing the lease at six percent. I thought we talked about that being an unrealistic figure.

ASSEMBLYMAN CORY: You are making my speech.

MR. GLADISH: Mr. Chairman, we had an item earlier, a proposed emergency regulation, establishing that rate at eight percent. In addition we have entered into some additional studies to further evaluate the adequacy of the eight percent.

However, the Attorney General has advised us that our case for adopting the eight percent under the emergency
regulation aspect of the Administrative Procedures was weak. Therefore we asked you to concur that we should file this proposed regulation under the normal procedure, 30-day announcement, of the proposed regulation setting documentation. Under that concept this may be adjusted at eight percent. It would come back for formal adoption after a 30-day period. Perhaps --

MR. ORR: I wonder if I understand you. It has been my contention that we ought to go to eight percent. Let us assume -- it may be more but we will say eight percent. But let us assume that we produce our regulation, it goes to eight percent, we have our hearing in thirty days or whatever, the necessary time elapses, and sometime in March the new Commission has before it an effective eight percent rate. Do we go back on this lease at eight percent clear back to '65?

MR. TROUT: That would not be the case. At the next renewal period it would be adjusted at the higher rental. The only argument that could be made for going ahead on this basis is that this was an understanding with even a prior Commission before this one in the 1960s that the oil companies would at such time as an agreement was reached between the Commission on a rental rate schedule, they would uniformly pay retroactive rent to the effective date of that time, and all have at the six percent rate with
the exception of Sequoia which is now before you. The others will also be up-to whatever the current rate is at the time the rents are reviewed. Currently on most of them it is on five year intervals.

MR. ORR: Well, Mr. Chairman, I have no objection to a retroactive rate from 1965 to the present time at six percent because that's been the State Lands Commission policy, and I don't think you can go back on a company and change your policy. But this goes until 1980 and I don't see why we give them the next six years at six percent.

We are right in the process of going to eight percent and it has already taken us nine years to consummate a rental agreement.

MR. TROUT: I think maybe we ought to probably have the Office of the Attorney General comment on that. A lease document was executed by the company and they have deposited a rental. And what effect your motion would have, I think maybe we ought to have their comments on it. We certainly have no objection to putting it over, from the staff's standpoint.

MR. TAYLOR: Mr. Chairman, from my reading of this calendar item, this matter is an agreement on an existing lease and I hadn't understood it as being a completely new lease. Their lease still has five years to run, so if I understand this calendar item, this calendar item is an
agreement at what the rental rate would have been during this interim period. And there is no new lease being contemplated at this time, but an adjustment of the amount of money due under the lease which was entered into by the Commission in 1965.

CHAIRMAN FLOURNOY: Is what you are saying that there was a lease made in 1965 between the Lands Commission and the lessee, pending the determination of the rate that would be paid and what that amount was?

MR. TAYLOR: That is correct. And in my computation there is still five -- there is only five years remaining on the initial period of that lease and --

CHAIRMAN FLOURNOY: I suppose what becomes pertinent is whether or not a lease itself, and when it was executed, incorporated the six percent rate and merely left the determination of what it was as applied to the value of the property, to be determined or whether or not it did not so incorporate that. Because I suspect it is a legal point of view that would have bearing as to whether or not we can change it.

MR. TROUT: The original lease did not address itself, as I recall it, to the six percent per se. There was, in the process, a negotiation between the industry and the Commission as to the method for assessing rental rates to the oil companies and their marine terminals.
Those negotiations were in progress at the time Sequoia sought this lease in 1965. They agreed, at that time, to pay $10,000 per year, with the understanding that at such time as the Commission reached agreement with the industry on an appropriate rental rate assessment or a rental rate schedule applicable to this type of leasing, they would pay retroactively back to the effective date of the lease, that amount.

I think our only point is that there was really no negotiations. The oil companies finally capitulated in agreeing that the Commission's approach, its rules and regulations affecting the rental rates for these kinds of facilities, was a proper and correct approach and they have, to a company, now agreed with Sequoia's agreement to the percentage of appraised value, including not only the actual area occupied by the facility but an additional area of use, maneuvering space, berthing space, whatever additional exclusive occupancy they wanted, as this is an effective and appropriate way of appraising the property and affixing the rent.

And as such, the amendment, the primary purpose of this amendment is to amend the legal description to reflect a recent boundary line agreement. They are also agreeing to our rental schedule. They have deposited the nine years of $4,509.93 worth of money with us, and in
addition have paid $14,509 for the next period.

This then brings them into line with all of the other companies who have in effect totally capitulated to the Commission's rental rate rules and regulations.

LIEUTENANT GOVERNOR HARMER: We are not then extending the length of time of the lease?

MR. TROUT: The lease is not being extended. It has three -- it is a forty-five year lease, a fifteen year initial term and three additional renewal periods. This is not a renewal of the lease. This is an amendment of the legal description and in effect a fixing of the rental rate pursuant to the agreement of the industry that the Commission's rate fixing of rental review process is appropriate.

LIEUTENANT GOVERNOR HARMER: Any action we took here would not affect the impact on this lease of the change in the percentage from six to eight, right?

MR. TROUT: At the time that this would be renewed in 1980 it would be subject to the percentage rate or whatever was then in effect, the same as with several other oil companies.

LIEUTENANT GOVERNOR HARMER: But nothing we do here affects the time when the lease is subject to renewal, does it?

MR. TROUT: Correct.
LIEUTENANT GOVERNOR HARMER: So we are simply by this action today bringing it into conformity with everybody else and in effect settling the dispute that has been going on for nearly ten years as to how much rent they have to pay.

MR. TROUT: As to the rent. That is the effect of this item.

LIEUTENANT GOVERNOR HARMER: Thank you.

Mr. Chairman, excuse me.

CHAIRMAN FLOURNOY: It's all right. We can't--I hope the Attorney General keeps listening because I sense all kinds of legal problems. We cannot in essence change the terms of the lease by anything we do here today, can we?

MR. TAYLOR: No.

CHAIRMAN FLOURNOY: Well, we couldn't say we will knock it down to ten years and that reflects from the time it was entered into until the time that these new regulations may be adopted, and they can worry about the new period?

MR. TAYLOR: No, I do not believe that you can.

MR. GLADISH: Mr. Chairman?

CHAIRMAN FLOURNOY: Yes.

MR. GLADISH: Mr. Taylor, could we reserve the right to adjust the percentage rate on the last five years of the first term?
MR. TAYLOR: Off the record.

(Thereupon a short discussion was held off the record.)

CHAIRMAN FLOURNOY: Mr. Cory is already anxious to speak on that.

ASSEMBLYMAN CORY: Good. You are doing fine. This is why I thought you should put it over. It seems to me that my understanding is slightly different than the staff but very close to the Commission members, that the rental fee was in dispute and it is subject to what you decide here today if you decide, as to what that rate should be. And if you should decide it should be at eight percent rate, and if they are willing to agree to it, Sequoia agrees, you can take it back eight percent. There is a rate in dispute and there is option to do that, and it seems highly inappropriate, when you have got on the same agenda as originally prepared, an item going to eight percent, to approve this retroactively at six.

There are some other questions I have but it seems to me that you have a great deal of options, and rather than to forego those I think they ought to be explored.

MR. ORR: Mr. Cory, for what it's worth, my suggestion would be that it would be unfair to the company to go back ten years at an eight percent rate when we are only now arriving at what I certainly think prospectively —
ASSEMBLYMAN CORY: I would suggest that the fact that they have only paid $10,000.00 for fourteen years when they should have been paying -- and we can't apparently legally collect the interest -- that two percent kicker, which legally can be put on and is not so unfair, they have been skating pretty free and pretty easy for fourteen years.

CHAIRMAN FLOURNOY: My own view is that I think the Attorney General ought to research what the options are and come back at the next meeting and lay it out.

MR. ORR: Yes.

MR. SHAVELSON: Mr. Chairman, I was just going to say that we didn't contemplate that this was going to be a controversial item and we would like the opportunity to study carefully the terms.

CHAIRMAN FLOURNOY: So moved.

LIEUTENANT GOVERNOR HARMER: Second.

CHAIRMAN FLOURNOY: And passed.

Okay. That takes care of 5C. Let's move on.

I have here a note on item 13A. Oh yes, Main Zone Unit, Huntington Beach Field, Orange County.

MR. GLADISH: Yes, Mr. Chairman and commissioners, this item is a request to protect our interest financially and to protect the energy supply from a broad standpoint by modifying certain lease royalty rates. Specifically I am going to refer to a number of leases combined into what
is known as a 91.1 Main Zone Unit. This unit was formed for the benefit of lease holders and the State.

Most of these leases have produced oil since the 1930s. In 1972 a unit was formed as a means to maximize additional recovery. In short, the unit, as it exists today, consists of thirty leases controlled by Burmah Oil and Gas, and twenty held by others.

In 1972 when the unit was formed, several things happened. The State approved formation of the unit to facilitate secondary recovery by water flooding. Burmah Oil and Gas spent about $4 million in capital investment. Most of the original wells were plugged for efficiency measures and new wells were drilled. As a result of that, a mixture of oil and water is produced with a ratio of about fifteen barrels of mix for each barrel of oil that is recovered. There are great variations on this but that is about the average.

I might interject that these leases, in the aggregate, have produced about $30 million in royalties for the State.

After the unit was in effect and the things I mentioned had gone on, the projected reservoir estimate of recoverable oil was revised downward from something like twelve and a half million barrels to about four million barrels. Oil prices for this oil have risen from $2.60 a
barrel to well over $104.00. Normally this would be a help to a unit or a lease holder or the State.

However, this unit is unique. Most of the leases in this unit pay the State on a price sensitive royalty rate. The higher the price of oil the higher the royalty rate due the State. At the time the unit was formed in 1962 the price was such that the royalty rate was about twenty-two percent. At today's price of $10.40 for this oil in this area the applicable royalty rate is eighty-four percent. Out of every hundred barrels produced, the State gets paid for eighty-four. This leaves sixteen barrels to cover costs and other related items.

In February of this year, Burmah Oil and Gas and others in the unit came to the State and indicated that they would be compelled to break the unit unless some adjustment in royalty rate would be forthcoming. This matter was a major concern to us if, assuming that they were right, the State would sustain a potential loss of about $7 million. This loss could conceivably come about by a change in the royalty rate that could occur if their interpretation and their facts were right, that the unit could be broken. The royalty rate would decline under those circumstances to about twelve and a half percent.

This unit can be terminated by a vote of eighty percent of the participants for nonprofitability.
We, the last ten months, have disputed measurements on profitability but our analysis of current conditions indicates that they have a strong case. Their analysis of course leaves no doubt.

(Laughter.)

MR. GLADISH: Given the problem, possible litigation, likelihood of termination of the unit, potential losses and benefits of this unit, we entered into negotiations, spent some, as I mentioned, nine or ten months of staff efforts, computer time, outside consultants, expertise from the AG's Office, and we recently arrived at what we believe will be an acceptable settlement.

Our goals in this matter of negotiation were to maximize the State's income by using overall income under current, although maybe theoretical methods, as our target. In other words, we did not want to change cash flow to the State. This was implemented by modifying the cash flow curve so that the unit was placed in the black during the next two years, the main deficit period. This reduction in royalty is essentially recovered in the period from year two to year twelve. In other words, starting two years from now and going on to twelve years from now.

We have a proposed settlement that treats Burmah Oil and Gas separately from the other lessees because Burmah has the unique ability to compensate the State for a
short term royalty reduction by agreeing to increase royalty rates in the long pull. Burmah also bears the cost for initiating the unit and carrying out the cost of secondary recovery.

The highlights of the proposal before you in regards to Burmah are these. We reduced the royalty rate, the maximum royalty rate on primary oil, oil produced for the next two years, easement leases, to forty-five percent. The royalty rate for Burmah on the main PRC '91.1 lease or secondary would be increased from twelve and a half percent to nineteen percent for that period starting two years from now. In addition, Burmah would agree that if the unit is terminated by certain voluntary actions, they would agree to pay the State the difference between the new royalty rate and what the State would have received without this adjustment.

In this case of breaking it at the higher royalty rate on a secondary, it would also remain in effect. Burmah agreed that their interest in the 91.1 Main Zone would not be quitclaimed or otherwise surrendered to the State or any other party without prior consent of the State.

Highlights of the proposal in regards to the non-Burma leaseholders are: Royalties on these leases would be reduced to a maximum of seventy-five percent for oil produced during the primary period, two years. The
State would receive the same limitations on termination and quitclaiming leases described in the Burmah proposal. This proposal puts the non-Burmah lessees in the black by our calculations, but just in the black.

Mr. Chairman, this proposal places the unit, as I indicated in the black, modifies royalty rates, protects the State from a possible rate loss of revenues in terms of breaking the unit and will have little effect on long term revenue. I ask that you approve the execution of documents by the staff with the advice of the Attorney General to accomplish the aforementioned purposes.

CHAIRMAN FLOURNOY: Okay. Is there any --

MR. GLADISH: Excuse me, Mr. Chairman. I have some correspondence from Mr. A. C. Marion of the Mar Rico Oil Company. He indicates that he would like to have the royalty rate reduced to forty-five percent.

MR. ORR: Mr. Chairman, I'd like to just make sure of one thing that I believe I understood. The price sensitive royalty is eight-four percent at $10.00. If it went to $12.00 or $14.00 or some such figure then they would pay a hundred percent?

MR. GLADISH: I believe, as I recall, in looking at those leases that there are graphs attached on them to explain the royalty rates. I believe it exceeds a hundred percent.
MR. EVERITTS: The formula is roughly eight times the price so twelve and a half dollars would be roughly one hundred percent.

MR. ORR: Then you would have no question that it is unprofitable.

(Laughter.)

MR. ORR: Well now, let me ask one other question which is purely technical in nature. The oil producing countries in the last week or two have raised the price of petroleum I believe five percent or some such matter. Is that likely to be reflected in this $10.00 rate? In other words, is that sensitive to imported oil rates or is that --

MR. GLADISH: Certainly, certainly. The $10.00 rate went into effect about thirty, forty days ago.

MR. EVERITTS: October 1.

MR. GLADISH: October 1. This rate is very sensitive to imports so I would suspect that we could expect some rather large fluctuations in the new oil price.

MR. ORR: So then there is already the possibility that we will be paying $10.50 a barrel?

MR. GLADISH: It is at $10.40 and has gone up over $1.00 since we started working on the problem.

MR. ORR: That's all I have.

CHAIRMAN FLOURNOY: Okay. Any other?
LIEUTENANT GOVERNOR: Just one question. What about the other small individual leaseholders? Are we going to expose ourselves to some litigation on their part if they are not included in the agreement?

MR. GLADISH: There will be separate agreements with the individuals and with Burmah. And we propose, and under this proposal would set their royalty rate at a maximum of seventy-five percent effective the first of December. Our calculations would put them in the black and would, in our mind, remove much of the incentive for litigation.

CHAIRMAN FLOURNOY: So we are dealing, in essence, with all the people?

MR. GLADISH: Everyone, yes.

CHAIRMAN FLOURNOY: Any further discussion?

LIEUTENANT GOVERNOR HARMER: I move the adoption.

MR. ORR: Second.

CHAIRMAN FLOURNOY: It has been moved and seconded. Without objection it will be approved.

Let's see. Now we have got Long Beach dry gas.

MR. GLADISH: Mr. Chairman, I don't have any backup for this item. I anticipated, when we prepared this item, that we would have settled some negotiations on this dispute that exists between the State Lands Division staff and the
City of Long Beach in regards to price paid to the State for dry gas.

CHAIRMAN FLOURNOY: Well, we don't have it.

MR. GLADISH: Chapter 138 sets up a definition of pricing mechanism and gives neither the State nor the City leverage in terms of the price. The law says that the State and the City shall agree, and the standards upon which our current agreements were based are in our mind not adequate, nor are they, I believe, in the mind of the City, although I don't want to speak for them in this case.

The City gave us notice under the current agreement to enter negotiations on a price change about a year and a half ago. They want the price to go down and we want the price to go up. That's the long and the short of the problem.

CHAIRMAN FLOURNOY: In other words, you have both been in violation of the law. You have not agreed as it says.

(Laughter.)

MR. GLADISH: I think they have come in some ways to recognize, at least, that they owe us a considerable amount of money at this point regardless of how it is settled. But considering that at this point in time I would ask your authorization to prepare a comprehensive critique of this problem for you and for the new Commission.
for the Legislature and for the City of Long Beach in anticipation that this would stimulate resolution of the problem.

CHAIRMAN FLOURNOY: I think that's fine, since we can't resolve it today. I think we ought to get that, and if we need additional help, create a mechanism to facilitate the agreement, and we will probably have to go to the Legislature to get it.

All right. That leaves us where?

MR. ORR: EXXON. But you also have Mr. Cory's request for a new meeting time. I am going to leave but I'd like to talk for a moment to that new meeting. I'd like to ask the Attorney General how much time must be given for items on the agenda? Is it ten days?

MR. TAYLOR: It is one week.

MR. ORR: One week. Then it wouldn't do any good to set it on the seventh because the agenda couldn't be published, but they could do it easily on the fourteenth.

ASSEMBLYMAN CORY: If we could give you the agenda items --

MR. ORR: I know, but that's going further than I want to go because that puts the new Commission into effect earlier and I am simply not willing to do that, Mr. Cory, but I am not anxious to hold you beyond either. I'd like to set it the thirteenth or fourteenth.
CHAIRMAN FLOURNOY: Well, I'd say that technically, the sixth -- so it would be the sixteenth.

MR. ORR: No, a week.

CHAIRMAN FLOURNOY: Oh, a week?

MR. ORR: A week.

CHAIRMAN FLOURNOY: Monday the thirteenth?

MR. ORR: Monday the thirteenth. I have no objection to that. I just don't see that the new Commission should start to act until they are legally constituted, by setting an agenda.

CHAIRMAN FLOURNOY: I'd be perfectly happy to go along with that. We will amend that and take that item out of sequence. The next meeting of the Commission will be January the 13th, 1975. Is ten o'clock all right, Mr. Orr?

ASSEMBLYMAN CORY: It's awfully early but I can make it.

CHAIRMAN FLOURNOY: In Sacramento.

(Laughter.)

CHAIRMAN FLOURNOY: Now, let's go back. That leaves only the EXXON item, right?

MR. CLADISH: Yes, sir.

CHAIRMAN FLOURNOY: Okay.

MR. CLADISH: Mr. Chairman, if I might, Mr. Trout prepared to present in summary the project and the
environmental impact and how it relates to our responsibilities on the project, and I'd like to close when he concludes.

MR. TROUT: Mr. Chairman and Lieutenant Governor, the EXXON project is just a little different from the project that Mr. Everitts has presented to you in that in this case the project involves the Federal Outer Continental Shelf lease with the Santa Ynez unit, which is basically this unit here. The unit operator is EXXON Corporation.

The proposed drill site on this project is in Federal Outer Continental waters shown with this large red circle. The project has been the subject of a Federal environmental impact report and which was approved by the Undersecretary of the Interior on August 16th, 1974.

The project involving the Commission starts at the offshore boundary of the State which is three geographic miles from the nearest point, and runs across State tidelands and onto the shore near El Capitan in an area which terminates in the Torrey Canyon, which was mentioned earlier by some of the speakers, with an onshore facility.

The other aspect of it is a relocation of an existing marine loading terminal, which is this small circle right here, to a new marine terminal located farther out to sea. So, the thing to be emphasized here is that there has been Federal treatment of the Federal leasing program and the Federal offshore drilling platform. The Commission's
jurisdiction involves the tidelands from the outer boundaries of the State to the mean high tide line at the point where the pipelines go on shore.

The project across Commission jurisdiction involves a 16-inch well production line coming to shore along this red right of way, a 12-inch gas line along the same right of way, an eight-inch water line, fresh water line, out to the platform, and a six-inch power cable out to the platform. It also involves a 24-inch marine loading line coming along the same right of way and then spurring out to the new marine loading terminal. The present marine loading terminal here involves a standard five-point mooring system, was formerly used by Shell Oil Company and is primarily a barge loading facility. It is right at the edge of the kelp beds in here and the Department of Fish and Game has a kelp harvester under lease in that area at the present time.

The new facility will be thirty-seven to thirty-seven hundred feet out from shore and will be some distance from the kelp beds and will involve a radius, a circled radius of eight hundred feet, and it will be of the new single-anchor-leg mooring system, instead of five or seven buoys. It will be a single buoy to which the barge or small tanker will revolve so that it always heads into the waves or the wind. This site is not conducive or is it possible to be used for a supertanker. It is limited by
the depth of water and by the size of the ground gears in
the relatively small coastal tankers and so it is not a
supertanker single point mooring. It's not big enough.
The water is not deep enough. It just is a superior state
to the arch of the old five-point mooring system.

The pipeline in the near-shore zone will be
buried out to the point where the wave effects will no
longer be noticed on the bottom and it will be buried either
by blasting, where necessary, through rocks, and they will
have to get a permit from Fish and Game or by jetting in
this area.

So that is basically the project. To get a
relationship, this is Point Conception and here is the
now familiar Holly, Hilda, Hazel and Hope Platforms, Goleta
and Santa Barbara. This is the location of the proposed
right of way.

MR. GLADISH: Mr. Chairman, the development plan
for this lease was approved by the Department of the
Interior in August of this year. Indications are that this
lease will contribute about one billion barrels of crude
oil and a half a billion cubic feet of gas to our energy
supply. The approved plan contains two alternatives for
the handling of oil and gas. One involves bringing the oil
and gas to shore via pipelines and the system that Mr. Trout
has described, storage facility modifications on shore,
and an existing marine floating terminal off shore. This alternative requires approval, of course, of this Commission, Santa Barbara County and the Coastal Commission.

The County of Santa Barbara Planning Commission yesterday, after three hearings, it is my understanding approved this project coming in on shore in terms of their jurisdiction, and it is also my understanding that portions of the project must yet go to the Board of Supervisors.

The Coastal Commission has not yet acted upon this project.

The second alternative that was also approved by the Secretary of the Interior, should the State and county bodies not approve onshore operations, involves treating and storage of oil in a floating vessel moored outside the three-mile limit. Treated crude oil would then be off loaded to shuttle barges or tankers for transport to market.

Alternative one, bringing the oil and gas to shore has two basic benefits. It involves less environmental risk and will allow for the utilization of the natural gas production, which as has been stated here today, is in short supply. The staff of the State Lands Division has had this item under study for about a year and a half. The EIR was reviewed and endorsed by the Resources Agency, and Mr. Chairman and Commissioners, I recommend approval.

CHAIRMAN FOURNOY: Okay. Do we have any group of people who want to speak to this?
MR. GLADISH: I don't have any correspondence in my hands, Mr. Chairman. I don't know.

CHAIRMAN FLOURNOY: Mr. Cory, I think he does. I would hope that we would not be repetitive.

ASSEMBLYMAN CORY: Mr. Chairman and members, there is, I guess, five points I would like to make suggesting why you should not approve the staff's recommendation on this. First of all, the fee suggested is inadequate, and being consistent with the action that you took on the Sequoia lease previously, in reviewing the documents, I came to the conclusion that this lease is based upon a six-percent return rather than an eight-percent return. So it is faulty in the same manner as the Sequoia one was on the basis to begin with. That is just the first flaw that I find in that.

There is another thing. I believe you are familiar with the Auditor General's report on State leasing of these types of facilities generally, which was highly critical of the Lands Commission staff in the way they have been handled. One of the differences is that they made comparisons between the Port of Los Angeles and the City of Long Beach, whose leases for facilities of this type include a wharfage fee. It is standard throughout the entire west coast, possibly even in violation of the antitrust laws, that everybody charges one cent per barrel for the...
right to move the oil across; a wharfage fee if you will.

The City of Long Beach is receiving that. The Port of

Los Angeles is receiving that. Seattle charges such a fee.

Other governmental agencies charge that kind of a fee. The

State of California has not and that is a significant

reduction in the revenues to the State of California. If

such a fee were charged, given things we gleaned out of the

environmental impact, we are talking about a half a billion

dollars a year that could be collected.

And that has not been contemplated. It is a

concept that the State Lands Commission has not in the past

charged, but there is a new lease. There are other

governmental agencies that do it, and therefore I think it

should be considered. And that's the reason why I bring

it to you.

Now, trying to move on, with respect to the lease

statement, my review of that finds it entirely inadequate

because it in essence relies upon a Federal EIR. And when

you go through it, there is a great deal of detail in there

with reference to the fact that they have taken cognizance

of where the lines are actually located to minimize any

difficulties with faults or seismic activity, earthquake

problems.

When you actually, on a very careful look, you

find that the federal report was for each of offshore.
located in a different location than the pipelines contemplated in this. And there is an erroneous -- if
are placing pipelines carefully to avoid earthwork difficulties there is no amendment to the Federal report to show how they really do conform and do not conform. I think the impact report is faulty in that regard and should at least be amended to make a clear statement as to how those do relate to the incoming and outgoing line.

The application and recommendations of the staff do not include absolute liability, a point that was touched on in the ARCO matter, and I won't dwell on that. I think you understand that.

The final point I think that I would like to say if you feel that you must proceed with this one -- I feel that you should not -- I feel that the impact statement is not adequate according to current law and I am prepared if you do proceed, to take the question to the courts immediately. So if you do choose to proceed, I would hope that you would ask your attorney to follow mine across to the Superior Court because we are asking for a restraining order.

LIEUTENANT GOVERNOR HARMER: That's almost standard procedure, Mr. Cory.

ASSEMBLYMAN CORY: I realize that, but to do otherwise would be sneaky. I didn't want to be sneaky about
it but I really feel that it is inadequate.

LIEUTENANT GOVERNOR HARMER: I would never accuse you of being sneaky.

ASSEMBLYMAN CORY: So I just wanted to lay it out on the table so that you knew it and so that you would have your guy there, but I am sure that you will see the wisdom of my words and forget the foolish statement that I made at the last and will decide this on the merits and not approve this.

CHAIRMAN FLOURNOY: I appreciate that, Mr. Cory. Thank you.

MR. CAPPELLO: May I, Mr. Chairman.

CHAIRMAN FLOURNOY: Sure.

MR. CAPPELLO: Again, Mr. Chairman, for the record I am A. Barry Cappello, City Attorney for the City of Santa Barbara. I apologize to Mr. Gladish because I did not indicate that I wanted to speak on this issue.

We actually feel that we did not receive adequate notice with regards to this particular issue. Two particular points I'd like to make. Number one, and I will be very brief, we did oppose the EXXON project, and we incorporated our remarks and are incorporated at the time of the Federal lease in this EIR and are incorporated therein and wish to have them made a part of this record, if that may.
CHAIRMAN FLOURNOY: All right.

MR. CAPPELLO: Thank you. Number two, and most importantly, as this Commission knows, the City of Santa Barbara has always taken the position that the State Land Commission should be the leader in new leases, in new leases, to have a clause in there that the company accepts total and absolute liability for all damages that arise from any accident regardless of negligence on the platform. This is a new lease. This clause is not in this lease and we feel that this Commission should not go out without that clause in the lease.

CHAIRMAN FLOURNOY: Okay.

MR. COLE: Mr. Chairman.

CHAIRMAN FLOURNOY: Yes, sir.

MR. COLE: William Cole, from the Gas Company. Just so that there is no question, I would ask that any work with respect to the ARCO application be incorporated in the record with respect to the EXXON application.

CHAIRMAN FLOURNOY: They will be so incorporated. Any further comments?

What about the comment, Mr. Gladish, with regard to the six percent figure in this particular lease?

MR. GLADISH: Mr. Chairman and Mr. Taylor, would it be possible for us, for the Commission to adopt a language that would allow for incorporation of the ultimately

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agreed on rate, ultimately the rate passed by the Commission, whatever that might be?

MR. TAYLOR: Mr. Gladish, I think the answer to that is that this is a contract arrangement, but this Commission has the ability to make any statement it wants with regard to its approval of this lease. If it is concurred to by ARCO then it would become effective—or EXXON, excuse me. You could approve it at this point at eight percent rental. You could approve the calendar item subject to the fact that they would agree to an amendment of the lease or a change in the terms before it is signed of eight percent consideration, and that the consideration item set forth here be revised to reflect an eight percent figure. You could condition the approval.

CHAIRMAN FLOURNOY: We could condition it on the basis that it would be subject to an eight percent approval if the Lands Commission adopted a regulation to such effect within what, six months or a year? That would give you plenty of time to have that reviewed. So it is contingent on moving if such a regulation is adopted to apply to all renewals and new leases within six months.

MR. TAYLOR: That language should be worked into the lease and just made part of it.

ASSEMBLYMAN CORY: That leaves the mortgage question.
CHAIRMAN FLOURNOY: I understand that. That is a different question.

MR. TAYLOR: You have the power to set it.

CHAIRMAN FLOURNOY: Why don't we do this? If there is going to be consideration of a regulation which is going to change the rate to be considered, and we have already served notice of the public hearing on that, I think we should have the leeway that the rate would be set pursuant to regulation and so adopted to apply to all new and transferred leases.

MR. GLADISH: Mr. Chairman, that would allow this item to proceed in this instance.

CHAIRMAN FLOURNOY: Yes, as far as that is concerned. There is no question about it.

MR. TAYLOR: There would have to be an amendment.

CHAIRMAN FLOURNOY: I will move the amendment and he will second it, I hope.

LIEUTENANT GOVERNOR HARMER: Second.

CHAIRMAN FLOURNOY: Or we don't have an amendment.

MR. TAYLOR: As I understand it then, the consideration would be six percent so long as that is the policy, but if the policy should change within six months --

CHAIRMAN FLOURNOY: Six months, I would think.

MR. TAYLOR: -- the consideration would automatically change to the new policy of the Lands Commission.

END OF CONVERSATION.
CHAIRMAN FLOURNOY: You could do it that way, or we are talking a six months figure, you could make it retroactive to the time of the lease. Can you do that?

MR. TAYLOR: Well, you are --

MR. GLADISH: That's a new lease.

CHAIRMAN FLOURNOY: It's a new lease. All I am saying is that if the Commission, within six months, decides that the basis should be eight percent for all leases, this one will be adjusted to eight percent from its commencement.

MR. TAYLOR: That is fine.

LIEUTENANT GOVERNOR HARMER: Second.

CHAIRMAN FLOURNOY: That amendment has been moved and adopted. As to the other problem --

LIEUTENANT GOVERNOR HARMER: Is there a rationale, Mr. Gladish, that has been presented to us regarding the wharfage fee, the cent a barrel wharfage fee? Is there a distinction between our own situation here and that situation?

MR. GLADISH: Yes, Governor. We, and I'm not sure about the date but it was somewhere between six and nine months ago, we received a report from the Auditor General's Office, raising some of these kinds of questions. That report was rebutted before this Commission and a formal report filed as to the nonapplicability of some of those concepts. And generally, what is going on when you start talking about the Port of Seattle or the Port of Los Angeles
or the Port of Long Beach, they are providing services to
those, and in some cases actually building the docks or
whatever else, the facilities, lights, power and so forth.
We provide only unimproved sites, and that is the distinction
between us and the kind of people that have been referred
to today. And in that discussion, the major distinction is
we are leasing unimproved real estate.

CHAIRMAN FLOURNOY: It is a matter of fact that
this matter was reviewed by the Commission and the staff
did submit a report rebutting it. I recall that specifically
and to the satisfaction of the Commission. We did not
change the policy.

MR. GLADISH: Yes, right. We do not provide
police services or sanitation services or anything.

CHAIRMAN FLOURNOY: The matter was reviewed in
its entirety at that time and I think that basically it would
be inappropriate to review it in terms of this particular
lease.

ASSEMBLYMAN CORY: Mr. Chairman, could I impose
for just 15 seconds?

CHAIRMAN FLOURNOY: Sure.

ASSEMBLYMAN CORY: There are two fees in those
other leases, one a dockage and one a wharfage fees. A
dockage fee is usually a per foot for the vessel, which covers
the cost of the facility, the electrical, sanitation facilities
that Mr. Gladish speaks of. The wharfage fee is a fee merely for having a pipeline running across the land of which there is no facilities provided. That is using the company's pipelines, and that is a fee. It is called a wharfage fee because of some Constitutional questions. And there are two separate fees and I think that that should be made, since we are talking about a half a million dollars a year on a significant term. Thank you.

LIEUTENANT GOVERNOR HARMER: Mr. Chairman, without pursuing the matter further with respect to Mr. Cory's observations, I'd simply move the adoption of the recommendation.

CHAIRMAN FLOURNOY: It has been moved and I will second it. I would like to make a couple of observations too, I think, particularly with regard to this, the question of liability. I think the State is in the middleman position very much so, not having the ability to prevent the Federal Government from going to the other alternative with regard to floating ships and off-loading tankers and everything else, for which we could prevent nothing. I think that the County and the onshore facilities that are contemplated are within the local jurisdiction and the Coastal Zone Commission and I think that obviously there are advantages to the pipeline environmentally, as well as in terms of the gas. And I think that we should proceed.

And therefore I will second the motion and it is obviously
carried.

Is there anything else to come before the Commission today?

Then we stand adjourned.

(Thereupon the December 19, 1974 meeting of the State Lands Commission was adjourned at 12:55 p.m.)
State of California } ss
County of Sacramento }

I, RONALD J. PETERS, a Notary Public in and for
the County of Sacramento, State of California, duly appointed
and commissioned to administer oaths, do hereby certify:

That I am a disinterested person herein; that the
foregoing State Lands Commission Meeting was reported in
shorthand by me, Ronald J. Peters, a Certified Shorthand
Reporter of the State of California, and thereafter transcribed
into typewriting.

I further certify that I am not of counsel or
attorney for either or any of the parties to said meeting,
nor in any way interested in the outcome of the cause in
said caption.

IN WITNESS WHEREOF, I have hereunto set my hand
and affixed my seal of office this 3rd day of JANUARY
1975.

RONALD J. PETERS
Notary Public in and for the County
of Sacramento, State of California