

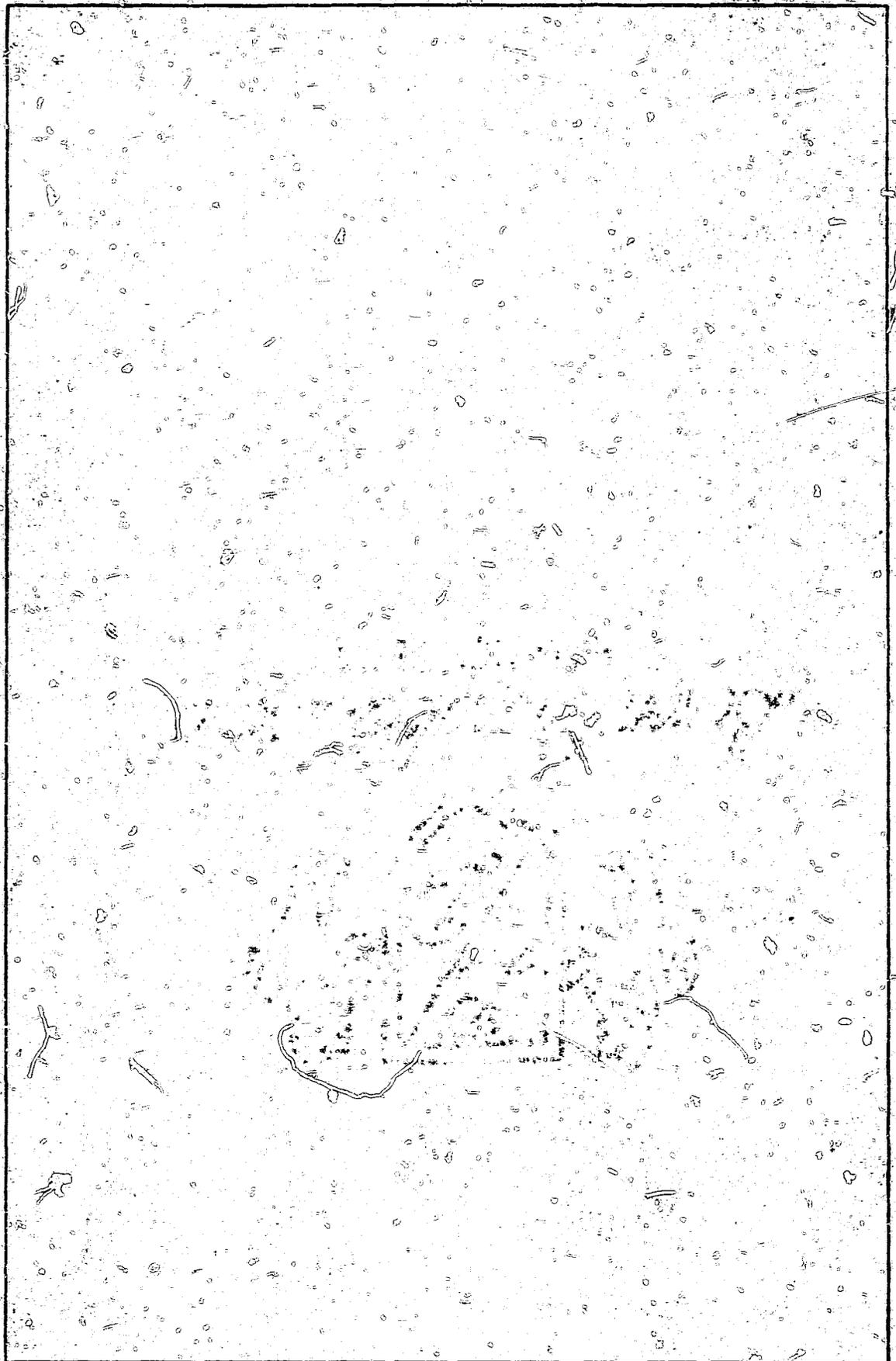
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MEETING
STATE LANDS COMMISSION

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.

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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

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PROCEEDINGS

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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.

2
1 Item number 6. Energy and Mineral Resources --
2 Statewide. I understand there is no one wishing to
3 address himself to Item 6A. We will skip 6B. Unless there
4 is some discussion or objection Item 6A will be approved
5 as indicated.

6 Hearing none, it is so ordered.

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

12 Hearing none, it is so ordered.

13 Item number 8. A and B.

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

16 CHAIRMAN FLOURNOY: Okay. We will put that over.

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

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

24 MR. GLADISH: Yes, Mr. Chairman.

25 CHAIRMAN FLOURNOY: Unless there is some discussion

1 or objection we will so revise it and authorize a public
2 hearing instead of approving it.

3 It is so ordered.

4 Item 8B. No problem with that?

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

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

15 Hearing none, it is so ordered.

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

20 Hearing none, it is so ordered.

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

24 Hearing none, it is so ordered.

25 Item number 11. There are two items. Unless there

1 is some discussion or objection they will be approved as
2 indicated.

3 Hearing none, it is so ordered.

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

7 MR. GLADISH: Yes, Mr. Chairman. As follow-up to
8 the meeting last month, I indicated to you that we would
9 submit to the Commission at this time a critique of the
10 report of the Auditor General regarding trespass. And at
11 this time I'd like to submit that report for the record.
12 In addition, Mr. Dick Golden, as Assistant Executive Officer,
13 has a report and a request for a resolution regarding back
14 payment, or payment due in regards to over payment from
15 Standard Oil on the pricing dispute we had earlier this
16 year. I'd call Mr. Golden..

17 MR. GOLDEN: This item is the supplemental
18 calendar item at the end of the calendar and it is strictly
19 a clarification of your policy. We understood that on
20 August 29 we were talking about all of the oil companies
21 who had paid under protest, and on the assumption that we
22 had the right to bill October 25 to February 21 of this
23 year at the exemption price amount. We have subsequently
24 in court been found to be wanting in that regard and
25 therefore we have to refund those amounts. All of the other

1 oil companies but Standard paid under protest and those
2 protest amounts went forward pursuant to your resolution of
3 August 29. We find, however, that where the case of
4 Standard Oil, they did not pay under protest and they
5 agreed with our interpretation of the law, and therefore
6 they are caught. We have to go through the procedure with
7 the State Board of Control. That requires that that is
8 done with the approval of the State Lands Commission, and
9 that really is the technical we are asking for approval of
10 today. We are treating them the same.

11 CHAIRMAN FLOURNOY: That is Item 14 on the
12 calendar?

13 MR. GOLDEN: Right.

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

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

20 MR. GOLDEN: They have.

21 MR. ORR: They have at this time?

22 MR. GOLDEN: They have at this time, and the
23 State Board of Control went forward on my authorization
24 because, as I understood the policy, it was to refund these
25 amounts in accordance with your August 29 memo or resolution,

1 if we just left them off the list because Standard was not
2 under protest. This is to clarify that they are being
3 treated no different than any of the other companies who
4 did give in on this basis.

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

7 Hearing none, we shall ratify your action.

8 MR. GOLDEN: Thank you.

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

11 MR. GLADISH: Yes, sir.

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

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

20 These leases were issued in 1964 and 1965 for a
21 total cash bonus in excess of 4 million dollars. Production
22 to-date from these leases is more than 8 million barrels
23 of oil and 8-1/2 billion cubic feet of gas. Total royalty
24 received by the State to-date has been about 10 million
25 dollars.

1 The purpose of the project is the extraction of
2 oil and gas from the Monterey Zone underlying the subject
3 leases from the existing Platform "Holly". It is anticipated
4 that in addition to certain redrilling and recompletion of
5 the existing 13 wells, 17 new wells would be drilled from
6 "Holly". Production is estimated to be increased from the
7 present 3,000 barrels per day to approximately 20,000
8 barrels per day with State revenue increased by \$100,000
9 per day at the height of this production. It should be
10 noted, however, that the proposed project will depend upon
11 the lessee obtaining approvals for necessary modifications
12 to onshore oil and gas processing facilities. However, in
13 the event these approvals cannot be obtained, or are
14 delayed, the lessee is prepared to implement a partial
15 interim development program. This partial program would
16 involve the initial drilling of 8 to 10 new wells, a reduced
17 rate of Monterey oil production (12,000 barrels per day rather
18 than 20,000 barrels per day), reinjection of Monterey gas
19 at Platform Holly, and use of existing onshore facilities.
20 Such a partial program would reduce State revenue to about
21 \$50,000 per day.

22 Because this project involved the development of
23 a reservoir which may, upon expanded drilling, lead to a
24 significantly larger productive limit, the staff required
25 an environmental impact report. Such report was prepared

1 by Dames and Moore, a well-known environmental consulting
2 firm, under the direction of the Division staff with advice
3 from concerned units of the Resources Agency. The report
4 was processed in accordance with the State Guidelines and
5 CEQA. On September 21, 1974, a public hearing was held in
6 Santa Barbara for the purpose of receiving comments on the
7 draft report, and all comments were considered and incorporated
8 into the final environmental impact report.

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

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

24 Other major considerations included in the report
25 include alternatives of the proposed project and growth.

1 inducing impacts. The scope of the investigation for the
2 report included a thorough literature search along with
3 some limited field surveys to establish base line
4 environmental conditions onshore and offshore in the project
5 area.

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

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

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

24 Mitigating measures, for the most part, deal with
25 oil spill prevention and control procedures. Such procedures

1 involve the use of appropriate safety equipment during
 2 drilling production phases and strict compliance with other
 3 applicable State codes and regulations which are now the
 4 most stringent in the world.

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

18 I just stated that special emphasis on mitigation
 19 of oil spills has been written into the report. This does
 20 not mean that we anticipate oil spills. We have said in
 21 the past however that the best efforts still may fail and
 22 there may be some oil on the water. Plans must be made
 23 to minimize that possibility and minimize any effect on the
 24 environment of such possibility. There is therefore a
 25 contingency plan which is part of this Environmental Impact

1 Report. It is a plan designed to provide an outline of
2 appropriate action to be taken in event of a spill.

3 It discusses the initial abatement of an incident,
4 it discusses reporting methods, and it discusses containment,
5 and containment of oil spilled, and ties in to the oil
6 spill co-op this industry has in the area, Clean Seas
7 Incorporated.

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

22 Those critical operations will not be started
23 or continued in operation if one or more of the following
24 conditions arise or are anticipated, such as fire, an
25 earthquake, or an unusual storm threatening the integrity

1 of the platform, when natural elements cause winds of forty
 2 knots or waves of eight feet, or when there is dense fog,
 3 if any of the safety alarms have been activated, if any of
 4 the blowout prevention equipment fails to test properly,
 5 if there is a shortage of mud control material in the well,
 6 if there is not a full inventory of oil spill clean up
 7 material, and many of these others.

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

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

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

25 Further successful development of these leases

1 will materially contribute to the State's energy needs and
2 add considerable amounts of non-tax revenue to the State
3 Treasury.

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

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

13 CHAIRMAN FLOURNOY: Okay.

14 LIEUTENANT GOVERNOR HARMER: Mr. Chairman, if I
15 might just ask one question?

16 CHAIRMAN FLOURNOY: Go ahead.

17 LIEUTENANT GOVERNOR HARMER: What was the situation
18 on the gas? If the county approves the onshore processing
19 facility, gas will be able to be processed and distributed?
20 If not, it will be --

21 MR. GLADISH: Rejected, yes, sir.

22 LIEUTENANT GOVERNOR HARMER: Do you have any
23 idea of what volume of gas we are talking about?

24 MR. GLADISH: I believe Mr. Everitts has it.

25 MR. EVERITTS: When you are talking about a gas

Baron Oil & Gas

1 oil ratio of about a thousand MCF, you are talking about
2 20,000 barrels a day.

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

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

18 There are a number of people here who wish to
19 speak to this issue. We received indications earlier that
20 Assemblyman Gary Hart, or Assemblyman-Elect Gary Hart
21 requested appearance, and Senator Rains, I mentioned earlier.
22 Mr. William Cole of the Southern California Gas Company,
23 Mr. Howard Hogue of Tidewater Marine Service, Mr. A. Barry
24 Cappello, City Attorney of the City of Santa Barbara and
25 Mr. Alvin C. Weingand of Get Oil Out, Santa Barbara.

1 CHAIRMAN FLOURNOY: Okay. Do you have that --

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

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

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

13 CHAIRMAN FLOURNOY: I apologize.

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

1 opposition to petroleum operations in the Santa Barbara
2 Channel.

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

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

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

1 The EIR states:

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

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

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

16 Many questions have been raised regarding the
17 effectiveness of present technology and training programs
18 to prevent blowouts and contain spills, and other witnesses
19 will have more to say about this. I would like to state,
20 however, that this whole area of concern has not received
21 sufficient attention in the final EIR. It is not enough
22 to respond to challenges made by knowledgeable individuals
23 who maintain that deficiencies exist in spill control
24 systems by merely saying, "We have spelled out our program
25 for you. It can be found on page such - and - such."

1 Throughout the report these systems are referred
2 to as "tested and proven techniques" although we do, finally,
3 find the admission that "under certain conditions, even the
4 best spill control systems are rendered useless."

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

7 "The leasee under the (State) lease is prohibited
8 from polluting or contaminating the ocean, tide-
9 lands, or navigable rivers or lakes."

10 It is the very existence in the law of just such a pro-
11 hibition that demands that a failsafe technology be
12 demonstrated.

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

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

19 "Dear Mr. Gladish: By letter dated October 8,
20 1974, this District, Goleta Water District,
21 advised the State Lands Commission that the
22 ARCO preliminary Environmental Impact Report
23 contained misstatements regarding the District
24 water allotment to supply the proposed Ellwood
25 onshore facility. Contrary to statements

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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 Ellwood onshore

1 facility should be thoroughly investigated and
2 reported in the final Environmental Impact
3 Report before it is accepted by this Commission.
4 The District strongly feels that this has not
5 been done and the final report should not be
6 accepted until it is. Very truly yours, Goleta
7 County Water District. Signed Robert A. Paul,
8 the General Manager and Chief Engineer."

9 The fourth issue that, from an environmental
10 standpoint I'd like to raise, is in regards to air pollution.

11 As an ocean and tourist oriented community, Santa
12 Barbara County is especially dependent on maintaining a
13 high level of air quality. It is a serious inadequacy,
14 therefore, that of all the potentials for environmental
15 degradation that are reviewed in this EIR, the whole
16 question of air pollution has been most irresponsibly
17 addressed.

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

24 The projects may be independent, but the emissions
25 surely are not.

1 Other speakers also have received totally unsatis-
2 factory answers to the questions they raised at the first
3 hearing regarding air quality, and they will respond to
4 these in greater detail. What this EIR does acknowledge
5 is the lack of the baseline data necessary to make adequate
6 assessments at this time. Yet ARCO is not willing to pursue
7 a meteorological monitoring program until, and only if, it
8 decides on further expansion of the South Ellwood field.

9 Finally, I would like to submit for the record
10 this letter from the Northwest Goleta Homeowners Association,
11 which I have given to Mr. Gladish, which identifies still
12 additional deficiencies. This association represents the
13 residents of almost 500 houses, all within a distance of
14 from 3/4 of a mile to 2 miles from the present ARCO onshore
15 installation. This may come as some surprise to the writers
16 of the EIR, who used 12-year old maps of the area which
17 indicate incorrectly that present land use is not sub-
18 stantially residential. In fact, it is estimated that
19 4,000 people live within that 2 mile radius. What are the
20 homeowners' experiences with air pollution from the
21 existing facility and their concerns about the future? I
22 quote briefly from the letter submitted to the Commission.

23 "Nearby homes are directly and continually
24 affected by air pollution emitted by the facility.
25 This now causes frequent odor problems and

1 occasional toxicity problems, and the APCD has
2 been unable to eliminate the pollution.
3 Hydrocarbons, which have been even more of a
4 problem than hydrogen sulfide, are projected to
5 increase under either partial or complete
6 development. The EIR states that this is all
7 right since background levels are so high, and
8 since pollutants are unlikely to impinge on
9 areas other than an uninhabited canyon. We
10 disagree! Local pollutant levels are now high
11 because of present operations at this site, and
12 we in our homes are subjected weekly to odors.
13 Even since this Commission's hearing in Santa
14 Barbara, an incident occurred in which the very
15 strong odor of hydrocarbons permeated inside
16 houses here. AN EMISSIONS INVENTORY IS NEEDED
17 FOR THE PRESENT EIR, and long - and short-term
18 health effects and effects on property values of
19 residences must be considered. Pollution will
20 increase unless extremely strict mitigation
21 measures are imposed, and this will result from
22 your granting the permit whether or not the
23 County allows expansion of onshore facilities.
24 Thus this is your responsibility."

25 Now, in addition to the environmental consideration,

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

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

25 Public confidence in our political system is now

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

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

13 I quote from Volume III:

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

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

22 The public comments which have been raised and
23 continue to be raised in opposition to ARCO's proposal,
24 represents the sentiments of hundreds of thousands of people,
25 as expressed by individuals, and representatives of civic

1 groups, environmental groups (both regional and statewide),
2 special districts, the City of Santa Barbara, the
3 environmental office of the County of Santa Barbara, and
4 representatives to State government such as Senator Rains
5 and myself.

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

10 Thank you very much, Mr. Chairman.

11 CHAIRMAN FLOURNOY: Are there any questions of
12 Assemblyman Hart?

13 Thank you very much.

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

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

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

22 CHAIRMAN FLOURNOY: Is he here?

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

24 CHAIRMAN FLOURNOY: Okay.

25 MR. COLE: Mr. Chairman, members of the Commission

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

10 The Southern California Gas Company is a public
11 utility subsidiary of the Pacific Lighting Corporation and
12 has been distributing natural gas to Southern California
13 homes, businesses and industry for more than 100 years.
14 My company currently provides the majority of gas service
15 to an area having a population in excess of 12 million
16 people through more than 3 million customer meters. It is
17 the largest single gas distribution system in the United
18 States. As a measure of the importance of natural gas to
19 Southern California, I would like to point out that on the
20 basis of surveys our company has made some 94 percent of
21 Southern California residents use gas for water heating;
22 92 percent of them heat their homes with gas; and
23 approximately 77 percent use natural gas for cooking. In
24 1973, as in the four prior years, our customers received
25 about 1 trillion cubic feet of natural gas annually. This

1 is approximately 5 percent of the total gas produced within
2 the United States.

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

20 Until the late 1960's our company was able to
21 acquire sufficient gas to meet all the needs of our
22 residential and commercial customers, almost all the
23 requirements of our large industrial customers and about 80
24 percent of the fossil fuel requirements of our utility
25 electric customers. However, since 1969, we have not been

1 able to acquire any additional supplies of gas from our out-
2 of-state suppliers - El Paso Natural Gas Company and
3 Transwestern Pipeline Company. On the contrary, under
4 decisions issued by the Federal Power Commission we have
5 been subjected to major curtailments of supply by these
6 companies - curtailments which are expected to grow larger
7 in the months and years ahead. In addition, since 1968 the
8 quantity of gas we have been able to obtain from California
9 producers has declined about 80 percent.

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

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

17 By examining this chart you will note the
18 anticipated continuing moderate growth in requirements
19 expected for our service area and you will also note the
20 significant drop in actual and forecast gas supply available
21 to meet those requirements. It is necessary to point out
22 that this forecast trend in supplies is based upon sources
23 currently available to our system and does not include the
24 possibility of receiving additional supplies which I will
25 discuss shortly. The chart indicates that by 1975 gas

1 service to utility electric-generating plants from our
2 system will be virtually non-existent, while our other
3 interruptible customers will receive severely diminished
4 supplies. You will also note that in the period of 1978
5 to 1979 supplies available are estimated to be inadequate
6 to meet the requirements of the firm residential customers
7 in Southern California. This is a dangerous prospect for
8 our community. Adequate energy supplies for industry are
9 essential if we are to avoid an even higher level of
10 unemployment than exists today. The effect of such
11 unemployment on the economy of Southern California, and on
12 the State of California as a whole, would be so great that
13 it is - in our view - a completely unacceptable alternative
14 to providing an adequate energy supply. Beyond these
15 arguments for increased supply is another important fact --
16 recognized in Southern California for almost 20 years --
17 that natural gas should be burned by industry to the extent
18 possible for environmental reasons.

19 Now I would like to turn to a short discussion of
20 our gas procurement program. We began our search for new
21 sources of supply several years ago when it became apparent
22 that we could no longer rely completely on California
23 producers and our two existing out-of-state suppliers to
24 provide us with enough additional gas to meet our future
25 needs.

1 To help develop additional domestic supplies, we
 2 are participating in gas exploration in our traditional
 3 supply areas of the southwestern states - New Mexico,
 4 Oklahoma and Texas.

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

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

21 An affiliated company is also participating in
 22 another consortium, the Polar Gas Group, which is making
 23 preliminary plans to pipeline Arctic Islands gas to eastern
 24 Canada and United States markets. The mid 80's are the
 25 earliest we can expect to obtain this gas.

1 Yet another affiliate, the Pacific Alaska LNG
 2 Company, has long been active in south Alaska negotiating
 3 for sufficient reserves to support a liquefied natural
 4 gas project from that area. We are hoping for these
 5 supplies to come in by 1979.

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

11 Now, with that background let me address the two
 12 matters which I mentioned earlier in my statement, ARCO's
 13 proposed development plan for the South Ellwood Offshore
 14 Oil Field and Exxon's proposal relating to the Santa Ynez
 15 Field. In the case of ARCO's proposal, the proposed develop-
 16 ment will, by ARCO's estimates, increase its ability to
 17 produce natural gas from that field in volumes that are
 18 now negligible to in excess of 7 billion cubic feet per
 19 year as early as 1976. I can't emphasize too strongly the
 20 importance to the Gas Company of obtaining additional
 21 supplies of gas in that time frame. As I mentioned, the
 22 long term projects we are attempting to develop are all
 23 going to take a substantial period of time before deliveries
 24 can commence under any of them. The ability to get
 25 increased local gas production earlier is most important.

1 With respect to Exxon's request relative to the Santa Ynez
 2 Unit, while it will not result in gas supplies as early
 3 as 1976, still the ability to have access to increased
 4 local production from that area in a relatively early time
 5 frame is likewise very important. For these reasons we are
 6 in full support of the requests of both of these companies.

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

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

21 In conclusion, let me summarize with a few clearly
 22 stated points: (1) Southern California is an energy short
 23 region, (2) alternative forms of energy will not solve the
 24 needs of our domestic natural gas consumers, (3) we feel
 25 that the drilling proposed in these projects can be

1 accomplished in an environmentally safe manner, (4) additional
 2 supplies of gas are needed just as soon as possible in the
 3 Southern California area even with conservation efforts,
 4 and, (5) without such gas supplies the economy of Southern
 5 California is severely jeopardized.

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

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

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

13 ASSEMBLYMAN CORY: The existing order is fine.

14 CHAIRMAN FLOURNOY: Okay.

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

18 CHAIRMAN FLOURNOY: What was the last name?

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

21 MR. HOGUE: Mr. Chairman, members of the State
 22 Lands Commission, my name is Howard Hogue and I have been
 23 a resident of Santa Barbara for approximately fifteen years.
 24 The aspects of the engineering and the Environmental
 25 Impact Report will be adequately covered and has already

1 been covered at this meeting and I would like to touch
2 principally on the social aspect and how that affects the
3 flora and fauna, with man being probably the most important
4 fauna that we have in Santa Barbara County.

5 I'd like --

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

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

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

24 Our company which employs the largest number of
25 seagoing people in the Santa Barbara Channel in the operation

1 of vessels for research and development and in support of
2 the oil industry has suffered the following reduction in
3 operations between the years 1968 and 1974.

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

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

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

23 In view of these facts I can state categorically
24 that there are a large number of citizens in Santa Barbara
25 County who would be most appreciative of new jobs and a

1 new flow of business income which would be created by the
2 orderly development of offshore oil in the Santa Barbara
3 Channel. These jobs are needed now.

4 The 17 wells that ARCO would like to develop from
5 their existing platform would produce 17,000 barrels of new
6 oil per day under full production. Royalty to the state
7 would accrue in the amount of 8,500 barrels per day valued
8 at \$10.55 per barrel under full production would pour
9 \$89,675 per day to the state which, annually would amount
10 to \$32,731,375 new income which will not be taken away from
11 any other source or entity and which would provide much
12 needed employment on a local basis at the same time.

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

24 I feel that this Board is uniquely equipped to
25 pass judgment on this question due to its long exposure

1 and experience with related problems. I fear any postpone-
2 ments will result in long delays detrimental to the State,
3 Santa Barbara County and its people.

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

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

12 Thank you very kindly.

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

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

24 Both Mr. Hogue and Mr. Cole, who spoke before
25 you, just prior to my appearance, have indicated the need

1 for the energy. The hearing before you is whether the
 2 Environmental Impact Report is an adequate report, and prior
 3 to the decision on whether this Commission needs the energy,
 4 and should approve the application, it must make the decision
 5 first on whether the environmental impact of this project
 6 will be significant.

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

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

19 Gentlemen: I am A. Barry Cappello, the City
 20 Attorney for the City of Santa Barbara; I am here representing
 21 the City Council on behalf of the City of Santa Barbara, to
 22 oppose approval of the application for the resumption of
 23 drilling operations in the South Ellwood Offshore Oil Field
 24 from Platform Holly. We oppose this application because
 25 adequate safeguards to protect the environment have not

1 been imposed by this Commission. Also, we oppose this
2 application because the State Lands Commission has not
3 complied with the Environmental Quality Act in the prepara-
4 tion of the Environmental Impact Report required for this
5 project.

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

1 the total drilling to be anticipated by the 1980's would show
2 that this project should not be approved.

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

21 By approval of this application the State Lands
22 Commission is indicating its approval to the concept of
23 transporting oil drilled from State Lands in the Santa
24 Barbara Channel by use of tankers. Yet the State Lands
25 Commission has not thoroughly studied whether onshore pipe-

1 lines should be constructed or that use of tankers should
2 not be permitted until there is a higher safety level.
3 Obviously, to build an onshore pipeline for one platform
4 is not economically feasible. However, in the long term,
5 an onshore pipeline may eliminate or greatly reduce the
6 need for tanker traffic in the Channel, not only for oil
7 drilled from State Lands, but also for oil drilled in
8 federal waters. By approving this project the Commission
9 is forcing itself to a gradual increase in tanker traffic
10 until the inevitable, a "Torrey Canyon" type accident and a
11 massive oil spill resulting therefrom.

12 One assumption made by the State Lands Commission
13 staff in the preparation of this E.I.R. is that the drilling
14 on Standard Oil Company platforms Heidi, Hilda, Hazel, and
15 Helen, would have no adverse impact on the environment.
16 I stress that again, that in the preparation of the E.I.R.
17 for Platform Holly, that those particular platforms, the
18 drilling from Standard Oil Company platforms, Heidi, Hilda,
19 Hazel, and Helen, would have no adverse impact on the
20 environment. They relied upon negative declarations. As
21 you know, there was extensive opposition to the filing of
22 negative declarations when the Standard Oil applications
23 were approved by the Commission. We are confident that the
24 outcome of the litigation we have filed will require pre-
25 paration of a full E.I.R. by the State Lands Commission.

1 Because this E.I.R. on Platform Holly is based upon that
2 erroneous assumption, it is imperative that approval of
3 this E.I.R. be withheld until the impact of the Standard
4 Oil projects is known, and gentlemen, that is probably going
5 to be two or three months.

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

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

24 I have provided to you and your staff the comments
25 of Donald L. McFarland regarding his review of the final

1 E.I.R. report. He states that tankers going to South
 2 Ellwood would be ballasted with sea water which must be
 3 pumped out prior to arrival at South Ellwood. The sea water
 4 is taken directly into the oil storage tanks and when pumped
 5 out into the ocean, carries many barrels of crude oil with
 6 it. This is a known source of deliberate pollution which
 7 must be eliminated prior to approval of any drilling
 8 operations.

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

11 The E.I.R. rejects the request we made at the
 12 hearing on the draft E.I.R. that Atlantic Richfield be
 13 required as a condition of drilling to assume liability for
 14 all damages including tax losses to be incurred as a result
 15 of an oil spill. The E.I.R. states that existing laws
 16 provide adequate method of recovery of damages. That is
 17 erroneous. The City of Santa Barbara had to litigate for
 18 five years to be compensated for damages. While we were
 19 establishing through oil company records their liability
 20 and while we were establishing through experts that the city
 21 had incurred millions of dollars worth of damages, the City
 22 of Santa Barbara had to reduce its payroll and services
 23 because of one type of oil spill damage -- a reduction in
 24 tax revenues. We were never paid for our tax losses. We
 25 believe that the State Lands Commission has the authority

1 and should require as a condition of approval of any off-
 2 shore drilling the assumption of liability by the applicant
 3 for all damages including tax losses. If the State Lands
 4 Commission believes that it does not have such authority,
 5 it would be entirely appropriate to delay any action on
 6 approving offshore drilling and to request from the State
 7 Legislature such authority.

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

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

21 "I am a resident of Santa Barbara and owner of a
 22 consulting design engineering business. I am also Commodore
 23 of the Santa Barbara Yacht Club for 1975 and sail a great
 24 deal in the Channel waters. I have been very concerned
 25 about the safety problems inherent in the proliferation of

1 oil platforms and tanker traffic. In addition, I have made
2 every effort to be abreast of containment and recovery
3 technology.

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

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

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

1 per year on the Channel's environment rather than view
2 South Ellwood's additional 60 tankers per year in isolation?

3 "3. Considerable data is presented to impress
4 the reader with safety measures and accident free operations.
5 Yet nothing is said about the deliberate pollution of the
6 Channel waters by tankers. The South Ellwood tankers must
7 arrive at the loading terminal empty. However, tankers
8 cannot safely travel in the empty condition, and therefore
9 the oil tanks are ballasted with sea water to approximately
10 40% capacity. The sea water is taken directly into the oil
11 storage tanks and when pumped out carries many barrels of
12 crude oil with it. 46% of all pollution caused by marine
13 operations results from ballast and bilge pumping. This is
14 deliberate -- not accidental pollution. Sixty additional
15 tanks per year approaching South Ellwood terminal, pumping
16 out their ballast water, will have a significant effect on
17 the Channel's environment.

18 "4. Much is made of 'Clean Seas' ability to contain
19 and recover spilled oil. However, by their own admission,
20 operations are limited to waves of 5 - 6 feet and winds of
21 20 knots. This is only a normal condition in the Channel
22 waters. The 1969 Spill was carried on shore by wind and
23 waves considerably in excess of that. Fishermen and
24 offshore sailors frequently encounter conditions far more
25 severe. Clean Seas has only one storage barge with a

1 capacity of 7,840 barrels and no shoreside facility to empty
 2 it. The 1969 Spill was in excess of 80,000 barrels! On
 3 hand is 1,000 feet of heavy duty containment barrier. This
 4 will only surround an area smaller than a football field!
 5 The capacity and equipment available in the event of a major
 6 spill is completely inadequate. The fact is, if the 1969
 7 Spill were repeated tomorrow, the results would be exactly
 8 the same. It is little comfort to know that there are 1,000
 9 tons of baled straw available in El Monte to soak up the
 10 oil on the beaches.

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

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

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

23 CHAIRMAN FLOURNOY: They will be.

24 MR. CAPPELLO: I will be happy to answer any
 25 questions, if you have them.

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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. Flournoy 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.

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1 Our arguments happily then were obviously compelling.
2 ing. Despite the recommendations from the Lands Commission
3 staff, who in my experience in the State Senate, and
4 subsequently have consistently and unwaveringly favored the
5 oil industry against the public interest. Nevertheless,
6 the Commission supported our request.

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

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

16 Before you is ARCO's application for the resumption
17 of drilling from Platform Holly off Ellwood. I should say
18 that before leaving Santa Barbara yesterday, a lawsuit
19 that GOO has filed against the State Coastal Commission,
20 the judge granted a temporary restraining order prohibiting
21 any operations, any extension of operations, by ARCO until
22 next year when the Court will hear the argument. Now, that
23 suit challenged the Coastal Commission's agreement to
24 permit further drilling without an Environmental Impact
25 statement, as you probably recall.

1 I don't even believe Mr. Cappello was aware of
2 that action that was taken within the last 36 hours.

3 We say that this application must be denied and
4 I am not going into all the excellent arguments against
5 further oil operations in the Santa Barbara Channel because
6 they have been advanced to you today, and there will be
7 more expert witnesses.

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

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

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

22 Certainly you are familiar with inherent dangers
23 of offshore oil drilling - and the complete and utter
24 inability of the oil companies to prevent, contain, recover,
25 or control oil spills. You have had countless examples

1 over the period of the last six years, and even before,
2 indicating this problem.

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

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

17 We have been told frequently about the cumulative
18 effect of oil operations and that it is impossible to
19 calculate what the future will hold if you allow the
20 extension of this business in that Channel. To ignore
21 this impact of offshore drilling, of the increased tanker
22 traffic, the mish mash of onshore and offshore pipelines,
23 and the vehicular traffic of oil trucks and whatnot is
24 unpardonable. Oil operations certainly long before this
25 should have been regarded as ultra-hazardous - and be subject

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1 as Mr. Cappello said, to unlimited liability for the pollution
2 of the air, the ocean, and our environment, and for tax
3 purposes, when accidents occur, not if they occur. And I
4 would certainly propose to our good legislators that
5 legislation is urgently needed to further this reasonable
6 objective.

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

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

23 Now, the hazards of shipping can't be over-
24 emphasized, and I hope you gentlemen will consider this
25 a threat to the environment that is extremely serious.

1 Gentlemen, we simply ask you to review all the
2 evidence submitted by responsible people. A former
3 President, whose name I won't mention, did have this to
4 say:

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

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

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

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

25 Merry Christmas to you all.

1 CHAIRMAN FLOURNOY: Thank you, Al. Is there any
2 question of Mr. Weingand?

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

5 Thank you very much.

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

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

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

21 ASSEMBLYMAN CORY: On the question of this
22 particular application I would like to concur in the
23 statements of Assemblyman Hart, and the City Attorney of
24 Santa Barbara. I think they dealt with the environmental
25 one. I would like to stress the lack of a requirement for

1 full or complete liability on the part of the applicant.
2 The conditions that have been suggested by the staff as
3 being adequate, I think are inadequate in that regard and
4 we do wish you would proceed.

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

18 I would suggest to you that that is not the
19 way to go because it has been that kind of piecemeal approach
20 that has led the major consortium of oil companies in this
21 country to get us into this fix we are currently in. They
22 have never wanted us to ask questions as to its impact upon
23 our energy policy. And particularly Mr. Orr, when we were
24 talking some time ago at the height of the so-called
25 energy crisis, the fact that our oil was being taken. ~~was~~

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1 those same major oil companies were not so generous in whether
2 or not they were going to supply us with oil at all, or
3 gasoline products. That's the kind of consideration that I
4 think we are giving up if we allow this individual company
5 to expand upon this platform, that we need to have that
6 available as negotiation for getting total information from
7 the oil industry. We do not have information available
8 to us in California as to how much oil is really available.
9 We do not know what the reserves are. That has got to come
10 to an end if we are going to develop a rational energy policy.

11 And we need not just this platform, we need a lot
12 of things to negotiate with that industry to get them to
13 change their policies, because their policies must change
14 if we are going to have a rational energy policy, a policy
15 which will enable the Los Angeles Department of Water and
16 Power to have fossil fuel and will allow the Department of
17 General Services to supply petroleum products for the
18 Highway Patrol and the Division of Forestry. Those kinds of
19 things are long-term negotiations. I would suggest to you
20 that this application has been focused down very narrowly
21 to just these additional wells and the short-term income.

22 Both the Lieutenant Governor and the Controller
23 are well aware, in your legislative capacity previously,
24 that one of our chronic problems in the State Government is
25 the long-range planning versus the short-range gain. In

1 prior administrations, neglecting this one, one of the
2 chronic arguments that the minority party was making was
3 that we were being -- to save this dollar now we were
4 wasting future income. And I would suggest to you that that
5 is what this kind of approach of letting out these leases
6 and under these conditions, and permitting these additional
7 wells is foregoing the opportunity for us to negotiate
8 a better deal next month or next year. I think it has to
9 go into the total question of long-range budget, not just
10 the immediate cash needs of today. The question of whether
11 or not we should, for example, not lease out unless we get
12 something in return or not grant those permits unless we
13 have some understanding that we are going to have a supply
14 of petroleum products for the State of California, and will
15 ARCO bid on our petroleum needs? Those kinds of questions
16 are really not looked at, and if you act now, if it were
17 not for the TRO that was spoken of earlier that was granted
18 yesterday, we will not have that opportunity to negotiate
19 those things, and I think if each of you think about the
20 long-range implications and the broad spectrum of duties of
21 legislators, the Lieutenant Governor, the Controller, the
22 Director of Finance, I think you will realize that those are
23 the kind of things that a government, a new Administration,
24 needs, and you are taking that away from them.

That is something that I'd like for you to

1 consider before you make that decision. I do concur with
 2 the statements of the other two individuals, as I indicated,
 3 but I think not just as you are sitting there as members of
 4 the Lands Commission, but as Controller, what it means
 5 to the long-range future of this State and this nation,
 6 as you are sitting there as the Director of Finance, the
 7 current Director of Finance, and John, you as the Lieutenant
 8 Governor, because I think it really is part of that question
 9 that I would hope to leave with you and hope that you consider
 10 that before you make up your decision.

11 CHAIRMAN FLOURNOY: Thank you very much. Any
 12 questions?

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

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

23 Our Council is viewing with growing concern the
 24 problem of the energy crisis and the impact that it is
 25 having on California's economy, and the economic outlook

1 for the nation in general. The membership of my Council
2 right now is facing a 32% unemployment factor. Housing is
3 off better than 50% what it was over a year ago. The
4 lumber industry is practically shut down.

5 Now obviously, we have to look at what some of
6 these causes are. And in trying to reach some kind of a
7 rational conclusion, we examined the effect of the
8 environmental movement upon employment, upon manufacturing,
9 upon the use of sources of energy. And as a result of the
10 environmental movement, not taking into consideration
11 socio-economic factors, we put ourselves in a position where
12 as an importer of oil and petroleum products, we are at the
13 mercy of those nations who are exporting those products.
14 Even today, Canada has served notice upon the United States
15 that after, I think it is five or six years, they are no
16 longer going to export any oil to this country. Nor are
17 they going to sell any natural gas to this country because
18 they want to become a self-sufficient energy producing
19 nation, and if they continue to export then they will not
20 be self-sufficient. They have taken the right approach
21 and I think it is the approach that this country must take.

22 Recently in Washington, one of President Ford's
23 aides states that on a short term basis the development of
24 all of our sources of energy in this country must be
25 undertaken at once. The result of that policy of course

1 is the current federal leasing program in the Santa Barbara
2 Channel and the Continental Shelf off the coast of Southern
3 California.

4 On that Continental Shelf, it is estimated that
5 there is 2 to 26 billion barrels of oil. This oil, if it
6 were developed, would certainly go a long way toward
7 alleviating the energy crisis.

8 Now second, I would like to touch upon what impact,
9 direct impact, that this is having upon our economy. With
10 the world market of oil at \$10.55 a barrel, or whatever it
11 is -- and the Arabs just recently stated that they were
12 going to increase the price another 5% -- this automatically
13 raises the cost of every single thing that is manufactured.
14 It raises the cost of my people, who some of them have to
15 drive a hundred miles a day to go to work. They are going
16 to end up paying in the future 75¢ or maybe a dollar for
17 a gallon of gasoline.

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

22 Now, directing my comments towards the current
23 application that you have in front of you, obviously we
24 fully support the EXXON application and the Atlantic
25 Richfield application. I am a long-time resident of Santa

1 Barbara. My family moved there in 1929. I was educated
 2 in the Santa Barbara City School System, and I lived there
 3 until 1967 when I moved here to Sacramento. Right after
 4 the war I was employed by the Signal Oil and Gas Company
 5 on their Ellwood lease, and I was employed by that company
 6 for seven years. I worked on well drilling rigs and I
 7 worked in construction and just about all the facets of
 8 that particular company's activity in the Ellwood area.

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

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

21 (Laughter.)

22 MR. MANSFIELD: I know that might sound funny
 23 but gentlemen this is the truth. The policy of the City
 24 of Santa Barbara, ever since I can remember, has been
 25 against any oil exploration whatsoever, regardless of what

1 effect it would have on the environment. And I think today
2 we have to get our heads out of the sand and we are going
3 to have to take a look at where we are going. And I think
4 the environmental groups are going to have to take into
5 consideration socio-economic factors. You have a fourteen
6 hundred page report there but the socio-economic impact
7 only consists of about a page and a half. And gentlemen,
8 I think somewhere along the line that's going to have to
9 be brought into balance.

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

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

23 Off of the coast of Isla Vista, an area known
24 as Coal Oil Point, which is where Platform Holly is, just
25 about off of that point, I have fished out off of that

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1 point, and there is a natural seep there where about five
2 or six barrels a day of oil, seep up right off the ocean
3 floor, and there is gas bubbles that come up with it. Off
4 of Gavotta you have had other natural tar seeps. And all of
5 these petroleum products, or petroleum, whatever you want
6 to call it, wash up on the beach, obviously, and people
7 get it on their feet, and so on and so forth. Every time
8 the wind shifts down there, you get an accumulation of that
9 building up in the Channel, it comes up on the beach and
10 somebody says, "Well, there has been another oil spill
11 somewhere."

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

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

1 applications.

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

4 Thank you.

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

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

22 CHAIRMAN FLOURNOY: Thank you.

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

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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 the revised EIR does address itself to the concerns voiced on September 21st, the State Lands Commission and the consultants 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

1 inadequate, to say the least. To state that "existing,
2 state and federal laws, oil industry compensation funds,
3 current lease arrangements, and the judicial process
4 adequately provide for all costs incurred by public entities
5 resulting from oil spills" is to deny the experience of
6 Santa Barbara over the past five years.

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

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

24 Given this situation, it is my feeling that the
25 State Lands Commission should demand that ARCO accept strict

1 and unlimited liability for all damages that result from
 2 their conduct on state leases whether or not negligence is
 3 established. Should the State Lands Commission feel that
 4 it lacks such authority under Section 6829(e) of the Public
 5 Resources Code, I urge that remedial legislation be sought
 6 to clear up any existing ambiguity in this area. I stand
 7 ready, as a member of the State Senate, to support such
 8 legislation.

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

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

1 formal blowout prevention school training.

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

9 A related issue is the question of cleanup
10 capability. This question has, of course, been rehashed
11 time and time again. Yet it remains one of the weakest
12 points in the entire Environmental Impact Report, and
13 therefore requires still further discussion. Several pages
14 of the report in Volume I, C15 through 18, are devoted to
15 a discussion of various types of available cleanup equipment.
16 Yet there is no discussion whatever of the amount of oil
17 which each available piece of equipment will pick up. We
18 are informed that equipment today can pick up oil in five
19 to six foot swells at 20 knots. But the question remains,
20 how much oil will these pieces of equipment pick up? Until
21 this question is answered, I do not feel that ARCO has
22 supplied vitally needed information.

23 Moreover, concerning the aforementioned size of
24 the waves and the winds in which such equipment is effective,
25 it is important to remember that such conditions are

1 normal in the channel waters. Indeed, the 1969 spill was
2 carried onshore by winds and waves considerably larger than
3 those mentioned.

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

15 The third question I wish to raise today is that
16 of increased tanker traffic in the Channel. Obviously, the
17 chance of one tanker colliding with another tanker or ship
18 or platform goes up as the number of ships increase, from
19 perhaps the present 6,000 a year to somewhere around 10,000
20 in the 1980's, if we are to accept most of the estimates
21 now being advanced. The Coast Guard is apparently now
22 taking a position that pursuant to the provision of the
23 Jones Act it will route tankers outside the Channel, a
24 step in the right direction to be sure. But, will it be
25 enforced, and if so, how?

1 Tankers moving into shoreline installations, such
 2 as the Ellwood field, or the proposed EXXON installation
 3 at Las Flores, or to an LNG Terminal at Point Conception,
 4 all that cross traffic will greatly increase the chance of
 5 collision. This, of course, does not even take into
 6 consideration the continued possibility of increased tanker
 7 and super-tanker traffic through the Santa Barbara Channel
 8 from the Alaska Pipeline Terminal at Valdez or from the EXXON
 9 development off Caviota.

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

20 There are several recommendations which might
 21 lessen the dangers in this area. A) Re-route tankers and
 22 large vessels outside the Channel islands, a detour which
 23 would add approximately 24 nautical miles to the passage
 24 of such vessels along the coast. This could be done by
 25 the Intergovernmental Maritime Consultative Organization,

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1 IMCO, international agreements. In addition to such
2 agreements, or in lieu of such agreements, if they are not
3 feasible, a traffic control system based on the experience
4 of France and the United Kingdom in the English Channel
5 should be established. And most important of all, we
6 should make every effort to decrease, not increase, such
7 traffic, by not allowing the expansion of the present
8 drilling operation or the installation of new drilling
9 operations in the Santa Barbara Channel at this time.

10 One final comment. Without going into the detail
11 I did on September 2nd, I remain deeply concerned about
12 the cumulative effect of all the contemplated oil activities
13 in the Santa Barbara Channel. To virtually ignore the
14 cumulative impact of onshore and offshore drilling, of
15 increased tanker traffic, of the mish-mash of onshore and
16 offshore lines, and of vehicular traffic, is a travesty
17 to meaningful ecological thought.

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

21 CHAIRMAN FLOURNOY: Are there any questions of
22 the Senator?

23 Thank you very much, Senator.

24 MR. GLADISH: Mr. Chairman, I have a note that
25 the counsel for Atlantic Richfield would like to make a

1 brief statement and clarify something. Mr. Jeff Pendergraft.

2 MR. PENDERGRAFT: Gentlemen, my name is Jeff
3 Pendergraft, attorney for Atlantic Richfield. I had not
4 intended to make any remarks today so I will keep them
5 rather brief. I just wanted to clear up the record on one
6 or two points.

7 First of all, Mr. Weingand, President of GOO,
8 indicated that a court in San Francisco had issued a TRO
9 preventing Atlantic Richfield from conducting operations in
10 the Santa Barbara Channel, pending a hearing. That is not
11 accurate. The regional Coastal Commission, sometime ago,
12 granted Atlantic Richfield an exemption for operations in
13 the Santa Barbara Channel. That exemption was affirmed
14 by the State Commission. The Attorney General agreed with
15 the recommendations of both the regional -- or the findings,
16 of the regional Commission and the State Commission.

17 A hearing was held in the San Francisco Superior
18 Court in October, and last Monday the Court asked, or ordered,
19 that new drilling not be commenced until a decision could
20 be prepared, which is expected within a week or two.

21 The second statement that was made, I believe it
22 was Mr. Cappello, indicated that Don McFarland, his
23 consultant, advised that there is a possibility of pollution
24 from pumping ballast water from the tankers. That statement
25 is also inaccurate. The Environmental Impact Report

1 indicates that all ballast water from the tankers will be
2 handled at an onshore disposal facility.

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

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

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

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

20 Okay.

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

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

25 MR. ORR: I will second it.

1 CHAIRMAN FLOURNOY: Is there any discussion?

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

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

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

23 CHAIRMAN FLOURNOY: I would just like to make a
24 couple of comments with regard to this motion. I think
25 they particularly relate to the appropriateness of this

1 Commission, acting because I think it is true that this
 2 Commission, and I am the only one, I suppose, who was here
 3 at the beginning and at the end of the last eight years,
 4 heard all the arguments a year ago or more when we made
 5 the original decision with regard to both lifting the
 6 moratorium and requesting lease-by-lease proposals from
 7 the various lessees so that they could be considered.

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

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

23 LIEUTENANT GOVERNOR HARMER: Aye.

24 MR. GRR: Aye.

25 CHAIRMAN FLOURNOY: Aye. It is unanimous and

1 the recommendation will be approved.

2 Let's see. We then have left for consideration,
3 I think -- we are going to put 5A last.

4 Is there someone who wishes to address 5C, the
5 Sequoia Refining Corporation item?

6 If there is no one who wishes to address the 5C
7 operation --

8 ASSEMBLYMAN CORY: I would like to speak on it.

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

24 It is an existing lease. It is a detached wharf
25 for tankers and a pipeline from that detached wharf to their

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1 petroleum processing plant near Hercules. It is a facility
2 that has been in existence for some period of time. The
3 rent has gone up about \$10,000 from what it was originally,
4 and the rent now will be \$14,500 per year. It is based on
5 the present rental rates applying to appraised value plus
6 the costs or the rental rates for the pipelines.

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

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

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

17 MR. TROUT: Excuse me?

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

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

25 MR. ORR: I see.

1 MR. TROUT: They are paying \$4,000 --

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

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

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

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

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

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

18 ASSEMBLYMAN CORY: You are making my speech.

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

24 However, the Attorney General has advised us that
25 our case for adopting the eight percent under the emergency

1 regulation aspect of the Administrative Procedures was weak.
2 Therefore we asked you to concur that we should file this
3 proposed regulation under the normal procedure, 30-day
4 announcement, of the proposed regulation setting documentation.
5 Under that concept this may be adjusted at eight percent.
6 It would come back for formal adoption after a 30-day period.
7 Perhaps --

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

17 MR. TROUT: That would not be the case. At the
18 next renewal period it would be adjusted at the higher
19 rental. The only argument that could be made for going
20 ahead on this basis is that this was an understanding with
21 even a prior Commission before this one in the 1960s that
22 the oil companies would at such time as an agreement was
23 reached between the Commission on a rental rate schedule,
24 they would uniformly pay retroactive rent to the effective
25 date of that time, and all have at the six percent rate with

1 the exception of Sequoia which is now before you.

2 The others will also be up to whatever the current
3 rate is at the time the rents are reviewed. Currently on
4 most of them it is on five year intervals.

5 MR. ORR: Well, Mr. Chairman, I have no objection
6 to a retroactive rate from 1965 to the present time at
7 six percent because that's been the State Lands Commission
8 policy, and I don't think you can go back on a company and
9 change your policy. But this goes until 1980 and I don't
10 see why we give them the next six years at six percent.
11 We are right in the process of going to eight percent and
12 it has already taken us nine years to consummate a rental
13 agreement.

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

21 MR. TAYLOR: Mr. Chairman, from my reading of this
22 calendar item, this matter is an agreement on an existing
23 lease and I hadn't understood it as being a completely new
24 lease. Their lease still has five years to run, so if I
25 understand this calendar item, this calendar item is an

1 agreement at what the rental rate would have been during
 2 this interim period. And there is no new lease being
 3 contemplated at this time, but an adjustment of the amount
 4 of money due under the lease which was entered into by the
 5 Commission in 1965.

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

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

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

21 MR. TROUT: The original lease did not address
 22 itself, as I recall it, to the six percent per se. There
 23 was, in the process, a negotiation between the industry
 24 and the Commission as to the method for assessing rental
 25 rates to the oil companies and their marine terminals.

1 Those negotiations were in progress at the time Sequoia
2 sought this lease in 1965. They agreed, at that time, to
3 pay \$10,000 per year, with the understanding that at such
4 time as the Commission reached agreement with the industry
5 on an appropriate rental rate assessment or a rental rate
6 schedule applicable to this type of leasing, they would pay
7 retroactively back to the effective date of the lease, that
8 amount.

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

21 And as such, the amendment, the primary purpose
22 of this amendment is to amend the legal description to
23 reflect a recent boundary line agreement. They are also
24 agreeing to our rental schedule. They have deposited the
25 nine years of \$4,509.93 worth of money with us, and in

1 addition have paid \$14,509 for the next period.

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

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

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

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

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

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

25 MR. TROUT: Correct.

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

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

8 LIEUTENANT GOVERNOR HARMER: Thank you.
 9 Mr. Chairman, excuse me.

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

15 MR. TAYLOR: No.

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

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

21 MR. GLADISH: Mr. Chairman?

22 CHAIRMAN FLOURNOY: Yes.

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

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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 --

1. ASSEMBLYMAN CORY: I would suggest that the fact
 2. that they have only paid \$10,000.00 for fourteen years
 3. when they should have been paying -- and we can't apparently
 4. legally collect the interest -- that two percent kicker,
 5. which legally can be put on and is not so unfair. They have
 6. been skating pretty free and pretty easy for fourteen years.

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

10. MR. ORR: Yes.

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

15. CHAIRMAN FLOURNOY: So moved.

16. LIEUTENANT GOVERNOR HARMER: Second.

17. CHAIRMAN FLOURNOY: And passed.

18. Okay. That takes care of 5C. Let's move on.
 19. I have here a note on item 13A. Oh yes, Main Zone Unit,
 20. Huntington Beach Field, Orange County.

21. MR. GLADISH: Yes, Mr. Chairman and commissioners,
 22. this item is a request to protect our interest financially
 23. and to protect the energy supply from a broad standpoint
 24. by modifying certain lease royalty rates. Specifically I
 25. am going to refer to a number of leases combined into what

1 is known as a 91.1 Main Zone Unit. This unit was formed
2 for the benefit of lease holders and the State.

3 Most of these leases have produced oil since the
4 1930's. In 1972 a unit was formed as a means to maximize
5 additional recovery. In short, the unit, as it exists
6 today, consists of thirty leases controlled by Burmah Oil
7 and Gas, and twenty held by others.

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

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

21 After the unit was in effect and the things I
22 mentioned had gone on, the projected reservoir estimate
23 of recoverable oil was revised downward from something
24 like twelve and a half million barrels to about four million
25 barrels. Oil prices for this oil have risen from \$2.60 a

1 barrel to well over \$10.00. Normally this would be a help
2 to a unit or a lease holder or the State.

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

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

24 This unit can be terminated by a vote of eighty
25 percent of the participants for nonprofitability.

1 We, the last ten months, have disputed measurements
2 on profitability but our analysis of current conditions
3 indicates that they have a strong case. Their analysis of
4 course leaves no doubt.

5 (Laughter.)

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

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

23 We have a proposed settlement that treats Burmah
24 Oil and Gas separately from the other lessees because
25 Burmah has the unique ability to compensate the State for a

1 short term royalty reduction by agreeing to increase
2 royalty rates in the long pull. Burmah also bears the cost
3 for initiating the unit and carrying out the cost of
4 secondary recovery.

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

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

22 Highlights of the proposal in regards to the
23 non-Burmah leaseholders are: Royalties on these leases
24 would be reduced to a maximum of seventy-five percent for
25 oil produced during the primary period, two years. The

1 State would receive the same limitations on termination
 2 and quitclaiming leases described in the Burmah proposal.
 3 This proposal puts the non-Burmah lessees in the black by
 4 our calculations, but just in the black.

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

12 CHAIRMAN FLOURNOY: Okay. Is there any --

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

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

22 MR. GLADISH: I believe, as I recall, in looking
 23 at those leases that there are graphs attached on them to
 24 explain the royalty rates. I believe it exceeds a hundred
 25 percent.

1 MR. EVERITTS: The formula is roughly eight times
2 the price so twelve and a half dollars would be roughly
3 one hundred percent.

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

6 (Laughter.)

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

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

16 MR. EVERITTS: October 1.

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

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

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

24 MR. ORR: That's all I have.

25 CHAIRMAN FLOURNOY: Okay. Any other?

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

5 MR. GLADISH: There will be separate agreements,
6 with the individuals and with Burmah. And we propose, and
7 under this proposal would set their royalty rate at a
8 maximum of seventy-five percent effective the first of
9 December.

10 Our calculations would put them in the black and
11 would, in our mind, remove much of the incentive for
12 litigation.

13 CHAIRMAN FLOURNOY: So we're dealing, in essence,
14 with all the people?

15 MR. GLADISH: Everyone, yes.

16 CHAIRMAN FLOURNOY: Any further discussion?

17 LIEUTENANT GOVERNOR HARMER: I move the adoption.

18 MR. ORR: Second.

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

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

22 MR. GLADISH: Mr. Chairman, I don't have any backup
23 for this item. I anticipated, when we prepared this item,
24 that we would have settled some negotiations on this dispute
25 that exists between the State Lands Division staff and the

1 City of Long Beach in regards to price paid to the State
2 for dry gas.

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

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

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

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

19 (Laughter.)

20 MR. GLADISH: I think they have come in some ways
21 to recognize, at least, that they owe us a considerable
22 amount of money at this point regardless of how it is
23 settled. But considering that at this point in time I
24 would ask your authorization to prepare a comprehensive
25 critique of this problem for you and for the new Commission.

1 for the Legislature and for the City of Long Beach in
2 anticipation that this would stimulate resolution of the
3 problem.

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

9 All right. That leaves us where?

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

15 MR. TAYLOR: It is one week.

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

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

21 MR. ORR: I know, but that's going further than
22 I want to go because that puts the new Commission into
23 effect earlier and I am simply not willing to do that,
24 Mr. Cory, but I am not anxious to hold you beyond either.
25 I'd like to set it the thirteenth or fourteenth.

1 CHAIRMAN FLOURNOY: Well, I'd say that technically
2 the sixth -- so it would be the sixteenth.

3 MR. ORR: No, a week.

4 CHAIRMAN FLOURNOY: Oh, a week?

5 MR. ORR: A week.

6 CHAIRMAN FLOURNOY: Monday the thirteenth?

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

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

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

18 CHAIRMAN FLOURNOY: In Sacramento.

19 (Laughter.)

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

22 MR. GLADISH: Yes, sir.

23 CHAIRMAN FLOURNOY: Okay.

24 MR. GLADISH: Mr. Chairman, if I might, Mr. Trout
25 is prepared to present in summary the project and the

1 environmental impact and how it relates to our responsibilities
2 on the project, and I'd like to close when he concludes.

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

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

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

20 The other aspect of it is a relocation of an
21 existing marine loading terminal, which is this small circle
22 right here, to a new marine terminal located farther out
23 to sea. So, the thing to be emphasized here is that there
24 has been Federal treatment of the Federal leasing program
25 and the Federal offshore drilling platform. The Commission's

1 jurisdiction involves the tidelands from the outer boundaries
 2 of the State to the mean high tide line at the point where
 3 the pipelines go on shore.

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

17 The new facility will be thirty-seven -- thirty-five
 18 to thirty-seven hundred feet out from shore and will be some
 19 distance from the kelp beds and will involve a radius, a
 20 circled radius of eight hundred feet, and it will be of the
 21 new single-anchor-leg mooring system, instead of five or
 22 seven buoys. It will be a single buoy to which the barge
 23 or small tanker will revolve so that it always heads into
 24 the waves or the wind. This site is not conducive or is it
 25 possible to be used for a supertanker. It is limited by

1 the depth of water and by the size of the ground gears in
2 the relatively small coastal tankers and so it is not a
3 supertanker single point mooring. It's not big enough.
4 The water is not deep enough. It just is a superior state
5 to the arch of the old five-point mooring system.

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

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

17 MR. GLADISH: Mr. Chairman, the development plan
18 for this lease was approved by the Department of the
19 Interior in August of this year. Indications are that this
20 lease will contribute about one billion barrels of crude
21 oil and a half a billion cubic feet of gas to our energy
22 supply. The approved plan contains two alternatives for
23 the handling of oil and gas. One involves bringing the oil
24 and gas to shore via pipelines and the system that Mr. Trout
25 has described, storage facility modifications on shore,

1 and an existing ~~marine~~ floating terminal off shore. This
2 alternative requires approval, of course, of this Commission,
3 Santa Barbara County and the Coastal Commission.

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

9 The Coastal Commission has not yet acted upon this project.

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

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

24 CHAIRMAN FLOURNOY: Okay. Do we have a group of
25 people who want to speak to this?

1 MR. GLADISH: I don't have any correspondence
2 in my hands, Mr. Chairman. I don't know.

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

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

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

1 right to move the oil across, a wharfage fee if you will.
2 The City of Long Beach is receiving that. The Port of
3 Los Angeles is receiving that. Seattle charges such a fee.
4 Other governmental agencies charge that kind of a fee. The
5 State of California has not and that is a significant
6 reduction in the revenues to the State of California. If
7 such a fee were charged, given things we gleaned out of the
8 environmental impact, we are talking about a half a billion
9 dollars a year that could be collected.

10 And that has not been contemplated. It is a
11 concept that the State Lands Commission has not in the past
12 charged. But here is a new lease. There are other
13 governmental agencies that do it, and therefore I think it
14 should be considered. And that's the reason why I bring
15 it to you.

16 Now, trying to move on, with respect to the impact
17 statement, my review of that finds it entirely inadequate
18 because it in essence relies upon a Federal EIR. And when
19 you go through it, there is a great deal of detail in there
20 with reference to the fact that they have taken cognizance
21 of where the lines are actually located to minimize any
22 difficulties with faults or seismic activity, earthquake
23 problems.

24 When you actually, on a very careful analysis,
25 you find that the Federal report was for oversight of pipeline

1. located in a different location than the pipelines
2. contemplated in this. And there is an erroneous -- If you
3. are placing pipelines carefully to avoid earthquakes, difficulties,
4. there is no amendment to the Federal report to see how
5. they really do conform and do not conform. I think the
6. impact report is faulty in that regard and should at least
7. be amended to make a clear statement as to how those do
8. relate to the incoming and outgoing line.

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

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

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

24. ASSEMBLYMAN CORY: I realize that, but to do
25. otherwise would be sneaky. I didn't want to be sneaky about

1 it but I really feel that it is inadequate.

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

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

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

12 MR. CAPPELLO: May I, Mr. Chairman.

13 CHAIRMAN FLOURNOY: Sure.

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

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

1 CHAIRMAN FLOURNOY: All right.

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

12 CHAIRMAN FLOURNOY: Okay.

13 MR. COLE: Mr. Chairman.

14 CHAIRMAN FLOURNOY: Yes, sir.

15 MR. COLE: William Cole, from the Gas Company.
16 Just so that there is no question, I would ask that my remarks
17 with respect to the ARCO application be incorporated in the
18 record with respect to the EXXON application.

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

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

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

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

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

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

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

24 ASSEMBLYMAN CORY: That leaves the mortgage question
25 now.

1 CHAIRMAN FLOURNOY: I understand that. That is
2 a different question.

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

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

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

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

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

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

18 LIEUTENANT GOVERNOR HARMER: Second.

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

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

23 CHAIRMAN FLOURNOY: Six months, I would think.

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

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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

1 or the Port of Long Beach, they are providing services to
2 those, and in some cases actually building the docks or
3 whatever else, the facilities, lights, power and so forth.
4 We provide only unimproved sites, and that is the distinction
5 between us and the kind of people that have been referred
6 to today. And in that discussion, the major distinction is
7 we are leasing unimproved real estate.

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

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

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

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

21 CHAIRMAN FLOURNOY: Sure.

22 ASSEMBLYMAN CORY: There are two fees in those
23 other leases, one a dockage and one a wharfage fee. A
24 dockage fee is usually a per foot for the vessel, which covers
25 the cost of the facility, the electrical, sanitation facilities

1 that Mr. Gladish speaks of. The wharfage fee is a fee
 2 merely for having a pipeline running across the land of
 3 which there is no facilities provided. That is using the
 4 company's pipelines, and that is a fee. It is called a
 5 wharfage fee because of some Constitutional questions.
 6 And there are two separate fees and I think that that should
 7 be made, since we are talking about a half a million dollars
 8 a year on a significant term. Thank you.

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

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

1 carried.

2 Is there anything else to come before the
3 Commission today?

4 Then we stand adjourned.

5 (Thereupon the December 19, 1974 meeting
6 of the State Lands Commission was adjourned
7 at 12:55 p. m.)

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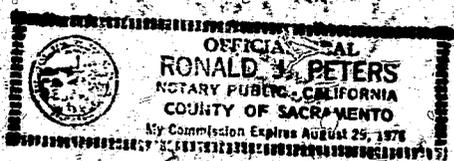
1 State of California)
2 County of Sacramento) ss

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

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

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

15 IN WITNESS WHEREOF, I have hereunto set my hand
16 and affixed my seal of office this 3RD day of JANUARY
17 1975.



Ronald J. Peters
Ronald J. Peters
Notary Public in and for the County
of Sacramento, State of California

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