MEETING

STATE LANDS COMMISSION

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Proceedings

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Discussion and review of Item 21, Liquefied Natural Gas Projects

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MEMBERS PRESENT

Hon. Roy M. Bell, Director of Finance, represented by Sid McCausland, Chief Deputy Director of Finance
Hon. Kenneth Cory, Controller, Chairman
Hon. Mervyn M. Dymally, Lieutenant Governor

MEMBERS ABSENT

None

STAFF PRESENT

Mr. Bob Hight, Chief Staff Counsel
Mr. William F. Northrop, Executive Officer
Mr. Dwight Sanders
Mr. James F. Trout, Manager, Land Operations
Ms. Diane Jones, Secretary

ALSO PRESENT

Mr. Jan Stevens, Assistant Attorney General
Mr. N. Gregory Taylor, Assistant Attorney General
CHAIRMAN CORY: I will call the meeting to order. I apologize for my tardiness, and there's no good excuse for it and so we'll just proceed.

We have confirmation of the Minutes from the meeting of May 26th. Any corrections or additions or deletions? Without objection, the Minutes will be confirmed as presented.

The Executive Officer wishes to talk to us.

EXECUTIVE OFFICER NORTHROP: Thank you very kindly, Mr. Chairman, Governor, and Mr. McCausland.

The Federal Energy Administration in October, 1976 increased the ceiling prices for California lower-tier crude oil reflecting the gravity differential adjustment, but the crude oil purchasers did not increase their prices.

In the Long Beach tidelands, we contended the FEA ceiling price should be paid under the crude oil valuation terms of the net profits contracts. Monies were paid by the contractor under protest until a judgment in Federal Court required a refund. As of today, the last of about a $4 million refund has been made by adjustments in the net profits account payments. Interest payments required by the judgment will be adjusted between the City of Long Beach and the State. This Court ruling, however, is being
appealed.

It is anticipated that monthly crude oil ceiling price increases will resume after a 14-month freeze on lower-tier crude oil. These increases, which are supposed to offset the inflation and maintain crude price at the February, 1976 level, should start in July or August. Whether such increases in the ceiling price will actually be paid by the purchasers is not known at this time.

We are still hopeful that an entitlement adjustment, being considered by the FEA for California lower-tier crude, would give us some price relief. This is necessary because the inflation index used to increase crude prices is not truly reflective of the actual increases in operating costs due to inflation.

Mr. Chairman, that, with the request of the Commission that Item Number 39 be moved to the consent calendar and Item Number 38 be put over until next month, completes my talk. Item 39 is a late arrival. It would have gone on the consent calendar normally, and 38 is the Los Angeles Harbor negotiation.

CHAIRMAN CORY: This is getting to be like "Mary Hartman, Mary Hartman." There's no end to it.

(Laughter.)

CHAIRMAN CORY: Okay. Let's double back. Is there anyone in the audience on Item 39?
This item is being moved from that place on the agenda to the consent calendar, and I don't want anybody to miss the quick turn in the road because the consent calendar sometimes is approved rather quickly. If there is anyone on Item 39, please address it now.

Okay. Without objection, then, we'll move Item 39 to the consent calendar.

EXECUTIVE OFFICER NORTHROP: And Item 38 over.

CHAIRMAN CORY: 38 has been put over to the next meeting.

The consent calendar consists of items C1 through C20, plus Item 39. Is there anyone in the audience who has any difficulties with any of these items and wishes to address the Commission?

Without objection, then, we will approve those items on the consent calendar as presented, including Item 39.

Do you have anything else on your report?

EXECUTIVE OFFICER NORTHROP: No. I'm just getting ready for Item 21.

CHAIRMAN CORY: 21 is a review and discussion of LNG and its impact on California. Do you have something prepared for us?

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, I have a rather lengthy statement, which is a preamble to this discussion.
There has been much discussion of late as to the future deliveries of natural gas to California and of the projects which will deliver such supplies. California has been a gas-importing state since 1947 and last year consumed 1.637 trillion cubic feet. This was 4.485 billion cubic feet per day. Only 11 percent of this was supplied by our own resources.

The State's traditional sources of gas have been Canada and the Southwestern United States. Now, these supplies have been delivered through an expensive pipeline network. However, traditional sources and methods of transportation can no longer meet California's demands.

There is some disagreement between gas utilities and public agencies as to the timing of the anticipated shortfall between available supplies and actual demand. This debate revolves around the question of not "if" but "when." According to figures furnished to the California Public Utilities Commission, southern California will experience a shortfall of approximately 1.2 billion cubic feet per day in 1982. This amounts to approximately 25 percent of California's daily use of gas in 1976.

While the California Public Utilities Commission feels that this shortfall can be mitigated or postponed until 1985-86 if specific measures are taken, the likelihood of all conditions being met is slim. Others maintain that
additional supplies of gas can be supplied through traditional systems by drilling deeper into existing fields in Texas and Oklahoma, but again, there is not enough certainty of supply to gamble with the time remaining.

Industry predicts that without additional supplies, curtailments could begin for Priority 1 customers -- residential -- as early as 1982 on the SOCAL system and 1983-85 on the PG&E system. Priorities 2-5 would receive no gas at all after these dates.

Staff, would you -- there is a chart back there that graphically demonstrates that on the last areas as to where that's going.

According to industry estimates, approximately 700,000 jobs would be lost in industries which depend on natural gas and have no capacity to convert to alternative fuels. The bottom line is this: California badly needs new supplies of natural gas.

Future supplies of natural gas for California may come from a variety of sources -- many of them Alaska and North Slope, Indonesia, Mexico. The major systems proposed to transport Alaskan Nor'h Slope natural gas, which is estimated at 22.5-24 trillion cubic feet in proven reserves, are as follows: number one, the Alaskan Arctic Gas Supply Company; number two, the El Paso Alaska Company; and number three, the Alcan Pipeline Company.
The material before you contains a brief description of each of the projects and pertinent maps. Briefly, the Arctic and Alcan pipelines follow different routes from Alaska through Canada to the Midwest. Each proposes a Western Leg to provide a portion of North Slope gas to the West Coast.

In drastic contrast, the El Paso Alaska Company proposes to transport such gas in the form of liquefied natural gas, or LNG. It would come from a liquefaction facility to be located in southern Alaska to a regasification facility at Point Conception in Santa Barbara County. From Point Conception, the gas would be placed in the El Paso Natural Gas Company system. The ultimate distribution would be determined by the Federal Power Commission.

Two other projects before the FPC would bring additional LNG to California for in-state use. The project proposed by the Pacific LNG Company would bring LNG from the South Slope of Alaska to terminal facilities in the L.A. Harbor. The other, proposed by Pacific Indonesia LNG, would bring LNG from Indonesia to terminal facilities at Oxnard. It should be noted that staff of the FPC has recommended that all LNG terminals proposed for the West Coast be consolidated at Oxnard.

Beyond considerations of a project's ability to deliver gas are the factors of cost and timing. These factors will clearly affect the feasibility of such deliveries.
The chart there now gives some concept as to what the timings are from the various sources. These figures on this chart are subject to continual change and are the source of debate between the industry and public agencies. One conclusion is obvious -- the era of cheap and plentiful natural gas is over.

In any event, California's options in the decision-making process are severely limited by the Federal Government. Specifically, the FPC is charged with regulating the interstate pricing, transportation, and allocation of natural gas. Each of these gas projects is awaiting final action by the Federal Government.

The FPC has taken action, pursuant to the Alaskan Natural Gas Transportation Act, on those projects associated with Alaskan North Slope gas -- Arctic, El Paso, and Alcan. On February 1, 1977, the FPC administrative law judge recommended FPC approval of the Arctic Project with a Western Leg to supply the West Coast. In doing so, the judge rejected the proposals of El Paso and the Alcan Pipeline Company.

On May 1st, the FPC took its formal action. This resulted in a tie vote, 2-2, between the Arctic Gas Project and that of the Alcan Pipeline Company. In this decision, the FPC deferred any decision on a Western Leg for either project. They stated it was premature to determine the sizing of a Western Leg for at least two years. Thus, while the
Western Leg was not rejected outright, it was effectively placed in limbo.

The FPC action, therefore, did not result in a clear recommendation upon which the President can base his recommendation to Congress on September 1, 1977. At his discretion, the President may postpone his decision until December 1. Once the President's recommendation has been made, the Congress has 60 days to approve or reject his recommendation. If the President's recommendation is rejected, he must submit a new recommendation. This must come within 30 days of the end of the Congressional review period. Presumably, the process could repeat itself until Congress accepts a route or a project.

Regardless of any federal action, the ultimate decision on the Arctic Gas or Alcan project will be made by the Canadian government. A preliminary Canadian recommendation regarding the Arctic Gas project has, in fact, been made recently. It was made by Commissioner Justice Berger, who is responsible for native claims and environmental impacts of the Mackenzie pipeline. At present, a major feature of the Arctic Gas project is the transportation of Canadian Mackenzie Delta gas into the Canadian system.

Do you want to point out that little loop there? Justice Berger's decision recommended against the development of the Mackenzie Delta gas at this time.
He also recommended --

CHAIRMAN CORY: Pardon me. Are you telling me that they've got a Justice Berger, too, or is ours moonlighting?

(Laughter.)

EXECUTIVE OFFICER NORTHROP: He's a different one.
While no reference was made to the Alcan Pipeline project, it is unlikely that it would encounter similar problems because it would follow the right-of-way of the Alcan Highway.

In contrast --

LIEUTENANT GOVERNOR DYMALLY: I think you neglected to finish --

EXECUTIVE OFFICER NORTHROP: Did I miss a sentence?

LIEUTENANT GOVERNOR DYMALLY: For the record, you might want to go back to "He also recommended. . . ."

CHAIRMAN CORY: "He also recommended against the approval of the Arctic Gas pipeline because of unsettled native claims and significant environmental issues."

EXECUTIVE OFFICER NORTHROP: Thank you.

CHAIRMAN CORY: Next time we'll get somebody who can read.

EXECUTIVE OFFICER NORTHROP: All right.

(Laughter.)

EXECUTIVE OFFICER NORTHROP: In contrast to the Alaska North Slope gas projects, the Pacific Alaska and
Pacific Indonesia LNG proposals are still within the FPC review process. These also may be influenced by external factors. For example, the original contract for the Indonesian gas was entered into in 1973. It contained a requirement that all necessary regulatory approvals be obtained by January, 1976. An extension of this provision was obtained, but it expired on April 6, 1977.

While negotiations are currently ongoing for a further extension, there are some fears because Japan is also competing for additional Indonesian gas. The contract for gas from South Alaska has a similar condition with expiration in 1976. Again, the utility companies are attempting to renegotiate this contract, also.

It is increasingly apparent that because of the larger volumes available directly, the status of the contract negotiations and inclinations of the Federal Government regarding Alaskan North Slope gas, the State should focus on those projects which would bring LNG to California from Indonesia and South Alaska.

At the State level, there seems to be general agreement that an LNG facility will be required in the near future. However, there exists marked preferences and options. There is also increasing discussion and support for an off-shore site for an LNG terminal and a regasification facility.

This concept is one step beyond the requirements
of existing law. At present, the California Coastal Act states that until public health and safety questions are resolved, there shall be only one LNG facility, and it is to be located at a site remote from population concentrations. Under such a provision, the proposed facility in Los Angeles Harbor would appear to be ruled out, and the proposed facility at Oxnard would be subject to considerable debate.

The offshore facility is gaining support in the Legislature and among other interested factions, but the concept is unacceptable to the gas utilities -- at least as it applies to an initial facility. Time is the major determining factor in any decision between an offshore and a remote facility. The utilities maintain that the projected gas shortfalls will occur before an offshore facility can be operational. Thus, the disagreements over the timing of such shortfalls are critical to any siting at the State level.

In this regard, the Legislature is presently considering two major bills, Assembly Bill 220 by Assemblyman Goggin and Senate Bill 1081 by Senator Alquist. Each would institute a formal procedure for the siting and permitting of any LNG facility. Under the present provisions of these measures, the State Lands Commission would have no decision-making role in the siting of an LNG facility.

Further, the Commission's historical role as guardian and manager of the State's tide and submerged lands
could be restricted by the precedence established in either piece of legislation. You have in front of you both pieces of legislation. The staff will continue to suggest amendments which will recognize the Commission's proper role. There are some indications that the authors may accept our suggested amendments when the Legislature returns from recess.

Mr. Chairman and Commissioners, we have asked each of the proposed transportation modes to send representatives to this meeting today to briefly discuss -- and I hope, much briefer than your Executive Officer -- their form of transportation with the Commission. We have also received indications from other concerned individuals and organizations that they, too, might like to discuss the problem. So if you have no objection, Mr. Chairman, we have made a list as we have received the appearances, and with your indulgence, if you don't mind, I'd like -- the first one on our list is George Rice.

CHAIRMAN CORY: George Rice.
LIEUTENANT GOVERNOR DYMALLY: Just one question.
EXECUTIVE OFFICER NORTHROP: Yes, sir.
LIEUTENANT GOVERNOR DYMALLY: If, by some miracle, we could implement either the Arctic or the Alcan proposal, do we still need an LNG facility in California?

CHAIRMAN CORY: You do on the time frame for the
southern California shortfall, I think.

EXECUTIVE OFFICER NORTHROP: I don't see how -- aside from the question -- I think the question as to shortfall --

LIEUTENANT GOVERNOR DYMALLY: Assuming tomorrow the President selects either Alcan or Arctic, do we still need -- with that decision -- an LNG facility?

EXECUTIVE OFFICER NORTHROP: I can't see how we're going to get away without it. Yes. The answer is, in my opinion, yes.

LIEUTENANT GOVERNOR DYMALLY: In any case, we have to proceed with an LNG facility?

EXECUTIVE OFFICER NORTHROP: Correct.

MR. RICE: Okay. My name is George Rice. I'm an attorney from Los Angeles with the firm of Lathan & Watkins. I'm here to represent the Alcan project. Due to the lateness of the notice, I could not get anybody out here from Salt Lake City. Questions may come up which I cannot answer and if so, I'll be glad to submit further comments in writing at a later date.

I think a word first about the background of the Alcan project -- initially, this was a two-ring circus. It was between El Paso and Arctic Gas, and serious problems surfaced with both of those proposals. The Arctic Gas proposal is the yellow line on the right of the map, and it goes
through the Mackenzie Valley. And very early on, it became clear that there were difficult problems with the native claims in that area, and the recent Berger Commission bears that out.

The El Paso proposal also has serious problems with siting and with its logistics. As a result, the Alcan people saw an opportunity for a compromise proposal. The Environmental Impact Report suggested the Fairbanks Corridor as an alternative, and the Department of Interior had suggested that as an alternative. So, the red line you see down the middle is the Alcan project. It follows the existing gravel bed of the oil pipeline through Alaska, and then it deviates and follows the Alcan Highway route down into Canada.

Now, initially, Alcan had proposed a 42-inch line, and this was subject to criticism by the Federal Power Commission's staff. And at the express request of the Canadian National Energy Board, Alcan submitted a 48-inch alternative. Now, that was the alternative that two of the Federal Power commissioners favored.

I think that the primary issue we have here today, in response to Mr. Dymally's comment, is why do we need LNG to bring North Slope Alaskan gas to California. I think that all of the agencies that have really studied this question have concluded that where you have a pipeline alternative, you take that alternative and you don't use LNG.
1 You should minimize your reliance on LNG.

You look at the Federal Power Commission. It's a 4-0 vote, 4 on an overland system against LNG. We think it's a 4-0 vote for Alcan because the 2 commissioners that voted for Arctic Gas did so only on the stipulation that the Mackenzie native claims be tractable, and I don't think they are.

The California Public Utilities Commission and the Energy Commission have studied this problem, and both have unanimously favored an overland system. The PUC backed Arctic Gas, although that was before the Alcan 48-inch line had been proposed. The Energy Commission has favored an overland system and listed ten criteria for it.

I think I'd like to give you briefly why these agencies have come out in favor of an overland system. I think the first one is cost. Figures that the Federal Power Commission used show Alcan and Arctic Gas at 76 cents and 79 cents as costs of service. El Paso is far behind at a dollar, nine. Secondly, you have net national economic benefits. El Paso talks a lot about being the best for jobs. In point of fact, the Federal Power Commission found that Alcan and Arctic Gas were about the same in terms of net national economic benefits, and El Paso was far behind at 75 to 82 percent of that figure.

CHAIRMAN CORY: Can you tell me how they came to
that conclusion?

MR. RICE: I think that the two most important reasons that go into that are the facts of cost and time, that the gas is so much cheaper from an overland system that the economy is stimulated by the fact that consumers are spending less on natural gas and have more money to spend elsewhere. And secondly, on time, if you get the gas here sooner, we don't have the massive fuel switching and economic dislocation that is projected, as Mr. Northrop indicated. Everybody agrees that it's just a question of how soon a shortfall is going to occur.

On time, Alcan believes it can complete its system in late '81. The Federal Power Commission found it was probable that its system would be finished in mid-'82. That's a year ahead of the other two systems.

Another reason is expansibility. If there's more gas up there -- if we're that lucky -- the pipeline systems can be expanded at a relatively incremental cost, whereas with LNG you have to add additional tankers, additional liquefaction and gasification facilities at unit costs that are similar to your initial cost.

Another factor is fuel usage. We found out when we redesigned the system from 42 to 48 inches that gas is much more expensive than steel. You can put your money into steel and save fuel, and you come out better in the long run.
The El Paso system -- its liquefaction process is very wasteful of natural gas.

Another factor is reliability of service. A buried pipeline is a much more reliable system, especially Alcan's, which is near to existing all-weather roads, than an extensive LNG network stretching from southern California to Alaska, crossing the seas and involving two large terminal facilities.

Now, I think that a brief word about a couple of the claimed disadvantages of an overland system -- one is the situation of the Western Leg. Alcan favors the Western Leg, believes it is required by the federal law, and believes that it must be certificated initially, or the project cannot be financed. What the Power Commission was saying is that you can wait a couple of years to start on the Western Leg because it can be built in a relatively short time. It's a small piece of pipe down where the red and the yellow lines cross. Our Western Leg will go that direction, as will the Arctic Gas.

In our view, we think that the Western Leg should be built earlier and should be built now. There have been dramatic discoveries of gas in Alberta on the order of magnitude of 20 trillion cubic feet. It's almost the same order of magnitude as the Prudhoe Bay natural gas. This is a possible alternative source of gas for the shortfall period between now and the late 1980's.
Another claimed disadvantage is that the Canadians are untrustworthy. I would only say that for the last 20 years, the Pacific Northwest has been relying on Canada for about two-thirds of its natural gas. And we're looking to Indonesia for natural gas -- I think if you give me the choice between Canada and Indonesia, I'll take Canada every time.

On the issue of native claims and what the Canadian government's going to do, I point out that on Monday the Canadian National Energy Board is going to announce its decision, its recommendation, so I won't speculate on that. We'll know after the weekend.

I would say in conclusion that so often we have a situation where you have important economic objectives that can only be obtained at the sacrifice of environmental values. Here, we have a situation where the environmentally preferable alternative -- the alternative favored by the Sierra Club, the Audubon Society, all the national organized environmental groups -- this environmentally preferable alternative is the best economic alternative. It gets you the gas the quickest and the cheapest. And I think for those reasons, it's not necessary for California to rely on LNG for North Slope gas.

Thank you.

LIEUTENANT GOVERNOR DYMALLY: One question, Mr. Rice. The FPC commissioner criticized your finance package. Do you
have any comment on that?

MR. RICE: Pardon me?

LIEUTENANT GOVERNOR DYMALLY: The FPC commissioner criticized your financing package, the manner that you proposed to finance your system.

MR. RICE: Well, I think that all three systems are looking to a cost of service type of tariff, where some of the risks of noncompletion or interruption of service are borne ultimately by the consumer. It's a question of how much and just how it's done. I'm not sure specifically what criticism you referred to.

LIEUTENANT GOVERNOR DYMALLY: Well, in the financing of the line, your plan came in for some criticism on how to adequately finance.

MR. RICE: Perhaps I could submit to the Commission a copy of the financing brief we filed with the Energy Commission. We had gentlemen from Loeb Rhoades, First Boston and the Bank of America all testify at great length on this issue. We believe our project is financeable.

CHAIRMAN CORY: Two out of three isn't bad -- out of three experts. Can you get a copy of that?

MR. RICE: Yes, I'll be glad to submit a copy to you.

CHAIRMAN CORY: Who is Alcan?

MR. RICE: Alcan has three principal participants.
The American Company is the Alcan Pipeline Company, which is wholly owned by Northwest Energy Company. Northwest Energy Company is a spinoff of the El Paso system. It's a New York Stock Exchange traded company. It's a very large company, but it was created only a few years ago as a result of the El Paso divestiture. It's based in Salt Lake City, and it serves the Pacific Northwest with natural gas. In addition, there are two Canadian companies, the Alberta Gas Trunkline and Foothills Pipeline. And they are two of the largest Canadian gas transportation companies.

CHAIRMAN CORY: The criticism that you were talking about, did that relate to the fact that the estimates of the capitalization were not sufficient, or was it how they arrived at their capitalization?

LIEUTENANT GOVERNOR DYMALLY: I think one of the examiners raised the question of the problem of the dependence on federal funding of the Alcan project at that time when they took testimony.

MR. RICE: This project -- whoever builds it -- is going to be the largest privately financed project in history, as far as I know. The oil pipeline was one of the biggest. This will be bigger. I am no expert on financing. Our project is financeable, and I believe I can document that to you.

LIEUTENANT GOVERNOR DYMALLY: But to a lesser degree,
you still have problems with native claims, though?

MR. RICE: Yes, that's true. The jury is still out on that. We have reason to believe that -- I would concur with Mr. Northrop that I don't think we have anywhere near the problems that Arctic Gas does. 160,000 people crossed the Alcan Highway in 1975. Less than a quarter of the population in that area is a native population. It's unlike the primitive cultures of the Northern Yukon.

CHAIRMAN CORY: Thank you.

MR. RICE: Thank you.

CHAIRMAN CORY: Mr. Mike Holland.

You are with El Paso Alaska?

MR. HOLLAND: Yes, sir. That's correct.

CHAIRMAN CORY: That is what?

MR. HOLLAND: What is El Paso, sir?

CHAIRMAN CORY: El Paso Alaska as opposed to El Paso.

MR. HOLLAND: El Paso Alaska Company, sir, is a subsidiary company of the El Paso Company, which is headquartered in Houston. El Paso Alaska Company is a subsidiary located in Anchorage, which was created for the purpose of promoting this project.

CHAIRMAN CORY: Wholly owned subsidiary, separate corporation --

MR. HOLLAND: Yes, sir.
CHAIRMAN CORY: -- but wholly owned?

MR. HOLLAND: Yes, sir.

CHAIRMAN CORY: Go ahead.

MR. HOLLAND: Mr. Chairman and members of the Commission, my name is Michael C. Holland. I am assistant to Vice-President John Bennett and manager of El Paso's offices in Anchorage, Alaska.

Since the late 1960's, we have known that over 26 trillion cubic feet of natural gas which is recoverable exists in Prudhoe Bay. And since 1970 my company has been working on a way to move that gas to market. Now, over seven years later, we in the El Paso Company are delighted that the final phase of the decisional process is at hand.

Pursuant to the provisions of the Alaska Natural Gas Transportation Act of 1976, President Carter has announced that his recommendation will be sent to the Congress sometime in September of this year. Hopefully, Congressional ratification will be swift. Although Canada has no statutory timetable for its decision, we are encouraged by Prime Minister Trudeau's recent statement that Canada will give a final answer by the end of the year, following review in both the Cabinet and Parliament. The many supporters of the El Paso Project are further encouraged by Trudeau's admission that "no answer" is also among Canada's options.

As you undoubtedly already know, El Paso proposes
a combination pipeline and LNG ship system to transport North Slope gas to markets in Alaska and throughout the South 48. Our pipeline would cross Alaska adjacent to the Alyeska oil line. It will be 809 miles long, 42 inches in diameter, buried throughout its length, and chilled to avoid damage to the Alaskan permafrost. Near Cordova on the Alaskan south coast, we will liquefy the gas and then ship it in a fleet of eight cryogenic carriers to Point Conception, California.

There, it will be regasified and distributed throughout the nation, essentially through the use of idle capacity in the existing 1.1 million-mile nationwide natural gas distribution network. Initially, our transport capability will be 2.4 billion cubic feet a day because that's the amount of gas the North Slope producers say will be immediately available. The total El Paso system will cost an estimated $6.6 billion, in terms of 1975 dollars. We can easily expand our facilities to haul a daily volume of 3.2 billion cubic feet of gas, with an additional expenditure of a billion, three.

Our project, like the two competing trans-Canadian proposals, is quite complex. Literally thousands of pages of factual data have been furnished by El Paso to numerous state and federal agencies, including several agencies of the State of California. I will not today attempt to repeat
or even summarize such information. Rather, I believe it would be more appropriate for us to present certain nontechnical facts to support our contention that the El Paso system should be the one ultimately approved by the U.S. Federal Government.

Firstly, our proposal is entirely under American jurisdiction. We need no foreign approvals or permits, no treaties, no protocols, no special defense arrangements, no native land claims settlements, no foreign governmental financial backing, no foreign materials or labor. The El Paso project will be built, operated, and expanded in accordance with U.S. requirements alone. The transportation tariff will be set by the U.S. Federal Power Commission.

Labor disputes which might arise during the construction or operation of the El Paso facilities will be resolved by American entities in accordance with American interests. Furthermore, our project does not force Canada into a position where it must hastily decide monumental issues respecting Canadian northern development. Canada should be allowed to solve her internal difficulties in accordance with her own self-interests and not because of the urgent U.S. need for Alaskan natural gas.

Secondly, the sponsors of all three projects claim a timing advantage, but let me give you some specific reasons why the El Paso project can deliver Prudhoe Bay gas several years sooner than either of the trans-Canadian proposals.
I have already mentioned that the U.S. has passed a law establishing a timetable for its decision, and Canada has not. Of course, we have Prime Minister Trudeau's indication that he will attempt to move the Canadian process along as best he can, but his own National Liberal Party has pronounced a policy of giving first priority for all-Canadian pipeline projects, and the two-million member Canadian Labor Congress feels that the monies required for an overland pipeline to haul U.S. natural gas could be better spent elsewhere within the Canadian economy.

Furthermore, international environmental organizations have threatened litigation over Arctic Gas' planned crossing of the Arctic National Wildlife Range, and the Yukon Conservation Society has stated that the public has been, quote, "blindfolded and misled," end quote, by proponents of the Alcan route.

Undoubtedly, though, the most critical barrier facing implementation of both the Alcan and Arctic Gas projects is the unsettled native claims in Canada. They exist in both the Yukon and the Northwest Territories. The report published May 9 by Justice Thomas Berger is seen by many observers in both Ottawa and Washington as a fatal blow to the Arctic Gas project. As you know, Justice Berger recommended that no pipeline should ever be built across the northern Yukon and that any pipeline in the Mackenzie River
Valley should be delayed ten years to allow just settlement of the native claims and to provide time for the establishment of the new institutions and programs that settlement will entail.

Arctic Gas suggests that some money can be escrowed for the natives and right-of-way granted for their pipeline. But Justice Thomas Berger said, and I quote, "I have given the most anxious consideration to statements made at the Inquiry about possible violent reaction to the pipeline if it were built without a just settlement of native claims. I have concluded that they cannot be ignored. No one who heard them could doubt that they were said in earnest. I am saying that there is a real possibility of civil disobedience and civil disorder," end quote.

The Alcan people have consistently stated that native claims problems along their route are not as severe as those of Arctic Gas. This is not at all true. Only a month ago the Canadian native leaders told the U.S. Council on Environmental Quality that an Alaska Highway route is no more acceptable than the Arctic Gas route.

Mr. Daniel Johnson, Chairman of the Council of Yukon Indians, repeated his organization's position that at least seven to ten years will be needed for settlement of Yukon native claims in the area of the Alcan pipeline and for establishing institutions to control development of the
Yukon economy. Johnson predicted that the Lysyk Commission, now studying the Alcan proposal in Canada, would come to the same conclusions as did the Berger Inquiry -- that is, no U.S. pipelines are to be built across Canada for ten years.

Mr. George Erasmus, President of the Indian Brotherhood, said that it is, quote, "asinine and ludicrous" end quote, to argue that pipeline construction would be less devastating along the Alaska Highway than through the Mackenzie Delta. Both Erasmus and Daniel Johnson told the CEQ to give up the idea of an overland pipeline through Canada and instead approve the El Paso proposal.

In addition, the six largest churches in Canada, representing 80 percent of the Canadian population, are pleading with American officials to hold the human rights questions presented by the Canadian native issues above the urgency of a gas pipeline through Canada to serve U.S. interests.

Now, besides the obvious immorality of pushing ahead with either the Arctic Gas or Alcan projects prior to native claims settlement in Canada, the practical issue whether any lending institution will provide money for such a venture when threats of Court action and physical violence have been made.

The obvious point of all this, gentlemen, is that the trans-Canadian proposals face many years of delay in Canada. Each year of postponement will increase transportation
costs by 15 to 20 percent, and capital costs by over a billion dollars. We do not believe that the American consumer can wait that long for Alaskan gas, nor could he afford it when it finally came. One thing you can count on with certainty, if Canada's natives are bought off so a gas pipeline can be built for U.S. purposes, the price is going to be high and the American gas consumer is going to pay it.

In contrast, because El Paso will build its line next to the Alyeska pipeline, the infrastructures we will need for construction are already in place. The camps are there, as are the work pads and haul roads. At least four times the amount of additional gravel we will require is now waiting unproved sites in Alaska. The logistics system which has served Alyeska well for over three years can be immediately applied to the El Paso project. Our labor force is trained, and we have access to an estimated $750 million worth of Alyeska's environmental work and over a billion dollars' worth of Alyeska's construction support facilities.

A third major point is that all economic benefits resulting from implementing El Paso's plan for transporting North Slope gas will accrue to the United States. Every foot of pipe, every compressor unit, every ship in our fleet -- in fact, every 2X4 and nail for our project will be purchased from U.S. sources, fabricated in U.S. yards, and shipped to the construction site in U.S. transport units.
Our materials requirements in Alaska alone will exceed 1.4 million tons. Our ships and South 48 pipeline needs will total at least another million tons. Every hour of labor expended in our project will be provided by American citizens.

Mr. Robert Nathan, who is an internationally renowned economist, has conservatively estimated that some 765,000 man-years of labor will be generated in building and operating the El Paso facilities. This is three times the U.S. jobs which would result from either of the trans-Canadian proposals.

Furthermore, we will pay $7 billion more in U.S. taxes than will our competitors. We will create no adverse effects on the U.S. balance of payments situation, as opposed to Arctic Gas' $10 billion negative effect. On the consumer end, every penny paid in American markets for the gas we would deliver will flow into the American economy and stay there. In contrast, up to 67 percent of payments made by American consumers for gas delivered through either of the trans-Canadian proposals will flow to Canada and other foreign countries.

Let's go back to this matter of U.S. jobs for a moment. I want you to know why the national organizations of the Associated General Contractors, the AFL-CIO Executive Council, the Teamsters and others are promoting our project. On a national basis, 765,000 man-years' worth of new jobs
would reduce the national unemployment rate by almost a full percentage point from its present level.

Some 248,600 man-years, or almost one-third that for the entire project, will accrue to the Pacific Region, which includes the states of Alaska, California, Hawaii, Oregon, and Washington. California's share is estimated at just over 120,000 man-years. Primary jobs in constructing the Point Conception regasification plant and 381 miles of new pipeline will produce 16,500 man-years.

Secondary employment impacts will amount to an estimated 24,000 man-years. These secondary jobs will emanate from a $1.3 billion expenditure in potential purchases of materials, supplies, and services from the Pacific Region as a whole, of which over $250 million is associated with the transportation industry.

Potential suppliers include International Harvester, Kaiser Steel, Grove, Delaval Turbine, Byron Jackson, American Bridge, Republic Steel, Johns-Manville, Upjohn, Mobile Chemical, and countless other firms. These California companies could supply materials such as power generation units, valves, mainline pipe, fittings, pumps, structural steel, paint, insulation and other items.

And San Diego has one of the two drydock facilities on the West Coast which could perform the $14 to $15 million worth of annual inspection and maintenance work for our LNG
carrier fleet. Dames and Moore and Fluor Corporation have
done a major share of preliminary planning and design work
for our project thus far.

Turning to the subject of resources, the State of
Alaska has sold the El Paso Natural Gas Company, our affiliate,
a portion of its royalty share of Prudhoe Bay natural gas,
amounting to a total of 650 billion cubic feet. This is the
largest single acquisition of gas by El Paso Natural in
many years. Eighty percent of this acquisition is destined
for California markets.

But there's a condition on the sale, and you may
have already heard of it. The condition is that El Paso's
trans-Alaska route for the gas pipeline must be approved.
In other words, Alaska is willing to share its surplus energy
resources with California if you will help get the trans-
Alaska route approved. If El Paso loses, the contracts will
likely be voided.

On a daily basis, the amount of gas involved in
this purchase will heat more than 190,000 California homes
that could otherwise be without natural gas service. Obviously,
Alaska badly wants the El Paso project and is willing to
bargain with its gas to obtain additional support for it.

I must also mention the implication by our competi-
tors that their projects would somehow make more Canadian
gas available to the United States, and California in particular.
Unfortunately, this allegation does not square with Canadian press reports and the records of both the FPC and the National Energy Board, which are replete with testimony that what little Mackenzie Delta gas there is will be hauled as far as the trans-Canada pipeline system and then delivered to markets in eastern Canada.

In fact, when it became known that American firms originally had contracts for Mackenzie Delta gas, Canada angrily demanded that such interests be resold to Canadian companies. Any decision on Canada's part to export additional gas supplies will in no way be related to the success or failure of the Arctic Gas or Alcan projects. And Mr. Marshall Crowe, Chairman of the Canadian National Energy Board, has said that himself.

We have recently heard reports that almost 20 trillion cubic feet of proven, uncommitted reserves exist in northern Alberta. Certainly, if Canada were going to increase gas exports to the U.S., these Alberta reserves would be a far greater reason to do so than would be the minor amounts of gas in the Mackenzie Delta. As a matter of fact, America's only hope for more gas from Canada seems to rest with the Polar Gas project which crosses eastern Canada, with over 13 trillion cubic feet of proven reserves behind it and which, by the way, happens to be mutually exclusive with Alcan and Arctic Gas for reasons of financeability. The
Polar Gas certificate application is expected at the NEB this September.

California's only hope for an additional increment of North Slope gas is the El Paso trans-Alaska project. And with the expressed positions of the FPC staff and the Commission itself on the Western Leg of the overland systems, it also now appears that we offer the only means of direct delivery of such gas to California.

Mr. Chairman, in conclusion, the decision facing the United States and this Commission this year will set the direction of flow of what will initially be ten to twelve percent -- and what may ultimately be as much as fifty percent -- of America's natural gas supply for the next forty or fifty years. The complexities of the Canadian political situation, the human rights issues faced by Arctic Gas and Alcan, and the benefits we offer to the American economy demand that the El Paso project be selected. We hope you agree, and we hope this Commission recommends to Governor Brown and President Carter that the all-American route be chosen to move North Slope natural gas.

I thank you very much for your courtesy. I'd be happy to try to answer any questions you have.

LIEUTENANT GOVERNOR DYMALLY: What about your financing package?

MR. HOLLAND: Sir, we are the only one of the three
project sponsors who are not asking for new government financial programs in order to finance our project. We would use the available Title XI Program to finance construction of our ships. Over 4,000 ships have already been built out of the provisions of that program. Conversely, Arctic Gas and Alcan both asked for some sort of new governmental back-stopping in order to put their projects together.

CHAIRMAN CORY: Thank you very much.

MR. HOLLAND: Thank you, sir.

CHAIRMAN CORY: Next on our agenda, Mr. Daniel Gibson and Mr. Harry Lepape. You represent the interests of the Arctic system. Is that correct?

MR. LEPAPE: That's correct.

MR. GIBSON: That's right, Mr. Chairman.

LIEUTENANT GOVERNOR DYMALLY: Are both of these witnesses going to speak separately, or are you going to have one presentation?

MR. GIBSON: This is one joint presentation.

Mr. Lepape will discuss certain issues that are very pointedly related to his company, and I will try to limit myself to issues which are more directly related to the company that I represent.

CHAIRMAN CORY: Could you identify your respective companies and who the Arctic system is so we can have some
frame of reference?

MR. GIBSON: I'd be happy to, sir.

LIEUTENANT GOVERNOR DYMALLY: Just keep in mind that the previous companies only had one witness.

MR. GIBSON: We will try to keep that in mind. In view of the fact that we are representatives of the utilities here that have the responsibility of serving gas in northern and southern California, we hope that we can have some additional light to shed that may be helpful to this California Commission.

The Arctic Gas project is a group of around 16 Canadian and United States natural gas distribution and transmission companies that have banded together in a partnership to study ways of bringing gas from the North Slope of Alaska and also from the Mackenzie Delta area of Canada's North Slope. The group has been in existence in one form or another ever since -- well, before the great gas discoveries in the North Slope. Mr. Lepape, who has been in this longer than I have, could speak probably to the genesis of the group better than I. But suffice it to say for now that Pacific Gas and Electric Company is a member of the group, as is the Pacific Lighting Company in southern California.

Now, PG&E -- there's a certain possibility for confusion here -- and I think we should clear it up right
at the beginning. PG&E supports two LNG proposals, which are now before various regulatory bodies. Two projects -- one to bring liquefied natural gas from Indonesia, and another to bring liquefied natural gas from South Alaska, from the Cook Inlet area. We believe that those two projects are the best hope for avoiding a gas shortage -- and a serious one -- in California in the early 1980's.

We are talking here today about alternatives for bringing into California another source of natural gas other than these two -- one from the North Slope of Alaska. Now, there is an LNG proposal, the El Paso Alaska proposal, that was so ably discussed by Mr. Holland just now. We do not support the El Paso Alaska project. PG&E could be involved -- and would be involved -- substantially in any of the three competing projects for the transportation of North Slope gas to California, but we've chosen one -- the Arctic Gas project -- and I'd like to tell you why.

You have before you, I believe, a colored map which indicates the three different means of bringing gas off the North Slope into the lower 48 states -- the El Paso Alaska project, depicted in the salmon color; the Alcan project, depicted in the yellow; and the Arctic Gas, depicted in white. Now, Arctic Gas studied various different ways of getting gas off the North Slope and into the lower 48 states. And in fact, they studied the two alternative routes that are
shown here on this map. They studied them in great detail. So far, the project has spent around $150 million in engineering studies, environmental studies, and design to try to pick the best method. That best method that the project has come down on is this direct route which links up the Prudhoe Bay gas with the Mackenzie Delta gas and brings both of them down to the South in a large diameter, high-volume, high-pressure pipeline, which divides at a place in Alberta, with a Western Leg continuing on down here to California, and an Eastern Leg continuing on to the Midwest for distribution throughout the country.

The Western Leg is an expansion, a simple expansion, of the existing Alberta-California pipeline, which now brings in approximately one billion cubic feet of gas per day from Alberta into California and also delivers some gas to various states along the way in the Pacific Northwest.

That pipeline, gentlemen, is built and operated by Pacific Gas Transmission Company, which is a partly owned subsidiary of PG&E.

Now, the Western Leg --

CHAIRMAN CORY: Who are the other owners?

MR. GIBSON: Excuse me?

CHAIRMAN CORY: Who are the other owners?

MR. GIBSON: It is publicly held. It's 52 percent owned by Pacific Gas and Electric Company, and the remaining
amount is traded on the Pacific Stock Exchange.

CHAIRMAN CORY: (Nods head.)

MR. GIBSON: The reasons that PG&E is supporting one of these projects -- and we don't intend, by the way, to be knocking the other projects. We're here to talk about why we believe that Arctic Gas offers better benefits to California -- we believe that Arctic Gas is going to be cheaper for the consumer. It's going to be more efficient. There's no question about that. And most importantly, it is, gentlemen, going to be the best hope for maintaining those large volumes of Canadian imports that we now have coming into California.

I'd like to put those Canadian imports into perspective, and you have attached to this colored map, towards the end, another black-and-white map which shows northern California or PG&E's present sources of natural gas. And you'll see that 45 percent comes from Canada at the present time, about eight billion cubic feet of gas per day.

Just to put that into perspective, that's the annual energy equivalent of all of the power output of 60 Shasta Dams in a normal year. That's a lot of energy coming into the State, and we are very, very concerned about whether we will be able to maintain that supply -- let alone enhance it, but maintain that supply from Canada if Canada does not obtain early access to its own Mackenzie Delta.
Now, what do I mean by "early access"? The reports of the Canadian government, the National Energy Board and the Energy, Mines and Resources Department, both indicate that if Canada is not able to obtain access to new frontier supplies of gas by the early 1980's, it is not going to have enough gas to maintain service to its own customers and to deliver present volumes of gas to the United States. Now, this affects the Pacific Northwest, which is about 70 percent dependent on Canadian gas, and northern California. By the way, the amount that we bring into northern California is about 21 percent of the total State's gas supply so that is a big chunk for California as a whole.

It also affects some states in the Midwest which are heavily dependent upon Canadian gas. But if the Canadians do not obtain access to that Mackenzie Delta gas in the early 1980's, there are going to be very grave shortages, and it appears to us that the Canadians will probably feel it necessary to cut back on the amount of gas that they deliver to the United States. Put yourself in the Canadians' place. It's unlikely that they would continue exports to the United States at a time when they are asking their own consumers in Canada to cut back.

Now, because of that, I think that even if the other projects had other benefits -- such as economies or
efficiencies -- we would probably be strongly supporting the
Arctic Gas project because it is so important that we main-
tain that gas. But the fact is that Arctic Gas -- because
it has chosen a direct route, because it has designed a
pipeline which is very, very efficient, also is going to be
much cheaper and much more efficient.

Just compared to the El Paso project -- El Paso, in transporting the gas to California is going to use up
approximately 13 percent of the input gas along the way.
That means 13 percent of whatever the California companies
are able to buy on the North Slope is not going to get to
them. It's going to be used up on the way. These are figures
on the record from the Federal Power Commission.

Arctic Gas would use up only a little over five
percent of the gas under the lowest volume case of deliveries.

That means, if you demonstrate graphically the
difference between gas use -- as we have here in a chart
attached to the colored photograph -- this large bar at the
top is the difference between the El Paso gas use and the
Arctic Gas project's gas use for transporting California's
expected share of gas to California. About 20.2 trillion
Btu's of gas would be lost by El Paso that would not be lost
by Arctic Gas. And that, gentlemen, is more than enough
to satisfy all the residential needs of all the people in
the City of San Francisco, for instance, for a whole year.
That's the kind of stakes we're talking about.

Now, Mr. Holland talked about the fact that El Paso has a conditional contract from the State of Alaska to purchase some gas. Well, a great deal of that benefit -- even if we were lucky enough to have that gas allocated to California rather than somewhere else -- would be eaten up, I'm afraid, by this terrible waste of gas.

Alcan, too, is less efficient because of the fact that while it uses a 48-inch pipeline like Arctic Gas, it's a lower pressure pipeline. It's designed to carry lower volumes so it's not going to be able to carry as much gas and as economically as the other project.

Now, the other two projects just will not hook up the Mackenzie Delta gas. El Paso never would. Alcan could only if they put on another pipeline -- either this so-called Maple Leaf pipeline, which is shown on this map as a dotted line, which would add probably as much as 2,000 miles more of pipeline to the entire system, 2,000 more miles of cost, and 2,000 more miles of environmental impact. Or another possible spur that they're talking about from time to time is one which would run across the Northern Yukon through a very mountainous area and through the winter grazing grounds of the caribou herd up there.

So, there we are. We have the three different projects, and that's the reason why we've come out where we
Now, as far as the Western Leg is concerned, that's vitally important to California, and the other State agencies that have considered this have recognized that fact. The California Public Utilities Commission and the Energy Commission have both stated that an overland pipeline route should be built with a Western Leg. The CPUC has gone further and has supported the Arctic Gas project before the Federal Power Commission. And I think it's notable, gentlemen, that the Friends of the Earth -- the California representative before the State Energy Commission a couple of weeks ago -- also endorsed the position that it should be an overland pipeline route with a Western Leg.

LIEUTENANT GOVERNOR DYMALLY: Just one question. I'm troubled by the fact that in either your proposal or the Alcan proposal I see no evidence of a supply of gas coming into California. You're talking about bringing it here, and then you keep talking about the proposed Western Leg as something to come in the future, like Christmas. But there's no actual plan to bring the gas into California. So what would we be doing here, supporting you to supply the gas to all the eastern states? At the Lieutenant Governor's Conference, I mean, they were all big for all of your proposals because you guaranteed delivery to the eastern states. You don't guarantee delivery to California.
MR. GIBSON: The facts are otherwise, sir. There's a great deal of misunderstanding about these various projects. All of these projects are simply transportation projects, and none of them can guarantee to any part of the nation any amount of gas supply. They are projects which simply will act as, if you will, common carriers, which will start up at the North Slope and end up in the various market areas. And every one of the projects has just as much ability to guarantee gas supply or not to guarantee it as the others do.

LIEUTENANT GOVERNOR DYMALLY: There's still my contention that the El Paso project has to come to California. We could put the National Guard out and get some gas anyway.

(Laughter.)

MR. GIBSON: I'm afraid, sir, that the problem is that the determination of who gets the gas is going to be basically on who contracts for it.

CHAIRMAN CORY: You're missing the Governor's point.

LIEUTENANT GOVERNOR DYMALLY: How would you get gas if the line doesn't even come to California? I mean, so we have at least some possibility of negotiating with the Federal Government, with Congress, the President to give us a little bit of the El Paso gas because it passes through California.

MR. GIBSON: Yes. The answer --

LIEUTENANT GOVERNOR DYMALLY: But I don't see any
evidence of bringing the gas to California.

MR. GIBSON: Well, there is great evidence of that, sir, because of the fact that the Arctic Gas project has, as an integral portion, the Western Leg. It is a part of the project.

LIEUTENANT GOVERNOR DYMALLY: Will you show it to me on the map?

MR. GIBSON: Yes, sir. This map, which you have before you --

LIEUTENANT GOVERNOR DYMALLY: Yes.

MR. GIBSON: -- the Western Leg is in white here, following the route of the present Pacific Gas Transmission Company line right down into California. That is where it is, and that is where it's going to be.

LIEUTENANT GOVERNOR DYMALLY: But the FPC deferred it for two years. They're saying --

MR. GIBSON: The Federal Power Commission indicated that they would like to put off the question of how big the facilities would be. They agreed, however -- and this is important -- they agreed that the Congress has required that there be direct delivery into the West and into California, specifically. Moreover, just recently 64 western Congressmen -- including, I believe, all of the Congressmen from California -- have signed a letter to the President, stating that the Federal Power Commission was wrong in deferring
consideration of it for a year or two and stating that the
West must have that Western Leg. I believe that the record
in the Congress is clear, both when the Act was passed and
now, with the letter to the President, the Alcan and the
Arctic Gas projects both have agreed on this one point --
that there shall be a Western Leg. And I believe all the
western states are united on this. The recommendation of
the FPC is only a recommendation; in other words, what we're
going to see from the President, I believe, is going to be
a forthright authorization of the Arctic Gas project with a
Western Leg and an Eastern Leg at the same time.

CHAIRMAN CORY: But how, if the President should
choose to do otherwise, will California's interests be
served? How could we possibly support a pipeline system
which does not have a pipeline to get gas to California?

MR. GIBSON: I don't know that we could, but I
don't think we have to cross that.

CHAIRMAN CORY: I think you better cross that
bridge because there's one federal agency saying that you're
going to wait two years for that. And one thing that really
disturbs me about betting on the come -- that two years
from now somebody in the Federal Government is going to let
us have some gas, and I think that's what Merv is saying.

LIEUTENANT GOVERNOR DYMALLY: (Nods head.)

CHAIRMAN CORY: Now LNG, I've got some serious
doubts about, but --

MR. GIBSON: Well, unfortunately, though, we don't have any better shot at getting that gas in a federal project like that than we do with a pipeline coming across the United States.

CHAIRMAN CORY: But we've got a better shot with an LNG terminal in South Alaska and one in California. Our odds are a little bit better there.

MR. GIBSON: That is open to --

CHAIRMAN CORY: It may not be great, but it's --

MR. GIBSON: I don't agree. I think it's open to a great deal of dispute because of the fact that --

CHAIRMAN CORY: That's what we're here for. Would you address yourself to that question because the indications as presented to me are that the Federal Government in the agency level has turned down the Western Leg and postponed it, which to me is the same as a "No." We'll have nothing.

MR. GIBSON: Well, no. That's the point, sir. Mr. Cory, the recommendation of the Federal Power Commission is just that. You have to go back to the Alaska Natural Gas Transportation Act of 1976, which set up this very specialized decision-making process for this one situation. Normally, the Federal Power Commission would have the final say. Normally, when you propose a gas transportation project, you go to the Federal Power Commission, and you ask them for
a certificate. They review it and subject only to Court
review, that's it. This is not the situation here, however.
The Federal Power Commission is but one part of the overall
question. The way that the decision is set up, the Federal
Power Commission was the first to issue its recommendation
to the President, which it did on the basis of a judge's
decision. And then, by July 1st, the other federal agencies
and state governors and Public Utilities Commissions are
to have their input to the decision, and we are --

CHAIRMAN CORY: Who makes the decision?

MR. GIBSON: And that input is to the President
of the United States. The President makes the final decision,
which is sent to the Congress for their approval within 60
legislative days. The President's decision is to be shipped
to the Congress by September 1 and within 60 legislative
days thereafter, the Congress must decide whether or not
to accept the President's decision. So you see that the
decision or the recommendation of the Federal Power Commission
is but a small part of the overlay.

CHAIRMAN CORY: Yes, but the other thing that we
have going for us -- so I truly understand this -- is the
close rapport on energy matters between the President and
Congress --

(Laughter.)

CHAIRMAN CORY: -- and so we've got 64 Congressional
members who are saying, "Yes, give us a Western Leg" because we've got this great demonstration of their closeness and unanimity of opinion so we can be comforted by that. And then, we have the great rapport that those of us from the Democratic Party in California have with the current administration. And on those two things, we can rest easy, and you're willing to say, "Yes, go ahead with these projects."

It seems to me that we're really drawing to an inside straight if we don't even have one of the cards on the outside.

MR. GIBSON: If the problem is as shaky as you drew it, then we would have just as much of a problem in trying to hold on to the gas that we see shipped into California and shipped right out the other side. The Federal Power Commission has -- we have a direct pipeline from Texas. You're well aware, I am sure, of that.

CHAIRMAN CORY: (Nods head.)

MR. GIBSON: You're also well aware, I am sure, that in the past couple of years the Federal Power Commission has told us -- despite firm contracts not subject to any interruption -- that we are going to have to give up our gas to the east-of-California areas, to Arizona and New Mexico, Texas because they've decided that those people back there need it more than we do here in California with our air pollution problems and with the dependence that our industry has on natural gas. We fought that battle. We
fought it as hard as we possibly could, and we lost it flat out. Now, there you have the kind of problem. We have a direct pipeline. Even if you have an LNG terminal here with the gas coming into California, I'm afraid that your position is not much better. What you've got to do is make the case before the federal authorities and make it hard that California has to have that gas and needs it just as much as any other place.

LIEUTENANT GOVERNOR DYMALLY: With an LNG facility via California coast, I think it's much different than bringing gas in from Texas. I mean, this is a secondary source. We're not speaking of a primary source. I don't see how we can possibly be told that we can't get any of that gas if the facility is in California. Now, here we're dealing with another case where we were the recipient. Now, we are the distributor.

MR. GIBSON: We would undoubtedly get the molecules of gas, Governor, but whether we would get as much then from Texas -- you see, that's what they would do. They would back off the amount of gas that would come from Texas and whether we would end up with a net benefit is quite another question.

LIEUTENANT GOVERNOR DYMALLY: Will you address yourself to Justice Berger's comments about native claims?

MR. GIBSON: Yes, I'd be happy to. There are
several things that one has to recognize about it. Justice Berger of the British Columbia Supreme Court, before he went on the bench was a representative of native claims advocates in the Courts in Canada. And I think that's where he started out, and that's where he ended up. He was asked to recommend terms and conditions for the installation of a pipeline in the Mackenzie Valley. He came out with a statement saying he didn't believe that there should be any gas pipeline in that area for at least ten years. And that was not much of a surprise to anybody who knew where he had been before.

The fact, though, that's most important about that is that it's merely a recommendation. It's merely advisory to the Canadian government. And I think that you will see, as you've heard from Mr. Holland, that that recommendation, to the extent it was going to be of any impact at all, would impact both of the trans-Canadian pipelines. Both routes have their native claims problems. But the bottom line on this, sir, is that it's very unlikely, in our estimation, that the Berger recommendation is actually going to be followed.

Why? Because Canada needs that gas out of the Mackenzie Delta. They need it in the early eighties. And you're going to have to, as a Canadian decision-maker, balance off the interest of 20-odd million Canadians in southern Canada and their need for gas against the hypothetical
concerns of some of the native groups, who have been most vocal in the Northwest Territories. We think it's unlikely that the Canadian government is going to cut off the gas supply to 20 million Canadians.

But in any event, there's no need to speculate about which way the Canadian government is going to go on this because they've told us that they're going to decide in a time schedule that is the same as the time schedule that we have down here -- around September for the President. And even if they didn't, if they didn't decide and we could see that there was not much likelihood of getting a decision out of them, well, that's a decision, too. And that means, okay, you've got the El Paso project. You can go with it. We think it's a poor second or third choice, though, Governor. It's more expensive. It's going to waste gas. It's going to deny Californians of a great deal of the clean-burning natural gas off the North Slope. And the question for you gentlemen now -- and actually, for the Governor and for the State of California as the Governor makes his recommendation to the President -- is: Why choose a poor second or third choice on the basis of speculation? Why not tell the Federal Government what project we believe is the best for California, knowing that if we can't have it, there's always the second or third choice laying around?

LIEUTENANT GOVERNOR DYMALLY: Let me tell you how
I answer that question. With the State of Alaska and the Congress in support of the Alyeska project, yet environmentalists in the 48 lower states were able to hold up that project for over three years.

MR. GIBSON: But, Governor, that was without a law that expedited judicial review. As soon as judicial review was expedited, that project went forward, and that's what we have here. We have a law that was passed by the Congress last year which says that judicial review is going to take five months and that's it.

LIEUTENANT GOVERNOR DYMALLY: Judicial review about Canadian lands? I mean, what is --

MR. GIBSON: We have opinions of Canadian financial counselors, sir, that indicate that there is no possibility of anything but a frivolous lawsuit being brought in Canada regarding native claims, and such a lawsuit could not delay the authorization and the construction of the pipeline if the Canadian government had authorized it.

Now, why is that the case? Because they have a different kind of legal system than we do, and once the Canadian government has decided this, it's a decision which just simply is not subject to that kind of claim.

LIEUTENANT GOVERNOR DYMALLY: I don't know if you're a lawyer -- I'm not -- but frivolous cases are the dilemma which we face in the California economy so you cannot
take them frivolously.

MR. GIBSON: Well, frivolous cases are thrown out of Court in Canada. And our bond counsel have indicated that it is not a problem for the financing, and they're not going to go out on a limb and say, "You can go ahead and finance this project even if cases like that are hanging fire if there is a real problem of delay." Financial counsel don't do those things, sir.

LIEUTENANT GOVERNOR DYMALLY: They have a Supreme Court and they go all the way to the Privy Council, don't they?

MR. GIBSON: They don't any more. They go to the Supreme Court.

LIEUTENANT GOVERNOR DYMALLY: Not to the Privy Council.

MR. GIBSON: That's right. The State Department of the United States has been asked by the U.S. Congress to give an opinion on this very question. And Mr. Lawrence Raicht, R-a-i-c-h-t, of the State Department testified before Congressman Roncalio's committee this April on this very question. And his opinion was quite clear that there is no real possibility of native claims holding up the authorization or the building of a pipeline if the Canadian government has given its authorization. So, that's good enough for us.
LIEUTENANT GOVERNOR DYMAILY: Proceed.

MR. GIBSON: I believe that I should give my colleague here, Mr. Lepape from Southern California Gas, some time to hold forth now. So without further ado, I'll turn it over to him.

MR. LEPAPE: Mr. Chairman, Governor, what I've attempted to do is put, in as small a space as possible, a summary of our present position, and we're distributing a prepared statement. It was done in somewhat of a hurry, but I was able to keep it down to 15 pages, double-spaced. And I think that rather than get into a lot of numbers, I would like to ask that this be accepted into the record. And then I would like, in the time remaining, to make a few general observations and hopefully have any time for your questions. I might make better use of what time I have available if I can.

COMMISSIONER McCausland: Your statement is accepted for the record.

MR. LEPAPE: Thank you.

I am a vice-president of Southern California Gas Company, and I am president of their subsidiaries which are responsible for our efforts in obtaining gas from the northern part of Alaska and Canada, including the Arctic Islands. I have personally been involved in this work since about 1968, '69 -- the Prudhoe Bay discoveries. We started with
this program when we foresaw the shortfall in our traditional sources of supply from west Texas and Oklahoma. We do not import any Canadian gas at the present time. We are not owners of any of the pipelines presently in existence and would only be participating in pipelines to the extent it's necessary in order to get the gas and get the projects built, whichever project would be approved.

We have been in numerous predecessor groups trying to analyze the best possible way to bring gas down from the North Slope and from Canada. As such, our bottom line is what is going to get us the most amounts of gas at a reasonable cost to our customers in southern California.

To obtain this background, we started first drilling wells in Canada with Canadian companies. We recognize that one of the alternatives would be movement of gas through Canada, that we lack the amount of background and detailed firsthand information that we should have to try to make our decision.

Through that drilling in Alberta, we've been participating with Canadian companies for about eight years in a very small program, but they're very fine companies. And through that, we have had the benefit of direct contact with a very broad spectrum of the Canadian and gas industry and others in Canada.

The first project we were involved in -- really,
the first study we made -- was to bring gas from Prudhoe Bay across Alaska, as is proposed by El Paso at the present time. And we've always considered that with the large amount of reserves in Prudhoe Bay that that was a viable alternative. The question was whether it was the best. Over the years that have transpired since then and our involvement in the various projects, we believe that that is not the best alternative, provided Canada decides that it wants to approve the Arctic Gas project. So we don't want to lose sight of the fact that El Paso is viable. It could be built, and it's been so found by a number of the agencies that have very carefully gone over the enormous records.

And I am sure you're familiar with the fact that we have 45,000 pages of transcripts, and the FPC has thousands of exhibits, the Berger hearings, the hearings in Ottawa before the National Energy Board. We participated in all of these hearings. We have a large staff that has been working on these projects during these years and have the benefit of our own in-house evaluation of these alternatives.

Now, on the Canadian scene, we have participated in the drilling in the Mackenzie Delta by making advances to the Gulf Oil Company for the drilling they did in the immediate area. And we still have a contractual right to the extent that one-half of any of their gas that is found to be surplus to Canadian requirements, we get first crack...
at it for Southern California Gas Company.

We've also been active in supporting drilling in the Arctic Islands, and that has led to a dedication. We have approximately a sixth of the gas that's been discovered to date dedicated to us to the extent that is surplus to Canadian requirements. We also, through our other affiliate, have participation in probably some of the largest blocks of land under lease in the Mackenzie Valley. That's south, now, of the Delta. This is along the route proposed by Arctic Gas.

And I mentioned earlier the drilling in Alberta so we've had, over the last five or six years, a lot of exposure to the Canadian scene and a lot of those alternatives. We believe that there is a high probability that Canada, looking at its situation, will decide it has to have assurance that it will be able to connect frontier gas. They're faced with an option, presented by Arctic Gas, that the volumes that are proved and probable now in the Mackenzie Delta -- in the six trillion range -- could be piggy-backed down to the southern markets, along with the Prudhoe Bay gas.

If that line were to be approved by Canada along the terms and conditions proposed by Arctic Gas, we believe very definitely that it will result in more energy being available to the United States, both in terms of protecting
the present levels of exports from Canada that Mr. Gibson
referred to, and it is more fuel efficient. And Mr. Gibson
covered that. I won't go over the same ground.

Now, Canada, when they look at how they're going
to protect themselves -- let me just pick off a couple of
their options. They have drilled off the west coast of
British Columbia, and it's been a terrific disappointment.
They have drilled off the east coast of Canada, and that's
been a tremendous disappointment. I mentioned our involve-
ment in the funding and the drilling of the Arctic Islands.
And unfortunately, there was just a very, very disappointing
dry hole drilled on Melville Island -- one of the key wells
-- and it knocked three trillion feet out of the proved
reserves.

We are also participating in the Polar Gas study
group, which is similar to the Arctic Gas study group,
that would bring a pipeline down. And there was mention
of the filing that they will make with the National Energy
Board in September. We have just decided in the Polar group
that the pipe size has to be reduced, and we're reworking
the application. And gentlemen, there's no question that
the Polar Gas project does not have the threshold volumes
at the present time and in our opinion, it could not bring
gas to southern Canada in time to take care of the shortfall
which is being forecast.
Now, the other option that Canada has is hooking up the Mackenzie Delta. There is not enough gas there now for them to build their own pipeline based on those reserves so they have this piggy-backing option. You heard mention of the excess deliverability that they're developing in Alberta now. They speak of these additional reserves.

Gentlemen, I've studied carefully these new reserve additions. And what they're finding is high deliverability so far, the price of gas -- wellhead price -- was increased substantially in Alberta, there's been a great deal of shallow drilling.

Fortunately, they're also doing deep drilling.

But the additions to reserves, which is the key thing for Canada, have not been very far from that which has been projected by the National Energy Board and the Department of Energy, Mines and Resources. So as far as Americans and Californians looking at how are we going to obtain the greatest amount of supplies of gas from Canada, we have to be very concerned on whether Canada feels that they have enough reserves to protect their market. They demand a 25-year supply of gas.

And it isn't the deliverability -- the term has been coined a "gas bubble" in Alberta -- because they have a lot of deliverability now, but they haven't greatly increased their reserves. And we're anxiously awaiting the decision of the National Energy Board, which now will be
announced on Monday. At five o'clock the Panel is going to read the decision in Ottawa. And I understand that they have now decided that the entire report will be published, and we're very hopeful that that will include in it the supply-demand balance for Canada.

That will give us the opportunity to look into the future, and it will help us evaluate. And certainly, that's what the National Energy Board now has to do -- the importance to Canada to hook up the future and be assured that they have a means of doing it to take care of their needs. We do not expect Canada to make their decision based on American needs.

We expect it to be Canadian needs, and that's why we went up there so many years ago and started associating ourselves with the Canadian companies.

There have been several predecessor groups that we worked with. Several groups were merged into the present Arctic Gas group so we do have exposure to the Canadian companies involved in there. And a very important element of that project is the group of Canadian distributing companies. They're like PG&E and ourselves. We're on the firing line serving the public. We have the duty to serve our customers and to get gas here, and we listen very carefully to those Canadian distributors. The presidents of those companies have testified before the National Energy
Board. I've been there and heard it, and I know the men personally. I've spent a lot of time talking with them and their staffs. They say they need the Delta.

Trans-Canada Pipeline just newly issued an annual report. They likewise have stated that in their opinion, Canada needs a connection to the Delta, and they are supporting Arctic Gas. Gentlemen, if there's any possibility that we can have the Arctic Gas approved, we will have Canadians with more assurance that they're going to have more reserves. They'll have greater confidence in continuing the present level of exports, which, as Mr. Gibson mentioned, is an awful lot of energy. And it's energy that comes at a time when we need it. Hopefully, this will allow the Canadians to continue drilling up north and expand their base of supply.

The Polar Gas project is one that will also benefit. It's not competitive with, but complementary to, the Arctic Gas project. If Canadians have access to the reserves in the Delta and they're assured that that will be there as it's needed to serve Canadian markets, then we're faced with a much greater prospect that there will be large volumes of the Polar -- the Arctic Island -- gas available for export.

We have an agreement with Trans-Canada Pipeline, which is the largest pipeline in Canada. They transport
all the gas from Alberta to the eastern markets -- that any
gas we obtain in Canada -- should it be in the eastern part
of Canada and at the terminus of the Polar line -- they will
exchange a like quantity of the gas they own in Alberta so
that the Polar-Arctic Island gas is really something which
we will be able to reach if Canada decides they have a
surplus.

Now, a question of timing. Understandably, we
want the gas as fast as we can get it here. We do not agree
with the claims of timing of Alcan, in particular, that say
that could come in several years. My engineers and the
others that we've studied don't agree with that conclusion.
We likewise do not think El Paso could be operated any
sooner than the Arctic Gas project.

If the Arctic Gas project is approved as proposed,
I expect we will be able to get gas sooner because of the
Western Leg, and I'd like to respond to the Governor's
earlier question to one of the gentlemen with respect to
the Western Leg. As we look at it, the Western Leg is already
in existence and operative. Something which has cast
confusion on this question was the FPC recommendation. What
they did was they said, "We acknowledge the mandate of the
Alaska Natural Gas Transportation Act." That mandate is
contemporaneous direct delivery of Alaska gas. Judge Litt
clearly found the Western Leg proposal superior to a
displacement scheme that the FPC staff was referring to, and I think the Governor had that in mind when you were making properly the identification with the Texas situation.

Now, what the FPC did in that decision -- if you read the entire report -- they backed off telling the Canadians what to do. And gentlemen, that was one of the finest things that an American could do. In western Canada they have a saying -- when I was up there in past years. They say if you can't see an American, just be quiet for a moment. You'll hear him. And there was a lot of bad feelings created early in the exploration business up there when we brought our roughnecks in and we did the exploration work. And they tended to resent our rather positive way of speaking about things, particularly when they concern Canadian interests.

So, we looked at that opinion. And what it says is that the law of the land, which is in that act approved by the Congress and the President, we have a Western Leg. What it didn't do is say what size of additional pipe -- we're going to put the same diameter pipes, same pressure. We just put additional loops on. As a matter of fact, we don't even add any more compressors. And because of that and because of the lesser line friction loss, we'll actually use less fuel at the time we would move 600 million more to the Bay Area than we move now because of the characteristics
of gas transmission through these large pipelines. We would actually be saving fuel.

Now, the reason the FPC could not at that time in their opinion -- say, to certify a fully looped line at the present time -- it would have been presuming that the Canadians were going to evergreen and continue to export enough gas to keep the present facilities full. The entire decision of the FPC left alone the Canadian issues. Judge Litt addressed those. He heard testimony on them. And gentlemen, there was resentment in Canada because we presumed to talk about Canadian issues that we were yet to hear from the National Energy Board on.

Now, the biggest advantage of the Arctic Gas system, as far as we're concerned, is the fact that the line will go by the Delta. It's the shortest route. If Canada merely wants to accommodate us in the United States to build a pipeline, the way to build it is not along the Fairbanks alternative, but you build it right along the Arctic Gas route. If there wasn't an mcf of gas in Canada to come down the line, this is still the right route to build. It's 235 miles shorter for Americans. But gentlemen, if Canada then is assured that they can hook up those Delta reserves, then the present pipelines will be full and we will have to build the additional facilities.

Now, I would have rather the FPC said, "We certificate
conditionally -- or recommend the President certificate conditionally -- the full loop system and then when you come back and look at gas contracts and fine tune it, we'll reduce, if necessary, the additional facilities you have to build." That would have given us a stronger position with producers when we're negotiating. But the people who own the Alaska Gas now, we've been negotiating with for years. They're very sophisticated on the facts of these pipeline alternatives.

Any of the people who have been involved in this project very long could really put on the other fellow's hat and make his argument. We know what the other parties are going to say. We each honestly know what the record is in the case. We've all had very competent engineers. And when you get down and start studying the facts, there are not that many questions that, with a very carefully conducted cross examination of witnesses, we've not been able to ferret out where the pluses and minuses are.

Judge Litt did exactly that, and that's why he saw the advantages of that Western Leg. In my opinion, if the National Energy Board on Monday indicates that they're recommending to the Cabinet approval of the Arctic Gas system, the present pipeline facilities in the West will remain full. And there is no question in my mind that the Western Leg will be approved.
Responding to the Chairman, again, back with respect to the question of what would happen if it wasn't in there -- we haven't had to come down on it, but my first reaction to your question is that we would take a very serious look at whether or not the President was following the law of the land.

In my opinion, he is not free to recommend to Congress a facility that does not have a Western Leg.

I hope that has covered this particular area, and I would like to go on all morning but as I said, I prefer --

CHAIRMAN CORY: We'd save some time.

(Laughter.)

MR. LEPAPE: Well, I appreciate very much the opportunity that you have allowed us to come up and speak.

CHAIRMAN CORY: It's an important issue, and we've got to understand it.

MR. LEPAPE: Mr. Chairman, I've spent eighteen years of my life working on this, and a lot of men -- I've been involved in this more than any man in the room, I know.

And I have, I consider, a good group. I've dealt with Alberta Gas Trunk. We had a planned Alberta project to borrow gas out of. We were one of the strong supporters of the Northwest pipeline in the divestiture case. We have a contract with them that any gas that they obtain above their customers' requirements -- up to 600 million feet a day --
they offer to us.

El Paso is our largest supplier. We drill ed wells
together all over the place. We have a great deal of
respect for the company and the staffs of all of the alterna-
tives. But I'd like to be identified here before this
Board as a gas distributor in California that has tried to
be objective in analyzing what is a very complex issue, and
I'd like it to be clear that we're not faulting anyone's
effort, and all of the alternatives have had a lot of work
done on them. We think the Arctic Gas, from our own assess-
ment, is the best one and that's why we support it and urge
that you do all you can to help support this issue.

If the Canadians are not prepared to go forward --
when I see that decision on Monday and read it -- and if it
gets into the supply-demand issue, we'll reassess our situation
if it isn't what we expect. We're not wedded to any project, per se. If something changes that strikes our balance, our
job is to get gas for our customers.

We do need the other supply projects, Governor,
that you asked about -- the terminal sites down south. You
bet we do, and we're trying very hard all over the world to
get additional supplies.

Thank you very much for your courtesy. I'm sorry
to have double-teamed you today this way, but we did have
these additional issues that we wished to cover with you.
CHAIRMAN CORY: There is a Mr. Roger Thompson.

MR. THOMPSON: Mr. Chairman, it will not be necessary for me to speak. Mr. Gibson has already covered those issues.

CHAIRMAN CORY: Okay.

MR. GIBSON: Thank you.

MR. LEPAPE: Thank you.

CHAIRMAN CORY: Thank you very much.

MR. GIBSON: We have two economic studies of the competing projects, which I have previously delivered, and I ask that they be made a part of the record as well.

CHAIRMAN CORY: Do you have them, Mr. Northrop?

EXECUTIVE OFFICER NORTHROP: I believe so. Yes, we do, Mr. Chairman.

CHAIRMAN CORY: Okay.

MR. GIBSON: Thank you.

CHAIRMAN CORY: We'll take a short break.

(Thereupon a short recess was taken.)

LIEUTENANT GOVERNOR DYMALLY: Mr. Chairman, I have a resolution.

CHAIRMAN CORY: We are back in session.

Governor Dymally?

LIEUTENANT GOVERNOR DYMALLY: (Reading)

"WHEREAS, California is vitally concerned with the importation of new
supplies of natural gas, including the rich resources which will soon be available from Prudhoe Bay in Alaska, and

"WHEREAS, the President and Congress will soon select one of three competing systems for delivery of Alaskan gas to the lower 48 states, a subject which will directly affect the economic well-being of all Californians, and

"WHEREAS, recommendations made to the President and Congress by the State of California on this subject must be considered with the greatest care as matters of critically important public policy, and

"WHEREAS, a divided FPC has recommended the selection of either of the two trans-Canadian pipelines, neither of which is certain to make use of the concept of a Western Leg to bring Alaskan gas directly to the western United States,

"BE IT RESOLVED that this Commission urges the President and Congress to: One, seriously consider the El Paso project as one realistic alternative to transport Alaskan North Slope gas to the lower 48
states, and two, work toward the equalization of natural gas supplies and prices throughout the United States so that no state or region is adversely affected by the increasing costs and decreasing supplies of such resource."

CHAIRMAN CORY: You're moving the adoption of that resolution?

LIEUTENANT GOVERNOR DYMAŁŁY: Yes.

CHAIRMAN CORY: Mr. McCausland?

COMMISSIONER McCAUŞLAND: I'll second it.

CHAIRMAN CORY: The motion is seconded. All those in favor signify by saying "Aye."

(Ayes.)

COMMISSIONER McCAUŞLAND: Before I'm recorded as voting "Aye," I'd like to know if there's anyone who wants to testify on the resolution.

CHAIRMAN CORY: Okay.

LIEUTENANT GOVERNOR DYMAŁŁY: Before we give up our lunch hours.

CHAIRMAN CORY: Are you on a diet, Sid?

(Laughter.)

CHAIRMAN CORY: The wording of the resolution, is there anyone who wishes to discuss this?

MR. RICE: We'd just as soon you said that Alcan was a realistic alternative, also.
CHAIRMAN CORY: Mr. Rice is suggesting that they would just as soon, and perhaps prefer, that there be a reference to Alcan as being a realistic alternative, also.

LIEUTENANT GOVERNOR DYMALLY: Let me respond to that. The reason why it is not here is because you have already been referred to as an alternative by the FPC.

MR. RICE: May I ask, then, just a question of clarification. Are you expressing a preference for any of the three routes by this resolution?

LIEUTENANT GOVERNOR DYMALLY: Well, I think the resolution --

CHAIRMAN CORY: I think it speaks for itself.

LIEUTENANT GOVERNOR DYMALLY: -- is self-explanatory.

(Laughter.)

CHAIRMAN CORY: Yes, sir?

MR. LEPAPE: I was trying to listen carefully to the last -- I have a comment on the first of it, but the last one, there may be an element here that I'd like to draw to your attention. My concern is that if we're suggesting something that sounds like it speaks in favor of national allocation of gas, I submit that that would be very harmful to the interests of California.

LIEUTENANT GOVERNOR DYMALLY: Let me read the second part again.

MR. LEPAPE: Thank you.
LIEUTENANT GOVERNOR DYMALLY: Two, work toward
the equalization of natural gas supplies and prices through-
out the United States so that no state or region is adversely
affected by the increasing costs and decreasing supplies
of such resources.

MR. LEPAPE: I think I understand what the purpose
was in putting it in, but I submit that it could be mis-
interpreted. And unless it's felt strongly by the Board,
I'd urge that that be deleted because there are some arguments,
which I think are unfounded, by other parts and markets in
the country and I'd like to --

COMMISSIONER MCCAUSLAND: Well, may I --

CHAIRMAN CORY: Without objection, then, we --

COMMISSIONER MCCAUSLAND: No. Well, wait.

CHAIRMAN CORY: Let's take care of the parliamentary
problem. Without objection, we will rescind -- the motion
has been made, and I have not announced the vote. And we
are rescinding putting the motion before the Commission.
We are now discussing the proposed resolution.

Mr. McCausland.

LIEUTENANT GOVERNOR DYMALLY: The second part of
the "RESOLVED" part.

COMMISSIONER MCCAUSLAND: I believe that at least
that portion of it which says work towards "something" with
natural gas supplies so that no state or region is adversely
affected by the decreasing supplies of such resource is a message that you seriously wanted to convey, and I think we should find the words to keep that in.

LIEUTENANT GOVERNOR DYMALLY: Give me in real language what your problem is.

MR. LEPAPE: Well, see, here's the problem. Some markets and some people in the country -- our job is looking after California, not the rest of the nation. And there are people that don't believe in self-help. They haven't put money out. We've gone up and drilled. We've been working on these projects and worked very hard over the years to tie up supplies. And there are people who -- when I started this -- were going to build a gun barrel to Chicago and said, "Don't worry. We'll allocate gas and take care of you."

Now, they would love to see that sort of language come out of a California agency. And if you could address each of those gentlemen on the other side that would be trying to misinterpret your statement, you could correct them, but you won't have the ability to. And we found statements being misused that come out of California in a way you wouldn't believe, and I just want to alert you that there are some dangers in there. And as a company that's involved in it, I --

COMMISSIONER McCausland: Staff, I think you looked at this for about five hours longer than I have. Have you
taken any look at this language to see if there's a reasonable alternative?

EXECUTIVE OFFICER NORTHROP: We have looked at some other language, Mr. McCausland and Mr. Chairman. And I understand what Mr. Lepape is saying. However, staff feels strongly that there should be some guarantee that if we're relying to a large extent on LNG, that we don't get an LNG price for our entire market. There should be some price equalization, as has been demonstrated, for example, in the fuci oil prices in the Northeast, of a national averaging. And that's really what we hope this language would address.

MR. LEPAPE: I do understand what the staff is working on, and --

EXECUTIVE OFFICER NORTHROP: Would you help the staff with language that would infer that, then?

MR. LEPAPE: Because this, then, reaches an issue that has arisen as to whether or not -- because the molecules -- say, El Paso's the project approved. The molecules come in and have a cost associated with it, that that would back off the cheap supplies that we otherwise would get. And that is not the structure of the law. We do not feel that it's obtainable under the present rules, but we'd be glad to work with some precise words with the staff towards that. When you speak of equalization across the country, it has a sort of a different context. We have some of the
cheapest supplies of anyone at the present time, you see, that are coming in.

COMMISSIONER McCaUSLAND: Let me suggest that -- I think this "RESOLVED" clause should also make reference to a Western Leg since we've had a lot about that.

LIEUTENANT GOVERNOR DYMALLY: Work towards the establishment of a --

COMMISSIONER McCaUSLAND: So I would perhaps -- were you considering breaking for lunch?

CHAIRMAN CORY: I was planning on going through the agenda and then going to lunch.

COMMISSIONER McCaUSLAND: Why don't we ask interested parties to --

LIEUTENANT GOVERNOR DYMALLY: Let me just make a suggestion. Let's pass the resolution without two and come up with a separate resolution regarding this whole question of equalization.

MR. IEPAPE: I would think that all three of the applicants and the parties here would support -- and I'll ask their representatives, if you don't mind -- would support the representation that the regulatory approval for whatever project is finally certificated should not work to back off the cheap supplies for the California markets. Is it a question that --

LIEUTENANT GOVERNOR DYMALLY: Let me just resolve
RESOLVED that this Commission urges the President and the Congress to seriously consider the El Paso project as one realistic alternative to transport Alaskan North Slope gas to the lower 48 states, period.

COMMISSIONER McC Ausland: May I stick in "and/or guarantee the construction of the Western Leg to bring Alaskan gas directly to the western United States"?

MR. LEPAPE: Thank you.

LIEUTENANT GOVERNOR DY MALLY: Yes, but that diverts --

COMMISSIONER McC Ausland: Does it?

LIEUTENANT GOVERNOR DY MALLY: The original intent.

COMMISSIONER McC Ausland: In fact, I thought our original intent was to make sure that whatever was done by the Federal Government, that those on the West Coast had an adequate service supply.

LIEUTENANT GOVERNOR DY MALLY: I think that proposal you have ought to be relayed to Congress with reference to the Alcan and Arctic proposals recommended by the four Commissioners, but this is a separate subject. We are suggesting El Paso be viewed by the President and the Congress as a realistic alternative, if all the other factors in Alcan prove to be adverse.

MR. RICE: I don't think it makes a lot of sense for the Commission to just speak about the El Paso project
and be silent on the Western Leg altogether. It suggests you don't care about it, and you don't care about the overland system. That's the inference.

MR. LEPAPE: May I suggest, Governor -- what if we said that, after you have your statement -- I understand what your collective opinion is in the first part of it -- what if you had a conditional clause in there that said, "If an all-land pipeline was approved, it should have a Western Leg"? We have many agencies that have done that without -- it's not committing use of the all-land --

LIEUTENANT GOVERNOR DYMALLY: I have some problems with that. I'd like to leave that in a separate resolution.

CHAIRMAN CORY: Let me suggest that I would like to even be a little tougher on the issue. And one of the things to try and put you, who are really at the mainline of dealing with California's interests in this area -- put your feet in the fire a little tougher -- that since the Federal Government hasn't solved that question and in fact, thrown a monkey wrench, in my opinion, on the Western Leg -- you know, because of what they've done with the Western Leg, I'd say that they better look at this one very seriously because they really better get back on track with saying that we've got a pipeline delivering gas here or we're in trouble. I don't know how we get off dead center here.

COMMISSIONER McCUSAULD: Let me propose a procedure
here that accommodates the Lieutenant Governor. As I understand your original motion, we've accepted the first four whereass in your resolution and the resolved clause. I'd like to propose that we adopt two resolutions today, both of which use the same whereas clauses. All right. The one that I would like to vote on first -- since I think you already know that I'm inclined to accept the language on El Paso -- I'd like to first vote on a resolution that uses your four whereas clauses and then says, "RESOLVED that this Commission urges the President and Congress to guarantee the construction of a Western Leg to bring Alaskan gas directly to the western United States."

LIEUTENANT GOVERNOR DYMALLY: I so move, Mr. Chairman.

CHAIRMAN CORY: All right. Without objection, it will be adopted.

MR. LEPAPE: Thank you.

COMMISSIONER McCausland: And then, the second resolution --

LIEUTENANT GOVERNOR DYMALLY: I'm amenable to working out some industry language for that second one to express your concern.

COMMISSIONER McCausland: The second resolution is now your call on the El Paso project as one realistic alternative.

LIEUTENANT GOVERNOR DYMALLY: I thought that was
the first one.

COMMISSIONER McCausland: No, we just voted on one to guarantee the construction of a Western Leg.

LIEUTENANT GOVERNOR DYMALLY: I'm sorry.

COMMISSIONER McCausland: Thank you for moving it.

(Laughter.)

CHAIRMAN CORY: Where are we?

LIEUTENANT GOVERNOR DYMALLY: I believe that you were going to take up the one which I had introduced first. Mr. Chairman, I move that we rescind the action that we just passed.

CHAIRMAN CORY: By unanimous consent, since there was confusion, we will rescind that action. Now, we have the proposal --

LIEUTENANT GOVERNOR DYMALLY: I want to take up the El Paso one first.

CHAIRMAN CORY: Governor Dymally is suggesting that it's a question of whether or not it's a square table or a round table. No, it's a question of which resolution we take up first. Now, Mr. McCausland would like to pass a resolution which addresses itself to the same whereas clauses and a resolved clause that address itself to the fact that if they're going to use an overland route, it must have firm commitments for a Western Leg -- some language that says that.
COMMISSIONER McCausland: Right. And in all honesty, Mr. Chairman, the reason I didn't want to be recorded on the initial vote before testimony was that I don't believe I'm in a position to vote for a resolution that speaks solely to the El Paso project unless it also makes some reference to the other options that are still being considered in Canada and by the Federal Government.

Lieutenant Governor Dymally: Now that I understand that, we'll have two -- one on the El Paso and one on the Western Leg.

Chairman Cory: So if we do them both simultaneously, does that avoid our mechanical confrontation? Separate resolutions but voted upon by the same motion?

Lieutenant Governor Dymally: No, separate motions.

Chairman Cory: Separate motion. Does it make a difference to anyone --

Lieutenant Governor Dymally: It doesn't make any difference to me. I'll vote on them, but I just want them to be separate.

Chairman Cory: Okay. Mr. McCausland would like to vote on the Western Leg so we will have the first four whereas clauses and a resolved --

Commissioner McCausland: RESOLVED that this Commission urges the President and Congress to guarantee the construction of a Western Leg to bring Alaskan gas directly
to the western United States in the event of the approval of an overland route.

CHAIRMAN CORY: Without objection, such resolution is approved.

The next item before us is the same four whereas clauses, the resolved clause in the draft here down through subparagraph (1) and leave out (2)?

LIEUTENANT GOVERNOR DYMALLY: Correct.

CHAIRMAN CORY: So that we're just dealing with the question -- as modified on your sheet, it says, "...the El Paso as one realistic alternative..."

LIEUTENANT GOVERNOR DYMALLY: Right.

CHAIRMAN CORY: Do we have the wording of that in the record?

COMMISSIONER McCausland: Let me read it one more time.

RESOLVED that this Commission urges the President and the Congress to seriously consider the El Paso project as one realistic alternative to transprrt Alaskan North Slope gas to the lower 48 states.

CHAIRMAN CORY: Without objection, such resolution is adopted. Okay.

LIEUTENANT GOVERNOR DYMALLY: All right. We still have the question of price equalization.

CHAIRMAN CORY: That is the one where the staff
will come up with another resolution at the next meeting --

LIEUTENANT GOVERNOR DYMALLY: Fine.

EXECUTIVE OFFICER NORTHROP: Right.

CHAIRMAN CORY: -- so we won't trap ourselves on

that one, and we'll talk to you before we do it.

MR. LEPAPE: Yes, we were just speaking about how
to pinpoint the problem. Thank you, gentlemen.

CHAIRMAN CORY: Thank you for your time and informa-
tion to us this morning.

LIEUTENANT GOVERNOR DYMALLY: There's one contro-
versial issue which has to do -- I shouldn't prejudge --
one issue which has to do with the seeking of a permit on
State lands to build a home. I'd like to take that issue
up first.

CHAIRMAN CORY: That is the Tomales Bay --

EXECUTIVE OFFICER NORTHROP: Yes, Item Number 23.

CHAIRMAN CORY: Item Number 23 is before us. I
believe there is a map on the wall. Can staff give a quick
explanation?

EXECUTIVE OFFICER NORTHROP: Mr. Trout will make
the presentation, Mr. Chairman.

MR. TROUT: To make it very brief, Mr. Chairman,
Mr. Cassel is contemplating the purchase of property on
Tomales Bay for the construction of a single-family home.
It is the parcel shown as B and C on the wall underneath the
clock. The area on both sides and including Parcels B and C is a former tideland area, sold and patented by the State as tidelands and surveyed 130, I believe.

There is an existing residence to the right of the dark-outlined parcel. There is an existing motel on the left with, in front of it -- which doesn't show on that plat -- a very large breakwater and marina. The applicant, Mr. Robert Cassel proposes to build a 2,000-square-foot home at that location, shown by Mr. Sanders.

Pursuant to the Supreme Court decision in the case of Marks vs. Whitney, the Supreme Court said on tideland patents -- and Mr. Taylor can jump in at the appropriate time -- that the trust over patented tidelands for commerce, navigation, and fisheries was not limited to some of the long-time traditional uses that could include such expanded things as ecological and environmental concerns. It could include sunbathing. It could include mud flats and various other kinds of things.

The site Mr. Cassel proposes to build on is partially filled. Parcel C involves some degree of fill and has been raised above the original natural level. Since the whole parcel is a former tideland patent, we would propose to exercise the tideland trust over the entire parcel on behalf of the public. We would propose that Parcel B be preserved and the trust exercised for its natural position.
We can quickly go through some slides.

--000--

MR. TROUT: And then, the Parcel C site, we would recommend that the Commission find that the building of a single-family home would not be inconsistent with the trust.

This is a slide of the --

CHAIRMAN CORY: Pardon me. The little ones are being eaten by the big ones in my stomach. I presume there's some controversy on this?

Is there anyone in opposition to this item?

MS. HOLBROOK: Yes, indeed.

CHAIRMAN CORY: Okay, fine. Proceed.

MR. TROUT: This is looking from the parcel to the right at the end of the pier towards Mr. Cassel's property.

--000--

LIEUTENANT GOVERNOR DYMALLY: You're saying --

--000--

LIEUTENANT GOVERNOR DYMALLY: -- that is private property, when you say Mr. Cassel's property?

MR. TROUT: Well, it's private property. Mr. Cassel does not now own it. He has an option to buy it if he can get permits to construct the home on it.

MR. TAYLOR: Subject to a retaining easement in the State.
LIEUTENANT GOVERNOR DYMALLY: But it is private property?

MR. TAYLOR: It's private property, but we have an easement which we have exercised over it.

CHAIRMAN CORY: As I understand it, the patent land is not fee land.

MR. TAYLOR: It's patented land. The fee title is in the private owner, but when we patented it we retained an easement which we could exercise under appropriate circumstances.

CHAIRMAN CORY: So we could do something for commerce, navigation, and fisheries there and, in essence, usurp some of the underlying landowner's rights to that property.

MR. TROUT: That's correct. The Commission has twice exercised the trust over patented tidelands, once in the Hayward vicinity and once in South Morro Bay.

So this is the parcel. The property lies right --

MR. TROUT: -- down the center of this here. This is the other edge of the property. This is the portion of the motel.

MR. TROUT: This is from the property looking at the Parcel B site, which has a small pond on it.
MR. TROUT: This is another view out from the property.

MR. TROUT: This is from the building site itself.

MR. TROUT: This is again from the building site looking slightly towards Parcel C.

MR. TROUT: This is the highway -- Sir Francis Drake Boulevard in front.

MR. TROUT: This is a view looking directly from the highway at the parcel.

MR. TROUT: And again, this is the other edge of the parcel.

MR. TROUT: This is the small lagoon, which is inundated at certain stages of tide. This is on Parcel B, and we would recommend the Commission exercise the trust on Parcel B -- of the patented piece there to preserve the status quo. In addition, if Mr. Cassel gets all of his permits, he's agreed to clean this pond up --
MR. TROUT: -- remove all of the debris --

--000--

MR. TROUT: And it would be subject to public use.

--000--

MR. TROUT: Now, this is the area from this bank out towards the water. It would also have the trust exercised and would be available for public use.

--000--

MR. TROUT: This is looking the other way, toward the motel.

That's basically Mr. Cassel's proposal. We've reviewed the County Engineer's location of the mean high water and mean low water marks based on various charts. We find that there's little disagreement among any of the parties, including the present owner, that the parcel is subject to the trust. And the last part of it would be a finding that Parcel B, the now-filled building site -- use of that parcel for a single-family residence would not be inconsistent with the trust, provided the balance of the parcel would remain in the status quo.

The opposition stems mainly from the proposition that this is a piecemeal approach. However, as we pointed out to the Commission last month, we feel that many of these people have waited a great deal of time, following the Marks vs. Whitney decision, in order to commence development.
And we have had staff review this with the Department of
Fish and Game and with the Coastal Commission. And Mr. Cassel
has problems with the county in that they are somewhat unwilling to act until the Commission makes a determination regarding the trust.

This is a recommendation of the staff that would apply to this parcel under these circumstances, and we could recommend that you make the findings. We're aware that there is opposition because they feel that this would set a precedent for other parcels in the area. As far as I know, we only have one other pending application at this time, which was just recently received from a Mr. Cagle, for another single-family residence on a combination of two parcels.

LIEUTENANT GOVERNOR DYMALLY: What is staff's recommendation?

MR. TROUT: Staff recommendation is that he be allowed to proceed, subject to his agreement that Parcel B will be cleaned up and will be left in the status quo, that there will be no construction on it, and that the construction be limited as to Parcel C -- there will be a 25-foot public access along the motel side of the property and access for a possible future bikeway along the front adjacent to Sir Francis Drake Boulevard. He has applied to the Coastal Commission, and the recommendation of the staff, if adopted
by the Lands Commission, specifically would not prejudice any other public agency -- the Coastal Commission or the County -- as to whether or not they would give him a building permit.

CHAIRMAN CORY: I thought the recommendation was not to exercise the public trust on Parcel B.

MR. TAYLOR: No, it is to exercise it on all of the parcels.

MR. TROUT: The entire parcel, B and C. The trust exercised on Parcel B would be for the status quo. He would not be allowed to develop Parcel B. In addition, he would consent to clean that up within the construction period of his home. The Commission would likewise find that although the trust was exercised on Parcel C, the construction of a single-family home on that parcel would not be inconsistent with the trust, given the balance of the finding.

MR. TAYLOR: We would not feel at this time that it would be necessary to exercise the trust over Parcel C in light of that use. It really isn't a consistency question. It's just that we're determining that the remainder of the area and the remainder of Tomales Bay that it's not necessary to exercise the trust, and we would allow him to put that use up -- however, subject to our right -- if we ever felt it was necessary -- to pay him off only for the improvements and to take that parcel as well.
The resolution, Mr. Chairman, that is proposed by
the staff is on pages 66, 67, and 68. It should also be
noted that Mr. Cassel has been turned down by the Planning
Commission on an application to build this house and is
presently appealing that decision to the Board of Supervisors,
who have asked for this expression before they act on his
appeal from the two zoning matters. And the zoning matters
are referred to on pages 62 and 63, which are what he is
appealing.

CHAIRMAN CORY: So the question is -- as a policy
matter, a local agency is saying to us that they want us
to get involved and all these people mad at us to make a
decision before they deal with it? I mean, why shouldn't
the shoe be on the other foot or something?

LIEUTENANT GOVERNOR DYMALLY: Isn't that the way
supervisors operate?

(Laughter.)

CHAIRMAN CORY: Well, yes, but I think there's a
serious question about why we should put ourselves in that
box.

MR. TROUT: Mr. Chairman, we've looked at it
basically from that position -- in fact, almost exclusively.
And your staff looks at it this way: The Coastal Commission
and the County are exercising, basically, a police power,
zoning-type of regulation. The Lands Commission is involved
basically, in reviewing a property right. The Lands Commission is the purveyor of wisdom regarding the retained interest in the property that exists in the State. And so, the County has said, as a property owner -- the person having a right in the property -- we feel that the Commission should advise the County as to whether or not a given use is consistent or not inconsistent -- there may be a slight difference between the two -- to the public's present needs for its property rights on the property. Following that, the County said that with that information, they could then evaluate the property --

CHAIRMAN CORY: Well, then, can we not give the County that information by exercising the trust on Parcel B and remain silent on the remaining question and let them go to their own devices?

MR. TAYLOR: I think that either way it goes, it will be action. Even if we're silent, there would still be action on that because the person would proceed, then, to build. So I'm afraid that --

CHAIRMAN CORY: No. I'm saying that if we exercised the public trust so the public has access from Sir Francis Drake Boulevard to the Bay on Parcel B -- we just decline the resolution of exercising the trust on that area -- and remain silent as to what happens on Parcel C, maybe we'd get to lunch sooner.
MR. TAYLOR: You're making an answer to that question very difficult.

(Laughter.)

MR. TROUT: Unfortunately, Mr. Cassel is an attorney and had a Federal Court appearance at 1:30 in San Francisco and left. He is represented here by Felix Warburg, who is a planning consultant and involved in this. And in my discussions and staff discussions with the County, the County really is asking the question: Is the construction of a single-family home on patented tidelands -- period -- consistent, or is it patently inconsistent with the trust?

CHAIRMAN CORY: Well, I'm suggesting that we not answer that question.

MR. TROUT: Well, I think if we don't answer that question, then we leave the property owners in Tomales Bay basically in limbo. And I think that's a policy decision that we have.

MR. TAYLOR: May I make two comments, Mr. Chairman?

CHAIRMAN CORY: No, I think you're missing the point here. What bothers me is having to deal with a local zoning issue. You know, the County should go do their number and decide what their local zoning is or isn't and whether they're going to do it or not do it before they bother us with it.

MR. TROUT: Well, I think it's not a matter of
zoning. It's zoned for a single-family residence.

CHAIRMAN CORY: And it meets all of the requirements?

They've issued the building permit? They're prepared to go?

MR. TROUT: No. The County said it could not

issue the building permit.

MR. TAYLOR: Can I set this matter in perspective

just for a moment?

CHAIRMAN CORY: Please do. I'm not anxious to
get into the question, as you can see.

MR. TAYLOR: I understand that. Mr. Chairman,

following Marks vs. Whitney the County of Marin announced

that it was going to exercise the public trust over Tomales
Bay. The Lands Commission at that time said the public trust
is under the jurisdiction of the Lands Commission, and we
would prefer to exercise that. We worked out an agreement
with the County, through informal negotiations that back
of the historic highest high water that ever existed --
ordinary high water mark that ever existed -- that the
County would proceed to issue permits with regard to that
without any consultation with the State and in the area in
front of that line -- which this parcel clearly is -- that
there would be some communication or expression sought from
the State.

What we are determining at this time is whether or
not from our title interest we would object to his construction.
and what we think, from a title standpoint, is satisfactory. Then, the --

CHAIRMAN CORY: But that's not what's going to be construed in that local community. It's going to be that the State Lands allowed this guy to build a house.

MR. TROUT: That's the basic issue.

CHAIRMAN CORY: No. The only question we're concerned with is what areas do we wish to exercise the public trust and provide access to the public. And it seems to me, from what limited things you've presented to me, that we should probably exercise the trust on Parcel B. And whether or not somebody builds a house is a secondary point, and we shouldn't address ourselves to that until the Board of Supervisors comes up with where they are on the hassle over the zoning and the building permit. Somebody has already denied them there locally. I don't see why we should get into a local fray and start taking sides.

MR. TAYLOR: Part of the question determined involves a public trust. And on page 63 you'll see the grounds upon which he was denied the permit from the County. And the Board of Supervisors said that these determinations have been made with regard to the public trust by a local agency, and they want to know from us whether or not we agree with those findings.

CHAIRMAN CORY: We pass.
MR. TAYLOR: That's certainly an option, if you
care to take it, Mr. Chairman.

CHAIRMAN CORY: I mean, why do we want to get into
this local hassle? I don't know anything about Tomales Bay.

COMMISSIONER McCausland: I have a couple things --
I do not want to adopt a resolution that says I have no
problems with the construction of a 4,000-square foot house
and its associated septic system until I've heard --

CHAIRMAN CORY: Yes.

COMMISSIONER McCausland: -- from somebody who
can tell me -- with that little estuary lagoon there, I
have no desire to run my drain tiles out through that lagoon.

CHAIRMAN CORY: I don't think we should have
these kinds of questions before the local people resolve
them.

MR. TAYLOR: Mr. Chairman, basically, there has
to be an overall plan adopted for Tomales Bay. One of the
things that may be recommended to the Commission is that
this area, which is relatively undeveloped at the present
time -- have the Commission exercise the trust over the
entire area. That may be a recommendation of the staff
or of the Coastal Commission or of the local planning body.
That plan has not been completed. At the present time
it's my understanding that we're relying in the initial
stages for the development of that plan upon the local agency
which is developing the Coastal plan and that we will review
that plan and make appropriate recommendations at the time
that goes to the Coastal Commission before the Coastal
Commission acts upon them. In the meantime, there's been
a two-year delay in this, and these people have asked for
some consideration.

Now, there are several options. The Commission
may want to postpone this matter for further briefing. The
Commission may want to not take any action with regard to
Parcel C. That's certainly one action you could take. You
may want to put this over until a plan is adopted. There
was a recommendation last time, but there are a number of
sources. But ultimately, this Commission is the holder of
the public trust and will have to make some decision with
regard to that. You will recall that some of the people
that have --

CHAIRMAN CORY: Yes, but my options and the politi-
cal battles I get into can be limited by requiring the local
people to fish or cut bait first. And you know, somebody
has rejected. Somebody's appealing it. Why should I step
into that fray until -- if, in fact -- the denial is going
to be sustained anyway?

COMMISSIONER McCAUSLAND: Let me add to the
confusion for a minute because as a member of the Wildlife
Conservation Board, I've bought up parcels to save them from
development within a quarter of a mile of this site and as part of the Public Works Board -- has bought huge blocks of land as part of a park development scheme, but I have never seen in any of those forums a development plan for the waterfront area. And I would like to know where that area is going before this Commission is forced to begin making a permit-by-permit decision on whether construction is appropriate. Has this site been reviewed by Fish and Game for its possible inclusion in a Wildlife Conservation Board acquisition scheme?

MR. TROUT: Yes.

COMMISSIONER McCAUSLAND: Has it been determined to be suitable for development because of its proximity to the motel?

MR. TAYLOR: Let me say this: It would not be necessary to pay any compensation whatsoever to the owner for a purpose within the trust. And if it were the desire of Fish and Game or someone else that this area be retained in its present condition for that purpose, there would be no compensation required except if you wanted to eliminate the fee title interest. And that interest would be determined based upon the effect of the Commission's resolution. One of the things that the Commission has done in the two items that you've passed previously is to endeavor to establish for General Services and the Wildlife Conservation Board a
precedent for the exercise of the trust so it can begin to
be taken into consideration in evaluating this property. I
did not realize that there had been a lot of acquisition up
in that area. I don't know whether that was taken into
consideration when it was done.

LIEUTENANT GOVERNOR DYMALLY: Mr. Chairman, with
all due respect to the parties here -- and my motion does
not preclude testimony -- but I move that this matter be
deferred until after the Board of Supervisors takes their
position in this particular application.

CHAIRMAN CORY: There's a gentleman in the audience
who --

MR. WARBURG: May I testify?

CHAIRMAN CORY: Yes, sure.

MS. JACOB: I'd like to testify as well.

CHAIRMAN CORY: Fine, come on. We've got lots of
time.

LIEUTENANT GOVERNOR DYMALLY: Mr. Chairman, can we
get the opposition to select one spokesman?

MS. JACOB: He's for, and I'm opposed.

MR. WARBURG: I'm for the applicant.

CHAIRMAN CORY: Would you identify yourself?

MR. WARBURG: Yes. My name is --

LIEUTENANT GOVERNOR DYMALLY: Mr. Chairman, can we
just have one for the opposition?
MR. WARBURG: We have.

MS. JACOB: I am the opposition.

LIEUTENANT GOVERNOR DYMALLY: All right. But you have other people who want to speak, don't you?

MS. HOLBROOK: On the opposition, Ms. Jacob can certainly speak for the two organizations that I'm representing, the Inverness Association and the Marin Conservation League.

CHAIRMAN CORY: Would you identify yourself for the record?

MR. WARBURG: Yes, I was trying to do that, sir. My name is Felix Warburg. I'm an architect and planning consultant and representing Mr. Cassel, who had to appear in Federal District Court at 1:30 in San Francisco. He was here until about 12:00.

I think there's some administrative procedure here that you may not be aware of at the local level, and I appreciate your concern about not getting involved in it. The fact is that there are a series of approvals involved. We have gone through the first two steps, the environmental review of the Environmental Protection Committee and the Planning Commission. In each case, they felt that it was really not within their power to determine what the use of public trust lands were. We agreed with them that the property is outside --

CHAIRMAN CORY: I agree with them, too.
MR. WARBURG: Yes, we do, too.

CHAIRMAN CORY: But the real questions are: Do you have a building permit and if you wanted to build -- why should we exercise the trust or not exercise the trust before that issue has been decided?

MR. WARBURG: We're a long way from the building permit. We cannot do anything until the Board of Supervisors makes the determination. They are anxiously awaiting -- have been for some time -- for a determination by the State Lands Commission as to what uses are allowable on public trust lands. Under Marks vs. Whitney that authority was given to the State Lands Commission.

LIEUTENANT GOVERNOR DYMALLY: The response to that is not a resolution on the part of this Commission about what does its staff mean. What the AG's Office -- and I'll ask the Lands Commission's legal counsel to explain to the Board of Supervisors and the County Administrator what the law is.

MR. TAYLOR: Well, we have. And what we're down to is the specific instance and whether or not this Commission, which is vested without authority, deems it necessary at this time to exercise that. Otherwise, if we stand aside and this man constructs anything on this property or on all of it, then prior to the Commission ever again considering whether it wants to exercise a trust, it must tender to him
the amount of the improvements on the property.

CHAIRMAN CORY: It seems to me that the Board of Supervisors of any county shouldn't be in a position of telling the State agencies when we should act and when we shouldn't act.

MR. TAYLOR: Well, I think maybe we should discuss this privately. The question is that we asked them to stop interpreting the public trust because that was a matter within the scope of the Lands' jurisdiction.

CHAIRMAN CORY: That's right.

MR. TAYLOR: And they are saying that until they know whether we deem this area as one necessary for us to exercise the easement in terms of protecting the public trust as it applies to this total area, that they do not want to act.

CHAIRMAN CORY: Then, there has been a denial of Mr. Cassel's request by the local people and --

MR. TAYLOR: Yes, that's on page 63 -- exactly the grounds.

CHAIRMAN CORY: Okay.

MR. TAYLOR: But the grounds for the denial were that in the opinion of the two agencies -- the Planning Commission and I can't recall --

MR. WARBURG: The Environmental Protection Committee.

MR. TAYLOR: -- the Environmental Protection
Committee, the public trust required the turning down of this application.

LIEUTENANT GOVERNOR DYMALLY: Mr. Chairman, I'm not --

CHAIRMAN CORY: That doesn't necessarily require that.

LIEUTENANT GOVERNOR DYMALLY: May we hear the witnesses and then --

MR. TAYLOR: If you read on the top of page 63, you'll see what they're basing this on.

LIEUTENANT GOVERNOR DYMALLY: I'm not prepared to vote on it today. I need a little more enlightenment.

MR. WARBURG: I just wanted to continue that, as Mr. Cory indicates, why don't we come back when there is a building permit? Before we can do that, we have to get a sanitary permit from the Environmental Health Department. We cannot do that until we have a determination as to whether we're going to have entitlement from the County itself. Once we have done that, we still then have to prepare all our drawings for a building permit and have a building permit issued. And only then, do we go before the Coastal Commission. So we have three different hurdles in addition to yours before we're anywhere near that point.

CHAIRMAN CORY: Pardon me, sir.

MR. WARBURG: Yes.
CHAIRMAN CORY: Greg, the thing you referred to me on 63 refers to a Marin County code that is placing the requirement on me, and I say in Marin County codes' ear that they can't tell me how I've got to act.

MR. TAYLOR: I understand that, but the problem is that they have interpreted the public trust --

CHAIRMAN CORY: Okay. If they've interpreted it incorrectly, that's their problem and that's Mr. Cassel's problem with his local government, and now I don't want to get hoisted on their petard. Why are we getting into this fight?

MR. WARBURG: Well, read Marks vs. Whitney.

CHAIRMAN CORY: We can come in at any time and exercise our jurisdiction over the public trust. That's a separate and distinct question. And what Marin County wants to do -- if they want to use that as an excuse to hold you up, your beef is with Marin County, not us.

MR. WARBURG: Well, they will turn around and say the opposite so obviously, somebody has to get together. We're in the middle.

CHAIRMAN CORY: Yes, you're in the middle. Go through the County. We'll act when we want to act.

MS. JACOB: Is it appropriate for somebody else --

CHAIRMAN CORY: Go ahead. Why don't you conclude what you have to say, and then we'll go on.
MR. WARBURG: All right. The other point that I think has been alluded to here is that the planning process under which the Coastal plan is certificated -- the Marin County plan is certificated and the Coastal plan is in the process -- it will be at least a year before those two plans are brought into compatibility and will be there. Our feeling is that this is a piece of property that is in between two existing developments of rather large scope, particularly the motel, which has quite a few units and a great deal of public access to the water, including the launching ramp. And for those reasons, we feel that this particular lot is not going to set any precedent -- and I think the staff concurs in this -- is not going to set a precedent in terms of what options the planning process over there may have. It's an in-fill piece of property, and it has no particular significance. And for this reason, we feel that you could very well act on it without prejudicing any actions you might want to take in the future. And I believe I'd like to hear the comments of the staff on that one.

MR. TAYLOR: Mr. Chairman, I believe there's an inconsistency in what we've been saying to the Board of Supervisors, which is, "Keep your hands off the public trust. That's our area." And if what you're saying to them is, "You can proceed with your zoning matters and so on -- leave the public trust out of it, and then we'll take a look at it
after that process is complete," that may be possible. But it also may be difficult, and there's a danger of being inconsistent with previous statements of the staff and the Commission to the County in the past. And in light of the difficulty we're having, maybe it would be better to put this item over for a month. Mr. Cassel can either take his chances with the Board or wait another month while we have discussions between the staff and the Commission so that we apparently are not inconsistent with each other.

MS. JACOB: My suggestion to you is going to be that you continue this whole matter for a considerably longer time because our --

EXECUTIVE OFFICER NORTHRUP: Would you identify yourself?

MS. JACOB: I'm sorry. My name is Susanna Jacob. I am Chairman of the Environmental Action Committee of West Marin, and I'm also this morning representing the Inverness Association and the Marin Conservation League. And I forgot to tell you how many we all are, but we're a lot of people.

MS. HOLBROOK: And the Tomales Bay Association.

MS. JACOB: I'm sorry, the Tomales Bay Association, too. I'd rather not talk about the subject project this morning. I have a very lengthy report here that I was going to read to you, and I would rather simply submit to your
staff, in which I critique your staff's report and talk
about other documents that you are required to read before
you make certain findings. But the thing that has bothered
us the most is not this particular house, but we don't like
the willy-nilly approach.

We think that you ought to have some kind of
comprehensive guidelines to deal with the Tomales Bay area
before you put one here and put one there. I think if you
did do it this way, you would be in violation of one of
the sections of the Coastal Act, which says you must not
do anything that -- let me read you that particular --

LIEUTENANT GOVERNOR DYMALLY: We don't recognize
the Coastal Commission.

MS. JACOB: You've never heard of them before.

(Laughter.)

CHAIRMAN CORY: We're not necessarily bound by
them.

MR. WARBURG: You're lucky.

MS. JACOB: I understand, okay. But yet, we would
all appreciate it if you didn't take away our local options,
you know, in that kind of fashion. One thing that I think
you should know that I found out from the County Assessor's
Office yesterday -- as Mr. Trout and your staff seemed to
feel that there are very few parcels in this area that are
similar to Mr. Cassel's -- well, the County Assessor tells
me we've got 1785 parcels in the County of Marin that fall
within the Marks vs. Whitney provisions of the public trust
tidelands. And I don't want to come up here 1785 times to
talk to you guys, but we will. And it would seem to me
that if you developed a comprehensive policy that we could
all agree on eventually -- I mean, with some kind of delibera-
tion -- then we'd know where you were coming from, and we
could make our plans accordingly.

But in the meantime, I just urge you to take a
more serious look at this thing and don't do it piecemeal
because I think that's going to get us all in a lot of
trouble. I'd like to submit these documents for your perusal
later.

LIEUTENANT GOVERNOR DYMALLY: Mr. Chairman, I have
a motion. I move that this matter be deferred until the
staff can properly brief the Commissioners or come up with a
comprehensive plan for the development or nondevelopment of
this area.

MS. JACOB: Thank you.

CHAIRMAN CORY: We have a motion.

COMMISSIONER McCausland: I'll second the motion.

CHAIRMAN CORY: The motion is seconded. Do you
have any comments on it?

COMMISSIONER McCausland: I'd just like to ask
the staff to invite someone from the Bay Conservation and
Development Commission to share with us their exercise of the public trust in their jurisdiction because if we're going to be spending much time in Tomales Bay, I think we should have some understanding of how these kinds of problems have been dealt with before.

MR. TAYLOR: We have the primary portion of the public trust. That authority is shared either with BCDC in the area where it has jurisdiction, and it has a public trust basis for its regulatory function. It would take a "go" from both BCDC and from the State Lands Commission on the question of public trust for someone to be able to do something on the property. And this area is not in BCDC's jurisdiction. It's in the Coastal Commissioner's jurisdiction, and it goes to the ocean. And I believe what we have here is a very prime area of California, which is in a relatively undeveloped state, which is ready for development.

It is a natural area, as you saw from the photographs. It's a very beautiful area. There are quite competing demands.

Usually in the past when this has occurred, the Lands Commission has not been aware of it. At this particular time, if you chose to, you could exercise the trust and that would be the end of the problem. If you do not exercise the trust, then we must go through each one of these steps in this situation, and of course, private parties who have
bought this property in the expectation of some development
are going to be very upset.

I think you heard some of them at the time we
exercised the trust in Fremont. And as a result of that,
we went over and met with some of the people there. There
are buildings up. The buildings that are there, we did not
object to. We did not exercise the trust, and they went in.

Marks vs. Whitney highlighted the problem, and the County
said, "We want some comprehensive overview on this as to
whether this area is to be preserved below the ordinary
high water mark pursuant to a property right which is in
the Lands Commission, or whether we're going to do it on
a piecemeal basis according to some standards with regard to
whether we allow people to do some limited development in
this zone below the ordinary high water mark as it has
historically existed."

COMMISSIONER McCausland: Let me suggest that when
you bring this matter back to us, you offer us the alternative
of a comprehensive definition of a public trust in the area.

MS. Jacob: Please.

CHAIRMAN Cory: All those in favor, signify by
saying, "Aye."

(Ayes.)

CHAIRMAN Cory: The motion is carried. The matter
is over.
MS. JACOB: May I ask a question, Mr. Chairman?

Does this motion mean that the other property that was mentioned earlier -- the Cagle property -- the hearing will be held off on that particular one?

CHAIRMAN CORY: Not necessarily. Consistency is the hobgoblin of small minds.

(Laughter.)

CHAIRMAN CORY: It probably means that, but it doesn't necessary mean that.

MS. JACOB: I won't rely on it, then.

LIEUTENANT GOVERNOR DYMALLY: I have a motion, Mr. Chairman.

CHAIRMAN CORY: Yes.

LIEUTENANT GOVERNOR DYMALLY: I move that consideration of SB 1081 and 8020 be deferred until next time.

CHAIRMAN CORY: Without objection, it shall be ordered.

Item 22, request for authority to conduct public hearings on proposed compromise settlement with Westbay. Is there anybody in the audience on Item 22?

LIEUTENANT GOVERNOR DYMALLY: So move.

CHAIRMAN CORY: Without objection, authority will be granted.

Item 24, proposed boundary line agreement with Caltrans. Do you find this in the best interest of the State?
Is there anybody on Item 24 in the audience?

LIEUTENANT GOVERNOR DYMALLY: So move.

CHAIRMAN CORY: Without objection, Item 24 will be approved as presented.

Items 25 and 26 are two items which would complete the necessary number of wells for a geothermal power plant in the Geysers Steam Field. Is there anybody on Items 25 and 26 in the audience?

Any questions from members of the Commission?

LIEUTENANT GOVERNOR DYMALLY: So move.

CHAIRMAN CORY: Without objection, Mr. Dymally's motion will be approved as presented on Items 25 and 26.

Item 27, Getty Oil Company wants an extension on its permit to prospect for geothermal resources in Surprise Valley, Modoc County.

Modoc County?

MR. HIGHT: Wonderful place.

CHAIRMAN CORY: I hope the Attorney General is keeping a close watch on things relating to Modoc County.

(Laughter.)

CHAIRMAN CORY: The other people have turned their permits back, as I understand it, and Getty wants to continue to prospect. Is there anybody in the audience on Item 27?

Without objection, Item 27, the extension will be granted as presented.
Item 28, Cyprus Mines Corporation, the redetermination of royalty for a talc lease in Inyo County, and it is a three-year volumetric lease based upon the price of talc?

EXECUTIVE OFFICER NORTHROP: It's based upon the current market price of talc.

CHAIRMAN CORY: That's exciting. Is there anybody on Item 28?

LIEUTENANT GOVERNOR DYMALLY: So move.

CHAIRMAN CORY: Without objection, Item 28 will be approved as presented.

Item 29, Western LNG Terminal Company wishes some core holes and drilling permits so in case they ever get anything approved, they could find out how to build something. Is there anybody on Item 29? Anybody in the audience on Item 29?

Questions from the Commissioners?

LIEUTENANT GOVERNOR DYMALLY: So move.

CHAIRMAN CORY: Without objection, Item 29, authorization will be granted as presented.

Item 30, somebody is going to inform us about Long Beach operations and geological hazards.

EXECUTIVE OFFICER NORTHROP: We've monitored and it's on the wall, Mr. Chairman.

CHAIRMAN CORY: That is the result of monitoring?

EXECUTIVE OFFICER NORTHROP: Yes, sir.
COMMISSIONER McCAUSLAND: We learn something better by the day.

MR. TAYLOR: Basically, there is no change seismically in this area.

EXECUTIVE OFFICER NORTHROP: No change seismically.
We show a slight rebound in the center, and the zero line is the green line at the extreme right, and the negative line is the red.

CHAIRMAN CORY: Hey, Bill, remember me? I'm Ken.

(Laughter.)

CHAIRMAN CORY: So there has been no seismic change?

EXECUTIVE OFFICER NORTHROP: No seismic change.

CHAIRMAN CORY: If they're getting more bilateral symmetry in that chart -- although I think it's a fraud. Okay.

We have duly noted that information.

We have project review from Long Beach Operations.

Item 31, wanting us to approve the expenditure of $310,000 for some seismic studies. Is there anybody in the audience on those items?

Questions from the Commissioners?

LIEUTENANT GOVERNOR DYMALLY: So move.

CHAIRMAN CORY: Without objection, Item 31 will be approved.

Item 32, this is $95,000 that the City of Long Beach has approved for subsidence remedial work. That has
been approved --

EXECUTIVE OFFICER NORTHROP: It's been approved by staff.

CHAIRMAN CORY: Everything is okay?

EXECUTIVE OFFICER NORTHROP: Yes.

CHAIRMAN CORY: Any questions by Commissioners?

Anybody in the audience on Item 32?

LIEUTENANT GOVERNOR DYMALLY: So move.

CHAIRMAN CORY: Without objection, Item 32, the $95,000 will be approved to Long Beach.

Item 33, we need an extension of time for the Bair Island Environmental Study because somebody didn't get his work done.

Any objection?

Is there anybody in the audience on that item?

LIEUTENANT GOVERNOR DYMALLY: So move.

CHAIRMAN CORY: Without objection, the extension is granted on Item 33.

Item 34, they want us to determine that the Catamaran Pier Lease in Mission Bay, San Diego County is consistent with a Public Resources Code Section.

Is there anybody in the audience on the Catamaran Lease?

Any questions from Commissioners?

LIEUTENANT GOVERNOR DYMALLY: So move.
CHAIRMAN CORY: Without objection, such a determination has been made pursuant to the recommendation of staff.

Item 35, litigation. They want to authorize the staff of Lands and/or the Attorney General's Office to take necessary steps, including litigation, to deal with the trespasses of Robert Torrey, Bradford Jeffry et al., dba Paradise Point Marina from State-owned tide and submerged land adjacent to Bishop Tract in Disappointment Slough, San Joaquin County.

Is there anybody in the audience on this item?

Any questions from members of the Commission?

LIEUTENANT GOVERNOR DYMALLY: So move.

CHAIRMAN CORY: Without objection, authorization is granted.

Item 36, authorize the Attorney General's Office to file suit for the recovery of back rentals and other appropriate relief from Pacific Refining Company in San Pablo Bay.

Is there anybody in the audience on Item 36?

MR. TAYLOR: No comments on our draftsmanship?

CHAIRMAN CORY: No. I think your draftsmanship is fine. You know, these are some sharp operators who want to renege on the terms and conditions that they agreed to in the lease. And I, for one -- if I am on this Commission when that comes up for renewal -- if that's their attitude
on life, I don't want to do business with them.

MR. TAYLOR: Okay.

CHAIRMAN CORY: That's just my attitude toward people who openly and willfully enter into an agreement and then try to take cheap shots about it. If they don't want to live up to their agreement, they can stick it in their ear. I hope there's somebody from Pacific Refining out there who understands that if they're up for renewal, I'm going to vote against their renewal because I don't think we need to do business with people like that -- if they're not going to honor a commitment. But I think we should go ahead with the litigation, and I frankly think your draftsman ship is fine. I think they're nitpicking beyond belief.

MR. TAYLOR: Thank you.

LIEUTENANT GOVERNOR DYMALLY: So move.

CHAIRMAN CORY: So without objection, Item 36 is approved.

As long as we're dealing with litigation, nobody reported to us that a Master has been appointed on our boundary line dispute.

MR. TAYLOR: Yesterday.

CHAIRMAN CORY: You should know that we're making great progress. Have you watched your appropriate suits for -- do you have the right kind of suit to appear before a Master of the Supreme Court or --
MR. STEVENS: That's a different suit, Mr. Chairman.

(Laughter.)

CHAIRMAN CORY: Are you going to get before the big league, or are you going to have to just deal with the Master?

MR. STEVENS: We'll have to deal with the Master, and it's my understanding that the initial determinations will be made in whatever way he wants them. But we're going to request, at least, that he come out and take a look at things and have some hearings out here.

CHAIRMAN CORY: You want a trip to Tahoe, right?

MR. STEVENS: He may. He's from Nebraska.

CHAIRMAN CORY: You want it.

MR. TAYLOR: He files a report. If we don't like his report, we file exceptions. If the other side doesn't like it, they file exceptions. We brief the exceptions and argue those to the Supreme Court. But on factual matters, he makes the recommendations and rulings to the Supreme Court. That's his function.

CHAIRMAN CORY: Okay. Item 37, we want to authorize the Attorney General to file an appropriate legal proceeding to quiet the State's title to lands within the area of Davis Lake -- that's Davis Lake South.

Is there anybody in the audience on Item 37?

Any questions from the Commissioners?
LIEUTENANT GOVERNOR DYMALLY: So move.

CHAIRMAN CORY: Without objection, authorization is granted.

Item 38 has been put over. As soon as we adjourn, will somebody please notify the gentleman who wanted to talk to us on that subject.

Item 39, assignment and conversion of a noncommercial--

COMMISSIONER McCausland: That went to Consent.

CHAIRMAN CORY: That's in Consent.

We have the status of major litigation.

MR. TAYLOR: Cory versus State Lands Commission -- now known as Exxon versus the State Lands Commission -- was argued in the Court of Appeals on Thursday here in Sacramento and has been submitted for decision. We would expect the decision probably within six months.

CHAIRMAN CORY: You may have been cautiously optimistic on that.

MR. TAYLOR: I would say that there was rather a warm reception.

(Laughter.)

CHAIRMAN CORY: Okay. The next item on our agenda is confirmation of time and place of the next meeting, which is San Francisco, July 26.

EXECUTIVE OFFICER NORTHROP: Yes, and we hope we will discuss the Westbay settlement.
LIEUTENANT GOVERNOR DYMALLY: That's July 26th.
CHAIRMAN Cory: Any questions from members?
Any other items to come before us?
If not, we stand adjourned.
(Thereupon the meeting of the State Lands
Commission was adjourned at 12:52 p.m.)

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State of California )
County of Sacramento ) ss.

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

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

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

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my seal of office this _day of ________, 1977.

KATHLEEN M. REED
Notary Public in and for the County of Sacramento, State of California
CSR License No. 3486