CORRECTIONS TO TRANSCRIPT
December 22-23, 1982 SLC MEETING

12/22/82 MORNING SESSION

Page 5 - Line 22, last word
Claire said "short". Should have been "long". Transcript corrected to read "long".

12/22/82 EVENING SESSION

Page 103 - Line 6, third word
"MPDS" should be "NPDES"
"NPDES" - NATIONAL POLLUTION DISCHARGE ELIMINATION SYSTEM

12/23/82 MORNING SESSION

Page 15 - Line 20
"California" should be "Mexico".

MEETING

STATE OF CALIFORNIA

STATE LANDS COMMISSION

STATE BUILDING

1020 N STREET

ROOM 102

SACRAMENTO, CALIFORNIA

ORIGINAL

WEDNESDAY, DECEMBER 22, 1982

11:05 A.M.

Eileen Jennings, C.S.R.
License No. 5122
Nadine Parks, Shorthand Reporter

APPEARANCES
(Morning Session)

COMMISSIONERS PRESENT

Kenneth Cory, Chairperson

Mary Ann Graves, Director of Finance

David Ackerman, representing Mike Curb, Lieutenant Governor

STAFF PRESENT

Claire T. Dedrick, Executive Officer

James F. Trout, Assistant Executive Officer

Robert C. Hight, Chief Counsel

Dwight Sanders

Jane Smith, Secretary

ALSO PRESENT

N. Gregory Taylor, Assistant Attorney General

Rick Frank, Deputy Attorney General

Alan Hager, Deputy Attorney General

1 APPEARANCES

2 (Evening Session)

3

4 COMMISSIONERS PRESENT

5 Kenneth Cory, Chairperson

6 Susanne Morgan, representing Mary Ann Graves, Director of Finance, Commissioner

7 David Ackerman, representing Mike Curb, Lieutenant Governor, Commissioner

8

9 STAFF PRESENT

10 Claire T. Dedrick, Executive Officer

11 James F. Trout, Assistant Executive Officer

12 Robert C. Hight, Chief Counsel

13 Dwight Sanders

14 Jane Smith, Secretary

15 ALSO PRESENT

16 N. Gregory Taylor, Assistant Attorney General

17 Rick Frank, Deputy Attorney General

18 Alan Hager, Deputy Attorney General

19 Walter Harvey, Controller's Office

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1 PROCEEDINGS

2 --oOo--

3 CHAIRPERSON CORY: Call the meeting to order.

4 We have a relatively quick item to take care of

5 first, which is the Calendar Item 2, consideration of the

6 third amendment to lease between the City of Long Beach,

7 its Harbor Department, and Wrather Port Properties, Limited.

8 Who's going to -- Greg?

9 MR. TAYLOR: Mr. Chairman, we have been requested

10 by Wrather people to approve the third amendment to the

11 Queen Mary lease for Paragraph 4, 10.B. That has to do

12 with finding that office buildings, tenants use it for --

13 whose qualified tenants use it for correct purposes as set

14 forth in the amendment. It is a use authorized under the

15 grant for the City of Long Beach.

16 No other matters with regard to the third amend-

17 ment to the lease are before the Commission at this time.

18 In addition, the Finding Number 2 finds that the

19 proposal of the Queensbay development concept proposed by

20 Wrather on November the 10th, 1982 is meritorious to the

21 extent it provides uses which are consistent with the city's

22 trust grant and should proceed through public and

23 environmental review process.

24 In essence, that's a summary of the recommended

25 findings of the staff for Commission consideration today.

1 CHAIRPERSON CORY: Are there people in the audience
2 on this item who wish to make any comments? Questions from
3 Commissioners?
4 COMMISSIONER ACKERMAN: I have no problem.
5 CHAIRPERSON CORY: Without objection, the
6 recommendation of the staff -- to make sure I clearly
7 understand it -- is not all that was originally requested.
8 MR. TAYLOR: That is correct, Mr. Chairman. It
9 is only Paragraph 4, 10.B. of the third amendment to the
10 lease and the other necessary findings and the comments
11 with regard to their latest proposal in concept for
12 development of the Queen Mary site.
13 COMMISSIONER ACKERMAN: This does not involve
14 the Section 6702 findings?
15 MR. TAYLOR: It only involves a partial 6702
16 finding. It only makes one of the three findings which
17 the Commission must make for a complete 6702 finding.
18 It makes a finding that it is consistent with
19 the provisions of the city's trust grant from the State.
20 It does not make a finding about best interests, it does
21 not make a finding with regard to financing, although
22 that was made at an earlier time that all those proceeds
23 from the lease go into a trust fund of the city.
24 COMMISSIONER ACKERMAN: So, if those two factors
25 come back to the Commission subsequently --

1 MR. TAYLOR: They will come back to us at some
2 other time.
3 The reason that we don't have the third finding --
4 best interests of the State present -- is that under your
5 regulations that has to be a very specific finding. And
6 the information necessary to make that finding won't be
7 available until they're ready to go with specific proposals.
8 COMMISSIONER ACKERMAN: Okay.
9 CHAIRPERSON CORY: Without objection --
10 COMMISSIONER ACKERMAN: No problem.
11 CHAIRPERSON CORY: -- the item will be approved
12 as presented.
13 The next item is consideration of lease of state
14 lands between Point Conception/Point Arguello, Santa Barbara
15 County.
16 Claire.
17 EXECUTIVE OFFICER DEDRICK: Yes, at the meeting
18 of November 29th when we last considered this item, the
19 Commission -- individual Commissioners and the Commission
20 as a whole -- requested changes to the staff report which
21 had been submitted at that time in draft and there were
22 some other comments from public testimony.
23 The documents that you have before you today
24 consist of a calendar item which includes the project
25 location map, a revised staff report, a set of findings

1 as required under the California Environmental Quality Act,
2 the Coastal Act, and Division 6 of the Public Resources
3 Code.
4 It also includes as Exhibit F special operating
5 requirements, the stipulations; and as Exhibit G, the tract
6 layout. And I should have said that the Exhibit B also
7 contains a proposed lease form for a net profits lease and
8 a proposed lease form for a sliding-scale royalty lease.
9 Exhibit H is an accounting procedures for
10 determining the next profit share if you choose to go the
11 net profit lease.
12 The items which are new to you and to the public
13 I will detail. Let me point out that on Thursday an earlier
14 draft of this document was distributed to the entire list
15 of people who said they wanted it by Federal Express or
16 Express Mail. Since that time we have continued in
17 negotiations and discussions with public interest groups
18 and have made a few changes.
19 Primarily those changes constitute additional
20 new stipulations. And if you will turn to page 106 of
21 Exhibit F --
22 COMMISSIONER ACKERMAN: Are those changed
23 stipulations available to the audience now?
24 EXECUTIVE OFFICER DEDRICK: Yes, that document
25 is available to the audience today.

CHAIRPERSON CORY: Has it been distributed?

EXECUTIVE OFFICER DEDRICK: Yes.

CHAIRPERSON CORY: Okay.

EXECUTIVE OFFICER DEDRICK: I would suggest you turn to page 106 of Exhibit F and I will quickly run through the proposed stipulations that staff recommends.

MR. TROUT: That would be where your F tab is.

EXECUTIVE OFFICER DEDRICK: The Stipulations 1 through 9 were primarily derived from the environmental impact reporting process, but Stipulation 2 in response to Chairman Cory's comments on pipeline feasibility and pipeline for transportation in the last meeting has been slightly changed to strengthen that stipulation.

Beyond that, the Stipulation 10 prohibits the dumping of drilling muds and cuttings until such time as it is demonstrated that they will do no harm to the marine life of the area.

Stipulation 11 is based again on the comments of the Commission expressing their concern about response time of oil cleanup and containment equipment in the area. The staff report addresses that in some detail. The bottom line is the response times are really too long.

This stipulation which we recommend will reduce the response times from nine hours to two hours for secondary response such as Clean Seas; and from twenty-four hours

1 to four hours as a response time of the equivalent Pacific
2 Strike Force.
3 Stipulation 12 are studies associated with oil
4 spill potentials, which we recommend be funded for management
5 by the Department of Fish and Game.
6 The fishermen had, in many hearings, been concerned
7 that their gear is damaged by running into junk on the ocean
8 bottom that they didn't know was there. Our staff confirms
9 that that's a fact. We recommend that in this new lease
10 area ocean floor obstructions be mapped. Stipulation 13
11 provides for that.
12 Stipulation 14 is a specific stipulation for the
13 benefit of the California sea otter. As you know, we have
14 been negotiating that stipulation. And the stipulation
15 you have before you is partially -- I think is a satisfactory
16 stipulation. It partially satisfies some of the concerns.
17 I think it completely satisfies the biological concerns
18 of Friends of the Sea Otters. It may not satisfy them
19 entirely in regard to the structure of the language.
20 And Stipulation 15 is again in response to
21 Commission comment at the last meeting and provides for
22 studies to determine the year-round current patterns and
23 meteorological patterns of the area with the goal of producing
24 a computerized program that will be able to tell you if
25 there's an oil spill, where the oil is going real fast.

1 The biological study, the second thing you have
2 here, is the revised summary biological study that we
3 discussed with you at the November 29th meeting.
4 The Chamber's Consultants -- and in this particular
5 document, Dr. Noele Davis, who was principal scientist on
6 this study -- were directed by the Commission to do a marine
7 biological benthic study. Their direction was limited to
8 that.
9 With that caveat, this document that is before
10 you addresses -- is in response to the testimony of the
11 public to the comments of the scientific review panel and
12 to comments of the Commission at the November 29th meeting.
13 For your edification and the public's, I think
14 it would be wise if Dr. Davis came to the stand now and
15 explained what changes have been made in that draft report.
16 A limited number of copies are available today. Obviously,
17 there will be more when the printer gets them all. We will
18 be sure that the interested public gets copies.
19 With your permission, Mr. Chairman, Dr. Davis.
20 DR. DAVIS: I want to say a word first to explain
21 just why we used the particular methods that we did -- that's
22 one of the changes that I made in the report -- to explain
23 that a little bit more, because some of the comments were
24 addressed to the fact: Why did we just sample the benthos
25 and why did we use particular methods?

1 We chose to concentrate on the benthos because
2 in a limited study you need to put your efforts where the
3 most immediate impacts are going to be. And the populations
4 of the benthos are either sessile or poorly modal and thus
5 can't move away from any impacts; where other components
6 of the biota either drift with the currents or at least
7 are able to move away from impacts. So, that is why we
8 concentrated on the benthos, because they would probably
9 be the most immediate to show effects from any operations.
10 And we chose a variety of methods so that we were
11 able to cover quite a lot of the area visually. And then
12 we were also able to back it up with sampling of the smaller
13 components of the biota and to get actual samples of the
14 organisms that we saw in our video transepts. So, there
15 were very, very few organisms that we observed that we didn't
16 also collect a specimen of to verify the identification.
17 In this particular study, we concentrated on the
18 deeper portions of the State area because we had already
19 done considerable scuba diving in the shallower areas.
20 So, we set up a video photographic grid where we
21 had five transepts running perpendicular to shore throughout
22 the area and we, thus, were visually able to see how marine
23 communities varied with depth at five different points.
24 Then we had five isobath transepts that ran all
25 the way from Point Arguello to Point Conception at depths

1 of 100, 150, and 200 feet, which gave very good coverage
2 of this deeper area. And we were thus able to see how the
3 communities varied between the two points.
4 Then we backed this up with box core sampling
5 at 15 stations where we collected the smaller components
6 of the fauna and with trawls or rock dredges for the rockier
7 areas where we collected mostly the things that we were
8 seeing with the camera, but we were able to get actual
9 specimens of them. And these were large organisms such
10 as the starfish and the fishes.
11 Now, most of the comments that we reviewed from
12 the Scientific Advisory Committee, the agencies, and the
13 public were concerned mainly with two points. First was
14 that the preliminary document which they reviewed was hard
15 to read and interpret. And we have made a number of changes
16 in that which should answer those comments. The maps
17 particularly provided a difficulty in that they were hard
18 for people to compare information on the different maps
19 because they were all on different scales.
20 All of the maps now are on the same base map,
21 which shows the bathemetry of the area and as related to
22 various points on shore. So, it's now quite easy to see
23 how the biological data relates to each other and relates
24 to the lease blocks.
25 Secondly, some of the tables were difficult to

1 read. And the tables have now been reorganized so that
2 they are much more readily interpretable.
3 CHAIRPERSON CORY: These changes are just changes
4 in format, not in --
5 DR. DAVIS: Oh, right. It's not changes in data.
6 I mean, the data were always there. But as originally
7 presented, it was very hard for some readers to ferret out
8 what the data were saying. And this is going to make it
9 much more readily interpretable.
10 Then people were concerned about the significance
11 of the findings. So, we have considerably enhanced that
12 discussion of the significance.
13 We had each one of the taxonomists who identified
14 each of the different groups -- and each of these people
15 is a real expert in their groups with a great deal of
16 experience on the California coast. Each one of them wrote
17 a paragraph on the significance of what the findings for
18 their groups were.
19 Other comments related to the discussion of impacts.
20 And this report was not designed to be an impact discussion.
21 It was designed to be a biological characterization. And
22 that is now clarified in the document itself.
23 In the brief discussion of impacts, which there
24 is, which is just a comparison of sensitivities in the lease
25 block, appropriate sections of the EIR are now cited where

1 fuller discussions are available.

2 CHAIRPERSON CORY: Okay.

3 EXECUTIVE OFFICER DEDRICK: Fine, if it's fine

4 with you.

5 CHAIRPERSON CORY: Thank you very much.

6 EXECUTIVE OFFICER DEDRICK: Commissioners, we've

7 received some communications, both by mail and by telegram,

8 which should be placed in the record. And you have received

9 a letter from the California Coastal Commission to be placed

10 in the record.

11 CHAIRPERSON CORY: We have those in the record.

12 Should now be the time to take public comment?

13 EXECUTIVE OFFICER DEDRICK: Yes. Deputy Attorney

14 General Greg Taylor has a statement to make for the record.

15 MR. TAYLOR: Mr. Chairman, we have examined the

16 stipulations and the form of the lease package that is before

17 you today in connection with the consistency of the State

18 of California in the litigation that has been going on for

19 a number of years now with the Department of Interior over

20 Lease Sales 53 and 68. And in reviewing the package which

21 is before you today, the stipulations which are contained

22 there include all of the State's objections to the federal

23 lease program.

24 So, from that standpoint, what is being done by

25 the State of California today includes all of the things

1 which we have asked the Department of Interior to do in
2 their program. And, in addition, quite a number of more
3 stipulations than the federal government was asked for in
4 the litigation.
5 I might also point out that does have a monetary
6 effect upon the State of California in terms of the return
7 that it will see. And there has been an estimation of cost
8 of those stipulations in the aggregate amount of $20 to
9 $30 million over the life of the field.
10 COMMISSIONER ACKERMAN: Is that reflected in 1982
11 dollars?
12 EXECUTIVE OFFICER DEDRICK: Yes.
13 MR. TAYLOR: So, the State of California is -- as
14 it did when it did the Long Beach Field in terms of
15 environmental concerns -- is going to front the expenses
16 in terms of the fact that it understands that those
17 stipulations will result in a lesser return to the state
18 than had they not been in there.
19 COMMISSIONER ACKERMAN: It's true, isn't it, that
20 that cost is reflected in just a few of the stipulations,
21 however; a major portion of that cost?
22 EXECUTIVE OFFICER DEDRICK: Probably the most
23 readily identifiable portions are reflected in a few. Such
24 things as the pipeline feasibility is not something you
25 can figure cost on; I mean, at this juncture. The majority

1 of the cost that you can really see is in that half dozen --
2 five stipulations.
3 CHAIRPERSON CORY: We have some indication --
4 is Gary Hart here?
5 MR. CAVES: I'm representing the Senator today.
6 Mr. Chairman, Members, my name is Joe Caves. I'm
7 representing Senator Gary Hart.
8 Senator Hart, as you probably remember, testified
9 at your October 4th hearing on this issue and has followed
10 the matter with great interest, of course, because of its
11 potential effects on his district.
12 After looking over the most recent documents on
13 this proposal, Senator Hart feels that any decision on the
14 proposal today would be premature for the following reasons:
15 First, there has not been adequate time to review
16 these most recent documents, which I believe are dated
17 December 16; but they were not received in our offices until
18 Monday.
19 Second, strong objections and concerns have been
20 raised by other agencies whose jurisdictions may be
21 substantially affected by this proposal, particularly the
22 Coastal Commission and the County of Santa Barbara, who
23 I believe Supervisor Holmdahl will be speaking to that issue
24 later.
25 The Senator is also very concerned about these

1 interagency disputes and their potential to erupt into
2 public battles over this proposal and is willing to do
3 whatever he can to aid negotiations to resolve these conflicts.
4 Third, the Senator feels a decision would be
5 premature because two-thirds of this Commission will leave
6 office in a week. This lease proposal has long-term
7 implications and should be considered by those who will
8 have the responsibility to carry out any decision made.
9 The Senator also asked me to convey his hope that
10 this Commission would resist pressures to act in haste to
11 help ease the state's immediate financial problems.
12 The Senator feels the State is best served by
13 continuing the effort to resolve the questions raised by
14 this proposal before any decision is made by the Commission.
15 Thank you.
16 CHAIRPERSON CORY: Questions from Commissioners?
17 Mr. Willis Edwards.
18 MR. EDWARDS: Mr. Chairman, Commissioners, my
19 name is Willis Edwards and I am the President of the Beverly
20 Hills/Hollywood NAACP.
21 In mid-October, 1977, the NAACP hosted an energy
22 conference. At that time the National President, Dr.
23 Benjamin Hooks, stated:
24 ". . . that only in a fully-employed
25 economy did Blacks ever stand a chance

of gaining parity in employment. And if Blacks were to have full employment, energy would be a necessary component of a healthy economy . . ."

". . . if there is a slow down in the production of energy, then this nation will go into an economic decline. And the impact of that decline will be felt more severely in the Black community."

This energy policy literally describes what is happening in the Black communities of California today.

We are facing a crisis in California that can no longer be ignored. It is crucial that we formulate definitive plans and take action now to deal with the dismal economic situation of our State. We must provide additional revenue sources for California and one way to do so is by leasing state tidelands for oil/gas exploration and development.

Certainly we recognize the importance of the environmental concerns that are usually the focus of these hearings. But there's more at stake here than solely environmental issues. What is at stake is the well-being of people.

Confronted daily with the harsh realities of our

national depression, Californians are suffering the brunt of our state's financial woes. It is estimated that California's budget deficit will actually go as high as $2.4 billion this year. Combine this with statewide unemployment surpassing 10 percent and you have a very serious situation.

But it is even more serious in the Black community. I am talking about 25 percent unemployment among Black adults and close to 48 percent unemployment among Black youths.

Resources must be found and utilized that will enable people to survive and live in a dignified manner. There are no jobs. Training programs have been cut. School systems are strapped and can hardly provide the basics. Health-care systems are being closed. And thousands of small businesses are going bankrupt.

This litany of problems affects not only the Black community. But I can best describe what I can see and hear every day, all of us.

It is time to come to grips with the problems that the citizens of California are facing. It's time for reasonable citizens to act in a reasonable way. California needs help.

The reason I'm here today is to voice support for the realistic decision that must be made by this Commission in order to provide needed assistance. Oil and

1 gas leasing must go forward -- certainly to supply our ever-
2 increasing energy needs, but more importantly, to create
3 badly-needed jobs and provide a source of revenue for
4 California.
5 Your decision will have a far-reaching impact
6 because it will affect millions of people beyond just the
7 coastal communities.
8 You are in a unique position to ensure that
9 California is provided with a new, non-tax source of revenue
10 at a critical time. I understand that these bids could
11 be worth anywhere from $120 million to $600 million. This
12 money could be used very productively and in a variety of
13 ways to benefit a lot of needy people.
14 We know that people are dependent on the oil
15 industry and what it produces for much more than just energy.
16 We know the industry directly and indirectly supports many
17 jobs and businesses. Consequently, we should realistically
18 acknowledge the importance of their continued investment
19 in California's future.
20 Specifically, the NAACP wants this investment
21 to include the human and capital resources available in
22 the Black community and other communities. We want Blacks
23 to share in the opportunities afforded by oil exploration.
24 These areas include technological education; skills training;
25 drilling, processing, refining, and other jobs; and minority

1 business enterprise.

2 We encourage the Commission to permit development
3 of our offshore resources and express your concern for
4 participation by minorities in all phases of exploration
5 and production.

6 The state stands to lose significantly -- in state
7 revenues and in human opportunities -- if we do not take
8 advantage of existing resources. Your decision must reflect
9 the overriding importance of our State's economic security
10 and the survival of its people.

11 Thank you.

12 CHAIRPERSON CORY: Questions from Commissioners?

13 Thank you very much.

14 Patrick Heffernan.

15 MR. HEFFERNAN: Good morning, Commissioners.
16 Patrick Heffernan, Senior Partner for Resources Consultants.
17 And I'm here speaking today for myself only, not for any
18 of my clients; some of whom do include agencies of the State
19 of California.

20 I have a number of observations on the timing
21 and the effects of the lease sale, particularly on its
22 revenue aspects, and also on information provided in the
23 public documents here. I have had an opportunity to look
24 over the staff report and calendar items. I have not seen
25 any internal staff documents.

First of all, I'd like to point out that the staff information used to provide you with the recommendations to go ahead with this sale seem to be somewhat obsolete. I notice that the staff relies upon the 1981 report of the California Energy Commission. That's this report which is currently under revision and the new BR will be available. It's probably available in draft now.

They say in there that 20 percent of California's oil is imported. That's incorrect. The latest figures are less than 5 percent of California's oil is imported.

I'd like to point out that the information used by the staff --

CHAIRPERSON CORY: What is your definition of "imported"?

MR. HEFFERNAN: Imported from foreign countries. And of that, I think it's 4.86 percent of that, almost 95 percent comes from Indonesia. And that is a quality of low-sulfur light oil which is used as blending stock in the state, which is probably not obtainable in the State at all.

I'd like to point out that the energy and petroleum environment of the country --

CHAIRPERSON CORY: Do you know how much of it is produced within California?

MR. HEFFERNAN: How much of what?

1 CHAIRPERSON CORY: Of our oil consumption.

2 MR. HEFFERNAN: About 40 percent. The rest comes

3 from Alaska.

4 CHAIRPERSON CORY: Okay, go ahead.

5 MR. HEFFERNAN: And under the Alaskan legislation,

6 I don't think you're going to see that going anywhere else.

7 I'd like to point out that the petroleum economy

8 globally in the State has changed significantly from that

9 laid out by the staff in its report.

10 According to the Energy Information Agency, the

11 US energy demand is down 13 percent from 1981. We're using

12 73 quads of energy nationally. This is the lowest demand

13 for energy in the country since 1973 and it's still falling.

14 The Energy Information Agency points out that

15 50 percent of this reduction is due directly to conservation

16 and about 20 percent is due to renewable resources being

17 used more efficiently.

18 The Energy Information Agency also points out

19 that gasoline demand is down nationally to its lowest point

20 since 1973 and it's still falling. We're probably going

21 to fall in this country in gasoline demand below OPEC crisis

22 levels.

23 Domestic crude oil production, however, in the

24 country has remained level. It's stabilized at just under

25 7 million barrels per day and it doesn't seem to be falling

1 any more. Motor fuel prices have also leveled off in real
2 terms at about 1973 price levels. And a number of analysts
3 have indicated that they think they're going to fall somewhat
4 further.

5 Lastly, crude oil prices have fallen globally
6 to below $30 a barrel. And, of course, if you noticed,
7 the OPEC meeting broke up this week with no resolution on
8 what the new prices should be. They're still soft. They're
9 likely to continue to drop. And spot sales, according to
10 the Energy Information Agency, have dropped below $25 a
11 barrel in some ports.

12 Analysts predict that oil consumption prices are
13 going to continue to fall -- at least until 1985 -- and
14 then slowly climb back up to 1982 levels by 1990 where they
15 will level off unless the world supply is limited by a
16 catastrophe that we can't foresee right now.

17 The California oil environment has changed
18 significantly too from that utilized by staff in its
19 report.

20 On page 13 of the calendar item, they quote the
21 BR as saying that in 1981 California imported about 20 percent
22 of its oil. As I pointed out, the correct figure there
23 was 8.4 percent of its oil was imported from foreign
24 countries. We're down now to 4.67 percent imports, most
25 of that coming from Indonesia.

At the same time, total state oil production is up 3 percent over last year and offshore oil production is up 250 percent. However, refineries and sales from refineries are down 19 percent, consumption is down 10 percent, and prices are down 4 percent in oil.

My conclusion from this is this is a very bad time to be leasing offshore oil. Demand is as low as it's been in a decade, prices are as low as they've been in a decade.

Donald Brennan, an economist with Standard Oil of California, points out that -- this is talking to the New York Times -- that we are now looking at a demand-limited world where oil is being pushed back into the ground by consumers.

Phil Verlanger of Booz, Allen & Hamilton, oil analysts, points out their analysis indicates that the current oil surplus is going to last for at least 5 and probably 10 years or longer.

The needs for oil in California don't appear to be rising either. The California Biennial Report states that conservation and renewables are the best investment for reducing energy demand, not additional oil supplies.

My conclusion from this is this is probably the worst possible financial time to be leasing offshore land. Demand is down, prices are down, the future needs projections

are down. This is an opportunity for the oil companies to buy leases at probably the lowest bonus bids and the lowest lease prices they can get.

Additionally, I understand that you're now looking at a profit-sharing program, which I compliment you for. I've worked in Southeast Asia with oil companies there who do the same. It's been a very wise decision. I'm surprised our federal government doesn't do that now.

T3 Unfortunately, if oil analysts at the New York Times, Wall Street, and within the oil companies are correct, the prices continue to fall, your profit sharing is going to continue to fall.

My question here in looking at the calendar item staff report is that there doesn't seem to be at the staff level an analysis of the dollars lost to the State by going ahead with the lease at this point in time in which oil prices and demand are at the lowest they've been in the decade, and I would like to know before this action is taken what would be the dollar amounts that might accrue to the State if the leases were delayed or if they were staged in such a way that the State would then offer the leases when oil prices began to rise after 1985?

I'm concerned that while you may, in fact, generate some immediate income into the State, the long-term losses by leasing at this particular time may be even

1 greater for the people of the State of California.
2 Any questions?
3 CHAIRPERSON CORY: Thank you.
4 Kirk West.
5 MR. WEST: Good morning, Mr. Chairman, Members
6 of the Commission. My name is Kirk West, California
7 Taxpayers Association.
8 I'm here to urge you today to proceed with the
9 lease program, which has been shut down since 1969, I
10 believe.
11 I used to sit occasionally on the Commission
12 shortly after that, and I sympathize with you in your
13 deliberations today.
14 I think that the national and the state energy
15 goals of self-sufficiency are a good argument for proceeding,
16 as well as the economic stimulation and, of course, as
17 you've heard -- and all three of you are well aware -- the
18 desperate need for the revenues for the State of California.
19 As to the method of leasing, as a major non-expert
20 in the various intricacies of leasing, I would just say
21 that I am impressed with the arguments in favor of the bonus
22 bid approach because it provides up-front revenues and never
23 has the state needed up-front revenues more than right now.
24 Also, it reduces the risk to the State, whereas
25 maybe more revenues might be available on the profit sharing

1 method. On the other hand, maybe they will not be available
2 and it might result in less revenue. So, it's a winning
3 hand versus doubling down in hopes of getting more. I think
4 right now we should be taking the safer course and reducing
5 the risk to the State.
6 And, finally, it offers an incentive to begin
7 production now. The profit share method, on the other hand,
8 could result in a lack of incentive to begin production.
9 I think finally the point that needs to be made
10 is that the jobs and the economy and all of these will be
11 stimulated as well as other tax revenues. And, of course,
12 when production begins, royalty shares to the State, which
13 we need and could realize once production begins in several
14 years.
15 I think that the stimulation would effect itself
16 in the property tax, sales tax income, corporate income
17 taxes throughout the tax system, and produce revenues that
18 are far greater than those from the direct bids from the
19 oil royalties and the like.
20 Thank you very much.
21 CHAIRPERSON CORY: Thank you, Kirk.
22 COMMISSIONER ACKERMAN: Kirk, generally what kind
23 of a ripple factor do you apply to something of this
24 magnitude?
25 MR. WEST: I don't have that exact factor on this;

1 Although I'll just venture to say that this is non-tax
2 revenues, which is the best kind of revenues as far as the
3 state is concerned as a high tax state, which we are. It
4 is extremely important as far the economic picture is
5 concerned. And further, we're not talking about the service
6 sector type of jobs. These are jobs that are produced off
7 of which the service sector through the ripple effect would
8 have a tremendous stimulation and boost.
9 Thank you.
10 CHAIRPERSON CORY: Thank you.
11 Supervisor DeWayne Holmdahl.
12 SUPERVISOR HOLMDAHL: Thank you, Mr. Chairman.
13 I was going to have copies for everybody, but my assistant
14 is stuck in LAX. So, I'll leave these copies with your
15 staff.
16 My name is DeWayne Holmdahl. I'm representing
17 the Santa Barbara County Board of Supervisors. Our comments
18 today are divided in those on the EIR and those on the actual
19 leasing decision before you today.
20 The citizens of Santa Barbara County stand to
21 suffer severely in consequences of all actions the Commission
22 takes with regards to leasing of State tidelands. Other
23 agencies and individuals have spoken to you asking for your
24 consideration. The tremendous environmental, economical,
25 and social costs are inherent in your decision.

1 Because the people of Santa Barbara County have
2 perhaps most to lose from a hasty decision on your part,
3 we would like to lend our support to those who have spoken
4 out against the Commission's proposed intention to lease.
5 I will try to keep the spoken comments general,
6 but directly to the county's response to the Draft
7 Environmental Impact Report for specifics.
8 The Environmental Impact Report. We have found
9 the Final EIR to be lacking some important information and
10 I am sure you would want to know before you make any
11 decision.
12 In a document of this size, it is difficult to
13 follow all the references and criteria given when trying
14 to track down a response to a comment. If we have
15 misinformation, we apologize; but feel the confusing layout
16 of the EIR may well be the reason.
17 Generally, the EIR provides good data on the
18 environmental setting and the project description, although
19 areawide cultural data are exceptions.
20 However, there is much less effort devoted to
21 the discussion of impacts and less still to the mitigation
22 of these impacts. What you as decisionmakers must be aware
23 of is the impact associated with a decision and the variety
24 of mitigation measures or alternatives available to deal
25 with the impacts and, most importantly, the effects of the

1 mitigation measures on alternatives in lessening the impacts.
2 Unless a mitigation measure decreases the impact
3 to insignificance, it must be considered a remaining
4 significant impact to the project.
5 You and your staff have read the EIRs and are
6 no doubt aware of the alternative sections of the three-
7 volume document is four pages long. If I might read a
8 short section of the CEQA guidelines, Section 15143 (d):
9 "The discussion of alternatives
10 shall focus on alternatives capable
11 of eliminating any significant adverse
12 environmental effects or reducing them
13 to a level of insignificance, even if
14 these alternatives substantially impede
15 the attainment of the project objective."
16 I am sure you will be agreed that a discussion of the
17 alternatives is an integral part of an EIR as CEQA tells
18 us environmental impact reports should emphasize feasibility,
19 mitigation measures, and alternatives for projects.
20 The present treatment of alternatives is grossly
21 inadequate. Four pages cannot identify the environmental
22 pros and cons of even one alternative. And yet this EIR
23 represents five.
24 An in-depth analysis of alternatives which lessen
25 the impacts must be before you when you make a decision

1 to lease state submerged tidelands. And we so ask you to
2 provide more reasonable discussion on those choices briefly
3 described in the EIR.
4 In particular, the county has identified the
5 revenue sharing alternative as one which should be closely
6 examined. It appears to us that this alternative would
7 lessen many of the significant impacts on the cultural and
8 social environments of Santa Barbara County while attaining
9 the goals of the project.
10 The delay in leasing is another alternative which
11 should be examined for the economical benefits to the State.
12 An oil glut does exist, as was stated here before.
13 Site specific or the regional concerns. The State
14 Lands Commission staff responded to many of the concerns
15 we expressed on the DEIR by indicating the items would be
16 evaluated when site specific development plans were received.
17 However, we would like to reinstate some of the concerns
18 we continue to feel should be dealt with on a regional basis.
19 First, the conflicts associated with placing a
20 coastal-dependent industry in an area zoned for agriculture.
21 Onshore facilities such as gas and oil processing plants,
22 supply base, power supply facilities, storage tanks, export
23 facilities must all accompany production from the State
24 Lands lease.
25 We are in the process of evaluating the

availability of an area along the coast for such facilities to accommodate new production on federal leases and have found suitable areas to be very limited. It is the desire of the citizens of Santa Barbara County to preserve the natural resources of the coast and the Board must respond to those desires. You must take the very limited availability of the areas appropriate for the development of the coastal-dependent industry into account as a regional issue before you decide to lease sale submerged lands. There is no attempt to analyze this conflict in the EIR.

I'll leave out some of this because you'll be able to read it too.

The lease sale decision. The analysis performed by your staff in the DEIR points to significant impacts which remain to be mitigated. Air quality will be degraded so that our basin no longer meets State or Federal standards. A State action leasing these lands will prevent Santa Barbara County from complying with other State actions requiring air quality.

Very significant and unique biological resources exist along this stretch of the coast. Species which are existent nowhere else in the world can live here where the Northern and Southern California West Coast biota meet. I cannot stress enough the value of such an area and the tremendous consequences an oil spill will have.

1 Santa Barbara County is dependent on a clean
2 environment and pristine coastline for much of its income.
3 Tourism constitutes 9 percent and the retirement community
4 contributes 37 percent. And other developments depend on
5 the high quality environment of 10 percent.
6 We do not have a major industrial base or a
7 commercial development to support the county. So, the
8 contributions from tourism and recreation are significant.
9 The visual impacts of platforms off the State coast degrade
10 the air quality, biological impacts to the otters, pinipeds,
11 and shore birds and the industrialization of agricultural
12 land all have potential to significantly hurt our county's
13 economy.
14 For these reasons, we ask that you go back to
15 the EIR and fill in some of the planning data which is now
16 missing, offset for air emissions, properly zone land for
17 onshore facilities unique to cultural resources and fallout
18 from Vandenberg Air Force Base should be limited to a number
19 of locations of tracts you ultimately offer for sale.
20 In addition, expand the analysis of alternatives
21 to allow for the well-reasoning decision based on pros and
22 cons of each alternative.
23 We support a revenue sharing alternative because
24 at this point it appears to accomplish the goal of the
25 project with some degree of environmental damage.

1 If the State Lands Commission decides to act today
2 on whether to lease these lands without information needed
3 to make the EIR adequate, the following comments regarding
4 the lease stipulation applies.
5 Subsea completion appears to be significantly less
6 aesthetic impacts of oil platforms. If the environmental impacts
7 of subsea are fewer and less significant than traditional
8 platforms, this should be adopted as preferred technology
9 and less infeasible.
10 We support a pipeline export versus marine terminal
11 export at this time. We disagree with the economical
12 analysis presented in the EIR for pipelines and feel they
13 are even more economically preferable than the document indicates.
14 We would prefer a stipulation indicating
15 preferential pipelines unless they cannot be shown
16 infeasible.
17 Stipulation 5 should be adopted accompanied by
18 an areawide designation of sensitive areas where drilling
19 will not be allowed. Also, only Section 1 of Part B should
20 apply. The applicant should always be required to pursue
21 other alternatives if a unique resource is found to be in
22 a specific area.
23 We hope the Commission realizes from this
24 testimony the gravity of the decision they face today. Santa
25 Barbara County will be affected if the leasing takes place

at all. And so we feel these comments should be seriously considered.

If you have any questions, we will be willing to work very closely with you. Please contact the Santa Barbara County Energy Project staff.

Thank you.

CHAIRPERSON CORY: Questions from Commissioners?

Elizabeth Byerly.

MS. BYERLY: Mr. Chairman and Members, my name is Elizabeth Byerly. I'm representing the League of Women Voters of California.

The League of Women Voters of California supports the lease of tracts in the Point Conception/Point Arguello site under consideration today. With the strict application and enforcement of the adjacent air pollution control district regulations on oil and gas exploration, development and production activity, we believe that the adverse impact on onshore air quality will be minimal.

Santa Barbara County regulations require best-available control technology and offsets for emissions not controlled by this technology. The Coastal Act also requires that any development be consistent with local regulations.

The League urges adoption of measures essential to protect the environment of this region. Lessees should be required, one, to transport oil obtained in offshore

activities by pipeline, not by tanker; two, to provide offsets with onshore facilities; and three, to maintain maximum public access to the coast and the coastal recreational facilities.

Despite the high cost of the leases, the area under consideration is easy and inexpensive to develop, we believe.

The League of Women Voters of California believes that pollution control should be considered as a cost of doing business. Citizens and taxpayers must expect some cost to be passed on.

The League is a multi-issue organization and recognizes also that the sale of oil and gas leases will bring in much-needed revenues for the State.

In closing, we urge you to encourage all companies and agencies involved to mitigate the impacts of development in federal waters to the same degree as in California's State waters.

Thank you.

CHAIRPERSON CORY: Questions from Commissioners?

COMMISSIONER ACKERMAN: Maybe just a question for the staff.

This is the second mention of air quality concerns. Aren't air quality concerns and those standards, aren't those adopted by the local air pollution control

1 district?

2 EXECUTIVE OFFICER DEDRICK: That's true. And

3 in the EIR we dealt very deeply with that subject.

4 COMMISSIONER ACKERMAN: We're not preempting

5 anyone?

6 EXECUTIVE OFFICER DEDRICK: Absolutely not.

7 Everything you do is --

8 CHAIRPERSON CORY: They will have to have permits.

9 EXECUTIVE OFFICER DEDRICK: That's correct.

10 CHAIRPERSON CORY: And qualify and have the

11 necessary mitigation.

12 EXECUTIVE OFFICER DEDRICK: That is true. That

13 is also true of the local government comments. The County

14 of Santa Barbara is the permitting authority for building

15 permits and the onshore impacts, the regional air board

16 for air quality, the regional water board for water quality,

17 the Coastal Commission. Any of our leases would require

18 compliance with the Coastal Commission permitting process.

19 We add to those governmental controls, rather

20 than subtract from them. That is, you are requiring more

21 than -- for example, in the biological surveys -- than CEQA

22 actually requires and so forth.

23 COMMISSIONER ACKERMAN: Okay.

24 CHAIRPERSON CORY: Okay.

25 Michele? I thought you were out of the room,

I'm sorry. It's your turn.

MS. PERRAULT: We appeared before you on November 29th speaking for --

CHAIRPERSON CORY: Michele, would you identify yourself.

MS. PERRAULT: Yes, I was speaking at that time for the Environmental Coalition on Lease Sale 53 and 73.

EXECUTIVE OFFICER DEDRICK: Would you give your name, please.

MS. PERRAULT: Michele Ferrault.

I will also be speaking for that coalition today, as well as the Sierra Club itself. I am Vice President of the Sierra Club nationally.

We did testify, as I said, on November 29th. I would like to see that our testimony is incorporated into the documents along with everyone else's that was missing.

CHAIRPERSON CORY: I believe it is part of the record.

EXECUTIVE OFFICER DEDRICK: It certainly is.

MS. PERRAULT: It is part -- part of the record, but I would like to see it appended to documents as everyone else's was. There is some testimony in written form that was not put into the staff report of the 29th and December 15th, although a chart indicates some of the highlights of our testimony.

1 EXECUTIVE OFFICER DEDRICK: I'm sorry. Michele,
2 are you referring to your comments on the marine benthic
3 study?
4 MS. PERRAULT: On November 29th I'm referring
5 to the stuff that was charted in the staff report of the
6 29th and 15th.
7 MR. FRANK: In the staff report that was
8 distributed at the November hearing, there was a summary
9 of testimony given at the earlier staff hearing in Santa
10 Barbara on October 4th. And because the Commission and
11 a number of the members of the public who appeared in
12 November were not there, that was intended to be a briefing
13 device. Testimony in the previous hearings has been
14 transcribed and is part of the official record of these
15 proceedings.
16 MS. PERRAULT: I just wondered why our written
17 comments, as other people's had been put in the 15th staff
18 report, were not there and why my comments on the 29th were
19 just put in chart form.
20 EXECUTIVE OFFICER DEDRICK: Your comments on the
21 29th are part of the record, just as your comments today --
22 MS. PERRAULT: I'm only asking that the record
23 be visible to the public.
24 CHAIRPERSON CORY: She is asking, as I understand
25 it, was her testimony handled differently than others, I

1 think.

2 MS. PERRAULT: It seems to me in reading -- in

3 the haste I've had to read these things -- and I've gone

4 over it quite a few times looking through the testimony,

5 I saw other testimony in there and not ours, and I just

6 wondered why.

7 EXECUTIVE OFFICER DEDRICK: I think Dwight can

8 answer it.

9 MR. SANDERS: Mr. Chairman, there are two distinct

10 hearings that are in question here. We held a staff hearing

11 in Santa Barbara on October 4th of this year at your

12 direction to receive testimony on the proposed lease sale.

13 The staff report of November 29th included in

14 graphic form a summary of the major points that were raised,

15 in addition to testimony received by the Commission staff

16 up to that point in time in the process of this program.

17 Testimony received by the Commission at the

18 November 29th hearings, as Mr. Frank has stated, has been

19 transcribed, as is the usual practice, and is available

20 for the record.

21 CHAIRPERSON CORY: But were some of the people

22 at either of those meetings, their testimony presented in

23 its entirety and not Michele's?

24 MR. SANDERS: Mr. Chairman, Michele did not have

25 the opportunity or the occasion to testify at the October

1 4th hearing. Therefore, there is no testimony.

2 MS. PERRAULT: No, my testimony was indicated

3 by chart form on that 29th staff report, if I'm not

4 mistaken, and it was certainly not in the December 15th

5 staff report.

6 MR. SANDERS: The testimony that was portrayed

7 in graphic form on the October 4th hearing was that of Mr.

8 Hicks of the Los Padres Chapter of the Sierra Club.

9 EXECUTIVE OFFICER DEDRICK: That's correct.

10 MS. PERRAULT: And nothing on the Oil Coalition?

11 EXECUTIVE OFFICER DEDRICK: No.

12 I chaired that meeting, Mr. Chairman. And I think

13 that Dwight's answers are correct and proper. The only

14 summary we did in the staff report was of new information

15 that you had not already received at the time you certified

16 the Environmental Impact Report.

17 MS. PERRAULT: The new information on the 29th?

18 MR. SANDERS: No.

19 EXECUTIVE OFFICER DEDRICK: No.

20 MS. PERRAULT: I can check it. I don't have the

21 documents. But what about the December 15th staff report?

22 Is there any reason why it was not appended to that?

23 EXECUTIVE OFFICER DEDRICK: Yes. The reason for

24 that is that the only time we put in testimony is when staff

25 hears it and the Commission has not heard it. The Commission

1 heard that testimony. It is part of the record.

2 MS. PERRAULT: Okay, that clears something up

3 for me. Sorry it took so much time.

4 CHAIRPERSON CORY: That's okay.

5 MS. PERRAULT: I would like to say that the

6 comments that we made on the 29th of November have not been

7 answered as fully as we would hope. Certainly the

8 cumulative impacts discussion we feel should be much more

9 thorough. And as one public member, I find that in trying

10 to understand the State Lands analysis of cumulative impacts,

11 it requires me to do a term paper practically. It refers

12 to an enormous number of documents which one is supposed

13 to sort through and get a general picture of cumulative

14 impacts. I find that difficult.

15 There will be other people coming to appear on

16 some of the concerns that the Coalition and the Sierra Club

17 had raised on the 29th -- Friends of the Sea Otters,

18 specifically -- and I would like to incorporate their

19 comments in my testimony without going over each detail

20 and taking up the time here.

21 What I'd like to focus on today is some additional

22 comments from the Sierra Club and the Coalition on Lease

23 53 and 73. One is based on a resolution passed by the full

24 Sierra Club in both its Northern and Southern California

25 areas requesting that no sale be announced until the lease

1 sale being proposed here today and the corresponding EIR
2 with the stipulations and mitigating measures is reviewed
3 by the Coastal Commission.
4 The basic goals of the Coastal Act are to protect
5 and maintain and, where feasible, enhance and restore the
6 overall quality of the coastal zone environment and its
7 natural and manmade resources according to 30001.5(a). It
8 is for the Coastal Commission to assure orderly, balanced
9 utilization for conservation of the coastal zone resources
10 required by Section 30001.5(b).
11 Without this review and reliance only on the
12 specific EIRs following a sale we feel would be a piecemeal
13 approach. We do not feel that it is the State Lands
14 Commission who should do that balancing, that it is the
15 Coastal Commission under the Coastal Act who should do that
16 balancing.
17 Time and effort of hundreds of thousands of
18 citizens in California and across the country have gone
19 into seeing that our coasts have orderly development and
20 protection for fragile ecosystems and for recreation
21 potential for future generations.
22 It would be absurd to believe that you could put
23 all the planning and investment of funds, put it aside
24 because individual agencies or commissions want it to go
25 in their particular role carrying out their particular

1 mission. We think that the goals of good coastal zone
2 management are critical and that that review by the Coastal
3 Commission is the only way the State Lands Commission can
4 go before putting up any sale for that State tidelands
5 between Point Aguillo and Point Conception.
6 I had some questions that I wanted to ask of you.
7 Is this the proper time to do that?
8 On your new document, which I must say I agree
9 with the other people that have spoken this morning that
10 it's extremely difficult coming to a meeting like this with
11 a revisions to a document. It would have been more helpful
12 to have those revisions spelled out instead of having to
13 page through it and have other people tell you where they
14 spotted the changes. That's just for future information.
15 A guide sheet saying that this is the difference when you
16 walk in the door between what you got Monday and what you've
17 gotten today.
18 I have questions on page -- and I tried to compare
19 this with someone else's document, but it didn't come out
20 correctly.
21 Page 20 in my document labeled 12/22/82, I have
22 some questions about what is meant by "unitization"?
23 There is a paragraph comment down at the bottom
24 of page 20.
25 EXECUTIVE OFFICER DEDRICK: Are you on the calendar

1 item?

2 MS. PERRAULT: I'm on the calendar item under

3 23 called unitization on page 20 of Exhibit 5.

4 EXECUTIVE OFFICER DEDRICK: Oh, that's Exhibit B.

5 MS. PERRAULT: It's a little difficult getting

6 through this. The pages don't come out equally.

7 But let me just read you what it is while you

8 look for it and see what page it is in your document.

9 "The state, with the consent of

10 the lessee, may establish, change or

11 revoke any drilling and production re-

12 quirements of this lease . . ."

13 Could you tell me what that means? My sense of it -- and,

14 again, I read this quickly in the last few days and have

15 not had time to analyze it thoroughly. It would seem to

16 me in reading that that everything you would set up as

17 guidelines and based on comments from the public could be

18 revoked quite easily by this statement.

19 CHAIRPERSON CORY: Technically -- I'm looking

20 to the lawyers -- but I think all of these items become

21 part of a contract. And if both parties to the contract --

22 and each party behaving legally -- wish to alter the

23 contract, they can be altered. And that is merely a statement

24 of that reality.

25 For us to make a change in the contract would

1 require us to go through a public process for that to be
2 done. But it can be done.
3 MS. PERRAULT: So that if the lessee decides to
4 change the drilling and production requirements, there would
5 then be a public hearing?
6 CHAIRPERSON CORY: And they could not unilaterally --
7 MS. PERRAULT: No, no, and you also agreed to
8 that, there would be a public hearing then?
9 CHAIRPERSON CORY: Yes.
10 MS. PERRAULT: So that they could revoke some
11 of the conditions. For example, the stipulations today
12 that we're discussing?
13 CHAIRPERSON CORY: That is they could be -- and
14 I believe it has been done in the past. Drilling schedules,
15 those kinds of things are frequently changed due to
16 circumstances.
17 MS. PERRAULT: I wanted to have that as part of
18 the record.
19 On page 20 in the beginning of the calendar item
20 I have a question on the middle paragraph in which it's
21 stated the discussion about the permanent loss of revenues
22 to the State due to the drainage of State lands by adjacent
23 federal leases.
24 In reading the document, again it's a blitz for
25 the public to get through this in the short time we're given.

1 I understood there was some arrangements being
2 made between the State and Federal governments on these
3 drainage basin areas and cannot find any reference to what
4 kind of discussion is going on and wondered why that was
5 not part of the record.
6 EXECUTIVE OFFICER DEDRICK: Bob, would you respond
7 to that.
8 This portion of the report is unchanged from the
9 29th, you understand.
10 CHAIRPERSON CORY: Bob.
11 MR. SANDERS: Mr. Chairman, let me attempt to
12 answer that.
13 CHAIRPERSON CORY: That's not Bob.
14 MR. SANDERS: I know.
15 The agreements that Ms. Perrault is referencing
16 are the agreements authorized under the OCS Lands Act of
17 1978, Section 8(g). Agreements which provide for sharing
18 of revenues if drainage occurs between a Federal and State
19 parcel.
20 Those agreements are still under negotiation
21 between the State and the Federal governments at this time.
22 The status is unchanged.
23 CHAIRPERSON CORY: There are no executed
24 agreements? We do not have a deal?
25 MS. PERRAULT: I found that it was difficult to

1 believe that it would certainly result in permanent loss
2 of revenues as is stated there in that page. That's all
3 I'm bringing to your attention, without seeing that
4 background.
5 MR. TAYLOR: Can I go back to her first comment?
6 I think it is important to note on the first
7 comment she has made that that is a standard provision and
8 agreement and it would be subject to a full EIR process
9 if anything was going to be changed. It is not --
10 MS. PERRAULT: Which comment are you talking about?
11 MR. TAYLOR: The first comment you made on page
12 20 in the lease.
13 But, anyway, that would require -- any kind of change
14 of any of the stipulations or anything else that went out --
15 it would require the same kind of process that we have gone
16 through, depending on the degree upon which things are
17 changed. And I don't know that that was understood.
18 CHAIRPERSON CORY: If the change --
19 MS. PERRAULT: You said a full EIR?
20 MR. TAYLOR: It would require -- whatever is
21 required for that kind of a change. But it would require
22 the same process to the degree that it would be engaged
23 by whatever was being talked about.
24 CHAIRPERSON CORY: If we were changing the dates,
25 extending the time of three years or five years that

1 something was supposed to be done, that might not
2 necessarily require a full EIR. But if we were changing --
3 if we put in a stipulation for "you cannot drill during
4 this period of time unless you have scientific evidence
5 there's no harm by drilling during that period of time"
6 that would have an environmental impact and would have to
7 be --
8 MR. TAYLOR: That's correct.
9 MS. PERRAULT: And the interpretation of that
10 would be by State Lands?
11 MR. TAYLOR: No, it's under the CEQA thing.
12 I think the other thing is that there is an
13 impression that there is a lot of new material that's been
14 submitted this morning, and that is not correct. The
15 material that's being commented on now has been available.
16 And I think that the index thing is unusually well done
17 for a document of this size and the staff has done everything
18 possible, including the spending of over $3,000 in mailing
19 to try to accommodate people. And it has only been through
20 the efforts of the staff to try to reach as much agreement
21 with people who have been making comments as possible that
T5 22 the changes have occurred.
23 CHAIRPERSON CORY: Go ahead, Michele.
24 MS. PERRAULT: I'm not up here to take issue with
25 the staff.

1 I do have a question about a memo which I
2 understand from the public record of the Coastal Commission
3 hearing was sent to the State Lands. I'm talking about --
4 it was dated August 12, 1982. It was a memo to Mike Fischer
5 which was then forwarded to the State Lands Commission
6 indicating why there should be a Coastal Commission overview
7 of some of the things that were going on with regard to
8 the sale.
9 Is that part of the public record? And if not,
10 I'd like to make it so.
11 MR. TAYLOR: All of that is in. And let's
12 clarify the Coastal Commission matter at the present time.
13 There is nothing for the Coastal Commission to consider
14 until this Commission acts.
15 Now, I think it would become apparent --
16 MS. PERRAULT: I understand that.
17 MR. TAYLOR: Now, I think it will become apparent
18 that there will be plenty of time for Coastal Commission
19 review given the parameters of what I believe is the proposal
20 before the Commission in terms of time.
21 But the Coastal Commission does not consider things
22 in the abstract. And there is nothing specific for the
23 Coastal Commission to consider, although it has been
24 participating in the comment process and has had several
25 public meetings of its own where they have discussed the

1 status of this Commission's deliberations. But until there
2 is a specific project by this Commission, there is nothing
3 for the Coastal Commission to take up.
4 MS. PERRAULT: We are simply asking that if there
5 is a specific project, we're encouraging the Coastal
6 Commission to take it up.
7 I guess part of the reason the public is stressing
8 that has to do with the discussion about the Coastal
9 Commission in the staff document. I did not see reference
10 to the --
11 CHAIRPERSON CORY: To the extent that there is
12 a Coastal Commission, as long as there is one, and the law
13 is written the way it is, and there is a specific project,
14 the law requires that the Coastal Commission review it,
15 deal with it. And anything that we do would be subject
16 to approval of the Coastal Commission. That will be a
17 condition of the lease.
18 MS. PERRAULT: That's where we disagree.
19 CHAIRPERSON CORY: The lessee will, in fact, have
20 to do that.
21 MS. PERRAULT: I'm completing my testimony right
22 now and saying that's where I disagree. The action we do
23 not interpret as being the lessee, we interpret it as the
24 pre-lease sale stage. That this is the time when one finds
25 and establishes basic parameters for any subsequent

1 development, production.

2 MR. TAYLOR: Even accepting your premise, you

3 need to understand that there is still nothing for the

4 Coastal Commission to consider until this Commission acts.

5 And that should be made abundantly clear even accepting

6 for this moment for purposes of argument your statement.

7 MS. PERRAULT: I think my testimony is clear on

8 my point of view on it.

9 CHAIRPERSON CORY: Okay, thank you.

10 Ruthann Corwin.

11 DR. CORWIN: Thank you very much for your patience

12 while I get these materials ready. I appreciate the

13 opportunity to again address you on this matter of concern

14 to local governments.

15 I am Ruthann Corwin. I represent Marin County.

16 I brought a few things to give you, a set of handouts. I'll

17 refer to these individual handouts in the course of my

18 testimony.

19 First, I'd like to congratulate your staff in

20 its heroic efforts in responding to your request for

21 additional information and in providing you with these

22 recommendations and findings in such a short time.

23 I have specific disagreements about the language

24 of the findings and I question whether you can adopt them

25 today and proceed with your decision on the basis of the

1 inadequacy, specifically in the documentation that purports
2 to support those findings.
3 I hope you will also recognize the heroic effort
4 being made by those who comment here today. While it may
5 be true that some of this material has come to us before,
6 there are significant changes in areas of particular concern
7 to individuals to have to wade through a document that we're
8 handed at the door. To receive a package by Express Mail
9 a few days before the meeting and the earlier package of
10 which this is, again, a copy of quite a bit of material
11 except for individual changes here and there, does not make
12 for an open public process in which it is easy to follow
13 the materials and know exactly what is happening.
14 I think the State could have saved a great deal
15 of money in this Federal Express Mailing business if we
16 had had one package to comment on and a particular date
17 to comment on it by.
18 I recognize that there have been ongoing
19 negotiations and discussions and I certainly appreciate
20 them. I've seen a great deal of positive results from them.
21 But having the meeting postponed a week, put to two days
22 before Christmas, has made it extremely difficult for many
23 of the people who wish to comment on these materials to
24 be able to do it in the short time possible.
25 There were numerous individuals who wished to

1 attend this session but were unable to make it due to the
2 date change from December 16th and the rescheduling to
3 December 22nd, two days before Christmas.
4 I would like to mention in particular John Mohr,
5 who is the head of your Scientific Review Committee; Phyllis
6 Faber, the League for Coastal Protection; Trent Orr from
7 Natural Resources Defense Council; Richard Charter, the
8 local government coordinator on federal offshore oil
9 development; and Zeke Grader from the Pacific Coast
10 Fishermen's Association, whom as you know, has been following
11 this process closely.
12 I have been given comments by Dr. Mohr to read
13 to you specifically with response to the discussion on the
14 technical information, the biological characterization study.
15 And I will refer to those in the course of my testimony.
16 I also have a letter from Phyllis Faber from the
17 League for Coastal Protection and I will read that into
18 the record right now.
19 CHAIRPERSON CORY: We will accept it into the
20 record. We would like you to get on with your testimony.
21 DR. CORWIN: Well, I appreciate -- she makes a
22 couple of important points, particularly the fact that she
23 did not receive the materials for review even though she
24 did receive the notice for rescheduling the meeting. And
25 this is particularly with reference to the fact that the

1 staff has made great efforts to get materials out, they've
2 been in bits and pieces and they haven't been to everyone.
3 She was particularly upset, having met with the staff
4 earlier, that she did not receive these materials.
5 I'll just read her summary of her points that
6 the League for Coastal Protection urges you to proceed with
7 the permit application to the Coastal Commission, presumably,
8 once you've taken this action, to perform the studies
9 suggested by the Scientific Review Committee; and to continue
10 negotiations with concerned and expert parties over the
11 stipulations.
12 EXECUTIVE OFFICER DEDRICK: For the record, Dr.
13 Mohr is a member of the six-member Review Committee. There
14 was no chairman of that committee.
15 DR. CORWIN: I'm sorry, that is correct. He has
16 been speaking with the other members, however, and has acted
17 as a person who has facilitated the communications between
18 those members.
19 EXECUTIVE OFFICER DEDRICK: I really must protest
20 that, Ruthann.
21 Just for the record, the input from the Scientific
22 Committee is already a part of the record and each scientist
23 speaks for him or herself.
24 DR. CORWIN: I won't argue that.
25 CHAIRPERSON CORY: As a Chairman of the Commission

1 I don't know how the other Commissioners feel -- but I would
2 like to hear about the substance of the question before
3 us rather than the procedural mish-mosh.
4 You can go on with the substantive comments you
5 would like to make. We're here to try to learn what you
6 would like done and how you would like it done and how this
7 is incorrect.
8 DR. CORWIN: I would certainly like to turn to
9 that. And I think if we hadn't had the procedural mish-
10 mosh, as you call it, over the last four or five months,
11 it would have been much easier to get immediately to the
12 substance. This is certainly an issue in terms of the public
13 being able to participate in this process.
14 I'll turn to -- again, with the list of the findings
15 that were recommended to the Commission. It's on page 21
16 of the calendar item which I received as part of this
17 package and I'm working off of those materials. It's on
18 page 23 of the items you have today.
19 CHAIRPERSON CORY: Mr. Ackerman has a question.
20 COMMISSIONER ACKERMAN: I just have one question.
21 What is Marin County's specific interest in this sale in
22 Santa Barbara?
23 DR. CORWIN: Marin County has a very great concern
24 with all offshore oil development. And particularly, we're
25 concerned with anything that might set precedent with regard

to the state tidelands.

We understand that the sanctuaries for the state areas up and down the coast are subject to legislative action. We're concerned -- we have now a sanctuary that is in our three-mile boundary of the coast and to the immediate north and south. And we have a federal sanctuary as well. However, those things could change easily.

COMMISSIONER ACKERMAN: I certainly didn't think we were contemplating leasing off of Marin County.

DR. CORWIN: I certainly hope that you are not. And we would definitely be in here to object to that if that were the case.

However, what we have found in studying the circulation patterns in California is that there is current movement that will bring us oil from a lot of different places, not just from off the immediate environment. The same situation occurs here where you have concerns for the sea otter to the immediate north of the sale area that currents could move the oil up into that region.

We have looked very closely at the federal process and believe that we have learned things from that process that are appropriate to bring to your attention here.

COMMISSIONER ACKERMAN: So, your testimony will more relate to the precedent-setting nature?

DR. CORWIN: Yes. And this is one reason I do

1 speak to procedural matters quite a bit and to public input;
2 because, after all, we would like to always have the
3 opportunity to do that.
4 I gave Ms. Graves a background on my expertise
5 since you were not here at the earlier meeting. And I'd
6 appreciate it if you would just glance at that. The others
7 are familiar.
8 With respect to the first calendar item recommendation
9 that the Commission finds that it has reviewed and considered
10 the information contained in the FEIR, we'll turn to that
11 as the first substantive issue. I will do it in terms of
12 going through items in the staff report. And this is the
13 staff report that I received that begins somewhere in the
14 middle of the document that we've received today.
15 Beginning with the preface, I would like to stress
16 the fact that there has only been on the outside four months
17 of biological studies. There have been several years of
18 geophysical studies. On the very first page of the preface
19 you attempt to emphasize the fact that you spent four years
20 on this process. But, in fact, we have felt that we have
21 been shorted in the biological information on this process
22 and that the efforts to rush through the supplementary study
23 and the kind of review that that study has received indicates
24 that there's not an equivalent amount of work that has been
25 done to look at the environment and the affected area as

there has been done to define the resources that are in that area and what you will have in terms of the benefits as opposed to the costs.

Particularly, I object to the statement in the introduction of the staff report that says that the state has experienced no serious problems with spills, blowouts, or other adverse events as the only summary of what you have learned from the past years of leasing.

The fact that the State Lands Commission has a good record on having no major spills in state tidelands in the Southern California Bight, the region between Point Conception and the Mexican border -- but you have never studied the chronic and long-term effects or the drilling effects. There's been a few studies, the results of which have not been discussed here in terms of changes in communities and so forth.

There is some summary language, however, in the staff report that I saw which does make the point that these are highly toxic and adverse effects. But I venture to say that you cannot tell me the significance of the role of your operations along the Santa Barbara, Ventura, Los Angeles, and Orange County coasts as a portion of the overall documented decline of marine life in Southern California and the documented rise in sediment and water-column levels of heavy metals, organic toxins and other pollutants.

I refer you to studies by Raymond Faye and others and your own Environmental Impact Report data from the Mussel Watch Program which indicates the pollutant levels that have grown in the Southern California Bight over the last years.

Overall changes in the marine ecosystems of the Gulf of Mexico which are heavily developed by the oil and gas industry, has also been documented as described by Robert Howard of Woodshole Oceanographic Institute. The level of industrialization proposed for this critical region of the California coast will contribute to the pollutant burden of the Southern California region and is likely to lead to a decline in the numbers of the types of organisms using and residing in this unique area.

Known environmental damages include alterations of the bottom communities and the shoreline habitats for construction of rigs and for shoreline facilities. Significant air pollution effects have been a continual problem with the oil and gas industry in this region.

You have talked a great deal about the income and you have talked a little bit about the cost of the stipulations you are imposing. However, there has been no estimate made to estimate the cost of the damages from the operation that you proposing.

I might point out that the federal government,

1 in their five-year program on the scheduled development
2 in Southern California, estimated $19 million in air
3 pollution damages alone from a full-scale development in
4 the Southern California Bight region. Equivalent amounts
5 of money are estimated for the Sale 53 area, which, of course
6 would affect this region.
7 There are other various other listed damages that
8 are put in there which add up to several hundreds of millions
9 of dollars in terms of damage costs from oil and gas
10 development. This is something that the staff has not looked
11 at and has not looked at in the Environmental Impact Report
12 The federal government has at least made an effort
13 in its five-year program to quantify some of these costs
14 so that you may compare them with the revenues that you
15 get and also to consider ways of mitigating those effects
16 from a dollars-and-cents term.
17 We have not seen the information with respect
18 to the significant lands inventory which your staff refers
19 to in Finding Number 4. That's a discussion of alternatives.
20 I would like to make a comment with respect to that because
21 I don't believe that you have adequately dealt with it.
22 In the calendar item on page 6, it is stated that
23 the Commission finds that there are no other feasible
24 alternative locations for the lease sale. You have yet
25 to make a full consideration of the facts on this matter

T6

1 required by law in having failed to utilize biological
2 information as well as geologic and geophysical information
3 in your ranking of so-called vacant offshore tide and
4 submerged lands.
5 The fact that you call these lands vacant to start
6 with is an indication that you have no knowledge of the
7 existing value of the biological resources that are in that
8 area. They're not vacant. They are well inhabited by quite
9 a number of different species as you've seen from your
10 Environmental Impact Report. These species have values
11 which I'll turn to in a moment.
12 According to the calendar item page 1, since 1973,
13 the Commission has considered and authorized additional
14 drilling on existing leases, but has not until this time
15 considered the issuance of new leases. You studied this
16 through the purchase and interpretation of geophysical
17 material to form your own idea of the quantities of the
18 resources.
19 The biological studies were first done as part
20 of the EIR on this possible lease sale area. In the
21 discussion of compliance with state law regarding adverse
22 impacts to the environment of this area -- this is on pages
23 4 and 5 of the staff report -- they make reference to the
24 use of geological data for seismicity, for historical and
25 cultural analyses, for air quality analysis; but no reference

1 is made to biological resource surveys, which should also
2 be interrelated with spills and discharge scenarios or to
3 any habitat studies that might have formed the basis for
4 your analysis of discriminating which areas that you would
5 hold up for lease.
6 The staff report on page 1 points out that by
7 November 29th available lands had been ranked in priority
8 order for potential leasing. I have not seen this ranking
9 scheme that could not have contained biological information
10 on these lands in very much detail since so much of this
11 area has been acknowledged as little studied. We are now
12 learning with the possibility of making irrevocable decisions
13 just how occupied these lands are and how valuable they are.
14 It follows that the ranking is based on hydrocarbon
15 potentials primarily, which conflicts with the Commission's
16 own goal to protect and enhance the environment and with
17 your legislative requirement to develop standards and
18 procedures necessary to protect the environmental quality
19 as stated in the California Environmental Quality Act,
20 Section 21001(f).
21 It is, therefore, recommended that the Commission
22 consider a review of the ranking factors based on factors
23 as well as -- in addition to the geophysical factors,
24 biological productivity and diversity and the location of
25 sensitive habitats and and current patterns and compare

1 those with the potential for oil and gas regarding those
2 vacant lands.
3 CHAIRPERSON CORY: How much longer is your
4 testimony going to take?
5 DR. CORWIN: I have some more substantive
6 information with regard to the lack of information on
7 cumulative impacts discussion --
8 CHAIRPERSON CORY: How much time? I mean, 10
9 minutes, a half hour?
10 DR. CORWIN: Perhaps 15 minutes.
11 CHAIRPERSON CORY: Okay, it's going to be 15
12 minutes.
13 It is now 12:30. I think we are going to have
14 to recess this hearing until later today so people can get
15 lunch and attend to other duties that they have to attend
16 to.
17 Is this room available at 5:00 this evening?
18 MS. SMITH: I'll find out.
19 DR. CORWIN: Mr. Cory, I think that --
20 CHAIRPERSON CORY: We will stand in recess until
21 5:00 o'clock this evening because we are not going to get
22 through this. I want people to be able to establish their
23 record, but there are some other pressing financial
24 considerations of the state that have to be dealt with.
25 And we have to attend to that. And if we break for lunch,

there is no way we can accommodate the other things that are scheduled and this too.

So, I hate to do this. I would prefer to run it straight through, but we are just not going to make ends meet.

We will reconvene after a break at 5:00 o'clock.

(Thereupon the meeting was recessed.)

--oOo--

EVENING SESSION

5:35 P. M.

--oOo--

ACTING CHAIRPERSON MORGAN: We will reopen and our purpose is continuing to take testimony. Commissioner Cory has been detained because of 60-mile-an-hour winds in San Francisco. The bridge has been closed. We expect he'll be here later.

At this point we intend to continue hearing testimony until 6:45 or whatever. And we have asked Miss Corwin to step aside for a moment and she graciously agreed to do that so that the next person can testify. Is that Greenstadt?

MR. GREENSTADT: My name is Allen Greenstadt and I'm representing Pioneer Systems and Pioneer International Corporation.

And my purpose in being here today is to comment on the stipulation with respect to response time and the importance of the stipulation with respect to response time and issues that surround response in dealing with the opposite side of the coin in well drilling, which would be accidents which would accrue to either direct drilling operations or accidents which accrue to indirect operations which are appended to drilling, such as marine traffic, storage on and off loading oil.

1 In the early 1970's, we were requested by the
2 United States Coast Guard and the Federal Government to
3 develop a system whereby oil spill containment procedures
4 would be brought to the site of an oil spill in a time
5 frame which was drastically shorter than that which had
6 previously been used.
7 Almost by definition an oil spill occurs at sea
8 and, therefore, the most obvious way to reach that point
9 and to contain it is via ship or boat. One of the reasons
10 that other means of transport, such as helicopters, have not
11 been used is that the equipment which is used to contain
12 oil spills is very heavy and it's very difficult to
13 manipulate.
14 So basically, the strike force position was that
15 oil spill containment procedures, such as the heavy booms
16 which is nothing more than a barrier which floats in the
17 water and contains the oil and so on, would be taken to the
18 scene of a spill via sea.
19 We developed a method of putting these devices
20 onto platforms and dropping them out of airplanes utilizing
21 parachutes which had an accuracy of about a hundred yards
22 in sea conditions anywhere ranging up to 10- to 15-foot
23 waves, and just about any climatic condition that you could
24 imagine. A hundred-yard accuracy being approximately 300
25 yards within an allowable drop zone from -- let's just say

for the sake of the argument -- a grounded tanker or a tanker which had been in a collision with another type of vehicle.

The other unique aspect of this particular system is that it deploys itself in a sense which is very important, in that it takes a great many people to control this type of thing. And this particular system upon reaching the water moors itself, deploys itself, and commences containment procedures in a time frame which I would consider radically different from that which has been previously proposed.

The Pacific Strike Force has proposed a response time of approximately 24 hours to be able to get out and contain and deal with an oil spill. We estimate that given that a system of aerial delivery were available, we could reduce that time to approximately four hours.

Now, I'd like to point out that this old adage that time is money is never more cogent than when we're discussing oil spills. Oil spills spread at an exponential rate. They do not travel necessarily with the current of the water but rather with the wind speed. So I think you can imagine that if a tanker were to have a collision or if there were to be a blowout in the Santa Maria Basin today, that oil spill would be traveling approximately 20 miles an hour. And that would give you about 10 minutes

1 to get off the beach. That's a very important thing to
2 understand. The rate at which oil moves and your ability
3 to contain it will more or less dictate not only the
4 environmental impact it will have but also more important
5 from the standpoint of continued drilling and from the
6 standpoint from continued environmental concerns, the cost
7 and the long-term impact on the environment and cleaning
8 up.
9 Fighting an oil spill on a beachhead is a great
10 deal more expensive in terms of marine life, and the
11 ecology, and dollars than it is fighting it at sea,
12 particularly in deep water.
13 And one of the other issues which comes up when
14 we talk about this is a tangential issue which has to
15 deal with exactly what we're talking about. It is our
16 feeling in having developed systems like this and plans
17 for systems like this in locations around the world that
18 what you're talking about here is going to result in a
19 substantial increase in marine traffic. And marine
20 traffic from a statistical standpoint increases the chances
21 for an oil spill.
22 Therefore, I think you have to address yourselves
23 to the question as to who will be responsible for dealing
24 with the potential for a spill which is related from oil
25 which is taken out of these leased lands and then falls out

1 of a tanker, let's say, three and a half miles or four miles
2 off the shoreline and then comes back into your leased
3 areas and threatens your shoreline. It's a very important
4 thing.
5 Now, one of the fine suggestions that the staff
6 had, I think, is that you have within the State of
7 California an agency which I think would be ideal to
8 implement this plan and that's the State National
9 Guard. They are trained to implement operations such as
10 this. And we have had experience. We're based on the
11 East Coast and we've had experience with a number of the
12 National Guard units that do this type of work. They have
13 the exact type of aircraft. They are extremely gung ho
14 people and extremely well-trained. And they're very capable
15 of doing this.
16 I think the message that I'm bringing is that this
17 is something which has to be faced and I heartily endorse
18 the staff's position on this stipulation in terms of lower-
19 ing the response time. It's going to make a radical
20 difference in your long-term economic outlook on the
21 subject.
22 And I think that it's important for you to become
23 involved in the issue of containing the potential of
24 something that no one wants to talk about, which is what
25 happens when something goes wrong.

1 As far as industry is concerned, I think that
2 they're all aware -- all of us in industry who are outside
3 of the oil producing, transporting, distributing field
4 are aware of the techniques that are necessary to do this.
5 And I think the people who are directly involved in
6 production and distribution are also aware of the techniques.
7 And I see that as the logical first step in any
8 leasing program. I'm open for questions.
9 ACTING CHAIRPERSON MORGAN: Yes. David, do you
10 have any questions?
11 COMMISSIONER ACKERMAN: The way it's structured
12 for the oil spill response capability --
13 EXECUTIVE OFFICER DEDRICK: I lost your --
14 COMMISSIONER ACKERMAN: What it does is it gives
15 the industry, if I read it correctly, the ability to address
16 technology and how they will meet the response time and
17 they could use your technology or I imagine any other
18 state of the art that's available; is that correct? The
19 way we've written --
20 EXECUTIVE OFFICER DEDRICK: That's correct.
21 MR. GREENSTADT: Absolutely.
22 ACTING CHAIRPERSON MORGAN: Let me ask the question
23 in a different way. What's the name of the company you
24 represent?
25 MR. GREENSTADT: Pioneer International.

1 ACTING CHAIRPERSON MORGAN: The staff is proposing
2 a four-hour response time. You seem to indicate that that's
3 an optimum. That's something that is achievable.
4 But is it reasonable to set that as a minimum?
5 MR. GREENSTADT: Yes, very much so.
6 ACTING CHAIRPERSON MORGAN: How many other companies
7 could respond?
8 MR. GREENSTADT: I think quite a few, given the
9 proper specifications and given the -- it's a question of
10 approach, not the equipment. In other words, what allows
11 us to respond in that period of time -- there are two
12 segments in the four hours. The first segment is how long
13 it takes you after you find out you've got a problem to get
14 everything loaded onto an airplane. And the second segment
15 is how long it takes you to get that airplane to the site
16 of the accident.
17 Now, we're estimating that it's going to take
18 somewhere between 45 minutes and an hour to get the
19 airplanes loaded and off the ground and a three-hour
20 travel time in an aircraft such as the C-130, which is the
21 type of aircraft which would be utilized here.
22 Now, that one hour preparation time means that
23 everything you need will be packed up onto pallets and
24 ready to go. And it would just be put into the back of the
25 airplane, flown to the site, and dropped.

1 The technology, as I'm saying, has been in
2 existence for 12 years now for dropping that size load and
3 doing it in that manner. So, I would say that any
4 intelligent, specified program would be able to accomplish
5 that in that time.
6 ACTING CHAIRPERSON MORGAN: Okay.
7 EXECUTIVE OFFICER DEDRICK: Let me make one
8 further remark here. The choice of a four-hour response
9 time was based on not just the possibility of aerial
10 delivery, but also on the necessity to get this kind of
11 equipment into the area.
12 Now, there's -- whether it should be delivered
13 aerially or by fast sled, or whatever, it's obvious that
14 24 hours is too long.
15 In the staff investigations we talked to a whole
16 bunch of people and, of course, our own staff has a pretty
17 high expertise in this, being sort of leaders in the
18 field over the years. And properly based, this equipment
19 could be delivered, I'm sure, in four hours, whether it
20 was delivered by aircraft or by surface vessel.
21 ACTING CHAIRPERSON MORGAN: Okay. Anything else?
22 MR. GREENSTADT: Thank you.
23 EXECUTIVE OFFICER DEDRICK: Thank you.
24 ACTING CHAIRPERSON MORGAN: Miss Corwin? Dr.
25 Corwin.

1 DR. CORWIN: Good evening.

2 ACTING CHAIRPERSON MORGAN: Hi.

3 DR. CORWIN: I'll return to my review, which was
4 in regards to the staff recommendations and the findings.
5 And my statement that you cannot make these findings today
6 regarding recommendations one, two, and four and that
7 you've not completed the work regarding seven, which is --
8 deals with the stipulations.

9 Now, in your own language the program -- I should
10 state the point that I'm going to be making dealing with
11 cumulative impact and the fact you've not addressed the
12 alternatives of the sanctuary possibility.

13 I wish to speak also of Section 3 of the staff
14 report regarding the technical addendum and the comments
15 that Dr. Moore has asked me to pass on to you, to respond
16 to some of the comments that your staff has made regarding
17 spill behavior, and finally some comments on the
18 stipulations.

19 In regards to the program EIR, you have said
20 that this would ensure consideration of cumulative
21 impacts that might be slighted on a case-by-case basis,
22 and would allow the lead agencies to consider broad policy
23 alternatives and programwide mitigation measures at an
24 early time when an agency has greater flexibility to deal
25 with these basic problems.

1 That's obviously at this stage. Two broad policy
2 alternatives are the ones not to offer all of the tracts
3 for lease, particularly those off Point Conception itself,
4 and to declare the area State oil and gas sanctuaries,
5 have never been adequately discussed in your documents and
6 the biological work has not been carried forth to the point
7 where you can make this kind of tract-by-tract analysis.
8 I wish to illustrate the use of your biological
9 and physical data for decision-making and why you need
10 these studies, the studies that you propose in the
11 stipulations, particularly the Nos. 12, 14, and 15,
12 before proceeding with your sale decision, it seems to be
13 a fundamental area that in consideration of cumulative
14 impact, your writers appear to believe that the word means
15 comparative rather than additive. This is a critical
16 point.
17 There is no sense in saying that this adds any
18 additional impact, which appears small in light of all
19 other impacts. The question is whether this impact --
20 the impact added by this project to other impacts in the
21 area will worsen the marine environment. In other words,
22 the cumulative impact is an additive impact.
23 And with regards to what the total federal impact
24 on adjacent parcels, I made a quick map for that.
25 (Thereupon Dr. Corwin displayed a map.)

We are talking about on the adjacent federal sale lands, Sale 53 between 156 and 598 wells in the full development of that Sale 53 area. We're talking in the Santa Barbara Channel area up to 243 wells, which is in the Sale 68 documents and completing that sale.

And not all of those will be right in this area (indicating). But even if half of -- each of those areas were in the area that's depicted on this map, you are talking about something like 500 or 600 wells immediately adjacent to the vicinity where you are leasing here (indicating).

I have the same problem to walk up there and point to this.

So the area we're talking about right in here, you're adding 182 wells. You're talking about a couple of hundred wells here, and here (indicating).

And, of course, the big finds are now being made on the federal tracts are right in the vicinity here.

So, as far as cumulative impact goes, all of this is going to be -- this corner is essentially going to be a receptor for the cumulative impact of the development of these two regions of the coast. This is the most intense oil and gas development for this region in California and on the coast of California anywhere. And it becomes equivalent to the kind of development you see in the Gulf

1 of Mexico where the problems are scattered out over a much
2 larger area. Except that now you're going to have all your
3 development occur in the area that's closest into the
4 coast.
5 I'm afraid that we will not be able to trust the
6 federal government to mitigate these impacts even to the
7 extent which you are talking about doing in your work,
8 especially when we have the EPA Director up now for a
9 citation before Congress. I wonder whether the current
10 system and the kinds of control that they're going to be
11 adopting will be such as to really protect us from the
12 toxins that are likely to enter in from their development.
13 As a consequence then, this means that the
14 cumulative impact here will be very serious for us. You're
15 talking about a very dense drilling operation, one well
16 every 20 acres for wells less than 6,000 feet deep. That's
17 going to be very intense development of wells in your area.
18 In total, this critical portion of the coast will
19 be an intensive area offshore oil and gas development.
20 Any organisms found here or which migrate through it will
21 be subjected to all of the unavoidable impacts and
22 accidents that such developments are prone to.
23 Further, because of current patterns, the likeli-
24 hood is that the contamination from this region will add
25 to the pollution burden of the Santa Barbara Channel. I

1 gave a handout out earlier. I'm not sure -- Miss Morgan,
2 have you got a copy? On that, one of the -- it shows the
3 values of the resource areas in the Santa Barbara Channel
4 region. I'll call the one map -- the map on the lower
5 half "1" for the record, and the one that you received
6 in your handout will be Map 2.
7 This map refers to the northwestern waters
8 of Southern California as the highest in nutrients
9 with the greatest biomass of sea birds and important for
10 being the transition zone, the meeting place of cold and
11 warm waters, Point Conception being the center of this
12 benthic research area. It's value is also noted on that
13 map.
14 Note that the shaded area represents Santa Barbara
15 County's closed federal sanctuary and it's extended in the
16 12-mile zone north to Point Arguello encompassing the
17 federal zone, indicating the county's concern that this
18 region, particularly the area where you're talking about
19 leasing, is important to the marine life in the Santa
20 Barbara channel. And anything that happens up there will
21 affect it.
22 On this map also I've indicated the current -- and
23 if I could just briefly illustrate -- the key issue here is that
24 this is the area which mixes the warm waters that come up
25 from the south and the cold waters that come down from the

1 California current. So you have upwelling that mixes these
2 waters together that makes this a uniquely productive
3 region, the very region that is going to have the highest
4 cumulative impact from oil development in California is
5 the region that is also one of the unique regions in terms
6 of the mixing of currents and providing nutrients for the
7 organisms.
8 This is why the whales and the sea birds hang out
9 in this area. It's an extremely rich area. And there are
10 now satellite photo information that is coming out filming
11 the constant changes that occur in this region that are
12 basically feeding the areas further south in the Santa
13 Barbara Channel and in the State of California Bight.
14 Anything that contaminates these waters will
15 affect the whole Santa Barbara Channel which is already
16 facing water quality problems from the development in the
17 Southern California Bight as a whole.
18 This is why the diversity of organisms here at
19 the Point is highest in the Pacific Coast. And talking
20 about comparing this region to all areas to the north and
21 south along the entire California coast is truly meaningless
22 because nowhere else does this overlap in numbers of
23 organisms occur.
24 The value of that from a biochemical perspective
25 seems to be rather poorly understood. And I would like to

1 take one minute to explain why this area deserves to be a
2 sanctuary or a marine scientific reserve with maximum
3 protection from disturbances and contamination.
4 When I say "biochemical," I'm referring to
5 organic molecules, long-chain molecules of biological
6 origin which have properties useful for medicines, insect
7 control, and as industrial chemicals. These chemicals are
8 currently being studied by men such as Robert Jacobs at the
9 University of California at Santa Barbara and Bill Fennical
10 at Scripps.
11 What they have told me is that these biopolymers
12 are found only in marine organisms, not from land animals.
13 Many of these chemicals are derived from organisms such as
14 sponges, anemones, and tunicates, which have to compete for
15 their space and their food with their neighbors and,
16 consequently, have evolved sophisticated chemical compounds
17 for offense and defense. Fennical made a point of saying
18 that the California transition zone is one area where one
19 could expect to find many of these complex molecules that
20 we can study because of the high diversity and resulting
21 organisms. In other words, just because of the unique
22 features that put so many organisms in this area, you get
23 competition which then causes them to evolve these molecules.
24 I need to remind you that the pharmaceutical
25 industry is worth hundreds of millions of dollars and

they're continually seeking these compounds. Many of these are biopolymers and have anticancer properties, as well as acting as antibiotics, fungicides, and anesthetics, to name a few that have been tested.

This area provides a rare evolutionary laboratory. If we want to encourage biochemical and biogenetic industries in the State of California, we could do worse than to declare areas of high genetic diversity in our environment as reserves of raw material and information for the future growth of these industries. These organisms provide -- and those that will provide -- I'm sorry, my notes got screwed up.

These are renewable resources that will give us the molecular model and some of the materials for new chemicals development.

Many of these chemicals are so complex that we cannot yet synthesize them and it will be a long time before mankind can invent the equivalent of the millions of years of evolutionary testing and design that has gone into these creatures. It's no longer fashionable to speak of God's work, but there are millions of citizens who see in this diversity of organisms and marvelous array of creatures such as exhibited in this area, the wonder of creation, and who see in any thoughtless decision to eliminate them the hubris of man.

1 Many of the creatures in the Point Conception-
2 Point Arguello area can be irretrievably lost through
3 chronic or accidental damage from the intense cumulative
4 industrial development that you have proposed.
5 ACTING CHAIRPERSON MORGAN: Any questions?
6 COMMISSIONER ACKERMAN: Is the Santa Barbara area
7 the only location along the coast these organisms exist?
8 DR. CORWIN: There are numerous organisms that are
9 endemic specifically to this area -- the Point Conception-
10 Point Arguello area, not even the Santa Barbara Channel
11 region itself. These are called endemic species. They are
12 only located there.
13 And one reason I think that they are there is --
14 some of them -- is because they are species from the Pliocene.
15 That is to say, the waters have risen and fallen and some
16 organisms have survived there that haven't survived anywhere
17 else.
18 In addition, because of the overlap of zones, you
19 have some new species and you have some extended ranges
20 of species. In the biological study, characterization that
21 you have, there is a mention of six new species that are
22 not in the --
23 COMMISSIONER ACKERMAN: I read that.
24 DR. CORWIN: It is possible that these might occur
25 further up the coast. That hasn't been studied. We don't

1 know enough about the area to know. But there are unique
2 species also in this region that have not been seen anywhere
3 else along the coast.
4 COMMISSIONER ACKERMAN: I don't recall in that
5 study that it stated those species were unique to this
6 area. I don't think it did.
7 DR. CORWIN: No. The study didn't. And one of
8 the problems of this study was that it didn't put it in
9 this perspective. I understand the new study -- reworked
10 version of the study -- makes some statements to that
11 effect. It doesn't however, point out that, to my
12 knowledge, at least there are four barnacle species in this
13 region which exist nowhere else. And it does not mention
14 that this is the work of William Newman that I have called
15 to the staff's attention and which has not been directly
16 focused.
17 COMMISSIONER ACKERMAN: Is there a probability
18 that a species will be eliminated? A probability factor?
19 DR. CORWIN: It's hard to say because they haven't
20 been mapped and located and you'll have to wait and see
21 if they turn up in their site specific studies whether or
22 not you can locate them. The problem is you don't know
23 how sensitive they are to chronic spills; one good,
24 accidental oil spill that hits the coast could eliminate
25 some of those species. It's entirely possible. We saw

1 after the tanker collision in San Francisco that three
2 species on a reef have never come back to the numbers that
3 they were in prior to this. Fortunately, they're not
4 species that were endangered. They exist elsewhere. But
5 there are species here that do not exist elsewhere and
6 we've never seen certain forms of these species anywhere
7 else. And it's entirely possible that those forms and those
8 species could with one good major accident be wiped out,
9 particularly the larval forms; they're very sensitive,
10 especially during the breeding season or the spawning
11 season. You could do that kind of damage.
12 ACTING CHAIRPERSON MORGAN: Okay.
13 DR. CORWIN: Okay. I'll go on to the comments
14 that John Mohr had on the technical addendum.
15 Dr. Mohr wanted me to tell you that he did not
16 feel that the paragraph in the staff report on Section 3
17 represents the consensus of the committee. I recognize
18 that he is not the chairman and he cannot speak for the
19 committee as a whole, but I just pass on his remarks.
20 Where it says that they stated that -- referring
21 to the study -- it is more complete than any previous study,
22 he wishes it to be known that it is meant that it is more
23 complete than any previous study of this sort; that is, for
24 oil development, not for an ecological study. There are more
25 complete ecological studies and certainly -- ones that

1 have not been rushed to the point that this one was.

2 Attention was called to the lack of explanation and

3 substantiation of a number of the statements of major importance

4 in the text.

5 Comments by other reviewers were supported,

6 particularly those calling for better interpretation of the

7 data for being able to draw conclusions regarding impact.

8 This is not a criticism of the consulting firm, but rather

9 how the information was utilized in the decisions and whether

10 the information was in a form that you could easily draw

11 these conclusions. We heard about that earlier today.

12 He is in agreement with the oil industry that the

13 study needs to make clear how the conclusions related to the

14 material in the survey. And the committee thought that six

15 months was not too long to think through the survey and to

16 do it right. And he's looking forward to seeing -- a new

17 version of it that's coming out.

18 He feels that it was not possible to serve the

19 public well so quickly and that the coming research that

20 you are talking about doing will provide an opportunity for

21 more intelligent decision-making to make good decisions not

22 only to patch up decisions already made, and urges the

23 Commission to wait before you make a decision regarding

24 slicing the pie, as he put it.

25 He felt the staff has shown a lack of perception

of certain problems that indicate the materials have not been circulated to anyone acquainted in detail with the pollution problems, water pollution problems, from offshore development, in particular, the significance of water circulation for safety. For example, the hearings in St. John regarding the Ocean Ranger disaster.

Two, no appreciation of the meaning of organic substances in formation water for toxicity, both in the water and in the air masses, and what these volatiles may do to plants and animals in the water and to people in Lompoc, Santa Barbara, Ventura, and so forth as one and significant carcinogens and mutagens to what is already there.

And I've taken the liberty of putting together -- in the handout for you is a table labeled 1.4, "Damage Causing Components of Spilled Oil."

I think that all you tend to see is generalizations about oil. Oil is not one substance, but it contains a number of agents which can be considered both poison, as well as behavioral disrupters, low-level poisons, carcinogens, and what we call total coating fractions. This is the smothering ability that are not necessarily immediately poisonous. These are -- from a chemical sense these Q poisons are the low-boiling aromatic hydrocarbons. The behavioral disrupters are specific kinds of chemicals that are found

in oil that are called saturated hydrocarbons or alkanes and unsaturated ones called alkenes as well. All of these different ehemical components of the oil have different effects to the biota. And I have included in a handout to you potential damage from oils on biological systems and the given locations that indicate what some of those effects can be to the organisms and the environment as a result of those things.

In addition, I would like to reference the doctoral dissertation which is a Ph.D. thesis by Phillip Gschwend, G-s-c-h-w-e-n-d, which found volatile organic compounds in sea water following an oil spill several miles from the sampling site.

There haven't been many studies that actually look at the components of the spills to find out where they are. This is in the sea water, not -- this is not like the heavy fractions that you'll find on the beach. These are lighter fractions that have been dissolved and have been found in the sea water and the distance is quite far from the spill site.

In addition, the Buccaneer Study, which was done in the Gulf of Mexico, found major carcinogens, which was called benzoalphapyrene, in segments directly proportional in distance from the wells and also found this in the formation water -- these are the waters that are brought up

1 and are contaminated with the oil. And these studies of
2 the few chemicals that indicated there are some very
3 serious chemical compounds from areas that you have not
4 entirely covered in your mitigation, such things as the
5 formation waters and things that may occur regardless of the--
6 of those kind of stipulations.
7 To conclude John Mohr's remarks, page 18, Section
8 4 of the calendar item, he flatly disagrees that delay and
9 more knowledge will not improve the operations. He feels
10 that more time will improve the stipulations and the
11 understanding of monitoring programs especially related to
12 biology.
13 I might mention we were happy to see that this
14 last stipulation is one of the ones that were added.
15 With regard to page 19 which states that there are
16 10 days of biological study -- in fact, there were about
17 four or five days of study because there were several days
18 of rough weather there.
19 This is an intense study made in a period of about
20 two weeks regarding one season of the year. This is a
21 very respectable study but it is wrong to conclude it is
22 complete in any way. Now, I understand one of your
23 stipulations calls for a year-round study. The question, of
24 course, is whether that information will be -- is available
25 to us obviously -- isn't before you make a decision to go

1 ahead with the lease and to be able to draw conclusions
2 from it.
3 In addition, added to what we have found, including
4 the deeper waters, beyond the 200-foot depth that was
5 studied, and other kinds of methods of measurement and
6 particularly measuring one dimension smaller -- for example,
7 in terms of the screen size, would greatly increase the
8 number of organisms that you looked at. And his estimation
9 was 40 percent more organisms. Even small organisms such
10 as nematodes and water mites, which are truly important in
11 the food chain, which were not caught in your sampling
12 method, but they are an essential part of the ecosystem.
13 And it's entirely possible that the kinds of impact that
14 an oil spill would have, if it were to occur, would affect
15 these organisms more severely and in the long-term affect
16 the ecosystem a great deal more.
17 Now, turning now to the comments regarding the
18 spill behavior, which you have made. This is again still
19 with respect to whether or not you can make the findings
20 that you have made -- that you stated that you wish to make
21 today, particularly with respect to the statements regarding
22 the oil -- on page 70 of the staff report, there is a
23 statement (reading) however, under these sea and weather
24 conditions, natural evaporation and dispersing of the oil
25 will eliminate a great deal of the oil spill. Likewise, in

1 your findings that statement is repeated in various places.
2 I have given you a handout which illustrates oil
3 placed in the environment. I didn't bring a copy for myself,
4 but -- they're stapled together.
5 I think it's the next to the last item.
6 That are a number of different processes you can
7 see that affect oil dispersion in the marine environment.
8 The U.S. Geological Survey model only deals with the
9 superficial aspects of the spreading of the oil. There's
10 a great deal of concern over the evaporation of the volatile
11 compounds, not only from oil spills but also from the
12 formation waters. There's something like 68 aeromatic
13 compounds that have been found in formation waters and
14 highly carcinogen compounds. These are things that will go
15 into the atmosphere and be blown over Santa Barbara County
16 and the concern that the air quality people have for it --
17 But you will notice there are other things that occur with
18 this oil, especially the emulsification in the water.
19 Emulsification is a mixing up of oil and water on the
20 surface and it drives it into the water or it leaves it on
21 the surface and it prevents the natural evaporation, which
22 is a statement that is continually relied on in this
23 document to say that after a certain time -- after weathering,
24 that the oil will be less toxic. That is not true, because
25 emulsification retains the toxicity of the oil and prevents

it, in fact, from weathering in a way that would be true of this rather simple statement. I suggest that you take a closer look at that, particularly with respect to the concern over accidental oil spills and what might happen.

You notice also that it shows the oil being driven down into the sediment in the bottom area. This is something also that has not been researched, has not been looked at by the oil companies. It's just begun to be studied in various places around the country, although the East Coast has made more progress on that topic with respect to trying to identify things like the tar mats which formed ten months after a spill and sat in the sediment immediately offshore of the long beaches along Texas for many months and smothered organisms and prevented other organisms from moving and growing. And this is a result of a spill.

So soil just doesn't go away. It stays in the environment. It takes on different forms and has various kinds of impacts on the organisms when it occurs.

The reason I am stressing these issues of oil spills is although you have some stipulations that speak to it, you cannot prevent the accidents that are going to happen in this area. And while we have an admirable record in State waters, you're moving into a new region of the ocean that's not as gentle as the areas down south where you have the Channel Islands that prevent the full force of

1 the weather there.

2 Industry likes to say that it's capable of

3 operating in all these adverse conditions, but in fact,

4 we've seen the Ocean Ranger disaster off Newfoundland,

5 tanker groundings, collisions, barge accidents, which all

6 illustrate the difficulty and limitations of the

7 technology -- excuse me -- the limitations of the technology

8 and the difficulties that maritime development and

9 transportation has with adverse sea and weather conditions.

10 The rough waters of this region were a major issue

11 in the debate over LNG facility at Point Conception.

12 And just north of Point Arguello was the site of the

13 greatest peacetime Navy disaster in 1923 when seven four-

14 stackers -- these are Navy destroyers -- went aground in

15 heavy fog. I wonder what your response time is going to

16 be in heavy fog, for example. You really can't count on

17 doing anything in four hours if that whole area of the coast

18 is socked in as it is much of the time.

19 I also really wonder whether a four-hour response

20 time is adequate when if there were to be a spill in this

21 region, it would be on the beach in literally minutes.

22 Accidents are going to happen and when they do,

23 the conditions will be those most likely to make cleanup

24 and control most difficult.

25 Finally, I'd like to turn to the stipulations. And

1 I'd like to start out by saying that I'm very pleased to
2 see a number of stipulations which was mentioned this morning
3 goes beyond what has been cited in some of the federal
4 documents.
5 But I have to point out there is still work to be
6 done to make the language in these stipulations most useful,
7 particularly with regard to the special studies and the all-
8 season ocean current studies, there's no indication of
9 who's going to be supervising, how these are going to be
10 funded, what the use of this information will be when it is
11 finally put together, and so forth.
12 I submit that we need this information before
13 you reach your decision today and would urge you to consider
14 holding off along the lines of the outline which I presented
15 in the first page of the handout, as a set of studies that
16 would pull this information together and answer the questions
17 about the program alternatives before you go ahead and
18 make this lease sale decision.
19 And with respect to the special studies, in
20 particular there is a mention of the chronic effects of
21 oil -- it doesn't say the acute or the cumulative effects
22 of oil. I would add the formation waters. In particular,
23 there are control agents that are added, such as formaldehyde,
24 benzylchloride, and other highly toxic substances which are
25 utilized. And there also ought to be some attention paid

1 to the formation waters as well.

2 In regards to the ocean current study, this one is
3 brand new to us today. It doesn't refer to taking
4 information about the currents at depth, although just
5 recently talking to your staff, I understand that is what's
6 contemplated. But I don't think it's spelled out in such a
7 way that we can really see what the purpose and use of this
8 study is. Although I certainly think that that kind of
9 information needs to be collected, and that's obviously
10 what your scientific committee said as well.

11 I'll conclude by making my request. One obviously
12 is that you utilize the mapped information, the new
13 information that you're getting from your biological
14 studies and draw conclusions regarding the areas that could
15 be set aside for biological protection. This appears to be
16 the only stage in your process at which a decision can be
17 made to say no to any or all of the pleas. If you do not
18 avail yourselves of the opportunity, you will be locked into
19 a program where the results of any of these studies you
20 propose cannot be used to remove any areas from development
21 regardless of the seriousness of the findings.

22 Secondly, I would request that you consider the
23 values and alternatives of a biological sanctuary in this
24 area for the reasons that I've spelled out. At a minimum,
25 considering the decision that you are thinking of making

today, I'd ask that your staff call a meeting of your scientific advisory committee to review these stipulations pertaining to the biological impact in the current studies. I would be happy to work along with them. And I think you need to continue to work on adequate stipulation language and to offer the final language for public review prior to the release of the bidding -- the actual bidding documents.

I would also ask you that you hold the record open regarding this matter for at least 20 days to give us an opportunity to submit written comments on this leasing package. As was mentioned, some of us received these materials only two days before. There were those that I spoke to that did not receive it at all.

I put together an extensive written comment aimed at the December 16th meeting to take into account the new material that came in the mail just the other day. I would hope that you hold the record open in order to allow us also to take a look at the final version of the biological supplement. There does seem to be some new information added to that supplement, certainly in terms of pulling the information together and making it useful to us to interpret and for you and your staff to interpret. I would think that you would like to have a period -- review period on that so we could see it before you make the final decision.

That completes my comments.

1 ACTING CHAIRPERSON MORGAN: That's fine.
2 MR. TROUT: Since we're on the stipulations or
3 since Dr. Corwin led us to the stipulations, we have found
4 that a sentence was left out of Stipulation 14 on page 119.
5 The handout that Jane is giving you now, it's
6 underlined. And there are copies available here if anyone
7 wants them. It definitely belonged in there and it's part
8 of the sea otter stipulation.
9 So, if anybody wants copies, Jane has them up
10 here in front as well.
11 DR. CORWIN: Excuse me. Can I ask whether or
12 not there will be a time held open for us to submit written
13 comments?
14 ACTING CHAIRPERSON MORGAN: Staff?
15 EXECUTIVE OFFICER DEDRICK: It's entirely up to
16 the Commissioner's discretion. If I may --
17 ACTING CHAIRPERSON MORGAN: Yes.
18 EXECUTIVE OFFICER DEDRICK: Did Marin County take
19 a position on Lease Sales 53 and 68 and the stipulations
20 on those lease sales?
21 DR. CORWIN: I believe they did. I believe they
22 adopted -- they supported the language. I'm not sure whether
23 they did take a position of 68 though.
24 EXECUTIVE OFFICER DEDRICK: Thank you.
25 ACTING CHAIRPERSON MORGAN: How would you deal
with oil spills in heavy fog?

1 EXECUTIVE OFFICER DEDRICK: You don't have them.
2 It's very difficult according to all of the literature
3 and everyone we've talked to to control an oil spill when
4 visibility is poor. I'd like to make one other comment
5 in regard to the testimony we have just heard.
6 ACTING CHAIRPERSON MORGAN: Is Mr. Greenstadt
7 still here?
8 EXECUTIVE OFFICER DEDRICK: I don't believe he is.
9 Oh, yes, he is.
10 ACTING CHAIRPERSON MORGAN: Do you want to answer
11 the question?
12 MR. GREENSTADT: The answer is that due to advances
13 in radar, video technology, you can deliver the equipment
14 to the site with an extreme degree of accuracy. The
15 difficulty is in maneuvering around the site at the time --
16 you know, once the equipment has arrived because of the
17 problems of seeing one another and knowing how to deploy.
18 However, the initial response is much easier
19 in fog. So the initial response involved techniques and
20 we've gotten to the point where it can be done. But as
21 far as completing the job, you have to wait for weather to
22 permit it.
23 EXECUTIVE OFFICER DEDRICK: There's a couple of
24 other points in response to that question. In the first place,
25 when it's foggy, the critical operations in the curtailment

1 plan goes into effect. And those operations which are
2 likely -- which may result in a spill are not allowed to
3 take place under current Commission regulations and also
4 in compliance required by the lease.
5 In addition to that, as Mr. Greenstadt pointed out,
6 you get three levels of response. The first level of
7 response is based on equipment that is required to be
8 aboard the drilling vessel or platform and/or on adjacent
9 immediately available vessel. That response time is under
10 15 minutes.
11 The second level of response is the one that
12 we are requiring not to exceed two hours. And the four-
13 hour time is the third level of response, the sort of thing
14 that the type of heavy equipment for large spills that
15 Mr. Greenstadt described.
16 MR. HARVEY: We have just heard from Mr. Cory.
17 He has made it across the bridge and he's on his way back.
18 They're running into traffic; they're running into
19 accidents. And he is with the State Police and unfortunately
20 they are compelled to stop at each and every one. He is on
21 his way and he will get here, the Lord knows when.
22 In the meantime, he asked if I would sit in for
23 him.
24 ACTING CHAIRPERSON MORGAN: Did you want to make a
25 statement, legal staff?

1 MR. HIGHT: For the record, Mr. Harvey will be
2 sitting as a nonvoting member of the Board.
3 ACTING CHAIRPERSON MORGAN: Thank you. Okay.
4 Martha Davis representing Greenpeace.
5 MS. DAVIS: Good evening. My name is Martha
6 Davis. And I am the wildlife campaign coordinator for the
7 Pacific Southwest office of Greenpeace.
8 We represent approximately 80,000 people in
9 California who are concerned about the well-being of marine
10 mammals and other wildlife found along the coast.
11 On the basis of my review of the documents which I
12 received from the State Lands Commission over the weekend,
13 Greenpeace is opposed to the proposed lease sale as it is
14 currently drafted.
15 We do not believe that stipulations and conditions
16 of sale as outlined in these reports offer adequate protec-
17 tion to the unique biological resources and marine mammals
18 found in the vicinity of Point Conception.
19 According to page 4 of the report, the diverse
20 organisms and habitat of the proposed lease area will
21 be protected under Stipulation No. 4. We applaud the
22 proposed studies in this section and feel that they will
23 provide valuable information for identifying the biological
24 significant resource in the area.
25 However, the guidelines are not sufficiently strong
to ensure that mitigation measures will be required or even

more importantly that no development will occur if satisfactory mitigation measures cannot be designed.

If you will look at Part D, Section 2 and 3 on page 38. The lessee is required only to establish that operations will not have a significant adverse effect on the resource identified and/or to establish that it is in the best interest of the State to permit the project, even though no feasible alternatives of mitigation have been found to exist.

You will note that the stipulation does not describe the criteria by which the information submitted by the lessee will be evaluated.

We feel that the lessee should be required to satisfy a high burden of proof particularly if development is to proceed in the absence of mitigation measures. This absence of language requiring a high burden of proof is a serious loophole and threatens the integrity of the entire stipulation in our opinion.

An additional point: We believe that appropriate members of the public should be consulted along with the Department of Fish & Game, U.S. Fish & Wildlife Service, and the National Marine Fisheries Service in making the appropriate development decisions.

And we ask that you direct your staff to make those changes in the marine mammal stipulation.

In addition to the above, we are concerned about the wording in the drilling ban within the sea otter stipulation found on page 120.

First, the ban should be applicable to the gray whale as well as the sea otter. Almost the world's entire population of gray whales migrates through the Point Conception area waters every year. If development is allowed in this area, they will be subjected to the hazards of an oil spill. Any evaluation of the proposed ban should incorporate concerns about the potential risk to gray whales particularly to the cows and calves which are found in this area between December and May.

We would also go one step further with this ban and recommend that it be redrafted to place the burden of proof on the lessee to show that there are no significant threats of oil spills before the lessee is allowed to perform critical operations between December 1st and April 1st.

In this way, the Department will offer maximum protection to both the gray whale and the sea otter.

Further, I believe that the Lands Commission should be required or should consult with the National Marine Fisheries Service and appropriate members of the public as well as the Department of Fish & Game before they make their decision on lifting the ban.

Finally, like so many people before me, Greenpeace

feels that the Point Conception lease sale is premature. The staff has done a good job of collecting background information but the data show us where the information gaps are, the gaps that need to be filled before we can make a sound decision as to which areas should be leased and which areas should not.

Given the biological significance of the Point Conception area, particularly its importance to endangered species, we believe that stronger stipulations and conditions of lease sale must be imposed before the lease sale proposed can be approved.

Thank you very much.

EXECUTIVE OFFICER DEDRICK: Thank you.

MS. DAVIS: Any questions?

ACTING CHAIRPERSON MORGAN: Yes.

MR. SANDERS: Excuse me. You might check on page 111 of the document. And I believe you'll find -- page 111.

MS. DAVIS: Uh-huh.

MR. SANDERS: The loophole that you referred to in the biological and marine mammal survey is not in existence -- page 111.

MS. DAVIS: You're right.

EXECUTIVE OFFICER DEDRICK: I think for everybody's benefit --

MS. DAVIS: I was not aware of that.

1 EXECUTIVE OFFICER DEDRICK: -- everybody needs
2 to recognize I think the purpose of the stipulation is
3 to put special operating conditions on the leases. And
4 they have the force -- they are clauses on the lease and have
5 that legal force.
6 So whatever the actual language in the lease is --
7 this is overriding. The stipulations are overriding on the
8 other clauses in the lease. Okay?
9 MS. DAVIS: Okay.
10 I would still request that the staff look at the
11 language -- it says establish through submissions -- and
12 see whether or not a higher burden of proof could be placed
13 on the lessees.
14 EXECUTIVE OFFICER DEDRICK: And you will find on
15 page 112 that consultation with Fish & Wildlife and
16 National Marine Fisheries is required.
17 MS. DAVIS: Yes. I would like to include members
18 of the public -- appropriate members of the public in that
19 consultation.
20 MR. SANDERS: I might note that those surveys
21 would be part of the public process within the CEQA process
22 and as such would be exposed to full public review in all
23 stages of their development.
24 MS. DAVIS: Okay. I think though within the CEQA
25 process there is -- scoping meetings have also worked very

1 well in which members of the public have been pulled in
2 early rather than just have the members of the public review
3 it at the end.
4 EXECUTIVE OFFICER DEDRICK: Thank you.
5 ACTING CHAIRPERSON MORGAN: There are some people
6 who indicated a preference for waiting until Mr. Cory is
7 present to testify. If anyone wishes to pass, let us know.
8 And we'll take you up later.
9 I don't know if I can pronounce your name correctly.
10 MS. KEMPE: My name is Jocelyn Kempe. And I am
11 the Chairman of the Western Oil and Gas Association Sea
12 Otter Task Force which serves under the Offshore Committee.
13 We were supposed to speak in sequence here today,
14 but we'll go this way.
15 The -- I wanted to say first of all that I am glad
16 that the State Lands Commission is taking the time to take
17 in everybody's comments and to work to try to solve a lot
18 of these problems. I think that's a very admirable thing
19 and it's easy for people to talk and not solve problems.
20 And I think this group is a group that is actually trying
21 to reach decisions and to take in all of the various kinds
22 of stipulations to see that the problem can be solved and
23 that everybody is as happy as they can be about this and
24 progress can be made.
25 I wanted to give you briefly some of my

1 qualifications before we start.

2 I have worked for the U. S. Environmental

3 Protection Agency for five years previous to coming here.

4 I was in charge of five states in Region 6, which is the

5 Texas, Oklahoma, New Mexico, Arkansas, and Louisiana area

6 for the MPDS permits for those states, and another job in

7 the EPA region I was in charge of the water quality program.

8 Previous to that I taught biology in Ventura

9 College and was also in the Graduate School of the University

10 of California at Santa Barbara.

11 I'm now employed for Chevron USA.

12 The -- I have to say that the Sea Otter Task Force for

13 WOGA has not seen the stipulation for the otters. And this

14 has been discussed by some of the people; some of the people

15 are on vacation. So, I will just do the best I can to tell

16 you what I think the general tenor of the group would be.

17 We certainly are as interested in protecting the

18 otters as anyone in this room is. And we are interested

19 in doing this in coordination with our business as well.

20 We believe in multiple use and we think that we can

21 certainly get along well with all of the animals in the

22 sea. Certainly the seals and the sea lions like our

23 platforms in the Santa Barbara Channel very much.

24 I wanted to say that first of all to talk about

25 Stipulation 12, which is the special studies. And I wish

1 that there could be some changes in wording in that to
2 indicate that this was not going to take in all marine
3 organisms. Because I consider marine mammals organisms
4 also. And I think it was intended to be not marine mammals.
5 So perhaps there could be some wording to exclude them
6 since I think they are adequately covered at other points
7 and this would prevent a duplication.
8 ACTING CHAIRPERSON MORGAN: Staff?
9 EXECUTIVE OFFICER DEDRICK: Yes. The intent of
10 this stipulation was not to address marine mammals. The
11 studies were requested by the Department of Fish & Game
12 member who is the chairman of the State Interagency Oil
13 Spill -- what that is -- SIOSC-- as really being necessary
14 to get an understanding of the effect of dispersants on
15 plankton and fisheries. That was the intent of the
16 stipulation.
17 If it is the pleasure of the Commission, we could --
18 ACTING CHAIRPERSON MORGAN: Is there a better way
19 of stating it?
20 EXECUTIVE OFFICER DEDRICK: We could say something
21 other than biota. We have a bunch of biologists. They will
22 think of a word.
23 ACTING CHAIRPERSON MORGAN: Okay.
24 MS. KEMPE: If we go to No. 14, the sea otter
25 stipulation itself, there is a lot of confusion -- and I

1 know with people I've talked to today in the industry --
2 where you talk about the amount of money to be set aside
3 not to exceed $5 million. And I think the intent of that
4 is to be one $5 million, period. But it could be read
5 that each lessee would be responsible for that.
6 EXECUTIVE OFFICER DEDRICK: That's true.
7 ACTING CHAIRPERSON MORGAN: Okay. Is it
8 cumulative five million?
9 MR. HIGHT: No. It's the intent for it to be one
10 five million spread amongst the total.
11 ACTING CHAIRPERSON MORGAN: Okay.
12 MR. HIGHT: We can make the necessary --
13 EXECUTIVE OFFICER DEDRICK: We'll fix it.
14 MR. HIGHT: Yes.
15 MS. KEMPE: I think that Mr. Ghylin who is going
16 to speak for WOGA also will want to talk a little bit about
17 this in his remarks.
18 I have some specific changes that I would like to
19 talk to you about and see if any of these would be appropr-
20 iate, at least these are what I think the industry would
21 prefer.
22 And if we start with the first paragraph on sea
23 otter stipulations, it says, "Lessees shall fund. . ."
24 and I would like to add "through their successful bids"
25 studies, et cetera, et cetera, et cetera.

ACTING CHAIRPERSON MORGAN: Staff says no.

MS. KEMPE: No.

ACTING CHAIRPERSON MORGAN: Why? Is it the difference between the cost to the State or a cost to the lessee?

EXECUTIVE OFFICER DEDRICK: That's correct.

MS. KEMPE: I think that if you don't do it as I suggested, there will be a lot of problems with the way people come up with their bids. And I think that Mr. Hundley left some information on that that he will read into the record. But in that case, if you can't go through this with taking it off the top of the bid, I think there needs to be a little more information about how it's going to be allocated.

If the first person starts, would they get the first brunt, or is it going to be across all lessees equally at the same time or how?

EXECUTIVE OFFICER DEDRICK: Bob, do you want to speak to that? There's some question of some wording that would -- I think it's clear myself.

ACTING CHAIRPERSON MORGAN: Well, I think the question is how you allocate the cost of the studies among the lessees fairly.

EXECUTIVE OFFICER DEDRICK: Bearing in mind that these -- this $5 million will be spent over quite an extended period of years, the --

1 COMMISSIONER ACKERMAN: Charged off against the
2 profits --
3 EXECUTIVE OFFICER DEDRICK: They would be, yes.
4 Come off the top of the bonus bid.
5 MR. HIGHT: They can be chargeable either
6 divided into eight tracts or a number of tracts ultimately
7 let or on a percentage basis. I think probably the easiest
8 way would be divided into tracts by the number of --
9 EXECUTIVE OFFICER DEDRICK: Number of lessees.
10 MR. HIGHT: Yes.
11 ACTING CHAIRPERSON MORGAN: When would that be
12 determined?
13 EXECUTIVE OFFICER DEDRICK: If you would like that
14 clarified, we can do it.
15 MR. HIGHT: At the end.
16 ACTING CHAIRPERSON MORGAN: Okay.
17 MR. HIGHT: We will make that necessary change.
18 MS. KEMPE: Yes, I believe clarifying language
19 would be what we are looking for.
20 EXECUTIVE OFFICER DEDRICK: I really don't think
21 one-eighth of $5 million is going to have a severe impact
22 on the calculations.
23 ACTING CHAIRPERSON MORGAN: All right. It will
24 be clarified. Let's go on.
25 MS. KEMPE: If we go down to the bottom of the page--

1 COMMISSIONER ACKERMAN: It's still a lot of money.
2 (Laughter.)
3 MS. KEMPE: The last paragraph which talks about
4 critical operations, the very last line, I would like to
5 suggest that we change it to this: Determines that the
6 risk of oil spills for each operation is sufficient to
7 significantly damage the sea otter population.
8 I would like to add, and cannot be adequately
9 mitigated.
10 EXECUTIVE OFFICER DEDRICK: I think that's
11 entirely possible.
12 ACTING CHAIRPERSON MORGAN: I don't understand
13 that.
14 MS. KEMPE: Well, let me explain. The critical
15 operations can be stopped because of the fear of an oil
16 spill. And that is the only criterion which this will be
17 based -- as it's written now, based on the risk of oil
18 spills.
19 And we're saying with all the money that we are
20 spending on mitigation, that mitigation ought to be taken
21 into account before you activate critical operations' ban.
22 EXECUTIVE OFFICER DEDRICK: May I make a suggestion?
23 ACTING CHAIRPERSON MORGAN: Yes.
24 EXECUTIVE OFFICER DEDRICK: There are those who
25 probably feel exactly the opposite on that. And I would just

1 suggest that you don't try to solve the problem at this
2 juncture.
3 MS. KEMPE: That's all the comments I have.
4 ACTING CHAIRPERSON MORGAN: Thank you. Any
5 questions? Carol Fulton. Do you want to wait? Okay.
6 Jim Kennedy?
7 MR. KENNEDY: Thank you. Jim Kennedy, representing
8 the California Chamber of Commerce.
9 We've all had a long day and I'd like to very
10 quickly read to you a capsulized version of our remarks.
11 We're here this evening to urge you to put these
12 lands out to bid expeditiously and to do it on a bonus
13 bid basis. We think that where reasonable environmental
14 constraints can be met, there's no reason not to let
15 California benefit from enjoying the values of a great
16 natural resource. And what we're talking about is a
17 balanced multiple-use of natural resources that would
18 maximize the quality of life for everyone, such as we have
19 for timber lands, or our streams and rivers.
20 These leases putting out to bid can be several
21 things for everyone. First, it can be immediate cash to
22 the State. We all know about that very bad budget
23 situation. The bonus bids can mean the equivalent of money
24 that would be generated by a temporary half-cent on a sales
25 tax or an equal amount of spending reductions.

1 If the money doesn't, as we understand -- couldn't
2 be assured the money would come in to balance the current
3 fiscal year's budget, but if it did it might offset
4 unforeseen expenditures that could arise and avoid a fiscal
5 crisis in May or June.
6 We certainly think that these large amounts
7 of funds could come in in the next fiscal year which is
8 equally in trouble we think. So this --
9 ACTING CHAIRPERSON MORGAN: You're right.
10 MR. KENNEDY: This Commission's action in our
11 view on putting them out to bid and how you put them out to
12 bid -- in other words, on a bonus bid arrangement -- will
13 determine either the level of cuts or the level of taxes
14 that have to be enacted and enacted on families, and on
15 businesses that are themselves struggling to cope with a
16 very bad recession.
17 The fellow this morning from the NAACP brought up
18 my next point and that is that these leases mean energy
19 supplies and energy supplies mean jobs. Jobs are a direct
20 function of energy in that basic manufacturing considers
21 energy supplies and energy affordability where it determines
22 where to locate or expand a plant. And our members in
23 manufacturing have moved out -- some of them -- out of
24 California because of energy availability and/or prices.
25 So energy means jobs and that certainly has something to do

with the quality of life we all want to enjoy.

In the short term even your actions will determine the level of employment in that there's a lot of employment associated with exploration, with drilling, and production, also with the suppliers of these firms. For example, one could easily envision that many people would be hired, for example, in the Kaiser Steel plants around Napa to manufacture platforms or elsewhere to manufacture pipelines or all the other kinds of equipment.

The next point is that besides the royalty bids, we'll have lesser amounts of short-term income to the State and to the local governments from taxes. This equipment is all very expensive and will generate a lot of sales taxes. And investments are massive. And, of course, the employees and their firms and their profits would also pay income taxes to the State.

The tidelands oil well royalties, as we all know, are very important in terms of financing capital outlay for school districts, for local governments, as well as the State. And these capital outlay programs are important for economic growth.

Just one comment on the bonus bid arrangement which we advocate. And that is that we think the State has the responsibility to manage its resources and to manage them in a fashion that maintains the capital. We don't feel that

1 the State ought to be investing its money -- such as pension
2 funds -- in risky businesses. That's the function and the
3 domain of venture capitalists who can put money on the crap
4 table. And some of these tracts may fall into the category
5 of being gambles. I mean they don't know just what oil is
6 down there or how much is down there.
7 But we think the State can take advantage of big
8 profits if they are out there, by -- on the basis of having
9 the royalties reflect the value of the oil which may go up
10 over the years or down, and also by having the royalties
11 be a function of production. So you can share in profits
12 that may be unforeseen.
13 Finally, we understand that the federal government
14 has done a study on its experiences of leasing arrangements;
15 in other words, whether or not it's more profitable or
16 less profitable to have leases out on the basis of profit-
17 sharing or on the basis of the bonus bid royalty concept.
18 The federal experience is that they do have great returns
19 to the federal government on the bonus bid royalty system.
20 To wrap it up, we urge you to put the tracts out
21 to bid and to do it on a bonus bid system. And we just
22 remind you that immediate action -- result of your action
23 would be that the State's budget for this year and next
24 certainly would be greatly improved by hundreds of millions
25 of dollars and your action would determine indirectly the

amounts of cuts or tax increases.

Thank you.

ACTING CHAIRPERSON MORGAN: Could I ask you a question? What's your suggestion for a year after the bonus bid comes in?

MR. KENNEDY: Well, we have been told that in the long run the State's revenue base -- the various taxes, sales tax, income tax -- are of a nature that will fund ongoing programs without raising the tax rates or bringing in a new tax and rather we're really faced with a situation where we've got to weather this bad recession. When the recession is over, analysts and others have given the opinion that our picture is sound, our structure is sound, but we need to get over a one, or one and a half, or year or so slump.

ACTING CHAIRPERSON MORGAN: Thank you.

The next speaker is Ron Wood. Is he here?

Naida West.

MS. WEST: I'm Naida West for the California Council for Environmental and Economic Balance, sometimes referred to as CCEEB or Council.

Since 1974, the Council has called for a coherent national and State energy policy for development of energy. Today the Council strongly supports the staff recommendations before you to lease the area under discussion for oil and

1 gas exploration and the production.

2 Reasons include environmental safety as well as

3 economic benefits. Specifically I would bring to you the

4 following six considerations for your attention.

5 First, we believe that your staff has done a

6 commendable job in addressing coastal policies, potential

7 adverse environmental impacts, and stipulations to mitigate

8 those impacts.

9 Secondly, the state of the art in oil extraction

10 technology is far superior today to what it was in 1969

11 when the state lands moratorium was established. Technological

12 superiority exists both in the areas of prevention; that is,

13 devices that automatically close off wells in the event of

14 emergencies and other equipment, and of cleanup in the

15 cleanup area in the event of a spill. And I think

16 Mr. Greenstadt's comments underscore that point.

17 I would also like to point out that a previous

18 speaker mentioned accidents in the North Sea and so forth,

19 that conditions in the North Sea are far worse than they

20 are anywhere off the Santa Barbara Coast, including Point

21 Conception area. My understanding is that waves rise as

22 high as 50 feet or more in those areas whereas 20 feet

23 would probably be the maximum in the area we're discussing.

24 So the technology -- the state of the art

25 technology that generally keeps the equipment safe in the

1 North Sea ought to be sufficient for offshore California.

2 The third point is that there are apparently no

3 measurable adverse long-term effects to the biota around

4 platforms according to several speakers who spoke at the

5 Ocean Symposium sponsored by the Coastal Commission in

6 November.

7 It was interesting that several different speakers

8 made the same point. On the contrary, a great deal of

9 evidence points to greater biological productivity of

10 waters around platforms. I would think this would be

11 particularly true of organisms like barnacles.

12 And according to a speaker at the same symposium,

13 drill muds have produced an unwarranted amount of concern.

14 Now, I'm no expert on that, but one speaker made a big point

15 of that.

16 I also -- because mussels were referred to in

17 earlier testimony -- somebody said that there was concern

18 about them. My understanding is that mussels in the

19 Santa Barbara area are currently being consumed by human

20 beings after inspection by the Health Department and it was

21 learned, even though these organisms are found in the area

22 of a great deal of continual oil extraction activity, that

23 there were no heavy metals in them and that they were

24 certainly fit for human consumption. Apparently there was

25 nothing else wrong with them either.

1 This is only circumstantial evidence, however.

2 Point No. 4: The State of California should act

3 on the merits of this leasing proposal and dismiss as

4 irrelevant arguments about sending messages to James Watt,

5 which you have heard earlier in testimony -- not so much

6 today, but in your EIR testimony.

7 The State's environmental safeguard system is

8 probably the best in the nation and is more stringent than

9 the federal government.

10 Further, unlike federal leasing, the conduct of

11 a State leasing program will be 100 percent under the

12 control of the people of California through your elected

13 officials here.

14 And I'll just emphasize the State needs the money.

15 Your staff has adequately demonstrated both the need for oil

16 production, additional oil production in the State and the

17 need for revenues accruing to the State from that production.

18 I'm sure that the Council would object to a number

19 of points to -- to some of the comments made earlier today

20 that because oil prices seem low today, therefore, we don't

21 need these leases at this time.

22 And I would add that because the 20-plus-year old

23 production wells on leases elsewhere in the State are beginning

24 to dry up, as they inevitably do when you drill oil, there

25 is an increasing decline in existing oil revenues today to

1 the State which, of course, makes the recession-caused
2 State deficit even worse, and will in the future continue
3 to be a problem.
4 The State leasing moratorium has created a hiatus
5 in the normal replacement of these depleting wells and
6 that hiatus should be ended now.
7 The last point: The economic spinoffs from oil
8 production are badly needed in the State as a whole and
9 along the coast. Although it is often overlooked,
10 consideration for the needs of the working people along the
11 coast is required in the Coastal Act, Section 30001(d).
12 Solitary spinoffs from oil production reach far into
13 the State and into the nation, but they are felt first with
14 the local contracting firms, grocery stores, and other
15 parts of the service economy.
16 In closing, the Council for Environmental and
17 Economic Balance would call your attention to the fact that
18 the 13-year balance has been weighted against leasing for
19 oil activities in the State lands. I understand we have
20 had 17 years since these leases were offered. I'm not
21 sure.
22 During that time much has been learned about the
23 equipment that's needed and the kinds of environmental
24 issues that require attention. Thanks partly to the
25 diligent work of citizens who are concerned about the

environment -- citizens as you have heard from today -- there are tighter regulatory technological safeguards in place.

I think the stipulations in your staff report are another good example of the work of that kind of effort.

Now, the State is confronted with an economic crisis and your agency has the ability to help alleviate it. The Council urges that the leasing proceed without further delay and that it proceed in a manner best suited to the greatest participation of the oil industry. And I won't comment about whatever type of participation or bidding because that's not in our area.

I would like to say in closing that Ron Wood, who you called on before me, had intended to be here. He represents the Operating Engineers Union. Also with him was Paul Ranford representing the Building Trades Council of I believe Nevada and California. Both of those union people -- both of those union representatives were here earlier today to speak favorably for your leases and to comment about the high unemployment along the coast.

(Thereupon Commissioner Cory arrived in the hearing room.)

MS. WEST: And basically made some of the points which I just made, about the economic spinoffs.

Thank you very much for this opportunity to comment

and welcome to the meeting, Mr. Cory.

COMMISSIONER MORGAN: Would you like a medal for walking down 5 flights of stairs?

CHAIRPERSON CORY: We had a lot of traffic accidents on the way home, because San Francisco is an absolute disaster.

COMMISSIONER MORGAN: Is Carol Fulton still here? She's been waiting for you.

Miss West, did we expect Ron Wood to return?

MS. WEST: It's very late. He was here since ten o'clock this morning. I really don't know. It's possible he could be back.

COMMISSIONER MORGAN: Let us know if he comes in.

CHAIRPERSON CORY: Okay.

MS. FULTON: My name is Carol Fulton and I'm Executive Director of Friends of the Sea Otter.

As you know, we're deeply concerned about the proposed State tidelands sale because of its proximity to the existing sea otter range, and the likelihood that sea otters will return in significant numbers to this portion of their former range sometime during the life of the project.

Unfortunately, we have just received new and alarming information on the status of the sea otter population. Within the past week the California Department of Fish & Game has released the results of the first rangewide sea

otter census in the past three years. The count was only 1,191 free swimming otters, down significantly from the published count of 1,661 otters in 1976, which now appears to have been erroneously high, and dramatically lower than estimates from 1,800 to 2,000 animals generally used in recent years by those State and Federal wildlife biologists.

In light of this new and disturbing sea otter census, we ask you to give great care to decisions you make regarding the welfare of the small population which many believe truly should be now reclassified from threatened to endangered.

As you also know, we are not able to condone this sale in this place at this time. We still believe the area more appropriate for an oil and gas sanctuary than offshore oil development and only areas at risk from drainage from federal tracts should be for leasing.

We are also concerned about inadequate time to prepare the decision-making documents and concur with previous speakers that any decision reached today would be premature.

However, we appreciate the efforts of your staff to address our concerns. We wish to thank them for strengthening the drilling mud stipulation and the oil spill response capability requirement. We also are pleased with the caliber of the scientific review committee and wish

the Commission to utilize this group of scientists supplemented with other experts in other fields as necessary to review all biological studies and stipulations pursuant to this lease sale.

We ask that the Coastal Commission be actively involved in the development and review of all designated studies and suggest the biological inventory study under the direction of the Fish & Game Department, also include full participation of the Fish & Wildlife Service and the National Marine Fisheries Service to benefit from their additional expertise and to avoid duplication of effort.

We were pleased to be able to work with your staff on the development of a sea otter stipulation which ensures funding for both studies and mitigation methods designed to minimize the adverse impact of offshore oil activities on the sea otter population.

As it is offshore oil development which causes the single greatest threat to the continuing existence of the California sea otter, it is fair and appropriate that those who will profit from this lease sale should also shoulder the cost of providing the otter with the best protection possible, costs which are minimal compared to the profits the oil industry will gain from this sale.

We wish to thank the Commission for assuring that this vitally needed funding is in place.

However, we will have to take strong exception to the drilling window language which now appears in the calendar item. As you may remember, we were very heartened by the Chairman's assurances to us that the sea otter stipulations on the State tidelands sale would be as strong or stronger than those recommended by the Governor on OCS Lease Sale 53 in the case of federal waters.

The Governor's comment stated -- and I'm quoting -- Drilling and workover operations shall not be permitted between December 1 and April 1 to minimize the risk of oil spills during extreme weather conditions.

The intent of the drilling window, incidentally, was not only to protect the sea otters but also the California gray whale. And the dual purpose of this stipulation should be clearly stated in the documents.

The time period of December 1 to April 1 was not arrived at carelessly. It was carefully crafted to maximize protection of both whales and otters at the time of their greatest vulnerability. In fact, surface currents which could carry an oil spill directly north to the sea otter range are well underway in November. And gray whale cow-calf pairs are still found inside the offshore kelp beds as late as mid-May.

By restricting oil drilling from December 1 to April 1, we have already compromised away two and a half

1 months which would be the ideally desired drilling window.
2 As recently as December 9th, the staff assured us
3 that the final stipulations would include the December 1-
4 April 1 exploratory drilling ban and we agreed that that
5 ban could be reexamined prior to going into production and
6 development to determine if those activities pose the same
7 degree of risk, thus meriting extension of the ban or
8 disposing of it at that time if it was no longer necessary.
9 It was not till the day before yesterday that we
10 were informed that that would not be the case; that the
11 ban would be discretionary. State Lands could enact a
12 drilling window if, acting on the recommendation of the
13 Director of the Department of Fish & Game, in consultation
14 with other agencies, it determined the risk was sufficient
15 to damage the sea otter population.
16 The risk of oil to otters is well known. The
17 seasonality of the northward currents is well known. The
18 presence of the gray whale cow-calf pairs is well known.
19 There's no new information to justify weakening this key
20 protective provision.
21 Thus, we cannot find the existing language
22 acceptable. We cannot in good faith compromise further
23 without seriously jeopardizing California sea otters and
24 gray whales. I did contact counsel this afternoon to
25 suggest that language similar to this drilling mud

1 stipulation would at least be an improvement over the current
2 language.
3 In essence, that keeping the drilling ban until the
4 State Lands Commission acting upon the recommendation of
5 the State Director of Fish & Game in consultation with the
6 Fish & Wildlife Service and the National Marine Fisheries
7 Service, the Coastal Commission, and the scientific
8 community found that the prohibition was no longer warranted.
9 But we are asking you to remember your assurances
10 to us and to ensure that the Governor's recommended December
11 1-April 1 drilling ban is not weakened.
12 I would leave you with two quotes. The first is
13 from your own staff in the staff report of December 15th.
14 And it's on page 70 of the oil spill containment and cleanup
15 equipment section. And it says, "At the outset it should be
16 stated that available technology is not capable of
17 controlling a major oil spill under adverse conditions.
18 Weather actually determines if a containment and cleanup
19 action will be undertaken at all. Heavy fog and darkness
20 virtually eliminates the use of any equipment because the
21 oil cannot be seen on the water. Waves in excess of six
22 feet and/or winds of 20 knots or more reduce the efficiency
23 of all equipment to nothing."
24 The second quote is one in which I told you before
25 and I'm going to tell you again was prepared by the Fish &

1 Wildlife Service and Interior Secretary Watt.

2 And that quote was: "It may be safe to assume

3 100 percent mortality for sea otters contaminated by oil."

4 That concludes my prepared statement. I want to

5 respond to one or two things that were just said.

6 Jocelyn Kempe of WOGA spoke about the studies, special

7 studies, not including marine mammals. One elem

8 identified in those studies was the use of dispersants.

9 And that's really of crucial concern for the sea otter. Some

10 fear the dispersants itself could be more damaging than

11 oil. So, perhaps, if that would be included in the studies,

12 I think that in the sea otter stipulation, I want to be

13 clear that we do want -- that we need dispersants looked

14 at.

15 The other thing, the comparison of marine life

16 around oil rigs and the fact that seals and sea lions are

17 there, and I have seen seals and sea lions when I have flown over the rigs

18 in the channel. I just want to remind the Commission that it's a whole

19 different story for otters and oil than it is for piniped, and that's

20 its fur. Once it gets matted, the cold water penetrates to the skin and

21 they die very quickly. It's not the same. And that was that.

22 CHAIRPERSON CORY: Claire, do you have a comment?

23 EXECUTIVE OFFICER DEDRICK: Yes.

24 CHAIRPERSON CORY: First, Susanne has a question.

25 COMMISSIONER MORGAN: Well, maybe you can

respond to the comment that

1 the drilling ban is not as stringent as we're proposing --

2 EXECUTIVE OFFICER DEDRICK: As the State is proposing?

3 Well, I think in many ways it's more stringent. Drilling and workover

4 operations are not the -- necessarily the times when greatest risk

5 of loss of oil from a well occurs. By implementing or

6 imposing the oil spill curtailment plan in our

7 regulations, a lot more operations than just those two

8 are prohibited. The entire regulatory program of the agency

9 is geared toward preventing spills. The oil spill cleanup

10 is -- in case there is a spill -- of course, you need that.

11 And I think that the oil spill stipulation is an extremely

12 strong one. What you have to do, I think, is to look at

13 the whole body of the stipulations, the marine mammal and

14 biological required study stipulation -- which I think is

15 No. 4 -- 5 is it?

16 MR. SANDERS: Yes.

17 EXECUTIVE OFFICER DEDRICK: The oil spill

18 containment stipulation, which is somewhere around 10,

19 as well as the proposed sea otter stipulation, No. 14.

20 I think that the body of the stipulations, including the

21 specific sea otter stipulation, is exceedingly protective

22 of marine mammals, specifically the sea otters and the

23 gray whales. Is that an adequate answer?

24 MS. FULTON: The marine mammal -- they're in the

25 marine mammal stipulation as well?

1 EXECUTIVE OFFICER DEDRICK: They're in the marine
2 mammal stipulation.
3 MS. FULTON: The way that this is drafted I think
4 it says -- and I have managed to lose my place in finding
5 the sea otter stipulation. But I think it says that you
6 could enforce that drilling ban again if it looked like
7 there would be damage to the sea otter. I don't think it
8 mentions gray whales. And it really should.
9 EXECUTIVE OFFICER DEDRICK: We were negotiating
10 a specific sea otter stipulation and that's why gray whales
11 aren't in it. The primary --
12 CHAIRPERSON CORY: Does the marine mammal
13 stipulation allow us the same flexibility -- well, as I
14 recall, there's a stipulation concerning marine mammals.
15 EXECUTIVE OFFICER DEDRICK: Yes. Mandatory
16 biological marine mammal survey.
17 MS. FULTON: Page 109.
18 EXECUTIVE OFFICER DEDRICK: Page 109 of Exhibit B.
19 No, it's not.
20 CHAIRPERSON CORY: Comparing that to the sea otter
21 stipulation, if facts were presented to the Commission
22 that we were killing the gray whale, what option would be
23 available to us?
24 EXECUTIVE OFFICER DEDRICK: I would say that you
25 have -- oh, you mean without a gray whale stipulation of the

1 sort --

2 CHAIRPERSON CORY: Or amending the sea otter

3 stipulation to sea mammal and broadening its scope.

4 MS. FULTON: That would be easier.

5 EXECUTIVE OFFICER DEDRICK: I think that just as long as

6 you have the scientific trigger, which is to me, is the critical

7 part of the stipulation, there would be -- it would be a

8 perfectly acceptable thing to do. We had testimony, Mr.

9 Chairman, before you were here, asking for that kind of

10 protection. We have no evidence, of course, that the gray

11 whale is damaged -- they swim up and down the Santa Barbara

12 Channel all the time. But if evidence did arise, it would

13 be well to have that out for the Commission.

14 CHAIRPERSON CORY: Do you believe that that would

15 require an amendment to one of these two stipulations --

16 I think that's the question before the body.

17 EXECUTIVE OFFICER DEDRICK: Well, you would have

18 to add gray whales to the tail end of the sea otter stipula-

19 tion. If you wanted to be fancy, we'd change titles.

20 COMMISSIONER MORGAN: That's fine.

21 CHAIRPERSON CORY: Okay. Well, I have got some

22 notes from other people and we could deal with them. There

23 is a question I'm not sure that this is clear in my mind

24 as to the term drilling window as opposed to, I guess,

25 what OPR or somebody in the Governor's office has. Would

1 somebody make clear for the record what those distinctions
2 are or not?
3 EXECUTIVE OFFICER DEDRICK: The parimary point is
4 that -- both the Office of Planning and Research and our
5 proposed stipulations require professional input to change
6 a decision. The difference is that in the federal --
7 in that stipulations presented by the State of California
8 in lease sale 53 is that the sale -- I mean that the
9 operation cannot begin until those proofs are established.
10 I'm not certain that is the same language as in Lease Sale
11 68.
12 MR. SANDERS: There is no sea otter stipulation in
13 68.
14 MS. FULTON: Actually in 53 it's just stated that
15 workover operations shall not be permitted between December
16 1 and April 1. There was no --
17 EXECUTIVE OFFICER DEDRICK: The second clause.
18 CHAIRPERSON CORY: Paragraph P says that exceptions
19 to this paragraph shall be granted by the DCMO after
20 a biological opinion pursuant to Section 7 of the Endangered
21 Species Act of '73 is prepared by U.S. Fish & Wildlife, and
22 National Marine Fisheries Service as determined such
23 action will not jeopardize such population.
24 MS. FULTON: Which is similar to the language that
25 I suggested would be more acceptable on the phone to your

1 counsel this afternoon.

2 CHAIRPERSON CORY: I do not understand the

3 distinction to which we are arguing --

4 MS. FULTON: I think it's the burden of proof.

5 One is that the way it was -- the Governor's Office

6 of Planning and Research had developed it, that this

7 protective measure would be in place unless they could show

8 that it was not fit to go forward and drilling during this

9 time period would not damage the sea otter or the whale.

10 The way it's written in the State Lands

11 Commission sale there would be no drilling ban unless --

12 it's left up to the discretion of the Commission if it's

13 recommended by the Department of Fish & Game. We're somewhat

14 concerned with the changing administration. I hope this is

15 an unnecessary concern, but I think it's fair to bring it

16 up, that we will not have an administration that has the

17 same feelings about offshore oil development and

18 environmental protection. And there's a concern that

19 possibly the Director of the Department of Fish & Game

20 might be constrained from making recommendations to protect

21 wildlife that could be seen as any kind of impediment on

22 offshore oil drilling.

23 So we feel the burden of proof should go in favor

24 of the jeopardized species.

25 EXECUTIVE OFFICER DEDRICK: The physical difference

1 between the two situations is that in the federal lease
2 sales the OCS tracts in question -- and you will observe
3 it if you flip back a page -- are offshore from areas
4 where sea otters currently exist. I mean, you know, where
5 they live and have babies and things.
6 The difference here is that the sea otters, except
7 for occasional vagrants, have not really entered the area of
8 the sale. In the EIR --
9 CHAIRPERSON CORY: How are they designated as
10 vagrants?
11 EXECUTIVE OFFICER DEDRICK: You've got to have a
12 quarter in your pocket.
13 (Laughter.)
14 CHAIRPERSON CORY: Okay.
15 EXECUTIVE OFFICER DEDRICK: During the EIR
16 process we determined that --
17 CHAIRPERSON CORY: It's the Ripple bottle laying
18 on their belly.
19 (Laughter.)
20 EXECUTIVE OFFICER DEDRICK: Anyway, the EIR
21 process determined that the Northern current is the reason
22 for concern for the Friends of the Sea Otter and it flows
23 during the December to the March period that they are
24 concerned about. So the point is that --
25 CHAIRPERSON CORY: What is the substantive difference

1 if we put -- what does it cost us if we word the triggering
2 mechanism --
3 EXECUTIVE OFFICER DEDRICK: In terms of money?
4 CHAIRPERSON CORY: In terms of money or whatever.
5 I mean, what is the adverse, social, or public policy
6 of accommodating that? Does it cost us money? Does it
7 cost us additional hearings? I don't know. I'm trying to
8 understand what the dispute is specifically so we know what
9 it is.
10 EXECUTIVE OFFICER DEDRICK: Well, I think that in
11 the EIR process, Mr. Chairman, we determined that the risk
12 of an oil spill totally uncontained with no oil spill
13 containment at all, reaching the current area where the
14 sea otters live is two percent in 10 days. That is a very
15 low likelihood. And I -- that was one of the reasons why
16 I thought rather than -- what I'm trying to do is write a
17 prospective stipulation because the sea otters -- as I
18 pointed out -- except the Ripple bottle guys -- are not there.
19 They're -- one or two have been sighted in the area. But the
20 main population, the breeding populations, are more than
21 35 miles north. Okay?
22 CHAIRPERSON CORY: Uh-huh.
23 EXECUTIVE OFFICER DEDRICK: So I thought that if we
24 did it this way where we have the scientific input to the
25 Commission so the Commission retains the discretion, which

1 it does in that stipulation, to make its own decision for or
2 against. When the sea otters arrive in the area, by then
3 some of these multitudinous studies which we are funding
4 with the other part of the stipulation will be giving us
5 some information and the Commission will be in a position
6 to make an informed decision as to whether or not there is
7 a risk to the sea otter.
8 Currently that risk is an exceedingly low risk
9 and from that viewpoint, I felt that the sort of language
10 that I have given you was called for. There are, in fact,
11 substantial financial impacts of an all-out ban on
12 operations during that period. And I can give you a range of
13 those if you're interested.
14 You have a three-year drilling term required by
15 statute. You do have the discretion to extend that
16 drilling term, but as I understand it, it's not the lease
17 language. By taking a third of each year away from active
18 exploration and confirming wells, you're reducing the
19 effective three-year period to a two-year period.
20 We have risked that out in a couple of different
21 ways. And the total impact in bidding in revenues received
22 by the State would be a reduction of 15 -- a minimum of
23 15 and a maximum of about 30 percent, depending on what the
24 cost of money is and how the oil company does its thing.
25 CHAIRPERSON CORY: 15 to 20 percent of -- 15 to 30

1 percent, and if it's a hundred million, 15 to 30 percent
2 is $30 million.
3 EXECUTIVE OFFICER DEDRICK: That is correct.
4 MS. FULTON: Did you say one million dollars? Am
5 I reading this wrong? The imposition of over -- maybe I'm
6 reading wrong. When you were discussing why you were not
7 supporting that ban, on page 48 of the staff report of
8 December 15th, it says, the imposition of $1 million per
9 year in additional development costs. That's significantly
10 lower than what you were just talking about if those figures
11 are correct.
12 EXECUTIVE OFFICER DEDRICK: What I was addressing,
13 the figures that Carol's talking about are in regards to the
14 production. I was talking about the exploratory phase.
15 The standby cost of rigs, incidentally, was not included in
16 that figure.
17 One of the problems they have in scheduling rigs,
18 they run 50 to $90,000 a day, and if they miss their window,
19 they still have to pay their standby.
20 CHAIRPERSON CORY: What you're saying is that
21 in the exploratory phase there's not a platform, using
22 drilling ships and that sort of situation. And that that
23 cost is a different cost than the cost of once you've got
24 a platform there as to what costs -- not drilling in the
25 production phase. That is the discrepancy.

1 EXECUTIVE OFFICER DEDRICK: That is correct.

2 MS. FULTON: Okay. We agreed to the fact that it

3 could be looked at again after the exploratory phase.

4 But there were a couple of comments I'd like to

5 make on what you said about -- the Governor made the

6 recommendation, and it's true a lot of those tracts were

7 immediately offshore of existing sea otter habitat. But if

8 you read the stipulations, he stipulates that every single

9 tract all the way down as far as the sale went down to the

10 Point Conception area, so he, in the OPR recommendation --

11 they recommended that that ban be in areas where there was

12 not a significant sea otter population at the time but that

13 was immediately to the south of the range.

14 We heard testimony while you were gone that

15 frightened me a bit. The man who's an expert at bringing

16 in oil spill containment equipment by helicopter was talking

17 about oil spills spreading like 20 miles an hour. And if

18 you had a sea otter range just say 35 miles north -- I

19 think Claire's right, we don't have that many otters there

20 right now. But there's an existing threat right now to the

21 population.

22 EXECUTIVE OFFICER DEDRICK: Excuse me. In the oil

23 spill containment plan which is part of our standard

24 regulations required by the lease, operations are not allowed

25 to occur -- the sort of operations we're talking about --

1 when seas exceed six feet, when wind velocity reach 20
2 knots, which is in reference to Allen Greenstadt's comments.
3 He was talking about the wind moving the oil faster than the
4 current moves it. Under foggy conditions, under conditions
5 when oil spill cleanup and containment equipment is not
6 available and cannot be perperly used. So, for practical
7 purposes to put an oil spill -- I mean a curtailment on
8 operations during this -- these winter months, the only
9 thing we're doing is putting that curtailment on it during
10 calm days when the rigs can operate. Under those circum-
11 stances, oil spill cleanup equipment is highly effective.
12 CHAIRPERSON CORY: Questions from the
13 Commissioners? Do you have any more comments?
14 MS. FULTON: No. I'm agreeing to disagree.
15 CHAIRPERSON CORY: We understand that.
16 MS. FULTON: All right.
17 CHAIRPERSON CORY: Okay. Jack Hundley.
18 MR. GHYLIN: Jack Hundley had to leave because of
19 the inclement weather, but I'm Clair Ghylin also representing
20 WOGA.
21 CHAIRPERSON CORY: You're next.
22 MR. GHYLIN: I represent us both. And I'll
23 condense it.
24 CHAIRPERSON CORY: Okay.
25 Dave has a question.

COMMISSIONER ACKERMAN: Was there any other language concerning the sea otter stipulation that wasn't addressed in the proposed language, WOGA's?

EXECUTIVE OFFICER DEDRICK: Oh. WOGA raised -- and I assume Clair was going to raise that point again -- suggested that at the end of the sea otter stipulation, which is where the scientific trigger occurs, that an and/or mitigation, as I recall, be added at the end of that.

Their point, I presume, is that if you can -- well, I think Dr. Kempe testified to the fact that there's been a lot of money spent on mitigation. It's reasonable to put that in. I suggested that you not address that issue until you heard both sides of the question.

Does that answer your question?

COMMISSIONER ACKERMAN: We were about to address it.

EXECUTIVE OFFICER DEDRICK: You're about to address it, right.

MR. GHYLIN: Jack Hundley is chairman of WOGA's Offshore Committee and he agreed, I believe, to present to the staff in this hearing his analysis of the cost of the four-month drilling window in the sea otter stipulation. Let me do that first because it followed what just has been said.

1 And also it's still fresh in my mind. This range
2 is -- corresponds to what Miss Dedrick said. It's 15 to
3 30 percent reduction in the value of the lease at the time
4 it's bid upon regardless of the bid factor. So the formula
5 he used was a four-month shutdown during each of the first
6 three years of the drilling period of the lease. And he
7 assumed a hundred million barrel oil field on that lease.
8 And in his analysis, the cost of the delay in the
9 exploration phase, moving in and out of drill ships and
10 equipment, was $10.5 million per lease. And the delay
11 in production caused by the loss of three successive four-
12 month terms was $12.5 million. So the total cost per lease
13 was 22.5 million.
14 If you then take their formula for estimating
15 value at the date of bidding -- whether or not it's
16 bonus or net profits -- he arrived at the 15 to 30 percent
17 range of the value of the lease.
18 Now, applying that to the adjoining five federal
19 leases which were sold in the last sale, applying that
20 formula, the dollar lost to the State would be $356 million
21 for the four-month drilling period.
22 COMMISSIONER MORGAN: You're talking about the
23 four-month delay as though it were entirely attributable
24 to the ban, although it sounds to me like we have some other
25 stipulations that would cause a ban aside from -- even if

1 we didn't have this specific ban in place.

2 MR. GHYLIN: This analysis was of the cost of this

3 stipulation, yes, and not taking into conjunction the cost

4 of other stipulations.

5 COMMISSIONER MORGAN: So you assign the entire

6 cost of four months of not drilling to that stipulation.

7 MR. GHYLIN: Yes. If the ban was that you could

8 not drill during four months for each of the three

9 exploratory years, then all of these costs would be assigned

10 to that ban.

11 COMMISSIONER MORGAN: Okay. Your analysis does not

12 distinguish between --

13 MR. GHYLIN: It could also shut down for other

14 reasons. There is no allocation or other reasons.

15 COMMISSIONER MORGAN: Thank you. Sorry. Go ahead.

16 MR. GHYLIN: The Western Oil & Gas Association,

17 of course, supports the Commission's study of this leasing

18 program and encourages that the Commission proceed now.

19 We think the time is now and that it's no longer necessary

20 for more study. Our nation needs energy. This year our

21 imports costs will be about $85 billion, which is about

22 equal to our deficit. Our State needs income and that's

23 been discussed today. And certainly our communities need

24 jobs.

25 And that's been discussed by earlier witnesses.

1 The time for study probably has long since gone
2 by. You may have noticed this week that as a nation we
3 imported more oil from Norway and more oil from England
4 than we did from Saudi Arabia for the first time. And this
5 is especially interesting to someone who operates off
6 California because in 1969 when Hondo Field was discovered
7 in Santa Ynez Unit, neither Norway or England had discovered
8 oil. And they were totally dependent on imported oil.
9 Between that time and April 1 of 1971 when Hondo
10 produced its first barrel, England and Norway both
11 developed the North Sea completely, developed their
12 refining pipeline capabilities, protected the environment,
13 became energy self-sufficient, and became exporters. They
14 are now the second and third largest exporters. And I think
15 they've done it with study and with action. And we feel
16 this is the time for action.
17 We'd like to make a few comments. And I think the
18 easiest way for me to follow it is probably to look at the
19 recommendations of the staff to the Commission on page 23
20 of the calendar item. We'd like to talk a little bit about
21 a couple stipulations in general. And we'd like to talk
22 about the bidding recommendation, the net profit bidding.
23 And we would like to clarify in our mind what Recommendation
24 9 is as far as further development of lease language.
25 First, as to the stipulation -- and most of my

1 comments will relate to economics, since the other witnesses
2 have commented on most of the other concerns.
3 Let me say that we feel that the staff has done an
4 excellent job in balancing interests in a multi-interest
5 area. Our concern is that some of the stipulations are not
6 amplified enough so that a bidder will know what his
7 exposure is. And the penalty for that will be a minimum bid
8 to the State or a reduction of the bid to the State.
9 I'm speaking specifically of the stipulation on page
10 117 for the funding of training for the interagency oil
11 spill committee which appears to be unlimited funding; the
12 stipulation in 11 which calls for another strike team
13 with a four-hour response that's funded; the ocean current
14 studies which are funded; and then, of course, the sea otter
15 stipulation which are funded by the lessees.
16 I believe that potential bidders will maximize in
17 their mind the exposure they're going to have under
18 stipulations that are, in fact, blank-check stipulations.
19 I think the State will suffer from the reduction
20 of bid because of it. And we would recommend that those
21 stipulations that provide for expenditures by lessees have
22 ceilings on allocation formulas or something that is
23 defineable prior to the sale so that a potential bidder
24 will know what additional dollar exposure he faces. In
25 conjunction -- let me jump to Recommendation 9. We believe

that Recommendation 9 which is to delegate to the Chairman the authority to improve lease language to conform to the intent of the Commission as being an authorization to continue to negotiate with the staff on those areas where we feel more appropriate clarification is to the benefit to both the State and the industry.

EXECUTIVE OFFICER DEDRICK: Let me interrupt for a second. We recognize the confusion of that language and the Commission has through page 25 -- do they? No. 9 now reads "delegate to the Chairman the authority to take all necessary action to effectuate the action of the State Lands Commission.

MR. GHYLIN: May I ask what that means?

EXECUTIVE OFFICER DEDRICK: Sure. For example, putting a dollar value on that oil spill stip. If the Commissioner adopts that, we have the figures, it's costed out. But there's no point in putting it in until we're sure what the Commission actually wants to do.

MR. GHYLIN: Well, we certainly support an action by the Commission which would delegate to the staff or members of the Commission the authority to amplify the stipulations and develop them as we go, because there are some areas -- clouded areas that still haven't been looked at.

EXECUTIVE OFFICER DEDRICK: If I may, in addition

1 to that, the various, you know -- when the stipulations are
2 adopted, those stipulations which are adopted or others
3 which the Commission may wish to adopt today, there will have
4 to be changes in the lease language to conform to those
5 stipulations. And it is that authority that we would
6 suggest be delegated to the Chairman.
7 MR. GHYLIN: We support that recommendation. Let
8 me just take a few minutes to talk about net profits and
9 then we can go on to other matters.
10 I think the staff's discussion beginning on page
11 31 of the staff report on current status of related bid
12 factors is accurate. I believe that they are what we feel
13 are the advantages of the bonus bidding system over the
14 crop sharing, or profit sharing bidding system.
15 I do have one problem with that anslysis, on
16 page 24 the staff says that the prime reason for net
17 profit share leasing is to enable the State to share in
18 any later increases in profits as a result of future oil
19 prices increasing at a faster rate than future costs.
20 I'm not sure I fully understand that, because under
21 a sliding-scale royalty or a fixed royalty bidding system,
22 the value of the royalties also escalates with world price
23 oil or whatever the price of oil is.
24 But more importantly, if that statement is true,
25 and that is the prime reason for crop sharing or profit

1 sharing, then the opposite is also true, that if the oil
2 prices decrease at a faster rate than future costs, the
3 State will lose by selecting the profit sharing bidding
4 method. We feel that the --
5 CHAIRPERSON CORY: You're assuming that every
6 successful bidder will bid at the margin for the entire
7 term of the lease, though, to make that statement.
8 MR. GHYLIN: I'm assuming that bidder would use the
9 same evaluation that they would for a bonus bidding system.
10 CHAIRPERSON CORY: Well, each bidder would have to
11 take into account that his cost might exceed oil prices
12 and therefore hedge his bid. And we'd be leaving that on
13 the table that they-- you'd have to assume your downside
14 risk when you make the bid and that would minimize your
15 downside risk and therefore enable you to bid only on net
16 profits. That's what it says to me.
17 MR. GHYLIN: I don't understand it as clearly
18 as you do, but I don't -- I don't give the benefit to all
19 bidders of that analysis. I think many bidders would
20 reflect that if oil prices increase more rapidly than cost,
21 the State benefits. And if oil prices decrease more
22 rapidly than costs increase, the State loses during the life
23 of the net profit arrangement.
24 Be that as it may, we feel that the bonus bidding
25 system with sliding scale royalty offers some very definite

advantages to the State. One of the main ones being that it takes most of the risk away from the State. The State does not then carry in fact risk capital as to whether or not there will be an oil development.

We also think that the cash bonus bidding system provides incentives to rapidly explore and develop and other systems do not. And we think that history has been proven in the federal OCS studies.

And to answer Miss Morgan's question about what happens next year if you use the bonus this year, we would argue that a cash bonus system would impel the industry to develop so that royalty income would be coming to the State much quicker than it would be if the State had to wait until all investment was recovered before it shared in the profit.

I will just close by saying WOGA, because of its nature being an association, was not able to make arguments on bidding systems before the Commission and what I am reflecting is what the staff reflects in its report as being the comments of every individual company that the staff talked to. Thank you.

CHAIRPERSON CORY: Questions?

Robert Burt.

(Thereupon a brief recess was taken.)

CHAIRPERSON CORY: Okay.

MR. BURT: I'm Bob Burt, California Manufacturers

1 Association.

2 I'm here essentially representing -- although the
3 oil companies are obviously members of our oganization,
4 they have essentially spoken for themselves -- I'm essentially
5 talking for the rest of the manufacturing community.

6 And our basic position is that we favor immediate
7 leasing of a bonus royalty system. I will endeavor to
8 spend a minimum of time repeating what others have already
9 said.

10 The subject of the environmental impact report, I'm
11 glad to see that the use of the programmatic EIR -- we were
12 sponsors of the legislation that allowed that. And we
13 note in passing that I think it has done what was intended.
14 It's clarified the issues before we start worrying about the
15 individual site EIR's.

16 I hasten to add that we are always going to have a
17 problem on EIR's because you can never cover all the impacts;
18 when you throw stones in a pond, those ripples go forever.
19 And there's just no way that you're ever going to have an
20 EIR that covers all the impacts. It's just not a physical
21 possibility.

22 Some minor comments on things that I've heard
23 today. I would point out that the Santa Barbara Board of
24 Supervisors is also the Board of Directors for the Santa
25 Barbara Air Pollution Control District which would issue all

1 the permits that would have to be issued in this area.
2 So, if they're concerned about air pollution, that's where
3 their risk lies. As a diver who has spent a fair amount of
4 time in the water we're talking about, I can say that two
5 observations which are perhaps anecdotal but they're still
6 in my opinion relevant, the first is that offshore plat-
7 forms, because they provide concealment, actually act like
8 artificial reefs, only more so. And they actually increase
9 the species' diversity in their area. There are lots of
10 species that otherwise just wouldn't be able to live there
11 that do.
12 And to the extent that the ecologists agree on
13 anything, an increased species diversity is a sign of a
14 healthy environment.
15 The second point I'd like to make is that
16 certainly for the past million or so years that species in
17 the Santa Barbara Channel had been exposed to oil and to
18 the associated waters because there have been natural
19 seeps there for at least that time; that is, the late
20 pliocene.
21 The final comment I'll make on the environmental
22 impact reports is that the memory from my class in logic
23 a much longer time ago than I'd like to admit, and that
24 was that you can't prove a negative. I constantly hear this
25 requested. So let's hold to a minimum requests that we

1 prove something won't happen or prove something because
2 it can't ever be done. We can't prove negatives.
3 We can prove low risk but we can't prove negatives.
4 So to summarize comments in general, I say let's
5 not have paralysis by analysis and let's go. We've done a
6 fair amount of study and there are provisions for more.
7 The economic situation, most of you have already
8 heard comments about, just make a couple of comments that
9 have already been made, and that is we're engaged in a
10 very difficult social and economic transition. At the end
11 of World War II the debt of all kinds, personal and
12 government and everything else was around 400 billion.
13 Now it's around 5,000 billion. And industries are
14 apparently a signal that we can't keep on accumulating more
15 debt per capita for a while. And that means that almost
16 everything that we're used to doing for the past 30 years
17 is going to be more difficult. The California impact --
18 you all know it's severe, probably not going to go away
19 with any immediately change in the economy. I think our
20 economy will move but we are faced with a change situation.
21 And the -- anything that can mitigate the easing of the
22 State's impact -- impact on the State is desirable. The
23 bonus would create create immediate State income. As
24 mentioned before, it's an incentive for quick development.
25 That, as mentioned, is going to be the cause of substantial

1 income from the sales tax, and the income tax, both
2 State and local government receive that. California
3 manufacturers obviously would be manufacturing products
4 which would be used offshore. The economy generally benefits.
5 To the extent that economists agree on something
6 that is also a pretty general agreement, that if a locally
7 made product sells at or below the world free market price,
8 there's a substantial benefit to the local economy to make
9 it there. And that's exactly what the situation is with
10 respect to offshore oil. The comment that perhaps California
11 does not have a large percentage of its oil imported is
12 irrelevant. It was settled in 1865 that the States are
13 part of the nation. And that's what counts, the total
14 national defense on the imports.
15 The other comments that I had in my notes here
16 have been covered better by others. If anyone has any
17 questions, I'll be glad to answer them.
18 CHAIRPERSON CORY: Yes, sir. Sue, Dave?
19 CHAIRPERSON CORY: We have heard from those who
20 wish to speak.
21 (Thereupon there was a discussion off
22 the record.)
23 CHAIRPERSON CORY: Are you prepared? How long
24 do you think in your judgment from what you know about the
25 subject and the questions that the Commissioners have

1 asked today, you can draft and get going. The
2 question is can you do it in half an hour and I guess
3 it's David's wish that if you need more than half an hour,
4 we should come back in the morning and do it.
5 EXECUTIVE OFFICER DEDRICK: I'd like to consult
6 with staff. Staff would like about five minutes to bring
7 their thoughts together for a final statement for the
8 record.
9 Beyond that, we have nothing from the staff end
10 to be done other than to receive your decision and go home
11 and implement it.
12 Is that a fair statement?
13 CHAIRPERSON CORY: All right. We'll take a five-
14 minutes recess with the staff to figure out where we are.
15 (Thereupon a recess was taken.)
16 CHAIRPERSON CORY: All right. We are reconvening
17 for the purpose of having considered the staff's problems.
18 I would prefer to see them have some of this stuff in
19 writing, and get it more precise. To accomplish that,
20 given the weather problems and the other difficulties, we
21 will recess the meeting until ten o'clock tomorrow morning.
22 And the only thing we'll do at that point is go
23 through the agenda and deal with the items that were raised
24 and the various conclusions. Any questions?
25 MR. TAYLOR: If you want to close the hearing, you're

1 going to have to close it either tonight or tomorrow
2 morning for comments.
3 COMMISSIONER ACKERMAN: Just so we don't do
4 something -- let's close it tomorrow morning in case --
5 as you go through something, we don't close the option of
6 us closing further testimony if we need it. Okay?
7 CHAIRPERSON CORB: It's not my intention to hear
8 any more testimony, but we'll sit here and thresh out the
9 various decisions among ourselves. But if there is a question
10 as to what the facts are, I would not oppose asking somebody
11 questions for the information.
12 My apologies to all of you for my not being
13 here for part of the meeting. We are in recess.
14 (Thereupon the hearing was recessed
15 until December 23, 1982, at 10:00 a.m.)
16 --ooo--
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1 CERTIFICATE OF SHORTHAND REPORTER

2

3 I, EILEEN JENNINGS, a Certified Shorthand
4 Reporter of the State of California, do hereby certify:
5 That I am a disinterested person herein; that
6 a portion of the foregoing State Lands Commission Meeting
7 (pages 1 through 63, inclusive) was reported in shorthand
8 by me, Eileen Jennings, and thereafter transcribed into
9 typewriting.
10 I further certify that I am not of counsel or
11 attorney for any of the parties to said meeting, nor in
12 any way interested in the outcome of said meeting.
13 IN WITNESS WHEREOF, I have hereunto set my hand
14 this 30th day of December, 1982.
15
16
17
18 Eileen Jennings
19 EILEEN JENNINGS
Certified Shorthand Reporter
License No. 5122
20
21
22
23
24
25

1 CERTIFICATE OF SHORTHAND REPORTER

2

3 I, NADINE J. PARKS, a Shorthand Reporter of the
4 State of California, do hereby certify:

5 That I am a disinterested person herein; that
6 a portion of the foregoing State Lands Commission Meeting
7 (pages 64 through 151, inclusive) was reported in shorthand
8 by me, Nadine J. Parks, and thereafter transcribed into
9 typewriting.

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

13 IN WITNESS WHEREOF, I have hereunto set my hand
14 this 31st day of December, 1982.

15

16 Nadine J. Parks

17 NADINE J. PARKS
Shorthand Reporter

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MEETING

STATE OF CALIFORNIA

STATE LANDS COMMISSION

STATE CAPITOL

ROOM 447

SACRAMENTO, CALIFORNIA

ORIGINAL

THURSDAY, DECEMBER 23, 1982

10:30 A.M.

DELORES I. DALTON, CSR
License No. 4691

MEMBERS PRESENT

Kenneth Cory, State Controller, Chairman

David Ackerman, representing Mike Curb, Lieutenant Governor, Commissioner

Mary Ann Graves, Director of Finance, Commissioner

STAFF PRESENT

Claire T. Dedrick, Executive Officer

James Trout

Robert Hight

Dwight Sanders

Jane Smith

Diane Jones

ALSO PRESENT

Richard Frank, Attorney General's Office

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P R O C E E D I N G S

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CHAIRPERSON CORY: We will call the meeting to order. We are back from our evening recess, and we are at the point where it's time for the Commissioners, I guess, to -- staff?

EXECUTIVE OFFICER DEDRICK: Yes, we have a couple of things. There are three telegrams, one from the Whale Center, one from the Mayor of the City of San Luis Obispo, and one from Doctor Mohr, to put into the record.

CHAIRPERSON CORY: Okay.

EXECUTIVE OFFICER DEDRICK: And the Attorney General and staff and Chief Counsel want to make a few statements for the record.

CHAIRPERSON CORY: How is he going to do that with a telephone hanging out of his ear?

EXECUTIVE OFFICER DEDRICK: Well, we're going to let Rick do it.

MR. FRANK: Let me defer to Dwight Sanders.

(Laughter.)

CHAIRPERSON CORY: What is it that you are afraid of that we are going to hear?

(Laughter.)

MR. SANDERS: Mr. Chairman, members of the Committee, I think there are several points that need to be

1 elaborated on and perhaps cleared up in response to several
2 of the commenters of yesterday.
3 First, I think, as a general theme, there was
4 some concern that a number of pieces of new material had
5 been made available in a very short period of time for
6 review and comment. I would think I would like to go through
7 a litany, if you will, of when data was first made available,
8 for your information.
9 EIR was certified in September in its final form
10 and has been unchanged since that date, so the data
11 available within the environmental impact analysis has been
12 available since the end of September. In fact, the major
13 portion of the EIR discussion was not changed even from the
14 draft. We clarified via the finalizing addendum some
15 additional information by the commenters, but in bulk, the
16 data analysis of the original EIR that was released in
17 April of this year was unchanged.
18 The biological characterization, of which the
19 data has remained the same since its inception, was released
20 in October for public review and comment. The changes that
21 have been made have been made in response, specific response,
22 of commenters on the Scientific Review Panel and have been
23 in the nature of format changes. They were nontechnical
24 changes that better defined and evaluated the data that was
25 there in the beginning.

1 The staff report from which the calendar item
2 has emanated was originally available at the end of the
3 November meeting so that material again within the staff
4 report has been available for a sufficient period of time
5 for comment.
6 I think the Commission and the staff have made
7 every effort to get data to the public and to respective
8 agencies and commenters as soon as it is available and
9 has been available and has made no changes in such data.
10 With regard to some specific issues, one commenter
11 was concerned that some of the data that we had referenced
12 in the Energy Commission's 1981 Biennial Report was incorrect.
13 Two points. We went to the Biennial Report, because it
14 was used by several commenters in their discussions of
15 conservation and admonishing us to look at that report with
16 regard to conservation data and the effect of conservation
17 on energy supply and demand.
18 Secondly, it is the most definitive report now
19 available by a state agency whose sole responsibility is
20 to encourage such conservation at this time. Those were the
21 two reasons we went to the report. We have rechecked the
22 figures that we have used in this calendar item, and they
23 are correct and we stand by them.
24 Supervisor Holmdahl was concerned that the
25 discussions of the alternatives might not have been as

1 detailed as warranted. I would cite the fact that in
2 addition to the discussion of specific alternatives within
3 the EIR, the body of the document discusses the alternatives
4 throughout the various impact sections of the document.
5 In addition to that, we have elaborated on that
6 discussion on pages 13 through 22 of the calendar item,
7 giving specific discussions of the alternatives and the
8 reasons for the staff rejecting those alternatives for
9 your consideration. For example, the no project alternative
10 was in fact discussed, and can be equated with the
11 recommendation made by one commenter that a marine sanctuary
12 be established in that particular area. The two are in
13 effect compatible and have been discussed in some detail.
14 As far as the continuum of analysis is concerned,
15 a lot of commenters, or some commenters, were concerned
16 that we may be deferring analysis to a later time.
17 We have done a number of things. We have, I think,
18 compiled the information and made the analysis where
19 information is now present and have made recommendations to
20 you in the form of stipulations that deal with that analysis.
21 For example, the oil spill stipulations, there are mitigation
22 measures which we are confident of recommending now based
23 on the information and analysis that we have done.
24 We have also, if you will, suggested interim
25 decisions. The muds and cuttings stipulation is an example

1 of this. We have cited a number of studies that have been
2 ongoing and provided an interim decision for the Commission
3 to make at this time in mitigation of the impacts of muds
4 and cuttings.
5 We have also recommended site specific analyses
6 at a later time based on need for a balanced evaluation and
7 a decision that takes into account the location of the
8 proposed project in relationship to the facts, sensitivity
9 and information available at that time. An example of this
10 is the stipulation for subsea completions.
11 So I think we have provided the Commission with,
12 if you will, a continuum of decision points throughout the
13 process of this project.
14 We have also recognized I think within the EIR
15 several key points that were discussed. The supervisor
16 from Santa Barbara County was concerned about the cultural
17 resource analysis which was discussed extensively in the
18 Environmental Impact Report.
19 The air quality analysis was discussed extensively
20 in the Environmental Impact Report, and, in response, I
21 think, to comments made by the League of Women Voters and
22 by Doctor Corwin. We have recognized the paramountcy of
23 the Santa Barbara County Air Pollution Control District,
24 and, in this instance, the Board of Supervisors, to make
25 the decisions that are allocated to them with regard to air

1 quality. They are the agency that is charged with that
2 decision process, and we have provided them with detailed
3 analyses of the impacts of air quality and the ultimate need
4 for offset and best available control technology and so
5 forth with regard to air quality.
6 Concerns regarding military activities, subsea
7 completions and pipeline preference versus tankers have
8 been taken care of respectively in Stipulations 1, 8 and 9,
9 as far as military activities are concerned. Stipulation 1
10 as regards to subsea completions and Stipulation 2 as regards
11 to preference of pipeline over any other form of transportation
12 of oil and gas from the area.
13 Stipulation 10, the muds and cuttings stipulation,
14 takes care of a good deal of concern that has been voiced
15 on the ultimate effects of muds and cuttings on organisms
16 and mammals in the area. We have said that there is
17 information under current development that the Commission
18 should consider at a time when such decisions would best be
19 balanced because there are impacts to disposal at sea and
20 impacts with regard to disposal on land.
21 The biological study that was completed by the
22 Commission did entail, contrary to one commenter, ten full
23 days of field work, rather than six, or four to six, as was
24 erroneously cited. The remainder of the time of the 60-day
25 study was spent in the laboratory analysis of the organisms

1 sampled and in the preparation of the report.

2 I think one of the primary points that speaks to

3 the stipulations recommended revolves around a point made

4 by Doctor Ruth Ann Corwin. She asked three questions -- who

5 supervises? Who pays? And what use and availability is

6 made of the studies demanded by the stipulation?

7 On each of those points -- who supervises? The

8 State Lands Commission, with the aid of the state and

9 federal agencies with specific expertise in each of the

10 areas addressed by the stipulation, control the nature and

11 conduct of each one of the studies that are required.

12 Who pays? This Commission has recognized in

13 terms of the comments of the League of Women Voters that

14 such studies are up front costs of doing business. The

15 industry, the lessees, will be paying for the studies, and

16 it will be made, in effect, a cost of doing business.

17 What use and availability? The studies are going

18 to be done in the public domain. They will be made a part

19 of the public record at the time of the conduct and subject

20 to public review and comment. This is in direct contrast

21 to a number of situations where such studies are done by

22 private industry and remain proprietary or confidential.

23 The Commission has recognized the need for the involvement

24 of the public in such efforts and has provided for it.

25 I think, Mr. Chairman and members of the

1 Commission, unless there are other questions or comments
2 that Rick Frank would like to make in elaboration of the
3 material that I have presented, that concludes my
4 clarifications.
5 CHAIRPERSON CORY: Are the telephone people happy?
6 MR. HIGHT: Yeah.
7 CHAIRPERSON CORY: You really have your girl
8 friend on the other end of that line, don't you?
9 MR. HIGHT: I do.
10 (Laughter.)
11 EXECUTIVE OFFICER DEDRICK: I think it is
12 appropriate to close the hearing, isn't it?
13 CHAIRPERSON CORY: Before we close the hearing,
14 the question in my mind is, if we close the hearing, we are
15 free to receive comments from our staff as to what our
16 options and choices are?
17 EXECUTIVE OFFICER DEDRICK: Yes.
18 MR. FRANK: Yes, you would only be closing the
19 public comment or public testimony part of the hearing.
20 CHAIRPERSON CORY: I am prepared to close it.
21 Without objection, we will declare the hearing closed.
22 I guess the first question before us is whether
23 to lease or not to lease, and then proceed down a series of
24 questions.
25 MR. TROUT: Yes, Mr. Chairman, I think that is the

1 logical way to go.

2 MR. HIGHT: Do we want to clean up any of the

3 stipulations?

4 CHAIRPERSON CORY: Well, I would guess we would

5 get to that. There is no sense messing with it if we don't

6 want a lease. As much as they like to run the meter, unless

7 we have got a game going --

8 (Laughter.)

9 CHAIRPERSON CORY: These fellows always keep in

10 practice in case they go to work in the private sector.

11 I mean, that's my feeling, why deal with the

12 stipulations unless we --

13 COMMISSIONER ACKERMAN: I think that is correct.

14 CHAIRPERSON CORY: Provided I win enough of the

15 subsequent things, I am for leasing.

16 COMMISSIONER ACKERMAN: I will entertain a motion.

17 COMMISSIONER GRAVES: Second.

18 CHAIRPERSON CORY: The motion is seconded to

19 proceed to lease.

20 Without objection, the decision is made to lease.

21 The next question, I guess, is the boundaries,

22 whether or not the two different changes in boundaries --

23 MR. TROUT: That would be correct, Mr. Chairman.

24 The recommendation is where your tabbed Exhibit G shows

25 toward the bottom of the page, that is the staff recommended

tract layout.

CHAIRPERSON CORY: In other words, there is a slight change in that to conform to the inland, upland boundaries?

MR. TROUT: That is correct, to coincide with the boundary of an upland park and to coincide with the federal OCS boundaries as much as practical on the outer end.

CHAIRPERSON CORY: That would be leasing from Point Conception to Point Arguello in eight parcels as defined on the staff recommendation.

MR. TROUT: That's correct.

CHAIRPERSON CORY: I'm in favor of that.

COMMISSIONER ACKERMAN: Yes.

COMMISSIONER GRAVES: Yes.

CHAIRPERSON CORY: Without objection, the boundaries and numbers are accepted.

The next question I would guess would be the format of net profits, bonus bid and the like. I would prefer a net profits with a front-end load or a rental payment during the exploration period. There may be some need for discussion as to the amount of that rental payment and the nature and time of payment.

COMMISSIONER ACKERMAN: There is probably also some need for clarification as to exactly what option we are

1 looking at. Many of the witnesses earlier testified as to
2 net profits versus bonus and royalty, because one provided
3 an up front cash bonus where the other did not. What we
4 are considering now is sort of a combination of the two --
5 if this is correct, Mr. Chairman -- to where we are
6 considering a net profits with a rental payment significantly
7 greater than the dollar per acre which is required by the
8 statute. So it had the effect of having a cash bonus
9 situation with a net profits lease; is that correct?
10 CHAIRPERSON CORY: That is correct. And where
11 I'm coming from, I would prefer straight net profits. Given
12 the condition of the state and the wishes of the incoming
13 administration, I am willing to try to move to accommodate
14 at some lengths. It's a question of how much we should try
15 to move. I think that is a dollar amount value judgment
16 and --
17 COMMISSIONER ACKERMAN: Many of the witnesses
18 testified to the impact that our action could have on the
19 fiscal situation of the state. That means that whatever
20 we front load on this has to be viewed as having an impact
21 on the fiscal cash flow of the state in the years in which
22 the state needs it. Everything that the Director of Finance
23 and the State Controller have told me indicates that the
24 next two fiscal years seem to be the time the state needs
25 the money the most. Correct me if I am wrong. But it would

1 seem to me that we need to consider the state at least
2 receiving sufficient funds in the next two fiscal years.
3 COMMISSIONER GRAVES: There is no question. The
4 next two years -- the current year, 1 billion 7 in deficit and
5 next year, 3 1/2 billion from current services budget. Those
6 are big amounts of money, but have been a long time coming. We
7 couldn't afford to continue to bail out with our current
8 tax base and all of the tax reduction programs we have put
9 into place.
10 So I don't argue that we need money in the current
11 year and next year, but I would also argue that the state
12 will need money in the subsequent years as well, particularly
13 if the economy doesn't recover. The thing that we need to
14 discuss, and I think the road that you are going down is --
15 what do you see as the cost of those tradeoffs? It's not a
16 one to one. It's my understanding if we get the up front cost,
17 we lose money down the road, and it's more than one for one.
18 That is what I would like to see.
19 CHAIRPERSON CORY: Claire, I asked you to try to
20 get some figures together for that.
21 EXECUTIVE OFFICER DEDRICK: Yes. The staff feels
22 that a dollar paid today is two to two and a half dollars
23 lost from revenue in the future.
24 COMMISSIONER ACKERMAN: By the future, we are
25 talking about 1989 and beyond?

EXECUTIVE OFFICER DEDRICK: About eight years down the road.

COMMISSIONER ACKERMAN: 1990.

CHAIRPERSON CORY: And you are what? Assuming a 20 year --

EXECUTIVE OFFICER DEDRICK: Twenty year life of the lease. The leases are, of course, 20 years or until production ends.

CHAIRPERSON CORY: That is defined as economic.

EXECUTIVE OFFICER DEDRICK: Yes.

CHAIRPERSON CORY: Prices have a great deal of effect on that.

One option that was looked at was a $10 million payment in the first two years -- first three years. Pardon me -- on the two more probable tracts, the lower two tracts.

EXECUTIVE OFFICER DEDRICK: Yes.

CHAIRPERSON CORY: And that one, to put this into perspective with some of the things that Dave has -- the staff's guess is that that might produce about a 65 percent net profit bid?

EXECUTIVE OFFICER DEDRICK: That is correct.

CHAIRPERSON CORY: If they had to pay that on those two and we assumed a hundred million barrels of oil and assumed for a case study of $15 a barrel net profit, we would be getting 65 percent of $15 a barrel or one and a

half billion barrels -- or one and a half billion dollars.

EXECUTIVE OFFICER DEDRICK: That is correct.

CHAIRPERSON CORY: Do you have numbers that if we up that -- because I think that is the critical point in terms of whether there may be differences here among the Commissioners -- if we up that, what is our dollar tradeoff? There was some indication if we doubled that --

COMMISSIONER GRAVES: Mr. Chairman, could I ask a question of staff before we get into this. If we go forward with the August 15th date -- that's next year, next fiscal year -- then how long before the money starts coming into the state?

EXECUTIVE OFFICER DEDRICK: If you follow the rental approach, we would expect that the first year's rental would be paid with the bid. It would take the staff a couple of months to make a recommendation to you.

COMMISSIONER GRAVES: That was 90 days?

EXECUTIVE OFFICER DEDRICK: Sixty days, I think, after the 15th.

COMMISSIONER GRAVES: So that is November, approximately?

EXECUTIVE OFFICER DEDRICK: Yes.

COMMISSIONER ACKERMAN: A little less than a year.

COMMISSIONER GRAVES: Are we supposed to be paying attention to Bob?

1 MR. TROUT: No.

2 COMMISSIONER GRAVES: Girl friend is okay.

3 (Laughter.)

4 COMMISSIONER GRAVES: So we cannot get money in

5 the current year?

6 EXECUTIVE OFFICER DEDRICK: That is correct.

7 CHAIRPERSON CORY: It is highly improbable.

8 EXECUTIVE OFFICER DEDRICK: I should probably

9 give you the best thinking from our end, the staff end, to

10 why that date was selected. There are two primary reasons.

11 One is the timing of the federal lease sale. There is an

12 Alaska sale in February. Clearly, we could not expect the

13 companies to come back by February. The next sale will

14 probably be no earlier than the first of the federal fiscal

15 year, which is October, and our best predictions are that

16 they will not be able to do that until probably early '84.

17 That puts the only West Coast sale as ours, which suddenly

18 looks better than it did when it was crammed in between two

19 or three other West Coast sales. There are two Gulf of

20 California sales, one in late August and one in May, which,

21 to some extent, will compete. Staff doesn't feel that the

22 August one will compete significantly in the absence of the

23 Northern California sale that Congress has put over.

24 The other primary reason is that the majority of

25 the companies have requested third quarter '83 time for the

1 bids to come back.

2 CHAIRPERSON CORY: There are two companies that

3 would prefer to have it sooner?

4 EXECUTIVE OFFICER DEDRICK: That is correct. WOGA

5 testified to the third quarter, as I recall. At least they

6 gave me that information at a meeting. I can't remember if

7 it was actual testimony. We think that giving the companies

8 time for exploration will increase the number of companies

9 that are willing to compete and may well result in better

10 bids for the State.

11 COMMISSIONER ACKERMAN: It also reduces the

12 inherent advantage that two existing operators would have, too.

13 EXECUTIVE OFFICER DEDRICK: That is correct.

14 COMMISSIONER ACKERMAN: They tend to equalize

15 the information available.

16 EXECUTIVE OFFICER DEDRICK: Yes, I think so.

T2 17 CHAIRPERSON CORY: Using the Alternative 1 in

18 the staff's recommendation.

19 COMMISSIONER GRAVES: Does the staff have another

20 copy? I left mine downstairs.

21 CHAIRPERSON CORY: I'm prepared to go along with

22 Alternative 1. I don't know where the other Commissioners

23 are. If we upped the thing, we are likely to be reducing?

24 Claire, is that correct? If we increase --

25 EXECUTIVE OFFICER DEDRICK: The front-end loading?

CHAIRPERSON CORY: Yes. The rental on those would likely be going down in the percentage that we could expect?

EXECUTIVE OFFICER DEDRICK: Yes. The staff expressed that for approximately every ten million increase in payment at the time of lease, there would be a reduction of three to four percent in the net profits bid.

COMMISSIONER ACKERMAN: That's equal to a dollar versus two dollars to two and a half?

EXECUTIVE OFFICER DEDRICK: Yes. Mr. Cory does the arithmetic better than I do.

COMMISSIONER ACKERMAN: So, in other words, if we ask for a hundred million dollars additional up front, it is going to cost us $250 million down the road?

EXECUTIVE OFFICER DEDRICK: About that.

COMMISSIONER GRAVES: Are you talking about all eight tracts, too?

EXECUTIVE OFFICER DEDRICK: Yes, the generalization is true of all eight tracts.

CHAIRPERSON CORY: It is my understanding that the staff thinks that the lower two tracts are far more attractive.

EXECUTIVE OFFICER DEDRICK: We have the most information on them and so do the oil companies, and for that reason we think --

COMMISSIONER GRAVES: That's why the numbers are higher.

CHAIRPERSON CORY: The probability of finding a significant amount of oil there is --

COMMISSIONER ACKERMAN: What we are basically saying is we should deal with each tract differently and structure the dollar figures in the bid.

EXECUTIVE OFFICER DEDRICK: That is the staff recommendation, because of the geologic knowledge of each tract individually.

COMMISSIONER GRAVES: There is some likelihood that with the additional time these numbers may be upped or downed?

EXECUTIVE OFFICER DEDRICK: They could.

COMMISSIONER GRAVES: Terrific.

Your zero, again looking at the Alternative 1, your zero was '83/84?

EXECUTIVE OFFICER DEDRICK: Correct.

COMMISSIONER GRAVES: So we are talking about if the staff's Alternative 1, in their best estimate -- again, I understand these numbers are squishy, at best --

EXECUTIVE OFFICER DEDRICK: Right.

COMMISSIONER GRAVES: I understand squishy numbers particularly --

COMMISSIONER ACKERMAN: They are squishy from

1 the net profit. They are not squishy from the advance
2 rental payment, because that is an actual dollar amount
3 set.
4 COMMISSIONER GRAVES: But, again, you haven't had
5 a firm offer.
6 COMMISSIONER ACKERMAN: Until an offer comes in,
7 it is not firm.
8 EXECUTIVE OFFICER DEDRICK: We have a pretty
9 broad range of estimates on the value of the resource from
10 the companies. The majority of the companies who talked to
11 us gave us numbers that are in agreement with the staff
12 calculations, that are in the range of the staff calculations.
13 MR. TROUT: I think Commissioner Ackerman is
14 correct, though, in saying that it is within the Commission's
15 prerogative to set the rental rate, and if the companies bid
16 and you accept the bid, that is real money.
17 COMMISSIONER GRAVES: I understand that. I have
18 a feeling that they have a very difficult way to go through
19 in order to offer $400 million of registered warrants to
20 the market, when to do it and how to do it and at what rate
21 and how much. But, again, there is nothing terribly firm.
22 We could still ask for -- we could set an arbitrary amount
23 that would be based on some judgments there, but it is
24 possible that the market could change or whatever. Some-
25 thing could happen and there would be no bid at that price.

EXECUTIVE OFFICER DEDRICK: That is quite possible. I don't think it is probable, but possible.

COMMISSIONER GRAVES: So in Alternative 1, you have about $100 million coming over the three years?

EXECUTIVE OFFICER DEDRICK: That correct.

COMMISSIONER GRAVES: And the first increment of money, assuming that all of these things are correct, would come in in about a year from now, '83/84, and it would be the $34 million, if all of these things are correct, and 34 for the succeeding two years. And that would yield -- it is estimated here that we would probably get a bid of 65 percent net profits?

EXECUTIVE OFFICER DEDRICK: Yes. Okay. I should say at least 65. We would hope to get more.

COMMISSIONER GRAVES: It sounds better and better.

COMMISSIONER ACKERMAN: I was just asking the Chairman, that leaves total dollar amount, based on the estimate of 100 million barrels, is one and a half billion dollars over the 20 year life of this lease.

COMMISSIONER GRAVES: That is the net profits part. We would get 65 percent.

CHAIRPERSON CORY: We would get 65 percent of the one and a half billion.

EXECUTIVE OFFICER DEDRICK: Yeah, minus your -- yeah, that is correct.

1 CHAIRPERSON CORY: And right now, we have got
2 lawyers on the phone when we should have Moose on the phone.
3 MR. HIGHT: Moose is here.
4 CHAIRPERSON CORY: Moose, are you agreeing with
5 us?
6 MR. HIGHT: In general, yes.
7 (Thereupon a brief discussion was held off
8 the record.)
9 COMMISSIONER GRAVES: Could the staff discuss
10 Alternative 2. I have sort of looked at and focused on
11 Alternative 1. Alternative 2, the front-end costs go down,
12 and what would that translate into? Would we get a higher --
13 EXECUTIVE OFFICER DEDRICK: That was the purpose
14 of doing that calculation. I can't remember at the moment --
15 ask Moose if he remembers Alternative 2, which is the one
16 with the total of 91 million in rentals. I can't remember
17 what the net profit percentage he expected was when he did
18 that calculation.
19 MR. HIGHT: Did you get the question?
20 (Brief pause.)
21 MR. HIGHT: It isn't any real change from
22 Alternative 1.
23 EXECUTIVE OFFICER DEDRICK: No significant change
24 from Alternative 1.
25 COMMISSIONER GRAVES: Well, $11 million may not be

much to you, but it means a lot to me.

CHAIRPERSON CORY: I think what he is saying, that unless -- if you try to get significant changes from this, if you go to doubling on the two most probable, it's a 20 million figure. That's another alternative. That would probably reduce downward to 57, 58 percent on net profits.

EXECUTIVE OFFICER DEDRICK: The notion is roughly three to four percent for the ten million in the year of the lease, the first year. So that's kind of the rule of thumb.

Moose's surrogate there is nodding his head, so I think Moose is in agreement.

CHAIRPERSON CORY: That is an affirmative nod, Mr. Hight?

MR. HIGHT: That is affirmative.

COMMISSIONER GRAVES: We heard the rattle all the way over here, Bob.

(Laughter.)

COMMISSIONER GRAVES: Another alternative then that Dave was showing us this morning was to go to 20 --

COMMISSIONER ACKERMAN: It was basically to look at the two most lucrative tracts, which are 1 and 2, and raise the front-end rental on each tract from 30 million to 60 million.

COMMISSIONER GRAVES: Thirty million to sixty

1 million?

2 COMMISSIONER ACKERMAN: Yes.

3 CHAIRPERSON CORY: Over the three years.

4 COMMISSIONER ACKERMAN: Over three years, which

5 would be instead of ten million per year, it would be twenty

6 million per year per tract. That would have the impact,

7 according to the staff, of reducing the net profits bid

8 by four points, 65 to 61.

9 EXECUTIVE OFFICER DEDRICK: That is correct.

10 COMMISSIONER GRAVES: Holy cow.

11 EXECUTIVE OFFICER DEDRICK: Pardon?

12 COMMISSIONER GRAVES: Holy cow. You may quote

13 me, "Holy cow."

14 (Laughter.)

15 COMMISSIONER GRAVES: In terms of getting the

16 higher front load, that would give us an additional 30

17 million -- no?

18 EXECUTIVE OFFICER DEDRICK: Twenty --

19 COMMISSIONER GRAVES: Twenty million, right.

20 EXECUTIVE OFFICER DEDRICK: In that alternative

21 you are looking at.

22 COMMISSIONER GRAVES: So instead of 34 million

23 in 1983 and '84, we could expect 54.

24 CHAIRPERSON CORY: And we will lose --

25 COMMISSIONER GRAVES: Wait a minute. Let me get

1 the front part first.

2 EXECUTIVE OFFICER DEDRICK: About that, yes.

3 COMMISSIONER GRAVES: That doesn't affect the

4 other tracts?

5 EXECUTIVE OFFICER DEDRICK: If you ignore the

6 other six tracts and leave those as they are in Alternative 1,

7 that is what would happen.

8 COMMISSIONER GRAVES: Right. So we have gone

9 from 34 to 54.

10 Now, what do we lose, Mr. Chairman?

11 CHAIRPERSON CORY: We lose 60 million.

12 COMMISSIONER ACKERMAN: Over the net profits term.

13 CHAIRPERSON CORY: Over the net profits term.

14 We gain 30 up front, and we lose 60.

15 COMMISSIONER GRAVES: That's the two to one.

16 CHAIRPERSON CORY: That's the two to one tradeoff.

17 COMMISSIONER GRAVES: We can pick and choose

18 among all of them.

19 COMMISSIONER ACKERMAN: All of them, but the same

20 tradeoff exists whether it is ten million or twenty million.

21 COMMISSIONER GRAVES: Right.

22 It seems to me that that is a rather expensive

23 tradeoff. It also seems to me -- my own feeling is that,

24 first of all, we are not talking about this year. We just

25 can't do it this year, where we need the bucks most desperately

1 and the fastest. Next year, there is time to put a package
2 together, a budget together, and according to the estimates
3 that I have had from my staff, they were looking at at
4 least about a three and a half billion dollar deficit on
5 a current services concept. It seems to me to gain $20
6 million to fill this gigantic three and a half billion dollar
7 hole is not worth the loss in the long term. That's my
8 feeling, Mr. Chairman.
9 MR. TROUT: We might point out, however, for
10 your consideration, that when you are getting rent up front,
11 you are also reducing the risk in case there is no oil in
12 the property at all so that it isn't a total --
13 COMMISSIONER ACKERMAN: Is that factored in,
14 though, to the three to four point difference in net profits
15 figures? I mean, net profits is bid risk.
16 EXECUTIVE OFFICER DEDRICK: That's right. That
17 is already factored into that, yes.
18 CHAIRPERSON CORY: It would seem to me that if I
19 were an oil company -- my view is that they know their
20 business better than we know it, and to bet to come that
21 somehow they are going to blow money by bidding stuff that
22 isn't there very often is just philosophically -- they are
23 going to win that bet. Just like when you go to Tahoe, those
24 odds are in favor of the house, not in favor of the gambler.
25 EXECUTIVE OFFICER DEDRICK: I think that's true.

1 I think the companies, given time to get the exploration
2 information and interpretation that they will need, are
3 not going to bid on parcels that they don't think have oil.
4 COMMISSIONER ACKERMAN: For our own comparisons --
5 I know what your feelings are, Mr. Chairman, but could the
6 staff compare for me a bonus bid with a sliding scale
7 royalty, using the same rough dollar amounts. We are talking
8 about total income to the state. There was one witness
9 yesterday, I believe -- maybe two -- that said that the
10 federal experience has been that the bonus bid of sliding
11 scale royalty has provided greater income than would a net
12 profits lease. Is that in fact the case or was that an
13 erroneous statement from yesterday?
14 EXECUTIVE OFFICER DEDRICK: Let me check with
15 Moose on that.
16 COMMISSIONER ACKERMAN: Because we are looking
17 at total dollar amounts over the life of the lease, and the
18 royalty type lease will give the same amount or greater money
19 over the 20 year term. If we're talking about the same
20 bonus up front, it doesn't make any sense to go net profits,
21 does it?
22 CHAIRPERSON CORY: I think the sliding scale
23 royalties tend to be a lower percentage than the net profits
24 percentage.
25 COMMISSIONER ACKERMAN: But it's the dollars.

1 CHAIRPERSON CORY: I don't know of a lease --
2 sliding scale royalty has been relatively new, as I recall
3 in the industry, and I don't know of any field that has
4 gone to maturity so that you could close the loop and make
5 a comparison. I could be mistaken, but that's my recollec-
6 tion. My recollection was that sliding scale royalty was
7 not something that the industry was very fond of or any other
8 proposals.
9 EXECUTIVE OFFICER DEDRICK: They prefer a fixed
10 rate royalty, but that is illegal under California law.
11 COMMISSIONER ACKERMAN: Well, earlier the staff
12 had provided me with two charts which showed comparison of
13 the cash flow of a sliding scale royalty with a cash bonus
14 and a net profits lease without a heavy rental factor in it.
15 The dollar amounts in both charts were the same, but the
16 cash flow projections were different.
17 EXECUTIVE OFFICER DEDRICK: That's correct. The
18 conventional wisdom is that the total amount of money that
19 a company will bid is based on the resource and their own
20 internal financial activities or predilections, I guess, and
21 it doesn't matter which one you bid. Given that their
22 projection of oil prices agrees with what actually happens,
23 you will get the same amount of money. You will get it a
24 little sooner, one to two years -- is Moose nodding or
25 shaking his head? -- with a bonus and a royalty than you

1 will with a net profits, obviously, because you don't start
2 getting net profits until you have paid some up front costs.
3 Now the net profits lease proposal that we have
4 includes a lot of things added to the net profits that
5 count up front which gives the companies a level of certainty
6 that they wouldn't have with a lot of different kinds of
7 net profit leases. And that may mean -- well, I think it
8 would mean that it is much more acceptable to them, but I
9 don't think that those things would make a substantial change
10 in the time frame in which you could expect the cash flow
11 to start because you don't get a profit until you pay off
12 your expenses.
13 COMMISSIONER ACKERMAN: So, basically, Claire,
14 what you are saying is that if the price of oil escalates,
15 whether you go a net profits or royalty, the income to
16 the state would be roughly the same under both types of
17 leases?
18 EXECUTIVE OFFICER DEDRICK: No. If the price of
19 oil does what the oil companies in their individual wisdom
20 say, that would be true. If the price of oil, however, goes
21 up faster than the increase in expenses, the state will make
22 more money out of the net profits lease than they will out
23 of the sliding scale royalty lease.
24 COMMISSIONER ACKERMAN: What happens if the
25 reverse is the case?

EXECUTIVE OFFICER DEDRICK: You would make less.

CHAIRPERSON CORY: The variable is, the unknown quantity to the bidder is hedging against the unknown, and it is my view that a reasonable businessperson -- and I believe that people in these companies are reasonable people -- they have to hedge their down side risk in each and every case, and they have to assume -- the number of times you are going to catch them not having hedged their bets properly, that you are going to gain from them, is the same statistical advantage that you have over the house at Reno. It can happen, but in the long run, it is not going to work. They are going to have to sit there and figure out what is the risk of the costs going up, and there is going to have to be a net profit there. And we are better off betting on their side of the table than trying to bet on the sucker's side of the table. And that's why I prefer exercising the net profits proposal over the sliding scale because --

COMMISSIONER GRAVES: I object to being called a sucker, Mr. Chairman.

(Laughter.)

CHAIRPERSON CORY: The fish side of the table.

(Laughter.)

CHAIRPERSON CORY: The point, regardless of the nomenclature, the difficulty is that they have to hedge their bet to ensure that they have got a profit. Once they

1 get to where they are hedging the bet, you are leaving money
2 on the table, in my judgment.
3 COMMISSIONER ACKERMAN: You are basically saying
4 if we exercise our risk along with the companies, since they
5 are in the business to make a profit and to protect that
6 profit, we have a tendency to lower our risk against future --
7 CHAIRPERSON CORY: There seems to have been a
8 role reversal here, but I think I'm advocating that private
9 enterprise works, and you seem to question it.
10 (Laughter.)
11 CHAIRPERSON CORY: I think they are better at
12 their business than we could ever possibly be, and we are
13 better off betting with them on their side of the table.
14 They are going to take care of themselves in their bid.
15 COMMISSIONER ACKERMAN: Are you saying in the net
16 profits, really, the state is assuming less risk?
17 CHAIRPERSON CORY: It is my judgment, because if
18 I were sitting on the other side, I would have to worry about
19 those years in which the price of oil does not exceed the
20 inflation of cost and hedge my bid downward because of that.
21 EXECUTIVE OFFICER DEDRICK: Yes. I think that
22 the incentive of the net profits lease, there is a real
23 incentive there. Now you know, we run into some problems with
24 our old leases that are getting close to the end of their
25 life and there isn't a lot of incentive to keep maintaining

1 those leases and producing oil in a small revenue because
2 it is a percent of royalty. They are at the end of their
3 life, sliding scale royalty, and that's a royalty on
4 percentage. So it's always a problem. With a net profits
5 lease, with the conditions I think that we have built into
6 the accounting procedure, there is a lot more incentive to
7 keep that lease producing, to keep making a profit on the
8 lease.
9 COMMISSIONER ACKERMAN: So in reality then, that
10 has the potential of greater income to the state over a
11 longer period of time.
12 EXECUTIVE OFFICER DEDRICK: We think so.
13 COMMISSIONER GRAVES: That's the way I interpret
14 it as well, for essentially the same reasons, but not the
15 same nomenclature as Mr. Chairman.
16 COMMISSIONER ACKERMAN: You are not advocating
17 the private sector's economy here?
18 CHAIRPERSON CORY: I think it is fish, sucker and
19 turkey.
20 (Laughter.)
21 CHAIRPERSON CORY: Where do we want to put the
22 numbers? I think we are down to -- I stated my position.
23 COMMISSIONER GRAVES: My understanding is that
24 we are discussing Alternative 1 that the staff put together.
25 CHAIRPERSON CORY: We have open option.

1 COMMISSIONER GRAVES: Right.

2 CHAIRPERSON CORY: I just happened to pick 1
3 as a compromise from my purist position of a dollar an acre
4 to try to deal with something up front from what I under-
5 stand Mr. Franchetti --

6 COMMISSIONER ACKERMAN: My main concerns here
7 really are two or three. One is that we do get cash up
8 front to help the state's budget situation in the next two
9 fiscal years.

10 COMMISSIONER GRAVES: It will be interesting to
11 see if this goes with the General Fund.

12 COMMISSIONER ACKERMAN: Well, it is, I believe,
13 up to the Legislature.

14 COMMISSIONER GRAVES: Yes.

15 COMMISSIONER ACKERMAN: Second is that we provide
16 an incentive to maximize production over the life of the
17 field, so that just because we are into a situation where
18 it is, quote, "not profitable to extract," so we have
19 minimized that situation, and so we encourage the industry
20 to produce.

21 Third criteria that I want to make sure is in here
22 is that we encourage an incentive, therefore, early
23 development, so there is no incentive just to sit on it to
24 play the price of oil or anything else.

25 COMMISSIONER GRAVES: I think the staff has

1 answered your second one. What about the third one?

2 COMMISSIONER ACKERMAN: The third, I think when

3 we talk about money up front, since there is already an

4 investment made, that that is incentive. That's why a pure

5 net profits doesn't excite me too much, because there is

6 not the front-end cash loading where there is already an

7 investment.

8 COMMISSIONER GRAVES: There is a flaw in Mr.

9 Cory's argument.

10 CHAIRPERSON CORY: Only that fools think is there.

11 (Laughter.)

12 COMMISSIONER GRAVES: Whew.

13 CHAIRPERSON CORY: "He said humorously."

14 (Laughter.)

15 COMMISSIONER GRAVES: Is that correct?

16 EXECUTIVE OFFICER DEDRICK: Yes. One of the

17 major concerns of the oil companies and of our staff is

18 that with no front-end loading, you encourage speculation

19 and the sort of problem that Commissioner Ackerman has

20 raised. With too much front-end loading, you discourage

21 competition. So we're at middle ground.

22 COMMISSIONER GRAVES: Middle ground, of course.

23 COMMISSIONER ACKERMAN: And also to encourage --

24 I would hate to have us front load it so much that when the

25 companies run the figures, no one bids.

CHAIRPERSON CORY: What was the quote? "Extremism in pursuit of virtue is no vice."

COMMISSIONER ACKERMAN: Basically, it is where do we draw the line to make a sound financial decision and still encourage the incentives and the bidding and competition?

COMMISSIONER GRAVES: Right.

Well, I'm fairly satisfied with the staff response that your last two criteria are met. It seems to me our only arguing point, I think right now, is where to draw the line.

COMMISSIONER ACKERMAN: How much money.

COMMISSIONER GRAVES: How much up front as opposed to tradeoffs in the long term.

COMMISSIONER ACKERMAN: Well, I know where the Chairman is. Where are you?

COMMISSIONER GRAVES: I hate to say this, but I am with the Chairman.

(Laughter.)

COMMISSIONER GRAVES: As I said, in terms of what we gain in the front end, we lose a lot, it seems to me -- two to two and a half to one. We lose a lot over the long term, and in terms of meeting the problem in next year's budget of several billion dollars, this is going to be such a little marginal amount, it seems to me it is not worth the cost of upping the front load. So I would tend to go with

Alternative 1.

CHAIRPERSON CORY: Those are amounts by parcel number, 1 through 8 -- ten, ten, two, two, four, two, two and two -- and those are in millions. That's the annual rental rate for the first two years.

EXECUTIVE OFFICER DEDRICK: That is correct.

CHAIRPERSON CORY: What happens if for some reason, permitting or what have you, that that has to be extended, the exploration phase?

EXECUTIVE OFFICER DEDRICK: The staff proposal would be that these rentals are for three years. After that it would drop to a dollar an acre. These are roughly 5,000-acre parcels.

COMMISSIONER ACKERMAN: Let me offer another idea, maybe. If taking the $102 million that we are talking about here then, what if there were, since we are talking about three years -- what is the effect on the net profits bid if it is divided up differently than 30 percent/30 percent/30 percent? Would it be front loaded in the first year, and, still talking about 102 million, have a lesser amount of rent in the second two years? Does that significantly affect your cash on the back end?

EXECUTIVE OFFICER DEDRICK: You are talking about the first year was what?

COMMISSIONER ACKERMAN: Say you went 20 million

on each lease in the first year and five million in each of the other two years. What would the impact of that arrangement be?

EXECUTIVE OFFICER DEDRICK: Twenty, five to five.

Could you address that to the staff down there? That's one we didn't calculate.

CHAIRPERSON CORY: While he is trying to come up with his estimates, another way to meet that -- and I am wondering if we could have some variations in there where we might be able to negotiate with the bidder between now and then, because I did get a report back from Mudge Rose (ph) today that the concept would require a statute, but we could do a revenue bond, a pass-through, tax exempt revenue bond, because if you analyze the financial structure of making that payment, the private sector company is going to have to, in essence, take its working capital or go to its banker and get that money. Its worth of that money is likely to be a greater percentage than what we could borrow with the tax exempt mechanism. If we could get a statute through the Legislature, we could, in essence, advance all of that money through the first year at no cost, to your proposal of asking them to do it on their sector. They have got to use their effective interest rate that they have to borrow money at which I would guess would be from ten to twenty percent. We should be able to get the money from the market

1 at about half that rate. If the only security interest
2 is the winning bidder's lease payment, you are in essence
3 ripping off the federal government.
4 COMMISSIONER GRAVES: And also mucking up the
5 municipal bond market.
6 CHAIRPERSON CORY: It could be done, but that
7 would take a -- we might be able to negotiate with the
8 bidders, because it is no difference to them.
9 COMMISSIONER GRAVES: If it is no difference to
10 them, then why bother to help them, in terms of our involve-
11 ment.
12 CHAIRPERSON CORY: Well, it seems like we could
13 negotiate that with an oil company as long as they weren't
14 losing money on the deal.
15 COMMISSIONER GRAVES: Right.
16 CHAIRPERSON CORY: And the interest rate is coming
17 from the tax exemption on the interest.
18 COMMISSIONER GRAVES: Right.
19 COMMISSIONER ACKERMAN: Then I have a legal
20 question for the staff. Let's say today it was decided to
21 go -- let's say ten, ten and ten. Is there anything that
22 prevents the Commission sometime next year from readdressing
23 this question of bonding or whatever and rejuggling the
24 money to accommodate any legislation that might be passed
25 or be considered by the Legislature?

1 MR. HIGHT: No. The Commission would be
2 completely free at any time to change the terms. The only
3 problem is that they may have to extend the time to receive
4 the bids if in some way that would change the company's
5 analysis.
6 COMMISSIONER ACKERMAN: So if my proposal of
7 front loading 20 and 5 and 5, even if we did that now, there
8 is nothing that restricts the Commission from changing that?
9 CHAIRPERSON CORY: Did you get Dave's question
10 answered?
11 EXECUTIVE OFFICER DEDRICK: Yes, a half a percent.
12 There is another alternative, too, and I think
13 it already exists in the lease form -- correct me if I am
14 wrong. You have the alternative of putting out both things
15 for calculation and then choosing one down the road. Is
16 that correct, Bob?
17 MR. HIGHT: I'm sorry. I was listening to Greg,
18 and he wanted me to add that the only thing the Commission
19 would have to do is amend the bid terms in the bid package
20 to provide for the alternative of rent.
21 EXECUTIVE OFFICER DEDRICK: That's correct, but
22 I think you could put both alternatives in the bid package
23 now, and if the statute passed, amend the bid package to
24 say that that is what you want to do. I'm not sure that is
25 wise, but I think you have that option; is that correct?

1 CHAIRPERSON CORY: The borrowing thing, I think
2 we should not make until down the road.
3 COMMISSIONER GRAVES: It needs further examination
4 and further study.
5 MR. HIGHT: Right.
6 CHAIRPERSON CORY: What about Dave's counter-
7 proposal?
8 COMMISSIONER GRAVES: Again, a half a point is
9 much more attractive than three to four. It's still two
10 to one. You have to make some sort of assumptions about
11 what is happening in '84/85 and '85/86. I am not convinced
12 -- I really don't know what '84/85 and '85/86 hold for the
13 state if indeed there is some sort of -- because our tax
14 base is so elastic and our tax records are so elastic and
15 tied to the economy, if you make the assumption that there is
16 a decent economic growth in '84/85 and '85/86, then the
17 state will be better off than it is now, last year and the
18 year before. In that case, assuming that these moneys are
19 fungible into the General Fund -- I mean, otherwise, I don't
20 see why we are discussing this -- then I can see a tradeoff.
21 You would get some more money in '83 for next year's budget.
22 Quite frankly, I don't know -- and I don't know whether this
23 is a good tradeoff. Again, we are talking about 20 million.
24 We are losing ten million in each of the subsequent years.
25 So we are picking up $20 million and losing 10 in each of

1 the subsequent years. I'm not convinced that is a positive
2 thing.
3 I can see what you are driving at. I know where
4 you are going. I go back to my original premise that in
5 terms of a three to a three and a half billion dollar deficit,
6 we are still talking about amounts that are small.
7 COMMISSIONER ACKERMAN: I'm just willing to
8 weigh that oil companies normally used to bidding -- It's the
9 cash bonus with the royalty which means it is 100 percent
10 up front. We could require all of the rent in the first
11 year, too, but in order to avoid some costs to the companies,
12 to enhance the net profit side of the bid, we have talked
13 about stretching it out over the first three years. You
14 could go five years. It could all be in the first year.
15 So I think we are just kind of playing with it again. It
16 used to be that $100 million was a prudent working surplus.
17 COMMISSIONER GRAVES: Which we lose in two weeks'
18 time in these days.
19 COMMISSIONER ACKERMAN: But it used to be so.
20 If you look at 10 or 20 million here or there, that is
21 still an awful lot of money. In fact, there are a lot of
22 agencies that collectively don't spend $20 million.
23 COMMISSIONER GRAVES: Obviously. Absolutely
24 correct. I even said earlier that 11 million was a lot of
25 money.

1 EXECUTIVE OFFICER DEDRICK: I might caution you
2 that the budget of the State Lands Commission is eight
3 million.
4 (Laughter.)
5 COMMISSIONER ACKERMAN: All covered by Moose's
6 revenue strategies.
7 EXECUTIVE OFFICER DEDRICK: Right.
8 COMMISSIONER GRAVES: Again, that raises the
9 other issue. It's not clear that the Legislature will take
10 the tidelands revenues and put it in the General Fund,
11 which the problems we are having are all in the General Fund.
12 Because we have moved some money out of the tidelands in
13 order to balance the General Fund, it has worsened the
14 situation for those programs that are financed out of the
15 tideland, to the extent that tidelands was to be sort of
16 a capital budget as opposed to an operations budget, not-
17 withstanding that the State Lands Commission operates right
18 off the top. Then everything trades off between capital,
19 maintenance, what have you -- capital outlay as opposed to
20 operating budgets. These are all interesting questions.
21 We don't know the answers. If the argument is based on the
22 hypothesis that we need more money in '83/84 than in
23 subsequent years, I am not convinced that we ought to go
24 that route. If we are making this decision based on some
25 other argument, I am willing to --

1 CHAIRPERSON CORY: I am willing to stick with
2 the flat ten. It's you two.
3 COMMISSIONER GRAVES: I would still rather go
4 with the ten/ten.
5 CHAIRPERSON CORY: Okay. We will go with ten,
6 ten, two, two, four, two, two, two.
7 COMMISSIONER ACKERMAN: That's 34 million in
8 each of the first three years.
9 CHAIRPERSON CORY: With the option we may be able
10 to figure out a way to accelerate the major portion of that
11 later on.
12 MR. TROUT: Then the next step in the rental
13 process or the bid process is for you to establish, if you
14 wish, a minimum net profit bid which you would accept. That
15 was recommended 65 percent on the basis of Alternative 1.
16 CHAIRPERSON CORY: On all of them?
17 EXECUTIVE OFFICER DEDRICK: No. Jim is one
18 conversation behind.
19 On the first two, I would like to leave this open
20 for a second. We are recommending 50 percent on the last six.
21 CHAIRPERSON CORY: 3 through 8.
22 EXECUTIVE OFFICER DEDRICK: Now, I should tell
23 you that there is a slight division in staff on the first two.
24 COMMISSIONER GRAVES: Where are the biggest guys?
25 EXECUTIVE OFFICER DEDRICK: I think you are

1 sitting up there.

2 (Laughter.)

3 EXECUTIVE OFFICER DEDRICK: Moose I think ought

4 to have a right to tell you why he thinks it ought to be

5 50 percent across the board.

6 CHAIRPERSON CORY: He can't do that and be home

7 for Christmas.

8 (Laughter.)

9 EXECUTIVE OFFICER DEDRICK: Well, Moose has been

10 in the oil business a lot longer than I have, but I think

11 a 60 percent minimum on those first two would not be harmful,

12 but I would like for Moose to be able to respond to that.

13 MR. HIGHT: Moose, what do you say? Put a

14 60 percent minimum on the first two. What does that do?

15 Is that okay?

16 CHAIRPERSON CORY: Or 65.

17 EXECUTIVE OFFICER DEDRICK: Or 65.

18 MR. HIGHT: Will you buy 65?

19 He wants 50 for all of them.

20 COMMISSIONER GRAVES: So we understand, and why?

21 MR. HIGHT: Why?

22 His words are, "It prevents discouraging anybody

23 from bidding."

24 EXECUTIVE OFFICER DEDRICK: Well, if we are

25 doing our arithmetic on a 65 percent net profit --

1 COMMISSIONER ACKERMAN: No, we are only
2 considering --
3 COMMISSIONER GRAVES: Sure. Why should we even
4 go down to 60?
5 EXECUTIVE OFFICER DEDRICK: Jim's recommendation
6 is 65. I feel the same way.
7 CHAIRPERSON CORY: There are distinctions in
8 terms of probabilities between Parcels 1 and 2 in one group,
9 and Parcels 3 through 8 in the other group.
10 EXECUTIVE OFFICER DEDRICK: That is correct.
11 CHAIRPERSON CORY: There is more geological data
12 now.
13 COMMISSIONER GRAVES: I understand. So I mean,
14 if you are suggesting 65 percent on Parcels 1 and 2 and
15 something other for 3, 4, 5, 6, 7 --
16 CHAIRPERSON CORY: Fifty percent on the others
17 is where I was coming from, understanding that Moose doesn't
18 like minimums. I mean, if you are a shot-putter, you get
19 three tries. You've got to understand. It's not like a
20 sprinter. A sprinter has got to get there and break the
21 tape. A shot-putter, he has got three tries. So it is all
22 sort of similar.
23 COMMISSIONER ACKERMAN: Is there a likelihood
24 that if we set a 65 percent minimum, we would receive no bids?
25 CHAIRPERSON CORY: That is a possibility.

EXECUTIVE OFFICER DEDRICK: No. Moose doesn't think that is likely, do you, Moose?

MR. HIGHT: Small.

COMMISSIONER ACKERMAN: Is it severely limiting competition, setting a minimum that high?

EXECUTIVE OFFICER DEDRICK: The answer is, who knows. This is a crap shoot, right?

COMMISSIONER GRAVES: I see no reason to go below 65. I want to stick with 65. All of our calculations were done on 65.

CHAIRPERSON CORY: Sixty-five on the first two. That's agreed. And 3 through 8, what number?

COMMISSIONER GRAVES: Fifty.

CHAIRPERSON CORY: Fifty.

What is our next choice? Timing?

EXECUTIVE OFFICER DEDRICK: Timing. Well, I wasn't dead sure whether you had made that decision.

COMMISSIONER ACKERMAN: I think we are clear on that. That is what? August 15th?

EXECUTIVE OFFICER DEDRICK: It's the middle of the third quarter, and it's a Monday.

COMMISSIONER GRAVES: And it fits well between the other sales, the Alaska sales and --

CHAIRPERSON CORY: What do you have -- 60, 75, 90 days for review?

1 EXECUTIVE OFFICER DEDRICK: We have been talking
2 about 60. Unless there is reason for second thoughts, we
3 could stick with that.
4 MR. HIGHT: I don't think at this point we would
5 have to set that.
6 COMMISSIONER ACKERMAN: Is there already a
7 statutory limit on how long --
8 COMMISSIONER GRAVES: Well, won't the bidder
9 want to know?
10 CHAIRPERSON CORY: The bidder will want to know
11 how long you have got to massage the data, I would think.
12 MR. HIGHT: Allow 90 days. The bids would be
13 good for 90 days.
14 COMMISSIONER ACKERMAN: There's financial
15 commitments. Those have to be held for a certain period of
16 time.
17 COMMISSIONER GRAVES: So what? Ninety days?
18 CHAIRPERSON CORY: Yes.
19 EXECUTIVE OFFICER DEDRICK: Okay.
20 CHAIRPERSON CORY: After August 15th. August
21 15th, the bids are due, and 90 days after that.
22 EXECUTIVE OFFICER DEDRICK: I have a question.
23 COMMISSIONER GRAVES: Or earlier.
24 COMMISSIONER ACKERMAN: Not to exceed 90 days.
25 EXECUTIVE OFFICER DEDRICK: Okay.

You made the decision to go to lease on all eight parcels when you made the decision to go to lease; right?

COMMISSIONER GRAVES: That is correct.

Next?

CHAIRPERSON CORY: Stipulations -- is that the next item?

EXECUTIVE OFFICER DEDRICK: I think so.

MR. TROUT: That's the last item.

CHAIRPERSON CORY: Have we got everything else but the stips done?

EXECUTIVE OFFICER DEDRICK: Yes, I think so.

MR. FRANK: Mr. Chairman, I think you ought to make explicit the fact that in making each of these decisions you are adopting the proposed staff findings referenced on pages 23 and 24 of the calendar item.

COMMISSIONER GRAVES: At what page?

MR. FRANK: 23 and 24 of the calendar item. It really doesn't matter as long as it is made explicit that those findings are referenced in each of the decisions that you are making today at some point.

COMMISSIONER ACKERMAN: We have to revise two of them, based upon the actions that we did take. 8(c) and (d) no longer work because they reference specifically the bonding alternative.

EXECUTIVE OFFICER DEDRICK: Let me read you what I have, and see if we are in agreement. Page 24 of the calendar item, Item 8, you adopted the tract layout shown in Exhibit 3. The bids are received August 15th. The net profit share is (c).

COMMISSIONER ACKERMAN: Right, but in the net profits lease, if you look at page 4, it references that the lessee shall underwrite the revenue bonds.

MR. HIGHT: That we will take out.

EXECUTIVE OFFICER DEDRICK: In (d), four years becomes three years.

Rental table annually in advance is rental for the first three years.

MR. TROUT: (c) and (d) would have to be rewritten to reflect the decision of the Commission.

CHAIRPERSON CORY: Okay. The stips.

COMMISSIONER GRAVES: The stipulations begin on what page?

EXECUTIVE OFFICER DEDRICK: On page 106.

MR. TROUT: Your tab Exhibit F.

COMMISSIONER GRAVES: F as in fish.

MR. TROUT: As in fish.

EXECUTIVE OFFICER DEDRICK: Appropriately enough. Not trout. Other kinds of fish.

(Laughter.)

COMMISSIONER GRAVES: As long as he doesn't carp.

(Laughter.)

EXECUTIVE OFFICER DEDRICK: Stipulations 1 through 9 are based on the results of the environmental impact reporting process. They have been amended in some places, as I told you.

CHAIRPERSON CORY: Could somebody tell me something about this calendar item?

EXECUTIVE OFFICER DEDRICK: Yes.

CHAIRPERSON CORY: It goes (a), (b), (g).

EXECUTIVE OFFICER DEDRICK: Well, actually it had to do with --

COMMISSIONER ACKERMAN: It was an attempt to confuse us, but they didn't succeed.

(Laughter.)

EXECUTIVE OFFICER DEDRICK: What happened was --

CHAIRPERSON CORY: This is a hell of a time to be asking.

COMMISSIONER GRAVES: They didn't think we knew the alphabet.

CHAIRPERSON CORY: Is it a different alphabet or is it random selection?

EXECUTIVE OFFICER DEDRICK: The latter is closer. The exhibits got stuck in the machine and didn't come out until everything else was tabbed, so they ended up (g), but they are more appropriately placed closer to the

1 calendar item.

2 CHAIRPERSON CORY: Because I found (g) on several

3 occasions, but then I lost it, because I made the mistake

4 of looking for it alphabetically.

5 (Laughter.)

6 EXECUTIVE OFFICER DEDRICK: Well, it is at the

7 lower end of the page. I mean, if you just sort of look

8 down the page, you don't have a problem.

9 COMMISSIONER GRAVES: Claire, you don't have to

10 put up with this.

11 (Laughter.)

12 CHAIRPERSON CORY: Moving right along.

13 COMMISSIONER GRAVES: And the first nine, Claire,

14 were related to the EIR?

15 EXECUTIVE OFFICER DEDRICK: Were based on the

16 environmental impact reporting process with amendments

17 that had been put in from subsequent testimony. Would you

18 like me to go through them?

19 COMMISSIONER GRAVES: Then this also conforms

20 everything we are doing with what we are doing in other

21 parts of the state?

22 EXECUTIVE OFFICER DEDRICK: That is correct.

23 This is more stringent than any of our old leases, but we

24 haven't done a lease since 1968 and it's a new universe;

25 right?

COMMISSIONER GRAVES: Right.

EXECUTIVE OFFICER DEDRICK: I think I should say, Bob, or one of us should, that the leases will have to be checked closely to be brought in conformity with whatever stipulations you adopt today.

MR. HIGHT: It is the intent that these stipulations would become lease provisions, so the lease will have to be modified in accordance.

COMMISSIONER GRAVES: Shall we go through this one by one.

EXECUTIVE OFFICER DEDRICK: I have been corrected by the Chief of the Environmental Section. 1 through 9 were specifically referenced in the EIR, but all of the stipulations are based on the Environmental Impact Report and testimony on that report.

CHAIRPERSON CORY: The first nine were referenced in the report itself, and so those, there have been a lot of things gone through. 10 on are the ones that are sort of the new items.

I have a question about the labor one.

EXECUTIVE OFFICER DEDRICK: Okay.

CHAIRPERSON CORY: The labor gist, in essence, requires that they be U.S. citizens or permanently admitted residents. I presume that is constitutional.

MR. HIGHT: Yes.

1 EXECUTIVE OFFICER DEDRICK: This particular
2 language came from the Department of Industrial Relations.
3 CHAIRPERSON CORY: Okay. That's fine. I just
4 wanted to --
5 EXECUTIVE OFFICER DEDRICK: -- make sure it's
6 legal.
7 MR. SANDERS: The suggested stipulation in its
8 original form was advanced by the State of California.
9 CHAIRPERSON CORY: There are some sort of public
10 connotations to taking that in the context of an Environ-
11 mental Impact Report, but I will overlook that.
12 EXECUTIVE OFFICER DEDRICK: Bob, I think, may
13 have something to say.
14 MR. HIGHT: It was put in at the request -- it
15 was one of the Governor's stipulations, and it was put in
16 because of that. Greg has a small question now about whether
17 it is entirely constitutional, but we will resolve that
18 issue.
19 CHAIRPERSON CORY: The Governor is a lawyer. I'm
20 not. Both incoming and outgoing. But I just --
21 COMMISSIONER GRAVES: No, it's a good question,
22 a very good question.
23 MR. HIGHT: We will make them severable so that
24 in the event --
25 COMMISSIONER GRAVES: Fine. Do that.

1 CHAIRPERSON CORY: I would like the record to
2 show that that is a stipulation concerning contractual,
3 social questions and not anything to do with the Environ-
4 mental Impact Statement.
5 COMMISSIONER GRAVES: Are you moving we adopt?
6 CHAIRPERSON CORY: Yeah, the first nine.
7 Do you have any questions?
8 COMMISSIONER ACKERMAN: No, I guess not.
9 COMMISSIONER GRAVES: Second.
10 CHAIRPERSON CORY: Okay. Without objection --
11 COMMISSIONER GRAVES: Yes.
12 COMMISSIONER ACKERMAN: Yes.
13 CHAIRPERSON CORY: -- those are adopted.
14 COMMISSIONER GRAVES: Adopted with this one
15 severable.
16 CHAIRPERSON CORY: Item 10, Drilling Muds and
17 Cuttings. This was added because of questions raised and
18 is more restrictive, but it is feasible to do from all
19 of the indications that you have had?
20 EXECUTIVE OFFICER DEDRICK: That is correct.
21 CHAIRPERSON CORY: Contrary to some of the
22 testimony that it was not possible to do so, but it is
23 possible and it will be done.
24 EXECUTIVE OFFICER DEDRICK: It is not only
25 possible and will be done, but it is also already being done

on some state leases existing.

COMMISSIONER ACKERMAN: The industry has also said that this is workable and can be accomplished.

You received no negative comments from the industry on this stipulation?

EXECUTIVE OFFICER DEDRICK: That is correct.

CHAIRPERSON CORY: Without objection, 10 is approved.

Spill response.

EXECUTIVE OFFICER DEDRICK: There are two parts to this stipulation -- one requiring a dedicated Clean Seas-type vessel with secondary response, and the second requiring funding of semiannual oil spill -- oh, I would like to amend the stipulation from what you have before you. In the second paragraph:

"Lessees shall fund annually" -- add "semiannual" -- "oil spill response training of the members of the SIOSC as directed by the Chairman of the SIOSC."

CHAIRPERSON CORY: "Lessees shall fund annually..."

COMMISSIONER GRAVES: And semiannually?

EXECUTIVE OFFICER DEDRICK: No, "semiannual."

COMMISSIONER GRAVES: Semiannual training -- got it.

EXECUTIVE OFFICER DEDRICK: Response training.

1 We had to decide how many drills a year were necessary --
2 I mean, training exercises were necessary in order to
3 determine what funding level was required.
4 COMMISSIONER GRAVES: I understand.
5 COMMISSIONER ACKERMAN: Yesterday, Claire
6 testified that you wanted a cap on this. Is that sufficient
7 to be a cap?
8 EXECUTIVE OFFICER DEDRICK: Yes, I think so.
9 They want to know how much money is involved, and I will
10 give you what we think the money is that is involved.
11 The third is the tertiary capability to reduce
12 that response time from 24 hour to 4 hours. Do you want
13 the bucks?
T4 14 CHAIRPERSON CORY: There are two pages 118. One
15 is an amendment which has the --
16 MR. TROUT: Yes.
17 CHAIRPERSON CORY: I wanted the Commission to
18 make sure they know which 118 they are looking at.
19 EXECUTIVE OFFICER DEDRICK: What is that?
20 CHAIRPERSON CORY: I have two pages 118.
21 (Brief discussion off the record.)
22 CHAIRPERSON CORY: But it is the one that has
23 the statement:
24 "This funding shall also include amounts
25 necessary to finance monitoring activities of

the State Lands Commission and the Department of Fish and Game."

Because there are two, I want to make sure that the Commissioners knew which one they are looking at.

COMMISSIONER GRAVES: Lucky for me and lucky for Dave, we have already crossed out.

CHAIRPERSON CORY: Okay.

EXECUTIVE OFFICER DEDRICK: The cost for the Clean Seas --

COMMISSIONER ACKERMAN: Are we going to go over the cost of all of the stipulations?

EXECUTIVE OFFICER DEDRICK: Would you like them all at the end?

COMMISSIONER ACKERMAN: Dwight mentioned something earlier on that I would beg to disagree with just a little bit, and that's who pays for it. He said the lessee pays, but because the money is bid on a relationship as to what all costs are, ultimately the state pays.

EXECUTIVE OFFICER DEDRICK: That is correct.

COMMISSIONER ACKERMAN: What I'm concerned about Mary Ann Miller was talking about the amount of money that we were losing out the back end because of a tradeoff of putting more money at the front end. I think we also should carefully look at what the cost benefit is of these

1 stipulations, and the cost of it could be rather astro-
2 nomical.
3 EXECUTIVE OFFICER DEDRICK: Yes, you are right,
4 and I think that since you have now decided to go to the
5 net profit, the state will not be paying 100 percent of
6 those costs, but only the net profit percentage of those
7 costs, say 65 percent.
8 COMMISSIONER ACKERMAN: But what I am still
9 saying is that has the impact of reducing the net profit bid
10 because the money comes out of one pocket. There is no
11 such thing as a free lunch.
12 COMMISSIONER GRAVES: May I quote you.
13 COMMISSIONER ACKERMAN: Yes.
14 (Laughter.)
15 (Brief discussion off the record.)
16 COMMISSIONER GRAVES: Why don't you continue,
17 Claire.
18 EXECUTIVE OFFICER DEDRICK: Do you want the part
19 about money or just go through the stips.
20 CHAIRPERSON CORY: Lay it on us.
21 EXECUTIVE OFFICER DEDRICK: Okay. The cost of
22 the Clean Seas-type secondary response, the dedicated
3 vessel --
4 COMMISSIONER ACKERMAN: That's number one, correct?
25 EXECUTIVE OFFICER DEDRICK: Yes, the first

1 paragraph, right -- is about a million in capital investment
2 and a million a year over 20 years for the lease, which
3 we would make cumulative, so if you use less one year, you
4 would come out. The cap would be for the life of the lease,
5 $21 million.
6 The drills are relatively cheap, $300,000 a year.
7 The cap for the 20 year life of the lease, $6 million.
8 The strike force improved capability would be
9 ten million capital investment and operating costs of a
10 million dollars a year over the life of the lease. This
11 one also should be cumulative. The total cost then, the
12 cap would be 30 million.
13 COMMISSIONER ACKERMAN: So you are saying that
14 Stipulation Number 11 costs us $56 million?
15 CHAIRPERSON CORY: Fifty-seven million.
16 COMMISSIONER ACKERMAN: Fifty-seven million?
17 EXECUTIVE OFFICER DEDRICK: That is correct.
18 COMMISSIONER ACKERMAN: And that would be
19 reflected in the net profits?
20 EXECUTIVE OFFICER DEDRICK: Well, I am sure that
21 all of this stuff will be reflected in the net profits.
22 COMMISSIONER ACKERMAN: Yeah, it has to be.
23 CHAIRPERSON CORY: Fifty-seven million -- if it
24 wasn't there, somebody might bid a slightly higher percentage,
25 and, in any event, since we are in a net profits position,

the state if funding 50 percent of it or 65 percent or whatever the percentage is. But we are likely to be taking a double lick, first on the percentage and then that somebody, because they know they have to pay back, is likely to reduce what they can afford to pay because they know their costs are higher.

MR. HIGHT: Greg says you are right.

(Laughter.)

CHAIRPERSON CORY: You know what that sounds like to me is Van de Kamp just canned him. He's looking for a job. He has never said I was right in his life.

Hi, Greg.

(Laughter.)

EXECUTIVE OFFICER DEDRICK: Okay. Stipulation 13 is --

COMMISSIONER ACKERMAN: Stipulations 1 through 9 also had some expense, didn't they?

EXECUTIVE OFFICER DEDRICK: Stipulations 1 through 9, with the exception of the labor thing which is not an estimable expense, if there is one, are all tied to the site specific EIR's. That is already in the regs in the normal course of doing business. To some extent, also, I think that the costs in the oil spill cleanup situation also would be required by our ordinary regs because they have to file an operable oil spill contingency plan. The

1 most important thing you do by adopting these regulations
2 is establishing legal response times that are realistic
3 for the area -- two hours and four hours.
4 COMMISSIONER ACKERMAN: I have a question on that,
5 too.
6 In the testimony yesterday, I was concerned
7 about the two hour capability, as to whether or not that
8 really means existing technology. We had a witness yesterday,
9 Mr. Chairman, when you were gone, that testified that his
10 particular technology would accommodate it, but there is
11 no evidence that there is any other technology. The only
12 thing I am cautious about is not the two hours, but that
13 we are writing a requirement in here that only meets one
14 available technology from an equipment manufacturer or
15 something like that. I am nervous about that.
16 EXECUTIVE OFFICER DEDRICK: I understand your
17 problem. I would like you to make a distinction between initial
18 and primary and tertiary responses. The initial response
19 is based on the equipment on a drilling vessel or its
20 immediate vessels with dedicated equipment, and that response
21 time is 15 minutes. The secondary response is the Clean
22 Seas-type of response. There are Clean Seas Co-ops that
23 exist in the area. They have two vessels, one based at
24 San Luis Obispo and one based at Santa Barbara. The travel
25 time to the center of the lease area from either of those
bases is nine hours. This would require that a dedicated

1 vessel, a third dedicated vessel -- that's the million
2 dollar capital investment -- be based close enough to the
3 lease area -- and there are available harbors, Point
4 Arguello and Point Conception -- such that it didn't take
5 them longer than two hours to reach the center of the
6 lease area. That is state of the art technology in
7 existence, functioning. The Co-ops make the selection.
8 Now, the one that you are talking about is the
9 tertiary response. All of that equipment --
10 COMMISSIONER ACKERMAN: That's four hours?
11 EXECUTIVE OFFICER DEDRICK: That is four hours.
12 That is currently in use. The reason for the current 24
13 hour response is because the Coast Guard has one strike team
14 on the Pacific Coast which serves the entire Eastern Pacific,
15 including South America, Alaska, Hawaii and Guam. They
16 have a problem with getting loaded and getting down there
17 and in the water in less than 24 hours.
18 There are other options where that kind of strike
19 force could be established. That includes the National
20 Guard Base at Van Nuys.
21 What we are proposing is that the kind of
22 equipment, which this guy doesn't produce -- he produces
23 parachutes. I don't know whether air deliverability is
24 the way to go or not. But the state of the art equipment
25 that exists and is used by the strike team is geared to a

very large spill, that stuff is available from a variety of manufacturers. The response time is the important thing, and looking into the research, I'm sure that either through sea, hauling it on a sled or dropping it from an airplane, you can do it in four hours if it is closer and dedicated to the area.

CHAIRPERSON CORY: And we are not locking in a sole source supplier?

EXECUTIVE OFFICER DEDRICK: That is correct.

COMMISSIONER ACKERMAN: That is what I was -- okay. I did not want it to be built in to do that.

MR. TROUT: Do you consider the Commission has adopted Stipulation 11?

CHAIRPERSON CORY: Yes.

EXECUTIVE OFFICER DEDRICK: Did you adopt 10?

CHAIRPERSON CORY: Yes.

12.

EXECUTIVE OFFICER DEDRICK: 12 are some special studies that the State Interagency Oil Spill cleanup team, particularly the Department of Fish and Game which is the state operating authority as Chairman of that team, thinks needs to be done. To a large extent, those studies follow recommendations that we have received in testimony, including from our Scientific Committee. The first part of the paragraph is a full annual cycle biological inventory of the

1 area, and the cost for that we think would be not in excess
2 of 700,000. So the cap there would be 700,000.
3 The second portion of the -- the second study,
4 and I would like to amend the stipulation at the very end
5 of the paragraph, after "marine biota," to add "excluding
6 marine birds and mammals."
7 Now, wait a minute. They are covered someplace
8 else.
9 The intent of this type of study is -- one of
10 the real concerns that the Fish and Wildlife management
11 agencies and biologists have is what do the sources really
12 do to the microscopic life, the benthos and plankton, them
13 kind of critters, because they are the basis of the food
14 chain, as you have heard probably more often than --
15 CHAIRPERSON CORY: Your specialty was what,
16 Claire?
17 EXECUTIVE OFFICER DEDRICK: I used to be a
18 biologist, but that was a long time ago.
19 CHAIRPERSON CORY: But wasn't there a particular --
20 EXECUTIVE OFFICER DEDRICK: You want me to say I
21 was an immunologist. I know a lot about bacteria.
22 CHAIRPERSON CORY: It's those small things that
23 you're interested in as opposed to the bigger --
24 EXECUTIVE OFFICER DEDRICK: Oh, I think I've
25 advanced a little over the years, especially since I've been

in politics.

CHAIRPERSON CORY: Go ahead.

COMMISSIONER GRAVES: We are interested in more warm-blooded things.

EXECUTIVE OFFICER DEDRICK: Well, yes. The little guys that feed the big guys. You know, it's the reverse of the one about the flea.

Anyway, that is a fairly limited study, a laboratory study, and the cost does not exceed $300,000. It's a one-shot cost. So the total cost of Stipulation 12 is a maximum of a million bucks.

CHAIRPERSON CORY: Both of them are one-time studies?

EXECUTIVE OFFICER DEDRICK: That's correct.

CHAIRPERSON CORY: Now, explain to me where the birds and the mammals are being taken care of?

EXECUTIVE OFFICER DEDRICK: They are back there in that Mandatory Biological and Marine Mammal Survey in Stipulation 4 -- I mean 5. Always say 4 when I mean 5.

You are going to like 13. It doesn't cost a thing.

CHAIRPERSON CORY: 5 -- Mandatory Biological and Marine Mammal Surveys. Is there a cost to that?

EXECUTIVE OFFICER DEDRICK: Mr. Chairman, that is the type of thing that is required as a part of

1 site specific EIR's, and in ordinary operating expenses.
2 So we did not try to cost that out.
3 CHAIRPERSON CORY: Do you have a feel for it?
4 EXECUTIVE OFFICER DEDRICK: I think it would
5 depend on too many things to be able to do easily, but for
6 each lessee, what?
7 MR. SANDERS: I think you are running in the
8 range of 50 to $60,000 per site.
9 COMMISSIONER ACKERMAN: How do you define a site?
10 A drill site?
11 EXECUTIVE OFFICER DEDRICK: Yes.
12 MR. SANDERS: Depending on the proposal and
13 whether it be an exploratory drilling site and the number
14 of wells being drilled or production.
15 COMMISSIONER ACKERMAN: How many drill sites
16 are we anticipating in the eight parcels?
17 EXECUTIVE OFFICER DEDRICK: Ask Moose.
18 COMMISSIONER ACKERMAN: An outside guess.
19 MR. HIGHT: Moose, have you got an answer?
20 MR. SANDERS: There were eight developmental
21 scenarios based on the highest available resource present
22 in the lease area.
23 COMMISSIONER ACKERMAN: Eight sites?
24 MR. SANDERS: Well, eight developmental scenarios
25 which include a number of drill sites among those scenarios.

EXECUTIVE OFFICER DEDRICK: Let me ask you what the minimum and maximum and the worst case were.

MR. HIGHT: Moose says one to four or five per tract.

EXECUTIVE OFFICER DEDRICK: For exploratory. That's nice and broad.

CHAIRPERSON CORY: Special Studies, without objection?

COMMISSIONER GRAVES: Yes.

CHAIRPERSON CORY: Approved.

Ocean Floor Obstructions.

EXECUTIVE OFFICER DEDRICK: This was requested in testimony and letters from the fishing industries who are always getting their trawls snagged on trash on the ocean bottom. We are starting with a fairly clean ocean bottom. It will be easy to identify. If it has any cost, it is pretty small.

CHAIRPERSON CORY: Small says the lady who has got an $8 million budget.

EXECUTIVE OFFICER DEDRICK: That means teeny.

(Laughter.)

CHAIRPERSON CORY: Any questions, Commissioners?

COMMISSIONER GRAVES: No.

CHAIRPERSON CORY: Without objection, 13 is adopted.

14.

EXECUTIVE OFFICER DEDRICK: 14 is the Sea Otter Stipulation. I'm going to need Bob and Jim to help me make sure I am doing the right thing. The second paragraph, which is on page 120, are we proposing an amendment to that paragraph?

MR. OHIGHT: Yes, and I think Jim has it.

EXECUTIVE OFFICER DEDRICK: Okay.

Jim, would you like me to do this?

CHAIRPERSON CORY: We are on 119, as amended?

EXECUTIVE OFFICER DEDRICK: As amended, yes. There was a typo that left out that line, which is underlined in the center of the page. Page 120, the first full paragraph is the paragraph I would like to offer amendments to.

It would be changed to add on the second line after "April 1," to change "if" to "when." In the next line, where it says "Lands Commission, acting," add "on its own." And then after the parenthetical expression, two lines down, insert "or the public" -- and then the thing will read, and I will read it to you if it will help.

COMMISSIONER GRAVES: Please do.

EXECUTIVE OFFICER DEDRICK: All right.

"Critical operations during exploratory drilling shall not be permitted between

1 December 1 and April 1 when the State Lands
2 Commission, acting on its own on the recommen-
3 dation of the Department of Fish and Game
4 (who shall consult with the U.S. Fish and
5 Wildlife Service) or the public and pursuant
6 to the Commission's own rules and regulations,
7 determines that the risk of oil spills from
8 each operations" -- "each" should become
9 "such" -- "is sufficient to significantly
10 damage" -- if you don't mind, I'll unsplit
11 the infinitive -- "to damage significantly
12 the sea otter population."
13 CHAIRPERSON CORY: Where did you teach school?
14 EXECUTIVE OFFICER DEDRICK: I never taught
15 school, but I had an awful tough English teacher who would
16 kill me for saying "awful tough."
17 COMMISSIONER ACKERMAN: This really allows three
18 different circumstances under which the Commission could
19 act on its own or on a recommendation from Fish and Game
20 or on a petition from the public?
21 EXECUTIVE OFFICER DEDRICK: That is correct.
22 COMMISSIONER ACKERMAN: But it leaves it with
23 the Commission to take the action?
24 EXECUTIVE OFFICER DEDRICK: Yes.
25 CHAIRPERSON CORY: And this is the attempt to

1 deal with --

2 EXECUTIVE OFFICER DEDRICK: The concern of

3 "Friends of the Sea Otter" was that --

4 CHAIRPERSON CORY: The RBSO; right?

5 EXECUTIVE OFFICER DEDRICK: Right.

6 CHAIRPERSON CORY: The RBSO, the rippled bottle

7 sea otter.

8 (Discussion off the record.)

9 CHAIRPERSON CORY: That will allow -- if the

10 indications are that there is movement of the otter popu-

11 lation southward, then we can go ahead and on our own or

12 if the Director of Fish and Game wants to ignore that

13 problem and the Friends of the Sea Otter or somebody else

14 wants to come before us, we can move independently; is

15 that correct?

16 EXECUTIVE OFFICER DEDRICK: That is correct.

17 I have a problem here with my chief counsel.

18 He had to put down his phone.

19 (Brief discussion off the record.)

20 EXECUTIVE OFFICER DEDRICK: Okay. This stipu-

21 lation costs $5 million. Not for your determination of it,

22 but for an array of studies that the biologists need to

23 determine whether they want to --

24 CHAIRPERSON CORY: Could you put somebody else

25 on the phone for a minute, Bob.

EXECUTIVE OFFICER DEDRICK: Those funds would be expended over a period of probably eight to ten years.

CHAIRPERSON CORY: Go ahead.

EXECUTIVE OFFICER DEDRICK: I was just pointing out that the request is for $5 million to be expended over a period of eight to ten years, which is not specified here but would in effect be the case.

COMMISSIONER ACKERMAN: How was the $5 million figure arrived at?

EXECUTIVE OFFICER DEDRICK: We got a cost of $3 million from the Department of Fish and Game who had costed out the studies for other reasons. These studies have been requested of the Federal Fish and Wildlife Service for years, but they have never been funded. This was a very direct funding of things that really need to be done.

In the development of this stipulation, we added "and measures to mitigate." The Friends of the Sea Otter thought that another $2 million would be necessary to meet that requirement. It's kind of an estimate. We would, of course, make it a maximum of $5 million.

CHAIRPERSON CORY: That is for the studies and the mitigation?

EXECUTIVE OFFICER DEDRICK: That is correct. If such mitigation --

CHAIRPERSON CORY: -- is necessary.

EXECUTIVE OFFICER DEDRICK: Yeah.

Now, it leaves the control of the expenditure of those funds with the State Lands Commission.

COMMISSIONER ACKERMAN: Is the sea otter also covered under Number 5?

EXECUTIVE OFFICER DEDRICK: Yes. That is correct. All threatened or endangered species are included in Number 5.

COMMISSIONER ACKERMAN: Just for comparison, according to the worst case scenario, if you had 40 drill sites under Number 5, you are spending $2.4 million for all mammals. And in Number 11 -- or 14 -- we are spending five million for just the sea otter.

EXECUTIVE OFFICER DEDRICK: That's true. You are doing a different kind of thing, however.

CHAIRPERSON CORY: Let me argue that the three million is an expense that is relatively certain for the studies.

EXECUTIVE OFFICER DEDRICK: Yes.

CHAIRPERSON CORY: The two million is a contingency expense of a result depending on what those studies show to fund mitigation measures?

EXECUTIVE OFFICER DEDRICK: Yes.

CHAIRPERSON CORY: And so for the industry, in trying to respond to their side of the thing, they want a

1 cap. That is the cap.

2 COMMISSIONER ACKERMAN: It doesn't say you have

3 to spend as much.

4 CHAIRPERSON CORY: That's right.

5 EXECUTIVE OFFICER DEDRICK: And it also says

6 the funds shall be deposited as needed with the Fish and

7 Game at the direction of the State Lands Commission upon

8 acceptance of the lessee's bid by the Commission. So the

9 Commission remains in complete control.

10 COMMISSIONER ACKERMAN: So, basically then, the

11 Director of Fish and Game is the one that asks for the money

12 to reimburse them for the cost of doing the studies.

13 EXECUTIVE OFFICER DEDRICK: Before they put it

14 into their budget, they have to get permission from the

15 State Lands Commission.

16 MR. HIGHT: Before the study would be performed,

17 they would ask the Commission for the money, and they would

18 give it to them.

19 COMMISSIONER GRAVES: We would automatically

20 give it to them?

21 EXECUTIVE OFFICER DEDRICK: No, it's not

22 automatic.

23 COMMISSIONER ACKERMAN: At the discretion of

24 the Commission.

25 EXECUTIVE OFFICER DEDRICK: So you do have fiscal

1 control.

2 COMMISSIONER GRAVES: I love it.

T5 3 CHAIRPERSON CORY: So the cost of the added

4 two million is not a cost certain. It is a cost probable.

5 EXECUTIVE OFFICER DEDRICK: At least possible.

6 COMMISSIONER GRAVES: Probable?

7 EXECUTIVE OFFICER DEDRICK: Possible. I think

8 you should recognize that on all of these studies that go

9 through the Department of Fish and Game, they would go

10 through the normal budgetary process and they would have

11 to be authorized.

12 COMMISSIONER ACKERMAN: That just means you get

13 to deal with the sea otter on a continuing basis.

14 EXECUTIVE OFFICER DEDRICK: You can delegate

15 that authority to the Executive Officer, if you want.

16 CHAIRPERSON CORY: The other issue is that in

17 the last paragraph -- we have your amended draft, Claire,

18 and my comments using one hypothetical reason why the

19 Commission would -- if we knew the otters had started to

20 move into the area, or for any other reason, that could

21 be exercised. There is no limitation on that?

22 EXECUTIVE OFFICER DEDRICK: There is no limi-

23 tation.

24 CHAIRPERSON CORY: All right.

25 Agreed?

COMMISSIONER GRAVES: Yes.

COMMISSIONER ACKERMAN: All right.

CHAIRPERSON CORY: 14 is adopted as amended.

Item 15 - All Season Ocean Current Studies.

EXECUTIVE OFFICER DEDRICK: It also includes meteorological studies, but the title was getting top long.

The cost for this is estimated to be $1 million over the life of the lease for a total of $20 million.

CHAIRPERSON CORY: One million per year?

EXECUTIVE OFFICER DEDRICK: Yes. I'm sorry.

CHAIRPERSON CORY: So for a total -- are we happy with this one?

COMMISSIONER GRAVES: Yes.

COMMISSIONER ACKERMAN: I think you have to do it.

CHAIRPERSON CORY: Okay. Our total stipulation charges?

EXECUTIVE OFFICER DEDRICK: Eighty-three million.

COMMISSIONER ACKERMAN: We could always put another 83 million up front.

(Laughter.)

CHAIRPERSON CORY: Any other items we need to deal with?

MR. HIGHT: I think that we said yesterday, but we need to make it clear on the record, that this would be

1 a division amongst the successful bidders of the moneys.
2 Therefore, each tract would pay its prorata share.
3 CHAIRPERSON CORY: Based upon what?
4 MR. HIGHT: Well, that's an option. I think the
5 easiest way is just straight acreage, so you divide it by
6 the number of tracts.
7 COMMISSIONER ACKERMAN: But that has the impact
8 of, doing this on the lesser tracts, the burden is
9 unbelievable.
10 CHAIRPERSON CORY: It seems to me you should do
11 it in the ratio of maybe --
12 MR. HIGHT: The ratio of bids to --
13 COMMISSIONER ACKERMAN: Except if that's the case,
14 when you talk about those mammal surveys, they are done
15 site specific per drilling rig. So those ought to be by
16 rigs.
17 EXECUTIVE OFFICER DEDRICK: How about taking the
18 estimate of the leases -- sorry.
19 CHAIRPERSON CORY: Worse than that. That is
20 not going to work. If you have got sites which somebody
21 bids on, does preliminary check, and says, "Uh-uh. Pass."
22 And they quit claim it back to us --
23 COMMISSIONER ACKERMAN: Then we have to do it.
24 EXECUTIVE OFFICER DEDRICK: No, the next lessee
25 has to.

1 CHAIRPERSON CORY: But once you've got the
2 studies going, they have got to be funded. The ongoing
3 ones, like on the current studies, which I think are
4 extremely important to gather that data so we can figure
5 out how to deal with these environmental problems, those
6 things have to be funded.
7 (Overlapping.)
8 CHAIRPERSON CORY: -- and fisheries, they have
9 to be funded.
10 MR. HIGHT: If that area was not awarded, there
11 wouldn't be any impact, and there wouldn't be any need to
12 do it. Then everybody else, I guess, would have to -- if
13 that area were quick --
14 Go ahead, Greg.
15 (Brief pause.)
16 CHAIRPERSON CORY: The last one or the next to
17 the last one we did -- the ocean floor -- current studies --
18 for that portion of the Coast, the data has to be gathered,
19 and that is a million dollars a year for 20 years. And in
20 the long run, California benefits from having that done,
21 and just because one has no oil, we can't exclude that and
22 reduce the cost.
23 MR. HIGHT: What about on a percentage of the
24 bids, and if one person drops out, everybody else picks up
25 that percentage?

1 CHAIRPERSON CORY: You have got to spell that
2 out so that the bidders know what they are getting into
3 so they can discount the first --
4 EXECUTIVE OFFICER DEDRICK: I have a suggestion.
5 We can allocate the percentage on the ratio of the rental
6 payments that you have established, and then if somebody
7 drops out, the percentage changes for everybody by that --
8 the ratio changes by that.
9 CHAIRPERSON CORY: Unitizing the environmental
10 process.
11 MR. HIGHT: Right.
12 EXECUTIVE OFFICER DEDRICK: Yeah.
13 CHAIRPERSON CORY: But the bidders have to know
14 what risks they are taking when they come in. And we have
15 to have the studies funded. So I guess that is the direction
16 to the staff to accomplish, and I guess that other stipula-
17 tion, you can bring it back to me with what you have put
18 together.
19 EXECUTIVE OFFICER DEDRICK: Yes, we will do that.
20 MR. HIGHT: Any loose ends?
21 MR. FRANK: I just want to say again, let me ask
22 that the Commission make it explicit that they are adopting
23 the findings relating to CEQA and the other applicable
24 portions of the Public Resources Code in each of the decisions
25 it has made today.

CHAIRPERSON CORY: Are we supposed to say "I do"?

(Laughter.)

CHAIRPERSON CORY: That is the position of all three Commissioners. They nodded their heads affirmatively.

Can we go to lunch, Greg?

MR. TROUT: Do you not need an action on Calendar Item 1 to adopt the staff recommendation as amended?

COMMISSIONER ACKERMAN: I had one question on that. There are nine findings or actions that we must take; correct?

EXECUTIVE OFFICER DEDRICK: Nine findings.

COMMISSIONER ACKERMAN: Along with the calendar item. On Number 9 -- and maybe this will help a little bit with the discussion we just had. Number 9 - Delegation to the Chairman the authority to take all necessary actions to effectuate the action of the State Lands Commission. I am both comfortable and uncomfortable with that. Comfortable in that it allows technical difficulties to be negotiated or worked over. Possibly maybe some technical things on how to assess cost to the environmental studies and all that. And the Chairman could have the luxury to negotiate on behalf of the Commission.

I do feel, however, that things of this magnitude probably should come back to the Commission for ratification. In many cases, we have delegated to the Executive Officer

1 the authority to negotiate on behalf of the Commission,
2 and that has always come back to the Commission in the
3 form of a report or ratification of action. I wonder if
4 such would be appropriate here.
5 Again, we are dealing with a new Commission next
6 year, and we are in the process here of delegating now.
7 I wonder if that is appropriate.
8 CHAIRPERSON CORY: A statement that "the Chairman
9 shall report"?
10 EXECUTIVE OFFICER DEDRICK: Fine.
11 COMMISSIONER GRAVES: That's fine.
12 COMMISSIONER ACKERMAN: And that shall be
13 included in our report by the Chairman at the next
14 regularly scheduled meeting.
15 EXECUTIVE OFFICER DEDRICK: Okay.
16 COMMISSIONER GRAVES: Okay.
17 CHAIRPERSON CORY: I will report back.
18 All right. Do we need a specific motion for --
19 or we had a specific motion for the nine items as amended.
20 EXECUTIVE OFFICER DEDRICK: I'm not quite sure
21 I understood the last recommendation.
22 CHAIRPERSON CORY: The last recommendation, the
23 first sentence remains the same, and you add to it, "The
24 Chairman shall report back to the full Commission at the
25 next meeting subsequent to these negotiated clarifications."

1 EXECUTIVE OFFICER DEDRICK: Okay.

2 CHAIRPERSON CORY: Do we have in the record a

3 specific motion for these nine recommendations as amended?

4 COMMISSIONER ACKERMAN: I will so move.

5 COMMISSIONER GRAVES: Second.

6 CHAIRPERSON CORY: Without objection.

7 That shall be the order.

8 Any other items to come before us?

9 EXECUTIVE OFFICER DEDRICK: No.

10 CHAIRPERSON CORY: We stand adjourned. Thank you.

11 (Thereupon the meeting was adjourned at

12 12:15 p.m.)

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1 CERTIFICATE OF SHORTHAND REPORTER

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3 I, DELORES I. DALTON, a Certified Shorthand
4 Reporter of the State of California, do hereby certify:
5 That I am a disinterested person herein; that
6 the foregoing State Lands Commission Meeting was reported
7 in shorthand by me, DELORES I. DALTON, and thereafter
8 transcribed into typewriting.
9 I further certify that I am not of counsel
10 or attorney for any of the parties to said meeting, nor
11 in any way interested in the outcome of said meeting.
12 IN WITNESS WHEREOF, I have hereunto set my
13 hand this 30th day of December, 1982.
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