MEMBERS PRESENT

Leo T. McCarthy, Lieutenant Governor, Chairman
Jay Ziegler for Gray Davis, State Controller
Susanne Burton for Thomas W. Hayes, Director of Finance

Staff:
Charles Warren, Executive Officer
James Trout, Assistant Executive Officer
Bob Hight, Chief Counsel
Paul Mount
Lance Kiley
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CHAIRMAN MC CARthy: Good morning, ladies and gentlemen. This is the meeting of the State Lands Commission.

The minutes of the last Commission meetings are approved without objection.

The following items are being removed from today's calendar, for those of you who may be here on these items: Consent Items 5, 20, and 31; and Regular Calendar Items 38, 39, and 40. Any other changes to the calendar for today?

EXECUTIVE OFFICER WARREN: None, Mr. Chairman.

CHAIRMAN MC CARthy: All right. Without objection, the Consent Calendar Items are adopted as proposed.

Let's move on to the Regular Calendar. Mr. Charles Warren.

EXECUTIVE OFFICER WARREN: Thank you, Mr. Chairman. I'd like to call to the Commissioners' attention the fact that we have a number of requests to speak concerning subjects involved at Waldo Point. There is no item involving Waldo Point on today's calendar. But anticipating that the Commission may want to -- at the conclusion of today's calendar -- hear from
one or more of such representatives, it's my recommendation that those who signed up on the attendance sheets caucus in the hall and select one of their members to make a five-minute presentation to the Commission at the conclusion of today's hearing.

CHAIRMAN MC CARTHY: Who is in the audience on that issue?

UNIDENTIFIED SPEAKER IN AUDIENCE: I am here. I'll be one of --

CHAIRMAN MC CARTHY: Let me ask one or two questions.

UNIDENTIFIED SPEAKER: Yes, sir.

CHAIRMAN MC CARTHY: We will proceed through the regular calendar. Commissioner Burton has indicated she must leave at eleven o'clock to deal with the budget crisis. I'm certainly willing to listen to a statement, if you'd like to make one, later on. Are you --

COMMISSIONER ZIEGLER: Yes.

CHAIRMAN MC CARTHY: All right. So, would you kindly --

UNIDENTIFIED SPEAKER: We came up here on a chartered bus that is scheduled to go back. We all have jobs and children.

CHAIRMAN MC CARTHY: I appreciate that.

UNIDENTIFIED SPEAKER: And if we have to sit
here for the entire, I don't think -- that would be a
rather cheap shot in the participatory --

CHAIRMAN MC CARTHY: Well, how about all the
people that came on the other items and also left their
jobs or their obligations to attend this one --

UNIDENTIFIED SPEAKER: (Interjecting) I
understand that. But we really do want to know what
happened today in your closed session concerning the
draft settlement. I mean, that was our main reason to
be here, because --

CHAIRMAN MC CARTHY: Okay. The Commission voted
to support the settlement.

UNIDENTIFIED SPEAKER: That's really unfortunate.

CHAIRMAN MC CARTHY: At the end of this hearing,
if one or two of those from your group would like to make
a statement to the Commission, we'd be very pleased to
receive that.

UNIDENTIFIED SPEAKER: What would be the point
of making a statement if --

CHAIRMAN MC CARTHY: That's your decision.

UNIDENTIFIED SPEAKER: -- if you have already
made the decision?

CHAIRMAN MC CARTHY: I understand. That's
your decision. That's your decision if you want to make
any public statement or not. All right. Let's move on
with the calendar.

EXECUTIVE OFFICER WARREN: The first item on the regular calendar, Mr. Chairman --

UNIDENTIFIED SPEAKER: We'll have to disrupt this session for a while while we leave, since there really doesn't seem to be much point to staying and making a public statement on something that's already happened.

But I want to make sure that everyone in this room and in this audience knows that that draft settlement agreement is going to force us -- all of us -- out of our homes and destroy our houseboats in order to build a public State Park in a time of a budgetary crisis where you can't even pave the roads. No joking.

(Thereupon, there was an outcry from members of the audience, which outcry made the recording of further comments impossible.)

CHAIRMAN MC CARTHY: We'll open with the regular calendar, Mr. Warren.

EXECUTIVE OFFICER WARREN: The first item on the regular calendar, Mr. Chairman, is Item 41, the consideration of a proposed oil and gas lease for the City of Hermosa Beach. This will be -- the city has a difference of opinion with that expressed by the
staff in its report to you.

The staff's report will be presented to you
by Paul Mount, who is the Division Chief of our Mineral
Resources Management Division.

Paul?

MR. MOUNT: Item 41 is to consider the proposed
City of Hermosa Beach oil and gas lease for granted tide
and submerged lands.

(Thereupon, the reporter requested
Mr. Mount so speak up because of the
noise emanating from outside the hearing
room.)

CHAIRMAN MC CARTHY: Close that door, please.

MR. MOUNT: To consider proposed City of
Hermosa Beach oil and gas lease for granted tide and
submerged lands, Los Angeles County.

The City of Hermosa Beach is proposing to
lease for an exploration and development of oil and gas
in certain tide and submerged lands granted in trust to
the City of Hermosa Beach in 1919.

Under Section 6872(a) of the Public Resources
Code, the Commission must find that drainage is occurring
in order to permit leasing of sanctuary lands. The staff
has found that drainage is not currently occurring. And
since these are sanctuary lands, the staff recommends
denying the proposal of the City of Hermosa Beach to
lease its granted tidelands for oil and gas exploration
and development pursuant to PRC 6872(a) and PRC 6878.

CHAIRMAN MC CARTHY: Any other testimony?

EXECUTIVE OFFICER WARREN: Not from the staff
at this time, Mr. Chairman. We may have to respond to
presentations by the representatives from Hermosa
Beach. And there's a Mr. Rick Ferrin, who is the City
Manager of Hermosa Beach.

CHAIRMAN MC CARTHY: Mr. Ferrin.

MR. FERRIN: Good morning, Lieutenant Governor
McCarthy, Mr. Ziegler, and Ms. Burton, and ladies and
gentlemen.

I'm Rick Ferrin, City Manager of Hermosa Beach.
I sincerely appreciate the opportunity to present this
request for the Commission's permission to allow the
City of Hermosa Beach's leasing of its title in submerged
lands to the Macpherson Oil Company.

I am able to report significant progress in
meeting and complying with the Commission's requirements
and mandates since our last meeting in November of 1985.
Let me first introduce several distinguished gentlemen
who have accompanied me here today: Mr. Leonard Brock
and Mr. Francis Barker are both petroleum engineers with
superb credentials and are very, very highly esteemed in
their field; Mr. David Gautschy of Macpherson Oil is the project manager; Mr. Donald Macpherson, Jr. and Mr. Donald Macpherson, Sr., his father, owners of the Macpherson Oil Company; and Mr. Gary Birch, ex-Mayor and Councilman of the City of Hermosa Beach.

What I present for your approval today is clearly a win/win proposal. In 1984, the voters of Hermosa Beach supported ballot Measure P, which would allow for oil drilling into the Hermosa Beach's tidelands and submerged lands to recover reserves oil and gas. However, such an operation was to be performed only from an uplands site.

Three years later, the residents reaffirmed their will by soundly rejecting the entertainment of any future plan that envisioned offshore platform-mounted drilling and oil pumping in the coastal waters of the Santa Monica Bay.

I must emphasize at this point that this project does not incorporate any offshore drilling or pumping from a platform site, nor does it include the use of a single foot of pipeline placed in State waters.

The proposed recovery operation would be performed using a slant drilling technique from an uplands site at least 1600 feet from the coastline. This is an environmentally sustainable project that poses at the
very worst a negligible environmental impact or threat.

Before you decide whether or not to approve our proposal, let's quickly review where we are in the process of complying with your directions. At the November, 1985 meeting, the State Lands Commission established three criteria that had to be satisfied. The first was to determine that oil and gas existed in the proposed area to be drilled; second, was the project in the best interest of the State; and, finally, was there drainage from the Hermosa into Redondo as a result of the latter's well operations.

The drainage issue was thoroughly and, I might add, independently investigated by our consultant and the State Lands Commission geologic and engineering staff. Both determined that drainage was in evidence.

On March 20th of 1986, Mr. Willard sent my predecessor, Kevin Northcraft, a letter verifying the staff finding that there was drainage. The day before, on March 19th, Claire Dedrick, Executive Officer of the State Lands Commission, wrote to the Hermosa Beach City Council that, quote:

"The drainage question has been reexamined in detail by our engineering and geological staff, who believe that drainage is taking place."

End quote.
Hermosa Beach was tasked with the production of a sufficient EIR and a lease agreement, complete with pass-through rights. Though six years have transpired, the EIR and the lease documents required tremendous effort. And might I remind you that Hermosa Beach has a very small staff that is more than fully occupied; nevertheless, this extremely important issue occupied a front burner.

I have for your review a chronological list of the actions taken both by Hermosa Beach and the Macpherson Oil Company to comply with the Commission's requirements. It's six pages long. So, I can assure you that we have not been idle. In short, the City advertised and solicited bids for an oil and gas lease of the City's upland properties in June of 1986.

The tidelands lease will follow when final approval has been given by this Commission. Windward Associates, or Macpherson Oil, was the successful bidder, and the City immediately began the processing of an environmental impact report with an initial filing in 1987.

Final comments were received from the Commission in March of 1990. Two months later, the EIR was adopted by the Hermosa Beach City Council, and negotiation of the terms of the tideland lease began in earnest. That lease
was adopted by the City Council in January of this year.

In regard to CEQA, the City has prepared and certified an EIR, which is in compliance with the State guidelines. All comments submitted by the State Lands Commission staff have a response as required by State CEQA guidelines.

Prior to the City issuing construction permits, a conditional use permit, or a CUP, is required by local ordinance. The CUP is the City's method of imposing the EIR mitigation measures as required by the State. All mitigation measures, City requirements, other State and local agency requirements, and any requirements which may be imposed by this Commission must be met prior to the development, testing, or production of oil.

Therefore, any environmental concerns that the Commission may have regarding this project will be thoroughly mitigated. The City of Hermosa Beach and its residents want this project to happen. That's evidenced by the 1984 vote on ballot Measure P, and the thousands and thousands of hours and millions of dollars invested both by the City and Macpherson Oil thus far.

We've accepted your requirements and labored in good faith to comply with the criteria that the Commission has established prior to giving its approval for the City to lease the tidelands. The issue of the existence of
drainage was settled over six years ago, and that

drainage continues to this day.

We have complied with the requirements of CEQA,
and have produced a sufficient EIR. In addition, our
lease agreement is complete. All of these tasks have
been accomplished in good faith, and we are confident
in the Commission's -- as we were confident in the
Commission's ultimate approval once its requirements were
satisfied.

I truly believe we have earnestly and painstakingly executed your direction. It would not be out of
line for the City of Hermosa Beach to expect you to
execute your portion of this process in good faith as
well.

We are proposing a project which will bring
desperately needed revenue into Hermosa Beach, to say
nothing of the State. California imports a million
barrels of oil per day from ships that come from Alaska,
South America, and Indonesia. Over a 20-year period, th:
Hermosa Beach field will potentially produce 30 million
barrels of oil. That equates to 300 one-hundred thousand
barrel tanker trips. There are a myriad of potential
benefits, both direct and indirect, that can be
attributed to this proposal, not the least of which are
more jobs, more and better parks, better beach maintenance,
the enhancement of our school district, and significant
revenue to the State.

We are proposing a drilling and recovery
method, which Charles Warren referred to in his
November 28th, 1990 letter to Commissioner Davis as
having, quote, "real potential for application to fields
offshore in California, since it (1) eliminates offshore
platforms, (2) there is no risk of production spillage,
(3) there is no transportation by tankers, (4) known
reservoirs can be effectively and economically
developed, (5) it will increase domestic oil production,
and (6) it will bring increased revenues to the State of
California."

Ladies and gentlemen, what I bring today for you—
for your approval is clearly a winner. If you let this
one get away, the City of Hermosa Beach and the State of
California will truly lose a great opportunity.

Thank you.

CHAIRMAN MCCARTHY: The central issue here, it
seems to me, is the drainage question. Why don't you
have some of the engineers and maybe Mr. Macpherson
step forward, so we can ask some questions.

EXECUTIVE OFFICER WARREN: As the witnesses are
stepping forward, the statement of the witness is
substantially correct. I think I want to correct one
thing, however. He said that these preconditions were established by the State Lands Commission. Those conditions were established by the Legislature. We're merely attempting to follow what the Legislature has provided by statute.

CHAIRMAN MC CARTHY: Can we get a couple of chairs here? Now, we're dealing with the 1955 -- is that the correct year -- statute that requires, among other things, --

MR. HIGHT: 1941.

CHAIRMAN MC CARTHY: 1941?

MR. HIGHT: It was added --

CHAIRMAN MC CARTHY: Let me -- the statute I'm asking about imposes the requirement that if such deposits are being drained by means of wells upon adjacent lands -- what year was that statute adopted?

MR. HIGHT: 1941.

CHAIRMAN MC CARTHY: All right. What evidence do you have to suggest that the staff's interpretation of whether drainage occurred or not? Because, as I understand it, the drilling that went on in Redondo Beach actually drained from Hermosa Beach in the meaning of the statute.

Would you give us in succinct terms, sir, narrow down the key reasons why our staff is wrong on the
interpretation of that section of the statute?

MR. BROCK: I'm Leonard Brock. I'm a consultant for the City of Hermosa Beach. I believe, Governor, that the staff did agree that there was drainage from Hermosa Beach to Redondo Beach. There were several studies made by the State Lands Commission staff, by consultants for the State Lands, by consultants for the City of Hermosa Beach; and recently, a colleague of mine, Francis Barker, did a further study.

I think the disagreement between the State Lands staff and ourselves right now is whether there is current drainage, not whether there was drainage when the Redondo Beach wells were --

CHAIRMAN MC CARThY: I think you state it right, sir. One of the three recommendations proposed by the staff to the Commission before us -- and I hope you've seen this -- is that we make a finding that the drainage of oil and gas is not occurring as a result of production from wells on adjacent lands.

MR. BROCK: Currently? You mean as of today?

CHAIRMAN MC CARThY: Why don't you go ahead and make your statement, and then we'll let the staff respond to it.

MR. BROCK: Okay. The Redondo wells -- the Redondo Beach wells were abandoned last year. I believe
that even though those wells on Redondo Beach are not currently producing, they did create pressure differentials, which result in the oil from Hermosa Beach currently being drained.

Also, to further our intention is the fact that, actually, on the drill site that's being proposed to be used to develop this offshore, there are two wells that are produceable. They are not currently producing because of some problems with the tank farms, in which there was some contamination. And it is necessary to have a tank farm reestablished so those wells can be produced.

When they are produced, they will further the drainage from the offshore area of Hermosa Beach into the wetlands. I believe that that should satisfy the statute. I think that the statute can be -- can be interpreted by the fact that oil is being drained from Hermosa Beach currently by the pressure sink of several hundred pounds that was established over a period of 20 to 30 years when the Redondo Beach wells were producing.

I think that it's elementary in reservoir engineering that oil flows from a high-pressure area to a low-pressure area. And the fact that those areas were made by the wells that were producing on Redondo Beach; I think the fact that they are not currently producing
is really not the question. The fact is there is oil being drained from Hermosa currently.

CHAIRMAN MC CARTHY: All right. Is there any other --

MR. BARKER: I agree.

CHAIRMAN MC CARTHY: Would you identify yourself, sir?

MR. BARKER: My name is Francis Barker. One of the fundamental --

CHAIRMAN MC CARTHY: Mr. Barker, I'm sorry, what's your position?

MR. BARKER: I'm also a consultant for Macpherson Oil Company.

CHAIRMAN MC CARTHY: Thank you.

MR. BARKER: One of the fundamental considerations in reservoir engineering is that oil and fluids go from the high-pressure areas to the low-pressure areas. And it's been established on fluid level surveys, from which you can calculate pressures, that there's a pressure sink in Redondo where millions of barrels have been taken out, and the reservoir pressures on the Hermosa Beach side are approaching diversion pressures. And when you have that condition, oil flows across the line, and you don't really need wells producing oil on the Hermosa Beach side to cause continued flow across the line.
CHAIRMAN MC CARTHY: All right. You, sir?

MR. MACPHERSON: My name is Don Macpherson, Jr. of Macpherson Oil Company. And I concur in everything these two gentlemen have stated.

This issue of drainage was an issue that was resolved in our minds six years ago. And we have proceeded with this project, spending monies and efforts in approving this project.

There was a contention from the Commission staff that drainage was questioned. And that was brought to our attention. And at that time, there were fluid levels taken from the wells producing in Redondo Beach and in Hermosa Beach.

Those fluid levels were witnessed by both the State Lands Commission, the City of Hermosa Beach, and the Macpherson Oil Company. That data was incorporated within Mr. Brock's study of drainage, and his conclusion of drainage is continuing.

So, that's really all I have to say.

CHAIRMAN MC CARTHY: Thank you. Would the staff respond now to how they came to their decision on defining drainage and what the relationship is between when Redondo Beach interests stopped drilling and when drainage stopped, if it did, in your opinion?

MR. MOUNT: Commissioner, it is true that there
has been drainage occurring.

CHAIRMAN MCCARTHY: Identify yourself, please.

MR. MOUNT: I'm Paul Mount from State Lands.

And in '86, we, in fact, did issue a report that drainage was occurring, and wells were on production at that time producing oil. And that oil was being drained from the Hermosa Beach side of this field.

Their wells have been shut in and abandoned; approximately a year and a half ago was the last production from the Redondo Beach side of that lease.

Oil is still migrating across the lease line. Fluids are still migrating across the lease line from Hermosa Beach to the Redondo Beach side. But there is not currently any production on the Redondo Beach side. There is the potential in adjacent lands uplands for two wells to be produced and put on production, although they are not currently producing. And it's possible that by placing those two wells on production, oil and water could migrate from the offshore lease to onshore leases.

CHAIRMAN MCCARTHY: Those two wells are under whose control?

MR. MOUNT: I believe they are under the City of Hermosa Beach. What oil company --

MR. BLOCK: Standard Oil Company. And the city gets a small fee, but does not control the wells. The
wells are controlled by the Standard Oil Company.

CHAIRMAN MC CARTHY: So, you're saying, Mr. Mount, that if the Commission agrees with the staff interpretation of this provision of the 1955 law, that drainage must be immediately caused by active drilling, the way to overcome that -- that's if the Commission agrees with that interpretation -- the way to overcome that, one possible way to overcome that deficiency may be for these two wells in Hermosa Beach to be drilled?

MR. MOUNT: Placed on production.

CHAIRMAN MC CARTHY: Placed on production?

All right. Do you have anything else to add?

MR. MOUNT: At the time the Commission originally considered this item, I think there's little doubt that there was drainage occurring, as defined in the statute.

CHAIRMAN MC CARTHY: Does the statute, as it has been interpreted, anywhere state that active production must be occurring to establish drainage?

MR. HIGHT: The statute is -- says nothing to that point, nor do any of the cases or articles that -- well, there are no cases. None of the articles that have been written on the statute deal with that issue. The words of the statute are that draining -- that the lands must be being drained by means of wells.
upon adjacent lands. It doesn't say that they need to currently be in production.

CHAIRMAN MC CARTHY: I take it from Mr. Mount's statement that he and the other staff of the Commission that have looked at this are satisfied that the drilling and extraction that occurred from sites located in Redondo Beach did cause drainage from oil that Hermosa Beach now wants the opportunity to go after, and could legally if drainage was established.

MR. MOUNT: That's correct.

MR. HIGHT: Correct.

CHAIRMAN MC CARTHY: Any questions from Commissioners at this point? Any other comments you want to make on this drainage issue? Just a minute, sir.

Any other comments you want to make on this drainage issue, staff?

MR. MOUNT: No.

CHAIRMAN MC CARTHY: Mr. Ferrin, do you have something you want to add to this? Why don't you use the microphone, please?

MR. FERRIN: Lieutenant Governor McCarthy, I'm -- I don't profess to be a petroleum engineer. I'm actually a data technical engineer, so I know something about drawdown. What's happened here and what I think we see is that there's a semantical problem here between the
term "drainage" and that of "migration". The act of pumping oil in the field at Redondo Beach has created a very significant negative pressure. And it's because of the continued existence of that negative pressure, even though they are no longer intensifying or augmenting that negative pressure, it is the existence of that negative pressure -- which was a direct result of the pumping of oil in Redondo -- that is causing what we now have termed "drainage." We are now calling it "migration".

It is still the same thing. It is a percolation of oil from one area to another caused as a direct result from the pumping and the negative pressure that was produced.

CHAIRMAN MC CARTHY: All right. Any other questions on the drainage issue?

COMMISSIONER BURTON: I'd like to ask a few. I'm not a technical expert either. Although I understand drawdown. It's a different kind.

(Laughter.)

COMMISSIONER BURTON: And I think the people who are here are sufficiently knowledgeable, but they could put it in terms that a layperson could understand. My question is, is there a distinction between drainage now and drainage if production were going on that can be
quantified? You know, we're saying there's some sort of drainage, but how is it different from the drainage that seems to be recognized in your understanding of the statute?

MR. MOUNT: The only difference between our interpretation and Hermosa Beach's is that the statute states by well. And since there are no wells, then, by statute, there may be drainage but there are no wells there to produce that oil and, therefore, sell it.

So, oil may be moving from Hermosa Beach to Redondo Beach and, in fact, it's being lost to the Redondo Beach side of the lease, but it's not being produced. Therefore, by the statute, it says, "drainage by wells." So, it may be being drained, but the second part of that, "by wells," does not exist today, except for possibly these two upland wells; that if they were put on production, could be considered drainage by wells.

COMMISSIONER BURTON: What sort of a lease does Redondo Beach have and why did they stop production?

MR. MOUNT: Well, that lease was before this statute became effective, so that they stopped production because the wells were uneconomic to produce, and they shut them in and have since abandoned them.

COMMISSIONER BURTON: So, they're basically capped, closed off?
MR. MOUNT: That's correct.

COMMISSIONER BURTON: Never to be used again.

MR. MOUNT: That's correct.

COMMISSIONER BURTON: But the upland wells would not affect Redondo Beach's oil.

MR. MOUNT: No, but the statute does not say where the drainage has to be occurring. It just says only adjacent land.

CHAIRMAN MC CARthy: The testimony from one of the proponents was that drilling in Redondo Beach has been occurring for 20 to 30 years. Is that what your research indicates --

MR. MOUNT: That's correct. They have been producing that long.

CHAIRMAN MC CARthy: Would you tell the Commission how much -- how many barrels of oil, roughly, have been extracted by Redondo Beach?

MR. MOUNT: Approximately 7.7 million barrels of oil.

CHAIRMAN MC CARthy: And do we have a rough approximation of how much of that extraction could have been the proximate cause of creating the pressure differentials that affect Hermosa Beach's opportunity now to drill for oil?

MR. MOUNT: Well, all of that extraction had an
effect on the pressure. So, there is a pressure sink, based on the measurements, on the Redondo Beach side. That's causing the migration of oil, and water, and fluids across -- from Hermosa Beach to Redondo Beach.

It's very difficult to quantify how much oil that is. It's a significant number -- in the millions of barrels of oil -- that has probably migrated or drained across the lease line.

CHAIRMAN MC CArTHY: Okay. Any other comments?

COMMISSIONER ZIEGLER: Well, given the life of the Redondo Beach well and the closure dates on that side, I guess the question I have is why are we talking about this now for Hermosa Beach?

MR. MOUNT: Well, you understand, this process was started many years ago when, in fact, there was no doubt about drainage occurring and that oil being produced and Redondo Beach recovering that oil that came from Hermosa Beach. That's not the situation today.

CHAIRMAN MC CArTHY: Any other questions on the drainage issue?

Let's talk about environmental impacts. If the Commission were to decide that the applicant should be -- should disagree with the staff's finding that drainage is not occurring as a result of production from wells on adjacent lands, and if the Commission were to find that
it was occurring as a result of drainage on adjacent lands, the next issue is what environmental impacts are there that have been discerned in the research of this so far, and how would we address those issues?

EXECUTIVE OFFICER WARREN: The staff has examined the environmental impact report prepared on this project. Mr. Hight has looked at it carefully. The environmental impacts seem to be minimal as is the risk. I would prefer that he characterize his -- or summarize his findings. But that's my impression.

MR. HIGHT: Yes, Mr. Chairman. The Sierra Club and the Commission staff basically had the same objections. And they were, one, that the EIR did not adequately address the hazard footprint that the project could create in the event of a blowout or an explosion; that there was some noise and air pollution problems that we didn't feel were adequately addressed.

I think those could be adequately addressed in any permit that the Commission would -- that the city were to issue for this project as conditions of the project which would mitigate those concerns.

EXECUTIVE OFFICER WARREN: I would like to point out that those concerns have to do with the operations on the upland site -- the noise and the transportation effects there would be to the adjacent landowners.
CHAIRMAN MC CARTHY: May I ask one of the proponents to please respond? Incidentally, before I do that, I want to acknowledge the presence of Mr. Lee Bennett, who is the Staff Director for State Senator Bob Beverly's office. If you'd like to testify in a little while, Mr. Bennett, we'll be very happy to receive your testimony.

Would one of the proponents, if you're able to, please respond to the points just made about the Sierra Club -- was there another organization that --

MR. HIGHT: The Lands Commission, also.

CHAIRMAN MC CARTHY: All right.

MR. HIGHT: Staff.

CHAIRMAN MC CARTHY: And the Lands Commission staff has raised these two environmental questions, as I understood them. Have you had an opportunity to look at those objections and, if you have, do you have any comment on them?

COMMISSIONER ZIEGLER: Mr. Chairman, there's one additional issue I'd like the proponents to address, and that is some concern about the wastewater from the project being rather vastly underestimated, and what contingencies you might have in place on that issue as well.

MR. GAUTSCHY: My name is David Gautschy. I'm a
consultant for Macpherson Oil Company. My position in this is the project manager for construction of the facilities. The two items that you just discussed -- the fire hazard has been discussed thoroughly with the fire chief just recently. And, as a mitigation measure, numerous things can be done with the tank farm to protect the local citizens, such as foam systems on the tanks, water deluge systems. There are numerous methods. And that's more of a detailed engineering thing that would happen in the construction of the tank farm that normally isn't handled at this kind of a level. In other words, we would comply with all the requirements of the State and also the City of Hermosa Beach requirements in fire protection.

There was some comment about the footprint of the hazard, and those could be determined based on prevailing winds and a report could be prepared for that, which I'm familiar with with another project in Huntington Beach, which we're just completing, which we did very similar things with.

The other item that you were talking about, could you rephrase that for me, please?

EXECUTIVE OFFICER WARREN: The noise.

MR. GAUTSCHY: The noise situation. The general thing that's done today is to comply with -- Hermosa
Beach does have an oil code, and in there it establishes the noise criteria that must be met. This can be done in sound blankets around the outside of the facility during drilling operation, with monitoring to make sure that we fall within the compliance. The same thing happened in Huntington Beach. There, we had a fulltime consultant for the first week that was there 24 hours a day monitoring the noise to make sure we stayed within the requirements.

Anything we found that went out of those were repaired immediately, and added additional blankets or changed the operation to pull us into compliance.

So, I feel very comfortable that we can do that on those concerns.

CHAIRMAN MC CARthy: And you have no problem or your client have no problem, should this Commission decide to find that drainage of oil and gas is occurring as a result from production from adjacent wells -- if we made it over that first hurdle, and I don't know what the opinion of our Commission is at this point. If we get past that to this issue, you think that we can resolve this by attaching conditions to the permit that would be involved? That was the staff recommendation here a moment ago.

MR. GAUTSCHY: I would -- whatever those
conditions might be, if they were in the realm of things that I’ve seen that Hermo-a Beach already establishes, I know that we can meet those requirements. What you may impose, I feel comfortable that we can do that as long as it's within the realm of something to be done.

CHAIRMAN MC CARTHY: Any questions on this aspect of the environmental concerns?

COMMISSIONER ZIEGLER: Yes. I have some concerns that I saw in the EIR with regard to wastewater estimates and how that discharge would be handled. Are there contingency plans if your estimates are wrong?

MR. GAUTSCHY: I'm not real familiar with those estimates. That's not in my end. Probably someone in the engineering field can give you more information on that than I could.

UNIDENTIFIED SPEAKER FROM AUDIENCE: The answer is, yes.

CHAIRMAN MC CARTHY: Mr. Macpherson, you want to add something? You're standing. Are you intending to come up, or what's your wish? Or are you just stretching?

MR. MACPHERSON: On your question of water disposal, the answer is, yes. Water disposal requirements will be made by -- if water volumes are in excess of estimates, then water disposal will be made by reinjecting the water into wells into the same zone that
it was produced from. So, it would be, in essence, recycled back down into the same formation.

COMMISSIONER ZIEGLER: The economic feasibility of that, so that the project isn't affected -- in terms of your calculation on this, is that a cheap, conventional practice, or is that something that could make this project infeasible?

MR. MACPHERSON: No. That's really quite typical in oil and gas development, disposing of water by water disposal wells into the formation that it was produced from.

COMMISSIONER ZIEGLER: Okay.

CHAIRMAN McCARTHY: Any other environmental considerations to raise that Commission staff wants to point to beyond what we've already discussed?

EXECUTIVE OFFICER WARREN: No, Mr. Chairman.

CHAIRMAN McCARTHY: Mr. Bennett, would you like to make some remarks on behalf of Senator Beverly?

MR. BENNETT: Thank you very much, Mr. Chairman. My remarks will be very brief. This has already been covered in some detail.

The Senator had intended to walk over this morning himself to make a brief pitch in support of the city's request, but because of activities over at the Capitol, he's unable to do so. And he just asked me to
walk -- to come over and let you know that he is in support of the city's position, and is asking the Commission to stand behind its 1988 finding of the existence of drainage.

This has been examined in great detail by the city's engineering department and others who have concluded that drainage does exist. This is an issue of a value in millions of dollars -- not only to the city, but to the State. And he would like you to give great consideration to the city's position.

Thank you very much.

CHAIRMAN MC CARTHY: All right. Thank you very much, Mr. Bennett.

Has our staff done any estimate of what the revenue implications of this are?

While I'm asking you to do that, could I ask Mr. Gene Mansfield to come up, please?


MR. MANSEIELD: Thank you, Mr. McCarthy,

Commissioners. Thank you very much.

The California Independent Petroleum Association is an association of the Macpherson Oil Companies of the world -- small independents that still take oil out of the ground in very difficult circumstances, very costly. We
think the drainage issue is not an issue at all. There is drainage. There has been drainage, and the interpretation of the code section is one of interpretation. We would urge that the Commission grant the proposal and allow Macpherson to take this resource to generate revenues for the State, the City of Hermosa Beach, and to create some jobs at this much needed time, and to keep the independent producers working in the State of California on oil production onshore, and to keep this vital resource coming and paying for the State of California. Thank you.

CHAIRMAN MC CARTHY: Thank you very much.

Mr. Mansfield.

Any questions? Thank you very much.

MR. HIGHT: In answer to your question, Mr. Chairman, based upon the price of oil and an estimate by the city as to the number of barrels that would be produced, revenue could be anywhere from 60 to $100 million, or could be lower, depending on the price of oil.

CHAIRMAN MC CARTHY: What part of that would come to the State of California?

MR. HIGHT: Currently, the State would get none.

CHAIRMAN MC CARTHY: How is it split?

MR. HIGHT: It would be spent by the city in their -- it would be divided basically into three
increments. That portion of the oil that would come from underneath the tidelands would go into the city's tideland trust account. The portion that comes from the upland would be divided between city, school districts, and private entities.

CHAIRMAN MC CARTHY: Any further questions by the members of the Commission?

Mr. Warren, do you have any closing comments?

EXECUTIVE OFFICER WARREN: No, Mr. Chairman.

CHAIRMAN MC CARTHY: I'm satisfied that there is evidence that drainage of oil and gas did occur as a result of production from wells on adjacent lands.

The evidence is that Redondo Beach drilling occurred over 20 years and more; that considerable amount of oil was taken out of the ground. There seems to be no conflict between Commission staff and proponent's staff and Hermosa Beach staff.

The engineering analysis is that drainage did occur.

If the environmental issues can be satisfied by imposition of conditions, as suggested, then I'm inclined to amend the recommendations of the staff to find -- to change Item No. 2. How do the other two Commissioners feel about this?

COMMISSIONER BURTON: I'm with you on that. It
seems to me it's hard for us to find that drainage is not occurring as a result of production, given the testimony that's been presented here. I understand the staff's position, but it also seems to me that, given the economics that have brought these representatives of the city and the oil company to continue with their project -- despite the fact that Redondo Beach has shut down -- leads me to also think that, at some point, Redondo Beach may rethink the economies may be there for them to reopen the wells as well.

And, given that, I think further recognizing how difficult it is to get through processes on public lands to be able to complete projects these days -- I mean, even a school, for Heaven's sake, takes three to five years to build. And to have a for-profit entity continuing with a project like this means to me that there are some economics that make sense there, which, in my mind, raises the question about the split of revenues on the lease, and perhaps a review of that -- maybe with an eye toward, in the longer term, having a more rational sharing of the proceeds.

But I think, given as far as this has come, that it's hard for us to find that drainage is not occurring at this point.

COMMISSIONER ZIEGLER: I'm open-minded with
regard to this project. But I share Susanne's concern about the State bearing sort of none of the prospective gain and yet, in the back of my mind, I'm not completely convinced that there aren't some safety issues here that we've missed today, and that we will be bearing the environmental risks as the body that approves this thing.

I think I'm open-minded to the project, but I'm just not prepared to vote affirmatively today on it.

COMMISSIONER BURTON: I'd like to make a motion that we find that drainage is occurring as a result of production from the wells. And I'm also comfortable with the activity is exempt from the requirements as the staff has outlined here.

MR. HIGHT: If the No. 2 finding were to be that drainage is occurring, then we need to redo the remainder of the findings. And that would take us a few minutes. Perhaps we --

EXECUTIVE OFFICER WARREN: I gather that the sense of the Commission, the Commission is of the majority opinion to find the statutory conditions having been met; that is, that drainage is, in fact, occurring as a result of production, as Mr. Hight indicates, we will have to revise findings of fact. We would also have to negotiate a permit, which would have to come back to you.

For staff's purpose, in order to permit it to
alter the findings and to negotiate the permit, your
action by finding drainage is, in fact, occurring would
instruct us to go back and revise the findings and, in
the meantime, to negotiate the permit, including
the conditions which we would then bring back to you
at your next meeting.

CHAIRMAN MC CARthy: All right. So, you're
proposing that we not act on the findings today; that we
put this over to the next meeting, rewrite the findings,
and give you an opportunity to probably add another
recommendation dealing with the permit conditions.

EXECUTIVE OFFICER WARREN: Yes.

COMMISSIONER BURTON: I think perhaps the finding
we make today is that drainage is occurring, and that --

EXECUTIVE OFFICER WARREN: We'd appreciate that.

COMMISSIONER BURTON: -- the staff should follow
up on that finding with t... appropriate technical actions
that need to be taken by the Board --

EXECUTIVE OFFICER WARREN: Yes.

COMMISSIONER BURTON: -- at a later meeting.

So, my motion would be to find there is drainage.

CHAIRMAN MC CARthy: I endorse that approach.

Thank you, Mr. Warren. My view of this is that we can
create jobs. I'd love to have the State get a piece of
this change short of violating the Penal Code.
COMMISSIONER BURTON: It's not enough.

(Laughter.)

CHAIRMAN MC CARTHY: But create some jobs, and that we don't create environmental problems at the same time. We ought to move forward on this.

So, we unanimously endorse the motion, as just explained by Commissioner Burton; that's the action on this item. And we'll put this over to the next meeting for final action on all parts of the issue.

EXECUTIVE OFFICER WARREN: Yes. Thank you.

CHAIRMAN MC CARTHY: Thank you all very much. All right. On to the next regular calendar item.

EXECUTIVE OFFICER WARREN: Item 42 and 43 will also be presented by Mr. Mount.

MR. MOUNT: Item 42, Mr. Chairman, approve amendment of State geothermal resources lease, PRC 6425, Lake and Mendocino Counties. The amendment will include a joint scientific research program with DOE and USGS continues a review and approval by staff, and all other terms and conditions of the lease remain in full force and effect. There are no other comments, Mr. Chairman.

CHAIRMAN MC CARTHY: Any questions by members of the Commission? Anybody in the audience? If not, approved as recommended. Next?
EXECUTIVE OFFICER WARREN: Item 43.

MR. MOUNT: The Commission is being asked to approve the agreements for the State sale -- for the sale of geothermal steam between Unocal, Thermal, NEC, and PG & E on State resource lease 4596, 4597, 6422, and 6423, the Geysers Steam Field, Lake and Sonoma Counties.

The new steam sales agreement will result in more equitable prices for steam produced in State leases and put the steam sales price in line with other prices being paid for steam in the rest of the Geysers.

The approval of the agreement will be contingent upon Unocal continuing participation in the California Energy Commission's Technical Advisory Committee and Unocal submitting a five-year operating plan for review by the State Lands Commission.

It is also contingent on the Thermal and Unocal paying to the State its share of the $13 million and $5 million dollar field inventory writedown settlement, respectively, of the agreement.

CHAIRMAN MC CARTHY: Questions by members of the Commission? Anyone in the audience? All right. Approved as recommended. Next?

EXECUTIVE OFFICER WARREN: Item 44, Mr. Chairman and Commissioners, will be presented by Mr. Lance Kiley, who's Senior Attorney on the staff. It concerns a
memorandum of understanding negotiated by the Resources Agency involving the State Lands Commission and other agencies addressing the problem of dredging on the Mad River.

Mr. Kiley?

MR. KILEY: Mr. Chairman, Commissioners, this item came about as a result of a concern by local government and the agencies in the Resources Agency about the continuing effects of gravel mining on the Eel River in Northern California up near Eureka. The concern was about the cumulative impacts of the continuous mining in an area that has been deprived of its sand supply by the drought over a period of many years, which resulted in degradation of the stream, resulting in severe fish impacts. And as a result of that concern, the Resources Agency negotiated this memorandum of agreement between the Resources Agencies involved and local government spelling out the rights and responsibilities. And the result of this would be that the gravel operators in the Mad River Basin would be allowed to operate for this summer and be assured that they comply for this particular year, and supply a study of the cumulative effects that's going on, which would be funded by the local operators.

CHAIRMAN MC CARTHY: Any questions? Approved as recommended.
EXECUTIVE OFFICER WARREN: Item 45, Mr. Chairman and Commissioners, is to request authority for the Executive Officer to execute two agreements for fiscal year 92-93, depending upon the budget and other considerations that is. This does not instruct; it merely authorizes.

The second of the two items is a low priority matter, which will be pursued only if -- well, I'm not quite sure. I've said enough.

COMMISSIONER BURTON: I'll move approval of that.

CHAIRMAN MC CARTH: All right. Approved unanimously. Is that it?

EXECUTIVE OFFICER WARREN: That's it, Mr. Chairman.

CHAIRMAN MC CARTH: Thank you, ladies and gentlemen, very much. That concludes the Commission meeting.

(Thereupon, the meeting was adjourned at 11:25 a.m.)

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CERTIFICATE OF SHORTHAND REPORTER

I, Nadine J. Parks, a shorthand reporter of the State of California, do hereby certify that I am a disinterested person herein; that the foregoing meeting of the State Lands Commission was reported in shorthand writing by me, and thereafter transcribed by me into typewriting.

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

IN WITNESS WHEREOF, I have hereunto set my hand this 8th day of August, 1992.

Nadine J. Parks
Shorthand Reporter