MEETING
STATE LANDS COMMISSION
STATE OF CALIFORNIA

SACRAMENTO MARINA
2710 RAMP WAY
SACRAMENTO, CALIFORNIA

WEDNESDAY, APRIL 28, 1993
11:00 A.M.

Nadine J. Parks
Shorthand Reporter
MEMBERS PRESENT

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

Staff:
Charles Warren, Executive Officer
James Trout, Assistant Executive Officer
Robert Hight, Chief Counsel

Also Present:
Jan Stevens, Deputy Attorney General
Alan Hager, Deputy Attorney General
Mark Meier
Mike Valentine
Dwight Sanders
Dan Gorfain
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CHAIRMAN MC CARTHY: Good morning, ladies and gentlemen. At this time, I want to apologize for these crowded conditions for those of you who are outside; and at the same time, express my envy that you're in the sun and we're in here.

And there's a lot of testimony, so maybe it'll get a little warmer in this room than outside. We looked at every possible place for a larger hearing room in Sacramento -- I don't know what's happening today. But we went to the Convention Center. We went to hotels around town; every State meeting room is taken in some way. So, I am sorry for the crowded condition here today.

At the outset, let me indicate that, without objection, the minutes of the previous Commission meeting are approved. On the consent calendar, we would like to add Consent Calendar Items 40, 41 -- pardon me. I should have started with 29. 29, 40, 41, and 43. 41's already on the list. We deleted -- there are witnesses here on 28 and 42.

EXECUTIVE OFFICER WARREN: Mr. Chairman, we'll remove Consent Calendar Item 28 from the Consent Calendar and put that on the regular calendar.

CHAIRMAN MC CARTHY: It's not on the Consent
Calendar yet, so I'm not placing it on there, because I didn't mention it. So, it remains on the regular calendar. It's now on the Consent Calendar now?

EXECUTIVE OFFICER WARREN: It's now on there.

CHAIRMAN MC CARTHY: All right. We're going to remove Consent Calendar 28 and it is now on the regular calendar. And we're removing from the Consent Calendar Items 20, 34, and 41. 41 wasn't on the Consent Calendar. We're removing removing 20 and 34 from the Consent Calendar.

EXECUTIVE OFFICER WARREN: From the calendar completely.

CHAIRMAN MC CARTHY: From the calendar completely.

EXECUTIVE OFFICER WARREN: Let me walk you through, if I may, Mr. Chairman.

CHAIRMAN MC CARTHY: Why don't you? Slowly.

(Laughter.)

EXECUTIVE OFFICER WARREN: Remove from the calendar entirely, not to be considered --

CHAIRMAN MC CARTHY: Not to be considered. Category 1.

EXECUTIVE OFFICER WARREN: Yes. -- Consent Calendar Items --

CHAIRMAN MC CARTHY: Out of our sight.

EXECUTIVE OFFICER WARREN: -- 20 and 34.
CHAIRMAN MC CARTHY: 20 and 34, not on any calendar today.

(Laughter.)

EXECUTIVE OFFICER WARREN: Right.

CHAIRMAN MC CARTHY: Category 2.

EXECUTIVE OFFICER WARREN: Regular Calendar

Item 41 is to be removed from today's calendar.

CHAIRMAN MC CARTHY: Regular Calendar Item 41 is to be removed from today's calendar.

EXECUTIVE OFFICER WARREN: To be removed from the Consent Calendar and placed on the Regular Calendar is Item 28.

CHAIRMAN MC CARTHY: 28.

EXECUTIVE OFFICER WARREN: That will be considered by you today.

CHAIRMAN MC CARTHY: That is to be seen today, but on the Regular Calendar.

EXECUTIVE OFFICER WARREN: Regular Calendar.

CHAIRMAN MC CARTHY: I'm getting the hang of this.

On Category -- 14.

(Laughter.)

EXECUTIVE OFFICER WARREN: On the Regular Calendar, transfer Items 40 and 43 to the Consent Calendar.

CHAIRMAN MC CARTHY: All right. 40 and 43 that
were on the Regular Calendar -- if any of you watch the NFL draft on Sunday, you'll get the sense of what we're doing here. 40 and 43 are going on the Consent Calendar from the Regular Calendar. Any other categories here?

How about 29?

EXECUTIVE OFFICER WARREN: 29 remains on --
Mr. Chairman, not seeing any -- would the Chair inquire if there's any person in the audience who wishes --

CHAIRMAN MC CARTHY: Does anyone here wish to speak on 29? If not, 29 remains on the Consent Calendar.

EXECUTIVE OFFICER WARREN: Yes, that's exactly so.

CHAIRMAN MC CARTHY: Now, that's all I have, Mr. Warren. Do you by any chance have any other?

EXECUTIVE OFFICER WARREN: That's all I have, Mr. Chairman. My apologies.

CHAIRMAN MC CARTHY: Oh, that's all right. All right. Without objection, the Consent Calendar, as amended, is adopted.

COMMISSIONER BURTON: That's fine.

CHAIRMAN MC CARTHY: Now I'd like to move to the Regular Calendar. And we're going to start with --

EXECUTIVE OFFICER WARREN: Item 28.

CHAIRMAN MC CARTHY: What about No. 9, which was
on the Consent Calendar? Oh, it's not. That's only if needed. Item 28. Would you step forward, sir, --

MR. CARPENTER: I beg your pardon. I haven't had an opportunity to fill this out (speaking of speaker's slip).

CHAIRMAN MC CARTHY: Supervisor, is this on 28?

MR. CARPENTER: Yes.

CHAIRMAN MC CARTHY: All right.

MR. CARPENTER: Where do I go?

CHAIRMAN MC CARTHY: The podium is fine. If you'll wait just a second; Mr. Warren, who would you like to address this issue from the staff?

EXECUTIVE OFFICER WARREN: Mr. Trout.

CHAIRMAN MC CARTHY: Mr. Trout.

ASSISTANT EXECUTIVE OFFICER TROUT: Mr. Chairman, I think I'm going to take that issue. Item 28 is the consideration of a request by Sonoma County to install in the Russian River four bridge crossings for summer access to facilities on one side of the river.

The application before you is a one-year permit at four locations. There has been considerable interest on the part of the Federal Government, environmental agencies, the National Marine Fisheries Service, U.S. Fish & Wildlife Service, and the State Department of Fish & Game with regard to the long-term impact of these bridges. They have
been installed for several years across the river.

This year, we have a little different thing:

With the additional water available in the river,
portions of the river bed that formerly were dry by
summertime may, in fact, be wet.

We have appreciated the assistance of Sonoma
County in working on this item. They've cooperated with
us wonderfully. We think we've worked out a solution
that would take care of this summer so that they can get
the bridges in by May 15th, which is their interest, to
beat the Memorial Day weekend.

Staff remains concerned about the long-term
impacts, and we have suggested that the County look to a
long-term permit rather than a year-by-year permit. And
we would like to continue to work with the County.

However, staff recommends approval of the
calendar item as submitted.

CHAIRMAN MC CARTHY: All right. Any further
testimony for our side? Supervisor Carpenter.

MR. CARPENTER: Yes, Mr. Lieutenant Governor,
thank you. First, we agree with the permit conditions
for this year, and we've come up the freeway simply to
address a grievance on the part of Sonoma County. And
while we have enjoyed our brief relationship with the State
Lands Commission's staff, we haven't enjoyed it that much.
(Laughter.)

MR. CARPENTER: And really, when they say a short period of year, one bridge has been in for a hundred plus. We can document that two others have been in for fifty-plus years, and the third a mere -- or fourth, a mere 28 years.

And the Russian River is artificially controlled as far as releases go. We've had to educate your staff. And we've come to an agreement. We'll agree to it for one year, and we're going to continue to raise some opposition, and we'll have a friendly back and forth.

The reason we came up the freeway today to speak to you is that we paid $1,750 for a permit, and then negotiating through conditions -- which simply can't work on the Russian River, because people who are involved with this did not know how the Russian River worked, and we had to educate them -- they're charging us another 2,250 bucks for somewhere around the neighborhood of 4,000. My question is is, is there a nexus to these charges?

We've been in this condition for 50, 100 years with these summer crossings. They do not impede fish flow; they do not impede canoe traffic, or any other traffic that could go up and down the river. The Army Corps of Engineers has given us a five-year individual permit. We should get some credit for that. That's not
The National Marine Fisheries, Fish & Game, and Water Quality Control Board have all signed off. The only people who have a problem at this point is the State Lands Commission. And frankly, we don't quite understand it. We're going to continue to work with you. We protest the fees. We want to see a nexus study. The Attorney General requires the counties to do that. But simply because we negotiate over the telephone and have our legislators involved, they're charging us for this. So, I just don't get it. That's why I'm here.

CHAIRMAN MC CARTHY: Okay. Well, I understand your plea. I don't think we're going to resolve this problem today, and I don't think you expected us to. But I would like the staff to diligently pursue this conversation with Supervisor Carpenter, his colleagues, and his staff in Sonoma County, and let's see if we can find a way to simplify this process.

MR. CARPENTER: Might I raise one issue? They say they won't write the permit until we pay them $4,000. So, I just --

CHAIRMAN MC CARTHY: At this time?

MR. CARPENTER: That's the latest communication by fax. They didn't previously warn us of that. They simply sent us a fax saying it's going to cost us four grand. I have to go to my Board of Supervisors to get an
authorization. If we could -- well, what's the 1750 for? If we could pay that and get our permit, and then negotiate costs and see a nexus, we might pay it. We may -- I don't know. I hate to present you with this quandary.

CHAIRMAN MC CARTHY: I don't know the answer to that.

MR. TROUT: Well, Mr. Chairman, the fees are based on a schedule which was derived from the actual hours required to process a permit. There's some upfront fees that are required for the processing, and there are post-fees that are required. We'd be happy to work with the Supervisor. However, to be consistent with the Governor and Legislature's request that agencies become self-supporting as much as possible, we have, with the Commission's agreement, established these funds.

We'd like to work with the Supervisor and see what we can come up with. We will demonstrate the connection.

CHAIRMAN MC CARTHY: Do a good job. All right. We won't give you satisfaction on that today, Ernie, but --

MR. CARPENTER: A final comment?

CHAIRMAN MC CARTHY: -- we're sensitive to the issue you raised.

MR. CARPENTER: Okay. Should I sit down or make a final comment?

CHAIRMAN MC CARTHY: No, you can make a final
MR. CARPENTER: Well, if you'd get the conditions right, you wouldn't have to charge us, because then we could work with this, and not here on the stand.

CHAIRMAN MC CARTHY: Thank you for your clarity. All right.

(Laughter.)

CHAIRMAN MC CARTHY: All right, without objection, the recommendation is adopted.

MR. CARPENTER: Thank you.

CHAIRMAN MC CARTHY: Next item on the Regular Calendar.

EXECUTIVE OFFICER WARREN: That's Item 42, Mr. Chairman. This is an informational calendar item concerning the matter which you directed the staff to provide you with information. The information is contained in the staff report. And Mr. Robert Faber wishes to address the Commission on the item.

CHAIRMAN MC CARTHY: Mr. Faber?

MR. FABER: Governor, members of the Commission, generally speaking, working with the staff, since you met with us -- or we met with you in December -- has been satisfactory. There are a couple of points in the calendar item which are, we believe, need correction. There is a statement on the second page that certain information has
not been provided. That information has been provided since, apparently, the calendar item was drafted. There is a statement in there indicating that the application is complete as of the date, sometime in the last three weeks. I don't want to belabor it, but simply want to make the point that we do not concur with their determination of when the application was complete. Based on the circumstances surrounding this, we believe the application was complete earlier than that.

But, as long as we continue to be working in a productive fashion, there's no need to belabor that.

The final issue is that the administrative draft of the environmental impact report is complete at this stage. Mr. Kaveney is responsible for the payment of that document. And what we have is, he has a payment due at the end of the administrative draft stage, a payment due when the draft is released, and a payment when the final is released. And we are faced with the difficulty that between the stage when the administrative draft is completed and when the draft document goes out when the next financial responsibility falls on him, we have no access to the draft. We have no way of knowing whether it's been adequately or appropriately completed.

Now, we have been working with staff and we're trying to resolve this issue. I spoke with Dwight Sanders
this morning, and we will continue to try and resolve that issue. But I simply wanted to bring it to the Commission's attention. And if we can't resolve something, we'll have to get back to you.

CHAIRMAN MC CARthy: Thank you, Mr. Faber.

Thank you for the information.

Staff, next regular item on the calendar, please.

EXECUTIVE OFFICER WARREN: The next items, three in number, can be taken up together.

CHAIRMAN MC CARthy: 44, 45, 46, without objection, we'll do it that way.

EXECUTIVE OFFICER WARREN: Mr. Trout.

MR. TROUT: Mr. Chairman, at the request of the sand and gravel industry, three parcels of State land were offered for extraction lease, and these three calendar items will provide for the leasing of those three sites. One of the sites is in the Carquinez Straits, two of the sites are in San Francisco Bay. We drafted the lease, submitted it to the industry for comment, advertised for bids, opened the bids, and after review, have selected the high bidders.

For Item 44, it is MOE Sand Company. For Items 45 and 46, it is Bell Marine. The contracts were awarded on the basis of a multiplier to a specific formula for royalty.
The specific formula provides a percentage not less than .65 cents per yard, and based on material actually sold by -- out of the yard by the dredger.

I think that we're prepared -- the staff does recommend the approval of these items. And I understand there may be someone here to speak on one of them. But this has been a very open and public process, and we recommend your approval.

CHAIRMAN MC CARTHY: I have a request from Mr. Olin Jones to address this item. Mr. Jones, you're welcome, sir.

MR. JONES: I'd like to thank the Commission for the opportunity to speak.

CHAIRMAN MC CARTHY: Would you pull that down just a little bit (speaking of microphone).

MR. JONES: Point it down like that? Better?

CHAIRMAN MC CARTHY: So it's pointed right at you. Thanks very much.

MR. JONES: Sure. It's my position that the bids should be rejected at this time because the staff and the Commission does not know and cannot know what royalty the State will receive from each bidder. The bid multiplier is a multiplier that is to be multiplied times the cost of production. And the cost of production cannot be determined or was not given in the bid package.
This is a flawed process. It is similar to asking a contractor to bid on the remodeling of your kitchen and asking for a multiplier times his cost. And you pick the multiplier that is lowest, but you have no idea what his cost is going to be.

There was only one bidder who submitted a cost per cubic yard that he would pay the State. The other bidders did not submit that. Okay?

The questions that I have of the staff are: Is there a better offer in writing than 70 cents per yard and, if so, is it in writing (sic)? And number two, would the bidders object to multiple leases on these sites?

I'd also like to ask, you know, if there could be multiple leases on these sites, giving everyone equal access to the public resources -- creating the fastest maximum cash flow to the State? That's all I have to say. Are there any questions?

CHAIRMAN MC CARTHY: Just a moment, please.

The bottom line is, how do the taxpayers get the most money from this competitive bidding process. Now, you've just heard what Mr. Jones has said. Where are we? If we did it his way, would the taxpayers get more money from this competitive bidding process?

MR. TROUT: We don't see so, because the formula that we've established is based on the actual sales price
times the number of yards that are actually sold, and then multiplied by a factor greater than one.

The bid factor was this multiplier. The higher bidder, for example, Bell Marine, on one of the leases had a 2.3 multiplier. If we assume $7.00 a yard is the price and the multiplier is 2.3, that comes out to a total on the yardage of 1.61, a dollar sixty-one per cubic yard.

Mr. Jones bid a bid factor of 1.3. In order to get the same $1.61, Mr. Jones would have to sell the sand for $12.30 as opposed to $7.00. The other thing I'd like to point out is that we sent these leases and this proposed formula out to the industry. We mailed out over 25 bid package -- draft bid packages for industry to comment on. And after receiving comments from industry, we felt that, with the exception of Mr. Jones, that the formula basically was understandable and okay with industry.

CHAIRMAN MC CARTHY: Do you have any comment on that, Mr. Jones?

MR. JONES: I have two comments. Number one, each bidder has a different wholesale price. No one knows what that wholesale price is, because it wasn't requested in the bid documents. In other words, I could have had a bid factor of 5 and made my wholesale price a dollar. So, you cannot tell what the royalty to the State
is, unless what you're saying is that Bell Marine has
agreed to a dollar six-one per cubic yard. I don't believe
that's true.

I have reason to believe that other bidders
did not approve of the process.

MR. TROUT: Well, the gross sales price -- and
it's an auditable price -- is the actual price that they
get for the material, for the raw product. And this is a
price which fluctuates with the market. If sand is
more valuable, the price is higher. The bidders are all
bidding on the same sand, the same quality, and all of
them would be selling on the market the same sand, and
the market would then drive the actual gross sales price.

So, while we can't determine what it is, we
certainly can't imagine Mr. Jones selling the sand for
a dollar just to keep the State royalty down.

CHAIRMAN MC CARTHY: Mr. Jones has made the point
that some others in the industry tend to agree with his
point of view that this method doesn't necessarily give
the best yield for the taxpayers of the State. Did I
understand you correctly, Mr. Jones?

MR. JONES: That's correct.

CHAIRMAN MC CARTHY: Did you hear from any other
people in the industry -- ideas about how the bid could
be reformulated to maximize the return to the taxpayers?
MR. TROUT: Yes, we did. One other potential bidder, which was Tidewater, which did not actually bid on the leases, but which is in partnership with another company, their concern was that -- that the -- it's set up on a basis of both a minimum and a maximum, and they argued that the bid factor could be lower and that an applicant or lessee extract more sand and ultimately pay a higher amount. But so could the -- the high bidder could also extract that same amount of sand. It's just a question of how much they can sell in the marketplace. So, while anyone who sold -- dredged and sold more sand would have a higher volume, that's nowhere guaranteed in the lease.

We set a minimum, we set a maximum to provide a range in which the operator could function.

CHAIRMAN MC CARTHY: All right. I think we're going to have to make a decision on what's before us, Mr. Jones.

Thanks for your testimony.

MR. JONES: Thank you.

COMMISSIONER BURTON: I have a question.

CHAIRMAN MC CARTHY: Yes, Commissioner Burton.

COMMISSIONER BURTON: A couple of questions of staff. How many bids did you receive for these items?

MR. TROUT: We received three bids on one -- let's
see, one lease, I believe, and two on the other two.

COMMISSIONER BURTON: Okay.

MR. TROUT: Out of some 25 operators who were advised of this initially.

COMMISSIONER BURTON: Why weren’t there more bids? Is this not profitable? What’s going on?

MR. TROUT: Well, we really don’t know. These are the bidders that have been involved in the past with State Lands, and that may have something to do with it. The bidders were Olin Jones, Jones Sand; MOE Sand & Gravel, and Bell Marine. And they bid in different numbers in different leases, but those were the three bidders we got.

COMMISSIONER BURTON: Okay. And you only had two expressions of concern about the bid packages and the process?

MR. TROUT: Right.

COMMISSIONER BURTON: Okay.

EXECUTIVE OFFICER WARREN: I would like to point out -- and I think, correct me, Mr. Chairman and Commissioners -- that the new bid structure should result in an increased revenue to the State on a cubic-yard basis by a factor of perhaps as much as three or four.

So, compared to what we’ve been getting in the past, this new bid package should result in considerably
more revenue to the State.

CHAIRMAN MC CARTHY: Why don't you tell us when you have evidence of that? Just give us the information. I think we have no choice but to go ahead on the matter that's before us today. But I think, as soon as you start getting the return in, when this is awarded in these three separate contracts, that you let us know what the return is, because I think there should be some discussion in the industry about what the appropriate formula is for the bid to see whether we could do an increase.

But let us know what it is when the return is in.

EXECUTIVE OFFICER WARREN: All right.

MR. JONES: Thank you.

CHAIRMAN MC CARTHY: Thank you, Mr. Jones.

Any other questions? All right. The matter's before us. Without objection, approve the recommendation.

The next item on the Regular Calendar.

EXECUTIVE OFFICER WARREN: The next item on the calendar is the last item on the calendar, and that's Item 47. We have a number of --

CHAIRMAN MC CARTHY: Anybody here interested in Item 47?

(Laughter.)

CHAIRMAN MC CARTHY: All right. I see that
Assemblyman Jack O'Connell of Santa Barbara is with us.

Do you have a couple of minutes so that we could hear the staff presentation, or would you like to go on now? Whatever your schedule is.

ASSEMBLYMAN O'CONNELL: I'll be happy to listen to the staff presentation.

CHAIRMAN MCCARTHY: All right. Mr. Warren or whoever you're going to have make this presentation.

EXECUTIVE OFFICER WARREN: Mr. Chairman, I'll try to be brief in the presentation of this long-standing controversial and complex issue.

The staff report is, I think you will find, lengthy, perhaps unusually so. It has been distributed to all interested parties previously, who have had an opportunity to review and comment on it.

In your package, also, is correspondence from all interested parties concerning the issue and concerning the staff report.

Item 47, briefly, concerns an application for an industrial lease by the Gaviota Terminal Company for the operation and maintenance of an existing marine terminal located offshore Santa Barbara for loading of tankers for shipment to the Los Angeles area. The term of the lease is two years and eight months, beginning May 1, 1993, and ending January 1, 1996, or sooner, as provided
by certain provisions of the lease.

The consideration for the lease is a rental in
the amount as we've been receiving since the issuance of
the first lease, $230,000 per year.

Consideration of this item today brings to a
near close one phase of a long-standing and complex
controversy over the terms and conditions governing the
development and transportation of oil from federal leases
offshore Santa Barbara County. This phase of the
controversy involves the means and manner of transporting
oil produced from an offshore field known as the
Point Arguello Field by a consortium of companies known
as the Point Arguello Producers, which is represented
generally by the Chevron Oil Company.

The producers, the Point Arguello Producers,
have received a shipping permit issued by the California
Coastal Commission subject to a number of conditions.

CHAIRMAN MC CARthy: Excuse me. You cannot hear
in the back? All right. Why don't you move that
microphone a little bit closer to you?

CHIEF EXECUTIVE OFFICER WARREN: I'm sorry. The
producers have received a shipping permit issued by the
California Coastal Commission subject to a number of
conditions. The Coastal Commission issued the permit
after rejecting certain conditions to a permit issued by
the County of Santa Barbara.

The point of difference between the County and the Coastal Commission concerns how best to accomplish the commonly held policy objective of exclusive transportation of oil by pipeline.

The County's approach was to prohibit tankering until such time as the producers signed a throughput and deficiency agreement with one of three groups of competing pipeline proponents. Such an agreement -- that is a throughput and deficiency agreement -- assures financing for the construction of the favored pipeline proposal.

None of the three proposed pipelines have had nor have necessary permit approvals at this time. The Coastal Commission set aside the County's shipping permit and established a set of way points designed to achieve the construction of the desired pipeline by January 1, 1996.

Among those conditions -- the major conditions are the following: First, the Coastal Commission permit allows tankering to begin from the terminal as soon as the operators of the terminal have a lease from us to do so, which is the issue before us today.

The Coastal Commission shipping permit also sets a limit on the amount of oil to be tankered to no more than 50,000 barrels per day on a quarterly average,
provided that at least 40,000 barrels per day are shipped by existing pipelines to various destinations with at least 25,000 barrels per day shipped via an existing pipeline to Los Angeles, known as Line 63.

On this point, it should be noted that production of the Point Arguello Field is being presently increased -- or as they say in the industry, "ramped up" -- and is expected to peak at 85 -- and some say perhaps as much as 90,000 barrels per day.

Presently, production, I understand, is around 55 to 60,000 barrels per day level.

Now, the Coastal Commission permit also requires that the producers execute a throughput and deficiency agreement for the construction of a pipeline to Los Angeles by February 1, 1994, 10 months from now; or, if not, to cease tankering at that time.

If a throughput and deficiency agreement is timely executed, then tankering may continue beyond February 1, 1994, until January 1, 1996, when it must terminate. In the event a pipeline is, in fact, constructed and becomes operable before that date, then the tankering would cease at the time of the pipeline's availability.

It is assumed by the Coastal Commission permit that by such time -- that is, January 1, 1996 -- the
throughput and deficiency favored pipeline will have been constructed and will have the capacity to transport all of Point Arguello's production.

All that now remains is the issuance of the lease sought by the application before you. The applicant is the Gaviota Marine Terminal Company, again, which is composed of a number of oil companies, but is headed nominally and in fact, and represented by the Texaco Oil Company.

Now, there are a number of subsidiary, but significant, factors which you should consider. There has been a petition filed with the Coastal Commission to revoke its shipping permit because of certain specified reasons.

The Coastal Commission will not consider the matter until its next meeting, presently scheduled, I believe, for May 12, 1993.

Secondly, the second subsidiary factor which you should have in mind, is that the Point Arguello Producers have not as yet elected to pick up the Coastal Commission permit and, in fact, has filed a legal action challenging the Commission's authority to condition the permit.

The producers have indicated to your staff, however, that upon the issuance of an acceptable lease, they will, in fact, pick up the permit and dismiss the
legal action. I think that it would be worthwhile to have that representation confirmed on the record.

Staff has concluded that there are four options available to the Commission. Each of the options has its adherents and its opponents. The first of these options is to deny the application. This option or its refinement is proposed by a number of groups, such as the American Oceans Alliance, the Environmental Defense Center, Get Oil Out, and by a number of elected officials and private individuals.

Although they are here today to describe their views, I think generally they contend that, first, that existing pipelines are adequate for the transportation of Point Arguello production and, secondly, if the existing lines are not, in no event should tankering be permitted until such time as a throughput and deficiency agreement is, in fact, executed.

The second option is to delay action on the application before you until such time as the Coastal Commission has acted upon the revocation petition. As I said, that will not be until May 12th. However, I must say that none of the interested parties in their written comments to us on the issues involved in this matter seem to be urging this course.

The third option before you is to approve the
lease, but limit the use of the terminal to shippers who hold a shipper's permit issued by the Coastal Commission, but subject to the same conditions imposed by the Commission on the permit holder.

COMMISSIONER DAVIS: Coastal Commission.

EXECUTIVE OFFICER WARREN: Yes.

This view is supported by the producers, by the terminal operators, by the Coastal Commission, by the Wilson Administration, and certain other private groups and individuals. It is opposed by the anti-oil group, the composition of which has been heretofore described.

The County of Santa Barbara has responded to the staff analysis by a letter received today, but does not indicate a position one way or the other.

The fourth option available to you is to approve the lease, but limit the use of the terminal to shippers who hold a shipper's permit from the Coastal Commission, as provided by the preceding option that I've just described, but who agree further to transport on a quarterly basis through Line 63 to Los Angeles that amount of oil determined sufficient to fully utilize the existing pipeline capacity.

This option was developed by your staff in order to deal with the issue of the extent to which pipeline capacity presently exists. Presumably, this option would
be supported by the existing pipeline companies and, to a
limited extent, by those who are otherwise opposed to the
Coastal Commission's shipping permit issuance.

The applicant, the producers, and others, however,
strongly object to the refinement of the Coastal Commission
permit.

As I indicated at the outset, a detailed staff
report on this matter has been provided you and all
interested parties. You will today from all of the
groups mentioned. Copies of their correspondence have
been provided you.

We have a number of requests to speak. I have
attempted to sort out the requests into groups who are
for the lease, subject only to the Coastal Commission
permit terms, and there are others who wish to speak to
the alternative options.

It would be my recommendation, Mr. Chairman, that
we first hear from the applicant, and then from the
producers and others who support Option 3.

CHAIRMAN MC CARTHY: After we call on
Assemblyman O'Connell, here's what I would like to
recommend to my colleagues on the Commission and to all
of you in the audience here to testify: That each side --
and that's a rough categorization, since we have several
options in front of us -- but we've roughly grouped them
into those that we think are here to support adoption of
the application and those who will have total or qualified
opposition to that action, or may like some aspects
of one or the other options; that we give 45 minutes to
each side, and then if you could be thinking about this --
and I appreciate this is sometimes hard to do -- but if
each side could think of the one, or two, or three people
that they want; then, once a motion is made and is before
the Commission for consideration, one, or two, or three
people from each side can rebut or argue further at that
point to ask clarification or to challenge assertions that
have been made so that the Commissioners can get fully
rounded testimony on this issue.

Now, if that's an acceptable approach on this
issue, I'd like to proceed on that. Does anyone have any
serious objections to that?

COMMISSIONER BURTON: I just need at some point,
before 1:30, a chance to make a phone call to rearrange my
schedule. It sounds like the 45 plus 45 puts us past
1:30.

CHAIRMAN MC CARTHY: We'll take a 90-second recess.

COMMISSIONER BURTON: That'll be fine.

CHAIRMAN MC CARTHY: All right. Then, may I first
have the pleasure of inviting up to testify Assemblyman
Jack O'Connell, who represents Santa Barbara County.
ASSEMBLYMAN O'CONNELL: Thank you very much, Mr. Chairman and members of the Commission. I appreciate the time that you've put in on this already; the focus that you've given this is very gratifying for all of us that live in the area. And also to your staff; your staff's practically been living in the area trying to work on the four options that Mr. Warren so eloquently that's before us.

UNIDENTIFIED SPEAKER IN AUDIENCE: Turn the mike up, please.

ASSEMBLYMAN O'CONNELL: I'm speaking on behalf of both myself and Senator Gary Hart. We have submitted written testimony, and I'd like to just briefly summarize our testimony.

As you know, the oil development and the transportation issues in our area have been long-standing concerns. And we believe that the Commissioners should first deny the Lease Option 1, which Mr. Warren stated, on the following grounds: That insufficient environmental information has been accumulated thus far; notwithstanding the staff findings, we believe that the EIR submitted for approval on the Point Arguello tankering permit is not sufficient for the questions that continue to arise as a result of the application. Also, the inadequacy of the data about the production levels, the varying degrees of
interceptions of the capacity levels and the availability therein. And to date, we're not convinced that there is inadequate capacity to currently carry the Point Arguello crude through the existing pipelines from this area.

We're also concerned with the lack of a signed throughput and deficiency agreement, also which Mr. Warren stated. And, as the Commissioners, oil producers made a commitment a decade ago to transport this crude from Point Arguello by pipeline. Since then, they have expended considerable capital in attempting to try to circumvent that earlier commitment. And the incompatibility with Santa Barbara County's local coastal plan is also a concern for many of us in the community.

And in 1987, the County of Santa Barbara approved, as the sole consolidated marine terminal, Exxon's Las Flores Canyon Marine Terminal, and that designation remains current to this day.

As an added note, we're also concerned with the level of inaccurate information that has, unfortunately, been circulated during this process and throughout the earlier Coastal Commission process where Senator Hart and I also provided testimony. And for that reason alone, we would urge the Commissioners to, at minimum, exercise extreme caution in considering this lease.

In an absence of an outright denial of the lease,
we request that the Commissioners delay a decision until you have had an opportunity to further deliberate the outcome of the forthcoming Coastal Commission meeting, which Mr. Warren also referenced.

The action on that could affect the potential revocation of the permit to tanker oil in the Santa Barbara Channel.

In any case, the lease that could be granted should contain the following conditions, which we believe to be not only necessary, but also extremely reasonable, to ensure the health and safety of the people of this community be preserved.

Line 63, which was mentioned, does have the capacity to be fully utilized before any tankering can occur, and a limit of the 50,000 barrels per day should be placed on the terminal capacity.

We also believe that the users of the terminal should be required to complete and sign the unconditional throughput and deficiency agreements, which have yet to be forthcoming, for the pipeline construction prior to any tankering. And also the users of the terminal should know with certainty that the permit will not continue past January 1st, 1996, regardless of any real or imagined extenuating circumstances.

I hope that the Commissioners will seriously
consider our request and those similar requests that'll be forthcoming before you here this afternoon. I know that the issue is very complex. And, again, I appreciate the time that not only the Commissioners have put in on this issue by the thorough understanding, but also that of your staff. And in behalf of Senator Hart and myself, thank you for your time.

CHAIRMAN MC CARTHY: Thank very much, Mr. Assemblyman. Any questions of the Assemblyman?

ASSEMBLYMAN O'CONNELL: Thank you very much, Lieutenant Governor. Thank you.

CHAIRMAN MC CARTHY: We've identified the proponent's side of the matter before us, and we have arranged the witnesses that turned in these requests to testify in the following order:

Mr. Jim Shamas, President of Texaco; Mr. Dan Mihalik, Manager of the Gaviota Terminal Company; Mr. Andy Moynagh of the Building Trades and Colab Council; and Mr. Richard Kasa, President of the Essence Engineering Inc., representing the California Energy Service & Supply Association; Mr. Angelo Castagnola of the Gaviota Interim Marine Terminal; Mr. Cliff Monyama, representing the California Chamber of Commerce, Mr. Daniel Kramer, the Acting Executive Director of the California Independent Petroleum Association; Mr. Frank Marin of the
Coalition of Labor, Agriculture & Business of Ventura County; Mr. Robert Foote, Vice President of Finance for H & H Oil Tool Company, Inc. Forty-five minutes for that group. My apologies if some of you get squeezed if you're towards the end of that list. And we would like to start now at the hour of noon with Mr. Shamas.

MR. SHAMAS: Thank you, Mr. Chairman and Commissioners. We will try to hold our presentation to 30 minutes in the interest of time, or shorter, if we can do that.

My name is Jim Shamus. I'm currently President of Texaco Trading & Transportation, which is the subsidiary of Texaco that has constructed a new state-of-the-art terminal at Gaviota. I'd like to trace a little bit about the history of that terminal.

I've been associated with it since 1977, when I was Manager of Transportation for Getty Oil Company. Getty Oil was merged into Texaco in 1984. In 1983, I presented to the Getty executive committee a $15 million brand new terminal to be constructed at the site of the Gaviota Terminal.

Gaviota Terminal has been located where it is, 26 miles west of the City of Santa Barbara, since 1896. In 1896, Tidewater Oil Company shipped asphalt crude to China. We've gone back through the records; since 1896,
we can't find a recorded spill, accident, or environmental incident at Gaviota Terminal.

In 1953, we modernized that terminal. We put in the first vapor recovery system in the County of Santa Barbara. We also invented a new color called Gaviota Green, which we painted all the tanks to match the surroundings and try to blend in.

When we appeared before the Santa Barbara Planning Commission with our new terminal idea, a lot of people didn't know that the terminal was out there. It had been operating since 1896, and not many people knew of its existence.

We donated three acres of land, along with the Hollister Ranch, to support a school, a ten-acre school across the highway from our terminal. That terminal is now -- that school has now been moved and a brand new modern school has been provided by the industry.

So, what I want to address today is a little bit about good faith, a little bit about what we've learned. We shut down that terminal in 1985. It was then loading from one to two tankers a month. We've spent more than $60 million on a brand new terminal. The vapor recovery and balancing system designed by Exxon that's been employed at this terminal is duplicated nowhere else in the world. It's the best state-of-the-art vapor recovery.
And we've checked every terminal that we can find; it's
the best there is.

We're very concerned about the environment and
about discharges into the atmosphere. And so, we've
done tanker modeling studies. All of the studies show
that we are far below the emissions which were allowed by
the County; even though we haven't been allowed to load
one barrel since we completed the terminal in 1989, we've
bought more than $2 million worth of air quality permits
so that we can improve the quality of the County.

We've also paid close to a million dollars in
fees to State Lands, even though we weren't allowed
to load one barrel of oil.

I want to address a little bit about the pipeline.
We in Texaco operate more than 20,000 miles of pipeline.
We have made two attempts -- one in 1982, with Chevron,
Getty, Arco, and Shell -- to build a pipeline from Emidio
to Los Angeles. We spent more than two years and a
million dollars trying to find permitting in viable
routes. We folded up that effort. We couldn't find a
pipeline route to Los Angeles.

In 1984, when we started looking at the Gaviota
development, Texaco, Chevron, and Arco spent more than
$6 million trying to find a pipeline route and a viable
way to get a pipeline into the City of Los Angeles.
Again, it came down to, after three years of study and multimillion dollars, we couldn't find a way to get a pipeline there.

As you know from the staff's report, there are now three proposals. We're not against pipelines. Since we operate more than 20,000 miles of them, we're certainly for pipelines. The problem is, after our attempts, we're not convinced the pipelines can be built into the Los Angeles area; therefore, we're hesitant to back any.

As terminal partner and operator, we feel that this is an issue that's already been addressed in front of the Coastal Commission and is not proper.

What we're suggesting and wanting now is a terminal permit to follow through with what we were granted in 1985, before we spent the $60 million, and to be able to load at what I consider to be the most environmentally safe and state-of-the-art terminal in the world.

Thank you.

CHAIRMAN MCCARTHY: Any questions of Mr. Shamas?

All right. Thank you, Mr. Shamas.

Mr. Mihalik?

MR. MIHALIK: Thank you very much, Mr. Chairman and Commissioners. My name is Dan Mihalik, Manager of the Gaviota Terminal Company project for Texaco Trading and
Transportation, the operator.

This terminal was built to satisfy the oil storage and marine transportation requirements of OCS production. Our project was approved by the County of Santa Barbara for the express purpose of primary transportation services, both pipeline and marine terminal, for production as it comes on line at Point Arguello.

I hope you become convinced today, if you're not convinced already, that we have done everything possible to provide the utmost in safety. As you know, the facility will only use relatively small, 250,000 barrel double-hulled tankers. Also, presently, in Southern California, we feel the system that exists to respond to oil spills is the best available.

The facility has been built using a safety inspection, maintenance, and quality assurance plan agreed upon by the various agencies, including the State Lands Commission and Santa Barbara County. It's also important to note that a tanker can only enter the Gaviota Terminal under very restrictive, relatively mild weather conditions.

On another subject, there were 283 permit conditions on the original interim marine terminal project in 1987. These were decided on after a very extensive
environmental impact report was completed.

In 1990, the County added 14 more conditions after a marine emergency management study was completed.

In 1992, a supplemental EIR was completed. It cost in excess of $1 million. And at that time, the County added 30 more conditions. This was this past summer. Your State Lands Commission staff was very involved as part of the joint review panel in deciding on these various conditions.

In addition to this, GTC has committed to an extensive list of various plans which have the force and effect of permit conditions. We literally have bookshelves full of plans that have the force and effect of permit conditions.

Your staff today is recommending that you approve more conditions. And I'm fairly certain, after being involved in this process for quite a long time, that every issue imaginable having to do with marine safety, having to do with pipelines has been studied as part of this process.

We ask you to not cause further delays in the startup of the Gaviota Terminal. If you do so, it will jeopardize the significant compromise that occurred with the Point Arguello Producers. As you know, the compromise with the producers was based on the assumption that the
Gaviota Terminal would be allowed to start up relatively soon, hopefully in June.

We ask you to support the basic lease option presented in the staff report. But we also urge you to delete two proposed requirements in the basic lease option. They appear on page 22 of the staff report.

CHAIRMAN MC CARTHY: Do you want to refer to them specifically?

MR. MIHALIK: Yes, sir. First of all, paragraph H(1), this paragraph talks about the State Lands Commission reviewing and approving a throughput and deficiency agreement. And this would seek to interpose the State Lands Commission's judgment on the adequacy of the T & D agreement being signed by the shipper. This approval process is already part of the Coastal Commission permit.

And then in Paragraph H(2) --

CHAIRMAN MC CARTHY: Well, before you leave that --

MR. MIHALIK: Yes.

CHAIRMAN MC CARTHY: How does this requirement differ from what the Coastal Commission has already imposed as a condition?

MR. MIHALIK: I think the wording is virtually identical, Mr. Chairman. The only difference is it adds the State Lands Commission as a reviewing agency in
Presently, the Coastal Commission's Executive Director, I believe, reviews the adequacy of that throughout and deficiency agreement.

CHAIRMAN MC CARTHY: Well, I might as well introduce this statement as this point, just so witnesses can address it if they wish. And I speak only as one member of this Commission. If you want us to, in balancing the equities in everything that will come before us here, to consider what the Coastal Commission has done, we will not give you a blank check. We will not say, if the Coastal Commission decides to materially alter the deadlines they have imposed -- I'll retract the "we," I'll use "I." We will not simply say, "Whatever the Coastal Commission does, we will endorse."

So, we don't know what's going to happen. I don't know what's going to happen at the next Coastal Commission meeting.

They have imposed three time lines here that everyone is telling me on your side of the picture that they're quite serious about meeting and will meet. Now, that's very critical to me on how I decide on how I decide on this issue. So, the way this is worded, we don't require another meeting of the State Lands Commission if the Coastal Commission is not going to
materially revise their deadlines. So, you don't -- Mr. Warren, help me on this one now. We don't necessarily have to have a Commission meeting, but we have the option of having a Commission meeting if the California Coastal Commission materially revises its first requirements.

EXECUTIVE OFFICER WARREN: That is correct, Mr. Chairman.

CHAIRMAN MC CARTHY: Go ahead, sir.

MR. MIHALIK: Thank you very much.

The other item on page 22 I'd like to point your attention to -- it's paragraph H(2). This also deals with throughput and deficiency agreement, and it deals with other shippers, shippers other than Point Arguello. And this would require any shipper in the future who received a shipper's permit from the County or the Coastal Commission after February of '94 to first sign a T & D agreement. And there is no shipper that has gone through the environmental review that has had the hearings, other than the Point Arguello shippers. So, this applies to another shipper. And I think it also is something that would be most appropriate to delete. A slightly different matter but, again, our position is to delete.

And let me just kind of give you our general feeling on both of these. Both of these matters are shippers' matters. One, paragraph H(1), deals with the
Point Arguello shippers. H(2) deals with other shippers, certainly Exxon has applications possibly in the works. But these are shippers' matters.

Inclusion in our lease would be fundamentally at odds with the respective roles of the Coastal Commission and the State Lands Commission. These are not terminal matters, the marine terminal that's in front of you for a lease today.

We believe that such matters are the province of the County and the Coastal Commission and are beyond the proper scope of the State Lands Commission's action on the GTC lease. And we believe there is no legitimate concern that the other agencies -- County and Coastal Commission -- will not discharge their obligations as they should.

The Coastal Commission is the reviewing agency for this T & D agreement. Under paragraph H(1), you've described -- again, under paragraph H(2), we don't have any company in front of you or in front of any agency right now with, you know, with an EIR complete or with an application in front of you.

CHAIRMAN MC CARTHY: We'll address that when you finish your points.

MR. MIHALIK: All right. I'm finished, Mr. Chairman. One other just procedural matter that I'd
like to bring up with you.

Lastly, we understand that all of our correspondence with your staff concerning this lease is part of the administrative record of these proceedings, and we'd like you or your staff to acknowledge that this is correct.

CHAIRMAN MC CARTHY: It is correct.

MR. MIHALIK: Thank you very much.

CHAIRMAN MC CARTHY: Mr. Warren, would you have your staff address that last point, please, on Mr. Mihalik's remarks regarding H(2).

MR. HIGHT: Yes. Mr. Chairman, it was the staff's thought that, if you so chose to take this option, that the same conditions that apply to the existing shippers should apply to any other shippers in the future, and that it just put everybody on the same level playing field.

CHAIRMAN MC CARTHY: Is that any objection to that logic, Mr. Mihalik?

MR. MIHALIK: Well, regarding future shippers, again, they haven't gone through the County process; they haven't gone through the EIRs. I'm not sure what sort of conditions are going to be put on them in addition to T & Ds. It's too hard to predict at this point. I think that your staff has made it clear that any other future
shippers that may want to use the Gaviota Terminal will have to come to you or GTC will come to you for a lease modification. And it's certainly a matter that could be addressed at that time.

And I think it's most appropriate to address when we come to you for a lease modification, if that happens.

CHAIRMAN MC CARTHY: Is there any objection to the view that any future shippers -- and I take it we are anticipating there may be future --

MR. MIHALIK: Yes.

CHAIRMAN MC CARTHY: All right. -- other shipment of oil from -- not from Point Arguello Producers but from others. Is there any objection to the point that any such future shippers should comply with the same set of conditions materially that Point Arguello Producers are being asked to comply with?

MR. MIHALIK: Yeah. I can't represent those other future shippers.

CHAIRMAN MC CARTHY: I'm not --

MR. MIHALIK: But I think the point, Mr. Chairman, is this: When another shipper comes in, he's going to be faced with going through a whole process with the County, the Coastal Commission. I don't know what the conditions are going to be, but I think it's most appropriate to
look at them at that point, and then the State Lands Commission, if they decide to make them consistent with the Coastal Commission, they could. But we don't have them in front of us.

COMMISSIONER DAVIS: Why would you want to subject any future shippers to a less rigorous standard than the existing shippers have been subjected to? Why do you want to make it easier on future shippers than we've already made it on existing shippers? What's the logic in doing that?

MR. MIHALIK: I don't know that it would be easier, Mr. Commissioner. I'm just not sure. I just can't predict the future and what the Coastal Commission permit is going to look like if some other shipper gets it.

I think we just ought to have -- or the Commission should have everything in front of them at that time and make a decision. I don't think it's a decision that the Commission needs to make now. And, you know, they don't have the environmental impact report and all the review for other shippers in front of them.

I don't know that I can answer whether it's easier or harder. It's certainly a complex set of circumstances and facts, and hard to predict the future.

COMMISSIONER DAVIS: I just would refer you to
Mr. Shamas' testimony, which I thought was quite cogent; that, as time went by, partly due to developing technology and the conditions increased rather than diminished. And I would suspect, if anything, that would be likely to happen in the future.

UNIDENTIFIED SPEAKER IN AUDIENCE: We can't hear you.

COMMISSIONER DAVIS: I just challenged the wisdom of asking us to delete Item 2, because it would seem to suggest that we should treat future shippers less vigorously than we've treated existing shippers. And I noted your testimony, which I thought was quite cogent, where you've clearly indicated that, as time went by, standards and conditions increased, not diminished.

MR. SHAMAS: (From the audience) We don't think the problem is making the playing field level, all the conditions equal. We do have a problem -- I don't think there's six people in this room who have ever seen the 20-page throughput and deficiency agreement (sic). We do have a problem with having another hurdle to go through with every T & D agreement having to be reviewed by every agency. That was our point Dan made first.

But, secondly, we don't have a problem with everyone having the same conditions. We think that's fair. So, we just feel like that by putting it in there
in advance, you know, we don't really see the purpose of that.

CHAIRMAN MC CARTHY: All right. If I may also address this, I think the point of this is not to keep creating additional hoops, but the point is to try to get enough clarity on the point of whether anyone in the future will attempt oil tankering or use whatever pipeline or pipelines will ultimately be selected after an economic judgment is made by the shippers using one or two pipelines.

Now, I can't envision all of the circumstances. But if there are oil companies who wish to ship in the future that are not immediate parties to the matter before us, if they want to come in, we're not so much thinking about additional loopholes or trying to stop them from doing their shipping, but rather in the other direction. We're trying to maximize the use of the pipeline, and we're trying to make it clear that there won't be oil tankering.

MR. SHAMAS: (From the audience) You know, we believe in the date certain that's shown in our permit, that that's when the tankering will stop.

CHAIRMAN MC CARTHY: We're not challenging that. We're not on that point now. We can address that as they--

MR. SHAMAS: (Interjecting) If they're going to
come in, they're going to have to hurry to get in, because we're looking at two years and six months, maybe. And the thing we're worried about is if every agency reviews the T & D agreement -- and I'm an engineer, but I also have a law degree -- a lot of attorneys like to change things. And if every one of them changes a 20-page agreement, we'd never get approval of T & D agreements. So, you're right when you mentioned other hoops to go through. We'd just like to have a level playing field and one agency approve all the T & Ds.

CHAIRMAN MC CARTHY: Is there any difference of opinion that anybody who produces oil along this coast is going to ship through the pipeline and is not going to ship by tankers? Is there any difference of opinion on that?

MR. SHAMAS: Ultimately?

CHAIRMAN MC CARTHY: Well, by the dates we're talking about here.

MR. SHAMAS: Well, no. We don't have any difference of opinion with the dates that are set out in the lease.

CHAIRMAN MC CARTHY: All right. Now, what we want to do is make it absolutely clear in the action that we take here that that, in fact, is what we're reaching for. We're not attempting to complicate the series of
governmental agencies that need to do this recurringly. But we do want to make sure that there's no misunderstanding here about the ultimate result of that. That by the dates we're talking about, should this be the option that's exercised -- it's the good faith that you indicated in your opening remarks, Mr. Shamas that's needed all around here -- these dates have meaning. Are they going to be taken seriously; are they going to be complied with? And will any other oil company that wants to ship through these pipelines understand that there is no oil tankering after this 1996 date?

MR. SHAMAS: (From the audience) Well, to my knowledge, they all understand that. They've all seen the terms and conditions. You know, Exxon is coming along at a different pace than the Point Arguello Producers. But I shouldn't speak for one of the world's largest corporations. But they understand and have lots of people who can read, too.

COMMISSIONER DAVIS: Can I ask a related question? You said in your testimony, Mr. Shamas -- and I meant to ask you at the time, but it didn't occur to me until after you left the podium. You mentioned the difficulty you had in 1982 and in 1984 in trying to develop plans to site pipelines to Los Angeles.

Why do you think you'll be successful in doing
that by January 1, 1996, when you were unsuccessful
in '82 and '84?

MR. SHAMAS: Well, those conditions grew out
of three or four months of negotiations. We, the industry,
had tried it. We, the industry, didn't think that the
All American Pipeline would ever be built. And, yet, it
was constructed. So, we really can't say "can't be,"
and the Southern Pacific people, the railroad -- the
people that have the railroad right-of-way -- seem to have
one of the things we could never overcome. We couldn't --
the last part of our pipeline, after we closed our
$6 million study, went down the middle of Western Avenue
for about 10 miles. And we were told by the City of
Los Angeles that wasn't very practical.

And so, we finally gave up after three years and
$6 million. They have a different way in. The Line 90
reversal is a different way in that we didn't have available
to us. And the Cajon is even a third way. So, we're going
to try to back something that has a real good chance of
being successful.

But we had two attempts where we struck out both
times. I didn't want the inference to be left that we
didn't try to do that, because we certainly did. And I
was involved. And after you keep putting more money and
more money and 27 or 28 different agencies tell you you can't
get into Los Angeles, then you finally give up. So, that was all I was trying to say.

COMMISSIONER DAVIS: So, would I be correct in deducing that there may be a pipeline constructed by January, 1996 --

MR. SHAMAS: There better be. --

COMMISSIONER DAVIS: -- but there may not be.

MR. SHAMAS: -- because we're going to shut the terminal down.

CHAIRMAN MC CARTHY: Did you hear his alternative?

COMMISSIONER DAVIS: Yes. In other words --

CHAIRMAN MC CARTHY: There may or may not be.

MR. SHAMAS: Right.

CHAIRMAN MC CARTHY: Did you hear it?

COMMISSIONER DAVIS: No. I'm saying that I think it's important that everyone realize that these discussions, which began back in 1983, before -- at least before I was on the Lands Commission, but I had just been elected -- were all premised on the Gaviota Terminal being built and the oil being shipped by pipeline.

Now, you've run into a lot of hurdles, presumably not of your making. And I have some empathy for the difficulties you've faced. But this lease assumes that something will be built by January, 1996. And what I just said was that I think it's important to realize that it
may be built; it may not be built. Would you quarrel with that characterization?

MR. SHAMAS: No, I think that's exactly true. I might also add that when we proposed this in 1983, we had a 30-inch pipeline that went from Gaviota over to Emedio. When All American called us and said, "Could we use that same route," we said, "Fine. Go ahead and use it. We don't think we're going to be able to build it."

And then they built it and showed us they could get through the National Forest, and they did it.

So, I'm here to tell you that we believe those dates are real. And I can't speak for the producers. They'll have to cut back production; they'll have to take whatever actions are necessary, or they will have had to have chosen a viable pipeline in time to meet the end of January, 1996.

COMMISSIONER DAVIES: Just one final question. Recognizing the difficulty you faced in the eighties, why wouldn't you sign a throughput agreement conditioned on obtaining the permits? In other words, why wouldn't you enter into --

MR. SHAMAS: (Interjecting) We could do that, but it's not meaningful. T & D agreements are taken to the bank. And the bank says, "All right. We'll look at the credits you've got. Six people have signed it. Here's
a strong one. Here's one that we think is in financial trouble. And then they take and they value that, and they'll loan you a hundred million, 200 million, whatever you're seeking.

If you go to them with a conditional, then they're not going to loan you any money. It's got to be ironclad.

And so, conditional T & D agreements don't do much good. We could give them out to each one of the three competing things, and they'd be meaningless until they got all their permits and could convince a bank that they were really going to go into construction.

COMMISSIONER DAVIS: So, a T & D agreement is really not appropriate until the pipelines have been permitted?

MR. SHAMAS: Till you know that you can build a pipeline, that's when T & D agreements are really important. Then you go to a bank for some money. Or, really, in this case, it'll be five, or six, or ten banks that come together to finance it.

COMMISSIONER DAVIS: But you wouldn't have any objection to signing one that -- on a conditional basis, even though I understand you to mean that no bank would lend any money based on that?

MR. SHAMAS: We offered that -- there's some people
here in the crowd -- way back when these negotiations started, and then it was decided through the three or four months of negotiations that conditional T & D agreements really weren't worth it.

COMMISSIONER DAVIS: Charlie, is that your view?

EXECUTIVE OFFICER WARREN: It's my view that the purpose of the T & D agreement is to enable the pipeline proponent to obtain the necessary financing for construction. And that, if it's conditioned, that that financing will not be forthcoming.

COMMISSIONER DAVIS: But it is a demonstration of good faith if you're willing to sign that agreement.

EXECUTIVE OFFICER WARREN: There is the -- at one time, staff was giving consideration to the possibility of having conditional T & D agreements signed with each of the three pipeline proposals. Because of -- well, for reasons which Mr. Shamas has indicated and others, we abandoned that alternative, because we felt and were so informed that the entire arrangement would be collapsed.

We didn't -- consequently, we concluded that the limited value of pursuing that option was not worth the effort to be made, that seemed to be necessary to push it.

We favored -- we thought that, inasmuch as there were only ten months --
CHAIRMAN MC CARTHY: Can you hear back there?

EXECUTIVE OFFICER WARREN: -- inasmuch as there
were only ten months between now and February 1, and
inasmuch as at least two of the proposed pipelines appeared
to be on the verge of obtaining necessary permits,
conceivably, we would -- a full T & D agreement could be
executed months before the February 1 date. For example,
we understand that Pacific Pipeline to be within four to
eight weeks from receiving a PUC permit. By receiving
a PUC permit, we understand that Pacific Pipeline would
then be entitled to the designation of a utility, and being
a utility, could push its pipeline -- it could overcome
local objections, any local objections to the construction
of the pipeline.

On the other hand, Line 90 reversal is a pipeline
that already exists. It has the permits. The only
thing I understand that would be necessary for Line 90
is for there to be some agreement on the tariffs that it
will -- it will take one to two years to put -- to install
necessary pumps and stations on Line 90, but that could
be done.

But the question is, is Line 90 the preferred
pipeline? The producers make the point that within the
next few months, that question will be -- could be better
answered. Line 90 might not be the best way to go because
of limitations on capacity and other reasons.

MR. SHAMAS: Mr. Chairman, you can tell from all the confusion that this is not a simple solution. And what we've asked you to do is let that be the Coastal Commission's problem. We, the terminal who are not the producers, would just like to have a straight State Lands lease. And those other things will have to work out, however they work out, in the next five or six months.

EXECUTIVE OFFICER WARREN: Let me speak to this one point, if I may, Mr. Chairman and members.

Mr. Shamas and Mr. Mihalik seem to indicate that we have no option other than to give a lease, an open lease for the operation of the terminal, and have no interest in imposing conditions; we would accept whatever conditions are imposed by some other agency. We're dealing here with a lease of State property. And we have an -- it seems to me we have the responsibility of seeing to it that known State policies are implemented by us in the execution of that lease.

We have a further interest here of a proprietary nature. We have some assets offshore of a considerable amount. Conceivably, sometime in the future, the State will determine that it might be worthwhile to develop those mineral assets. It is clear to me at this time, however, that if those development opportunities are to be
pursued, it will have to be within the context of a pipeline transportation.

So, the State Lands Commission, in the interests of its own responsibilities, should ensure that there will in fact, a construction of a pipeline.

Now, this H(2) condition, which seems to be troubling the lease applicants, I don't know why they should be bothered. Another producer group should be perhaps should be troubled by this lease condition, but the terminal operator shouldn't be inhibited or troubled by this condition. It's really none of their business. But it is ours.

CHAIRMAN MC CARTHY: Yes, except that they want as many companies pumping as much oil as possible through those pipelines, because it affects the price that they pay.

And we, on the other hand, want the other side of the coin, a guarantee that there's no slippage anywhere for oil tankering under circumstances that even we, in our wisdom, may fail to envision.

EXECUTIVE OFFICER WARREN: I think that's a legitimate and responsible exercise of our responsibility.

CHAIRMAN MC CARTHY: Commissioner Burton.

COMMISSIONER BURTON: I had a question. It seemed to me that the reason these issues were being raised
had to more to do with potential time delays than with any intention of trying to get around Commission staff. Because it's clear the applicant has accepted these conditions from the Coastal Commission.

And so, my question -- it seemed to me the point is that there is a question about how long it would take for our staff to determine that the T & D agreement is, quote, "adequate"?

Because the phrase here says that, "...determined to be adequate by the Commission staff." And I'm assuming in the Coastal Commission case, it was meant to be the Coastal Commission. And you're supplanting or adding that it be adequate -- be determined to be adequate by our staff as well.

So, my question is: Do our staff have any different way of determining adequacy of the T & D agreement than the Coastal Commission staff has, or is that something that could be jointly done in order to expedite meeting the time lines?

EXECUTIVE OFFICER WARREN: Well, what was -- first of all, if I may say, the lease requires staff to do a 20-day turnaround on T & D review. So, if staff makes -- that's 20 days within which to make that review. If for some reason they would find the T & D agreement to be
unacceptable, then I assume the matter would be brought
to your attention.

But what we had in mind here, frankly -- and
this is -- I cannot underscore the importance of this
component in the whole mix -- is that there is a widespread
suspicion on the part of a number of folks and
organizations that the -- that the producers will in the
future seek an opportunity to amend or vary the terms of the
Coastal Commission's permit; that they will concoct
some excuse for not complying with the terms of the
Coastal Commission's permit; that they will then petition
the Coastal Commission for an amendment relieving them
from the burdens of these way points, and then we will
have nothing to say about it.

And because of the length of this controversy and
the nature of the controversy, these suspicions exist.
And this is our effort, I think, to assure folks that in
the event we concur with the terms of the present
Coastal Commission's shipping permit, that those conditions
will not change -- cannot be changed exclusively by the
Coastal Commission, but will also be subject to review
by you folks.

COMMISSIONER BURTON: Okay. More specifically,
though, are you uncomfortable with the adequacy of the
Coastal Commission's staff review of the T & D agreement,
so that you feel it's necessary for your staff to also have review and a determination of, quote, "adequacy"?

EXECUTIVE OFFICER WARREN: You ask me an embarrassing question.

COMMISSIONER BURTON: Thereby adding another month's --

EXECUTIVE OFFICER WARREN: Do we have confidence in the ability of the Coastal Commission staff to do an objective and thorough review of a T & D agreement?

COMMISSIONER BURTON: To determine adequacy, which is what this says.

Okay.

COMMISSIONER BURTON: Want to go into closed session?

(Laughter.)

EXECUTIVE OFFICER WARREN: Well, perhaps my pause is answer enough.

COMMISSIONER BURTON: Let me put it a different way.

CHAIRMAN MCMARTHY: All right. Answer it a different way.

MR. SHAMAS: You know, this is exactly what we're worried about. Every attorney on every staff wants to look at it. Every attorney has a certain favorite phrase that they like to use. And in the end -- at the end of
the day, it doesn't matter what every one of those attorneys did, because either the financial institutions are going to accept them or they're going to turn them down. And if you didn't write them the way they think they should be written, they're not going to loan you the hundred million dollars.

So, we don't feel that this is the appropriate thing to be in a request for State Lands lease. We want, because we were led to believe if we modernized, we put a new 30-inch line -- further adding to the water, we put two new 12-inch lines to recover vapors. We spent $8.5 million on vapor recovery. We put the best system in the world in. And now, somebody wants to change the rules and inject producer issues into this. This is not the right thing to do.

I'm not against the State having other prospects of other people that would use a pipeline. We think pipelines are very safe, or we wouldn't have so many miles of them.

But you're changing the conditions. You're making what could be a rather simple lease into a very complicated thing. I don't know if that's another attorney calling or what! (Speaking of ringing telephone)

(Laughter.)

MR. SHAMAS: So, our plea is don't get us enmeshed --
don't get us enmeshed in all of these other issues that
were between the Coastal Commission and the producers.

COMMISSIONER DAVIS: Mr. Shamas, with all due
respect. I've dealt with Texaco in many different
capacities for many years. They're a very fine company.

But it's not fair to come before us and say
you've accepted the Coastal Commission terms, when, in
fact, you've sued the Coastal Commission challenging the
validity of its lease, and then, say, "Don't you,
Lands Commission, tinker with the Coastal Commission,
because we think that's just fine. Forget the fact that
we've sued them, because we'll drop that suit as long as
we get you to sign it off."

I mean, this has to all be done in good faith.
And we may or may not agree with what the Coastal
Commission did, but I don't think you can come before us
and say, "We're happy with the Coastal Commission. Don't
change a thing. Oh, by the way, we got a lawsuit against
them, because we think they acted illegally."

MR. SHAMAS: We've had to file, from the time I
started on this, 12 lawsuits to protect our interest, not
because --

COMMISSIONER DAVIS: No, I mean, just looking at
it from our perspective --

MR. SHAMAS: -- we ever wanted things to happen.
But everytime we would do something, someone else would change something. So, to preserve those rights, we've kept the attorneys of California employed to the full extent possible.

(Laughter.)

COMMISSIONER DAVIS: And we may follow your lead.

CHAIRMAN MC CARthy: Suppose we put a time limit on our own staff review of this.

EXECUTIVE OFFICER WARREN: There is a time limit. Mr. Chairman, 20 days.

COMMISSIONER BURTON: Where is that?

MR. SHAMAS: Does it run concurrent with --

CHAIRMAN MC CARthy: Excuse me. Point to where that is.

MR. HIGHT: It's in the lease between the Commission and the terminal company, which you don't have and I can give you a copy.

CHAIRMAN MC CARthy: Is that a problem for you. Mr. Shamas? 20 days?

MR. SHAMAS: If it could run concurrent with some other reviews, it'd be great. But if the County took 20, and the Coastal Commission took 20, and the State Lands took 20, two months are gone.

EXECUTIVE OFFICER WARREN: It's 20 days after we receive it. So, as soon as they get it to us, we have 20
days.

COMMISSIONER BURTON: Okay. And then, what happens if you find it, quote, "inadequate"?

MR. HIGHT: Then we would come to the Commission with that issue, and you would be the ultimate arbitrator.

CHAIRMAN MCCARTHY: So, within 20 days after our Commission staff receives the T & D -- proposed T & D agreement, we'll have a response to you, specific response.

MR. SHAMAS: Could there be another 20 days until the final action?

CHAIRMAN MCCARTHY: That will depend upon the members of the Commission. But if this materially meets the statutory obligations of this Commission to serve the public with what are our clear mandates, we won't automatically set a Commission meeting.

MR. SHAMAS: Okay.

CHAIRMAN MCCARTHY: Two other members of the Commission could overrule me on that. But it would not be my assumption that we would set a Commission meeting unless there are significant problems in the proposed T & D agreement that our own staff points out to us.

EXECUTIVE OFFICER WARREN: On that point, Mr. Chairman, the lease provision specifies that in the
event the staff determines the throughput agreement to be insufficient, the lessee has the right to request the issue to be brought to the Commission. And we do so within five days after that request has been filed.

COMMISSIONER DAVIS: And there's nothing to prevent you from submitting that to all the agencies and look at it at the same time?

Am I right about that, Charlie?

EXECUTIVE OFFICER WARREN: Yes, sir.

COMMISSIONER DAVIS: In effect, that would be running concurrently.

COMMISSIONER BURTON: Thanks, I understand it better.

CHAIRMAN MC CARTHY: Thank you, Mr. Shamas.

Mr. Mihalik, do you have a comment?

MR. MIHALIK: Yes, Mr. Chairman, just one procedural issue. If it would please your Commission, we would appreciate just a very short moment at the end to rebut or discuss any comments?

CHAIRMAN MC CARTHY: I don't know if you were in the room when I announced it, but after both sides have roughly 45 minutes -- which may be a little longer than 45 minutes -- to present their main case, case in chief for those in the legal profession -- then there will be a chance for rebuttal.
MR. MIHALIK: Thank you.

CHAIRMAN MC CARTHY: Incidentally, those of you among the proponents of this application, I wanted to ask, are there any pipeline company representatives in this audience? All right. Which pipeline companies do you represent?

UNIDENTIFIED SPEAKER IN AUDIENCE: Four Corners Pipeline.

UNIDENTIFIED SPEAKER: All American Pipeline Company.

CHAIRMAN MC CARTHY: All right. So that's Line 90 reversal option.

EXECUTIVE OFFICER WARREN: And 63.

CHAIRMAN MC CARTHY: And 63. All right. I take it that the proponents, as a group, the Point Arguello Producers, would create a company to build the Pacific Pipeline, or is that some other entity? How does that come about?

MR. HIGHT: It's another entity entirely, Mr. Chairman, that they would contract with.

CHAIRMAN MC CARTHY: The railroad company --

MR. HIGHT: Yes.

CHAIRMAN MC CARTHY: -- that owns the right-of-way. All right. Are they represented here? The railroad company represented here?
UNIDENTIFIED SPEAKER IN AUDIENCE: The producers are represented here, however.

CHAIRMAN MC CARTHY: All right. The next speaker for the proponents is Andy Moynagh. Thank you, Mr. Moynagh.

The pipeline from Four Corners did not ask to testify. If you have something you'd like to say, we'd welcome your testimony. Not at this moment. I'd be happy to call you up.

Are you able to testify?

UNIDENTIFIED SPEAKER: If I could just clarify what you're asking. We will testify if there are any misstatements or you need any clarification. But all of our testimony has already been submitted. We have nothing further to say at this point in time.

MR. SECUNDY: I'm Jerry Secundy, President of Four Corners Pipeline.

CHAIRMAN MC CARTHY: Mr. Secundy, let me just ask you -- I'll pose to you one question, and then you can decide whether you ought to answer it representing your company after we go through the other witnesses.

The question is: Within the time limits that the Coastal Commission adopted for action by the producers to ship through pipelines, within those time limits, can you conceive of any reason why your company could not make
the changes necessary to increase capacity so that the producers, if they chose -- they're obviously going to make the best bargain they can through a couple of pipeline companies. If they chose to do so, if they get a competitive price from you, is there physically or in any other way any obstacle that would prevent the use of your pipeline, your company's pipeline by the dates we're talking about that the Coastal Commission adopted and that we have before us?

MR. SECUNDY: If you mean the date of January 1st, 1996, there is no physical obstacle that I'm aware of that would prevent us from reversing the pipeline and adding additional pumping capacity to have either a throughput of a hundred thousand barrels a day or 70,000 barrels a day to Los Angeles.

CHAIRMAN MC CARthy: All right. Don't answer this now, because we're going to go through the rest of the witnesses, then I'd like you to give a considered response. Are there any other reasons, problems of permits you have to obtain from different governmental agencies, any other reason you could reasonably anticipate that would block you from being able to pump oil through your line at a hundred thousand barrels daily capacity by the January 1st, '96 date?

MR. SECUNDY: Not that I'm aware of.
CHAIRMAN MC CARTHY: Thank you.

Mr. Moynagh.

MR. MOYNAUGH: Good afternoon, Mr. Mc Carthy.

Mr. Davis, Ms. Burton, staff members. I am Andrew Moynagh, Executive Secretary of the Santa Barbara Building Trades Council, Vice Chair of the Coalition of Labor, Agriculture, and Business for Santa Barbara County, and Vice Chair of the Tri-County Central Labor Council.

The Building Trades Council is comprised of 36 affiliates, 6,000 per capita paying members. The Coalition has in excess of 1,000 business, organizational, and individual members.

The Tri-County Central Labor Council represents about 30,000 individuals in the three counties -- Ventura, Santa Barbara, San Luis Obispo. I'm here today on their behalf. We have for years now watched the Gaviota Marine Terminal and other projects, such as the Hyatt and some other larger scale projects within the community. They have perhaps become somewhat of a symbol of our concern, that despite meeting the most rigorous and stringent of conditions that agencies can require, these projects are either denied, delayed, or are not able to operate to profitability.

The Gaviota Marine Terminal has had to -- pardon me -- has had to submit to years of additional permitting
demands. And despite having been deemed to have
mitigated to the maximum extent possible back in 1987,
we are at it again.

These are the types of activities that have
created our rather user unfriendly persona, this same
persona that now impedes economic recovery, not only in
Santa Barbara but throughout the State of California.

A $60 million investment deserves every opportunity
to return to its investors a reasonable profit. Concerns
for capital investment should relate only to
performance. And we want to express our confidence in
the performance of the terminal at this time.

Community success has become our common
denominator, and we would hope that you would join us
in our success efforts by granting to the applicant the
requested lease.

Thank you for your time.

CHAIRMAN MC CARTHY: Thank you. Any questions?

Thank you very much.

Mr. Richard Kasa, representing the California

MR. KASA: My name is Richard Kasa, and I'm
President and owner of Essence Engineering and, as was
mentioned, I'm representing California Energy Service &
Supply Association.
This is an amalgamation of a number of companies that provide services and supplies to the oil and gas production business.

I'm a State Licensed Professional Engineer and have offices and employees in both Ventura and Santa Barbara Counties. I firmly believe that the majority of people in our area do not oppose this project. We are both for jobs and the environment. It's my professional opinion that the GTC project is the most highly conditioned project of its type in the United States and most likely the world.

This terminal is state of the art in every category, whether it be operational safety, emergency preparedness, or environmental mitigation. It's not inconsequential to note that there has been no spill of product at the Gaviota Marine Terminal throughout its entire history. I'm simply asking the Commission to grant the lease consistent with the permits already granted by the Coastal Commission.

I further ask that the Commission resist attempts to add additional and unreasonable conditions on this lease based on tactics and emotional appeals that have little basis in fact.

Specifically, adding any additional, or unnecessary, or unworkable conditions will likely
jeopardize the compromise so painstakingly worked out among the producers and the various agencies.

I would not like to see this Commission supersede or usurp the authority of the County of Santa Barbara or the Coastal Commission in their work on future permit actions. As I'm sure you know, this permit has had permits -- this project has had permits since 1987, but has never transferred a drop of oil to a tanker.

Opponents have taken every opportunity in the intervening years of delay to throw up additional roadblocks for this project. Please don't be misled by carelessly used and poorly understood information being presented by project opponents. This is a sound project, mitigated to the maximum extent, feasible, and should be approved to proceed without further delay.

Thank you.

CHAIRMAN MC CARTHY: Thank you, Mr. Kasa. Any questions of Mr. Kasa?

COMMISSIONER DAVIS: Yeah, I have a question. I was struck by your line about, "Please don't usurp the authority of the County of Santa Barbara." I'd be delighted to support the conditions that the County of Santa Barbara wanted, but those were usurped by the Coastal Commission, which you're trying to usurp through a lawsuit now. So, I find it kind of ironic you come to us
and say, "Please don't usurp the conditions of the County of Santa Barbara."

MR. KASA: To clarify, what I was talking about is the future permit actions on other shippers.

COMMISSIONER DAVIS: Are you talking about H(1) and H(2)?

MR. KASA: Correct. Other shippers' permits could be conditioned differently than your Commission has proposed. And maybe "usurp" is a strong word, but I would hesitate to -- I would like to see, as the Gaviota Terminal people would, I would like to see the process worked through by all other applicants to create the level playing field that we, I think, all desire.

Thank you.

COMMISSIONER DAVIS: Thank you.

CHAIRMAN MC CARTHY: Thank you, Mr. Kasa.

Mr. Castagnoli. Castagnola, pardon me. San Franciscans should not pronounce that name.

MR. CASTAGNOLA: Mr. Chairman, Commissioners, my name is Angelo Castagnola. My family has been in the fishing business and operating workboats in California for 80 years. Like most fishermen, I use radar. In fog or at night, it is an essential aid to navigational safety.

I want to talk about the radar system that GTC
will install as part of this project and how it will have a positive effect on my industry.

Let me quote from a letter written by the Southern California Trawlers Association to Santa Barbara County regarding GTC's permit for a conditional use permit to install the radar system at Gaviota. I quote:

"It is SCTA's position that construction of a radar facility at the Gaviota Marine Terminal will not harm fishermen, but will assist navigational safety for all mariners in the area.

"Radars aren't new to the fishing industry. They've been around for 50 years and nearly every vessel has one. In addition, high-powered radar systems, like in San Francisco Bay, Los Angeles Harbor, and Long Beach Harbor, are used to guide oil tankers and commercial carriers safely in and out of port. A radar system on Platform Harvest off Point Arguello also helps large vessels avoid potential danger. Fishermen have never complained of any of these facilities and, to SCTA's knowledge, nobody has ever been injured by them."

End quote.
I am in complete agreement with the letter and believe it accurately reflects the view of the vast majority of fishermen and mariners. After years of study and mitigation, the Gaviota Interim Marine Terminal must be considered the most heavily conditioned project of its kind ever. Well over 300 environmental conditions have already been placed on the project, yet opponents argue that mitigation is required and urge you to delay permitting the project yet again.

I believe it is time to go forward and stop standing in place. This is a state-of-the-art marine terminal using the best vessels available.

I urge you to grant the lease for this project consistent with the Coastal Commission permit. Thank you.

CHAIRMAN MC CARTHY: Thank you, Mr. Castagnola.

Thank you very much.

Mr. Cliff Moryama, representing the California Chamber of Commerce.

(Thereupon, a woman came to the podium.)

CHAIRMAN MC CARTHY: Hi, ... Cliff.

(Laughter.)

MS. NERA: Mr. Chairman, Commission members, my name is Valerie Nera, and I'm standing in for Cliff Moryama. I'm also a policy director for the California Chamber of Commerce.
I'm here today to show our support for the approval of the Gaviota Terminal project. Many businesses inside and outside of California view this project as an example of how government agencies discourage businesses in California. Having been permitted originally in 1987, the marine terminal's still fighting to begin operations in 1993. In the meantime, no oil has been moved by tanker, production from the Point Arguello field has been artificially limited, and millions of dollars have been wasted in the regulatory bureaucracy.

Now, is it any wonder that many businesses have the impression that California is hostile to the business community? This project seeks to move oil by maine tankers while, at the same time, protecting the environment to the maximum extent feasible. The Chamber believes that the State needs to send a positive signal to California businesses, one that promotes a healthy business climate by allowing businesses to operate in California in an environmentally sound manner without being placed in an unreasonable competitive disadvantage.

Failure to approve this lease will send the wrong signal to the businesses at a time when California should be concentrating on improving the State's regulatory and business climate.

The Chamber urges you to approve the Gaviota
Terminal lease.

Thank you.

CHAIRMAN MC CARTHY: Thank you. Would you give
the spelling of your last name to our recorder, please?


CHAIRMAN MC CARTHY: Thank you very much.

We have three speakers left -- Mr. Daniel Kramer,
Mr. Frank Morin, Mr. Robert Foote -- among the
proponents. We invite them to come up and give their
testimony. Why don't all three of them please come up
to the microphone.

UNIDENTIFIED SPEAKER IN AUDIENCE: Harmonize?

CHAIRMAN MC CARTHY: Yes, if you could, as much
as possible, and in order. Mr. Kramer first, and then
Mr. Morin, and then Mr. Foote.

Representing the California Independent
Petroleum Association.

MR. KRAMER: I'll be as quick as I can. I'm
here before the State Lands Commission to urge your
support for the renewal of Gaviota Terminal Company's
lease to operate the Gaviota Interim Marine Terminal.

My testimony is on behalf of the California
Independent Petroleum Association. We're a trade
association representing the interests of approximately
550 independent oil and natural gas producers, service, and
supply companies throughout California.

We have two points to make before you today. The
first is to remind you that the term "interim marine
terminal" means exactly that. Once new pipeline
capacity is available for Point Arguello Producers,
hopefully through the new Pacific Pipeline system, or
perhaps through the new Cajon pipeline system, or the
reverse Four Corners line, they have pledged to cease
all tankering from Gaviota.

The second point is near and dear to the hearts
of those whom I represent. Because if the terminal lease
is not renewed, and if tankering from Port Arguello is
not allowed during the three years that is required to
permit and build new capacity to transport OCS crude
from Santa Barbara County to Los Angeles, the producers
will have no alternative but to pump more crude through
existing pipelines into the San Joaquin Valley.

That will mean economic hardship, if not
disaster, for the independent producers. Why? Because
of the already limited, already prorated capacity in
existing pipelines will get tighter still, and our
production will be left out in the cold, if not in the
ground.

It also means that the already scarce diluent,
or light oil, used to dilute Point Arguello crude to allow
it to flow from the existing lines will be even in scarcer supply, which means its cost will go up, further exacerbating the situation for small producers.

In sum, if you're supportive of a long-term reduction in the amount of tankering off the California coastline and if you're supportive of the creation of additional pipeline capacity to transport OCS crude from Santa Barbara to Los Angeles, and if you do not want to damage the livelihood of small producers in the San Joaquin Valley, please, I urge you, renew the lease of the Gaviota Interim Marine Terminal. Thank you.

CHAIRMAN MC CARTHY: Thank you, Mr. Kramer. Any questions? All right. Thank you very much.

Mr. Morin, representing the Coalition of Labor, Agriculture, and Business of Ventura County.

MR. MORIN: Correct. My name Frank Morin. Can you all hear me in the back, outside? Okay.

Some people are weary of talking about jobs, and I submit to you that only those people who have jobs are tired of the topic. The folks who aren't working are intensely interested in it. Some will tell you there are only 11 jobs at stake at the terminal -- approval, 11 more folks are working; disapproval, 11 aren't going to have jobs. Patently untrue. That is a manipulation of the facts of the positions open for a particular task.
to be performed there. Hundreds of contractors will pass through that gate in a year in addition to the Texaco personnel who will be working if that terminal is reactivated.

I work in the marine industries or the marine services industry, and I can recite the names of 12, at least a dozen, California companies providing services and products to that terminal and others like it, and I can rattle them off the top of my head. So, that means there's a lot more of them out there.

They won't close their doors, in all likelihood, if this terminal isn't reactivated, but there will be jobs that are going to go. And when the jobs are cut there, you could walk back in the town and cut a librarian, or cut a policeman, or cut a mechanic, or cut a drycleaners. That's the ripple effect you all know about better than I do. And those are the facts.

This is a job issue. Please send a message today that California wants and will fight for good jobs.
Thank you very much.

CHAIRMAN MC CARTHY: Thank you, Mr. Morin.

MR. FOOTE: Good day, ladies and gentlemen. My name is Robert K. Foote. I've been employed by H & H Oil Tool Company out of Santa Paula for the past 13-plus years.
H & H is one of the rapidly shrinking number of oil service companies that is entirely dependent upon oil field activity, on and offshore, generated by the oil companies, such as Texaco.

In 1982, H & H employed 235 people, most of them with families. Since that time, we have joined forces, consolidating with two other related oil service companies of approximately our same size.

Today, all three companies combined employ only 155 employees. Last year, H & H had a reduction of workforce and pay affecting 20 percent of the employees.

A year ago, last May, I personally had to lay off two of my coworkers with families. I'd worked with these people for over ten years. One of them just recently found a job, a much lower paying job. The other is still searching for work.

During testimony today, as Frank just noted, you -- there will be conflicting numbers of jobs stated related to this particular project. I submit to you that the actual number of jobs is a relatively insignificant factor compared with a much larger issue. Intended or not, the decision that you make today will send a message to the hundreds of thousands of companies that remain in California -- those same companies, which are
actively and aggressively being pursued by other states and countries.

If two companies with the human and financial resources of a Texaco and a Chevron cannot satisfy the regulatory agencies' demands of this State, who then could?

Jobs is an important issue. But much more important, in my opinion at this time, is the perceived business attitude of this State. You have an opportunity to send a positive message. I urge you to approve the Texaco lease consistent with the Commission permit -- the Coastal Commission permit. Texaco rightfully deserves your approval, and the entire business community of California desperately needs the message.

CHAIRMAN MC CARTHY: Thank you, Mr. Foote.

Mr. Secundy, would you mind leaving your card with our recorder so she has the correct spelling of your name and your position with Four Corners.

MR. SECUNDY: All right.

CHAIRMAN MC CARTHY: Thank you. That finishes the witnesses for the proponents. Mr. Shamas, may I ask you a couple of questions, please, regarding the pipelines?

MR. SHAMAS: Yes, sir.

CHAIRMAN MC CARTHY: Would you mind coming back to the microphone? Mr. Shamas, you heard Mr. Secundy
who is an officer with Four Corners -- as I understand it, there are two primary pipelines competing for this, although there are three possibilities. And I'm not going to ask you any questions which would reveal how you and those in your group want to go about negotiating to get the best deal from these companies.

But what I am interested in ascertaining right now is what you think the maximum capacity necessary is in the pipeline, and tell me what sources of oil would be included in what you anticipate would be the maximum capacity necessary. And then I'm going to relate that to what Mr. Secundy just told me about what his company could do, which was 100,000 barrels a day.

MR. SHAMAS: Well, I don't know if I -- as managing partner of the terminal operation -- should feel that I can speak for those two groups, but I can give you my opinion, because my feeling is that a minimum of 50 to 60,000 barrels a day -- well, let's say 40 to 60,000 barrels a day of the PAPCO group crude would need to move to Los Angeles. And then, if you look at the Santa Ynez Exxon unit that's slated to come on late 1993, early -- actually it's between six and twelve months before they get up to full capacity. If you took the total output of those two projects, you're looking at between 170 and 180,000 barrels per day.
CHAIRMAN MC CARTHY: All right. So, you said 40 to 60 for PAPCO.

MR. SHAMAS: For the PAPCO group. Exxon has a similar -- and, again, I can't speak for Exxon. But Exxon has indicated they have a similar expected market in the L.A. Basin for their type of crude in that same range.

So, if you want to add the maximums, it's 120. I could be off some, because I really can't predict what the refiners are going to select. If you look at our very own refinery in the L.A. Basin, we select crudes from all over the world. And so, I really can't, you know, tell you. But my guess is it's going to be between 100 to 150,000 barrels a day.

CHAIRMAN MC CARTHY: All right. When you set out to negotiate with the two or three pipeline companies that you will be talking to, it's an understanding accepted by every producer that will use the pipeline selected, that there will be no oil tankering and that the pipeline selected will be the source of shipping to Los Angeles?

MR. SHAMAS: The pipeline selected will be the source.

CHAIRMAN MC CARTHY: Right. But there won't -- the point is, there won't be a question of a lack of
capacity and, therefore, we have to revert to oil
tankering?

MR. SHAMAS: Well, it depends upon which
project is constructed or which phase.

CHAIRMAN MC CARthy: That's why I'm asking these
questions.

MR. SHAMAS: The original scoping -- and
again, this is a pipeline issue. But the original
scoping is not a terminal issue. I'm answering this in
a nonterminal way.

The original scoping of the pipeline down the
railroad tracks looked at three different cases -- the
16-inch, an 18-inch, and 20-inch. Every one of those
would have been capable of moving what was expected to
be the maximum L.A. demand. And the reason that the
20-inch line was chosen was because you can put a number
of pump stations on. But that was the most efficient
sizing for the line that Pacific Pipeline thought was
needed to go to the L.A. Basin.

So, there's a line that we have no question
that, if it is 150, the industry thinks that line will be
fine.

CHAIRMAN MC CARthy: All right. So, everyone
shares the same understanding that whatever oil is going
to be shipped is going to be shipped through the pipeline
selected and not tankered.

MR. SHAMAS: We all have the very same understanding because of the conditions that the producers will have agreed to at the Coastal Commission; that they will move by pipeline or they won't move.

And I don't want to give the impression that I don't think the Cajon pipeline project is not a good project, nor do I want Gerry Secundy's pipeline to think that I'm against the Four Corners -- All American Four Corners reversal. Each of them has a different benefit to it.

The Four Corners line, you know -- Gerry says it's 100,000. And they have indicated to industry they have some options between 70 and 100,000 barrels a day, and I would not differ with that.

CHAIRMAN MC CARTHY: I don't think we're asking you to negotiate that out here now. I understand there are differences within the producers in your group as to which of the pipelines should be used. So, that's a matter you can work out as long as everybody understands that whatever oil is shipped is going to go through pipelines and not tankers.

And you've said yes to that.

MR. SHAMAS: I've said yes to that, but, again, let me emphasize I'm not here speaking for those ten producers. I'm here speaking for the Gaviota Terminal.
We understand that our terminal will shut down. If they want to ship it in helicopters, or trains, or trucks, or something else, but our feeling is that the terminal has a date certain at which it's going to close. And the only thing that'll be used there anymore will be tanks, so they can tender to a pipeline.

CHAIRMAN MC CARthy: I've had the distinct impression that the producers were a part of this dialogue, together with you, and you're not speaking or operating independently, and that they understand they're going to be part of the negotiation process with competing pipelines, to the end that there will be no more oil tankering after the specified date, and that everybody will be shipping through the pipelines.

Now, if there's any dissent from that, we need to know that right now.

MR. SHAMAS: The Coastal Commission conditions will force the producers to select a pipeline option.

Lou Blackwell is here from Chevron. Lou? I'm sorry if I've given anything that indicates that I represent the producers, because I don't.

CHAIRMAN MC CARthy: You want to identify yourself for the record?

MR. BLACKWELL: Yes, sir. My name is Lou Blackwell, and I'm General Manager of the Western Supply
Region for Chevron, but I'm also chairman of the
Point Arguello Producers Management Committee, and I'm
here in that capacity. Maybe I can follow up. You've
done a great job for an attorney, Jim.

(Laughter.)

MR. SHAMAS: I'm an engineer.

MR. BLACKWELL: Let me just answer your last
question. The Point Arguello Producers understand and
accept that, if we get to the position that we can accept
the Coastal Commission permit, that all oil that will
move out of the processing plant after the 1996 drop-
dead date will move by pipeline. It's unequivocal.

Now, what we can't guarantee, as Jim has
referred to, is that a new pipeline or new capacity
will be built or made available.

Those negotiations are going on currently. But
what we do accept -- again, without reservation, if
we accept permit, that once the date is triggered --
I think it's January 1st, '96. I could be a little bit
off. After that date, no other Point Arguello crude will
move to any destination by marine tanker.

CHAIRMAN MC CARTHY: Now, I appreciate that
there are negotiations that have to go on regarding the
tariff that will be paid to whatever pipeline company
is ultimately selected, and that a T & D agreement would
have to be signed before bank loans would be given. But what I'm trying to get a sense of here is that there's a clear understanding on everybody's part that there will be no oil tankering after the date certain, as far as one member of this Commission is concerned, and that that, in part -- there are other considerations, your negotiations with the pipeline companies, what you consider a fair price from them, whatever permit processes go through. Obviously, there could be someone in California that says there should be no more oil tankering, we should only use pipelines, and then it could go into court and try to stop the permit process from going forward that would allow the very pipelines. We understand that.

And we'll be able to look at all those facts and make that judgment as to whether there are any positions like that taken, which really serve to undercut what the good-faith agreement may turn out to be here.

But what I'm trying to get from the producers is that you understand -- I don't know where these two Commissioners are, but I'm speaking for myself now -- that I take very, very seriously this date that says there'll be no more oil tankering after this date.

MR. BLACKWELL: I can tell you unequivocally on behalf of the Point Arguello Producers that, if we work
through all of this and we accept the Coastal Commission permit, we will live up to all the conditions in that permit, one of which is that after a date certain, irrespective of whether pipelines are constructed, built, reversed, or whatever, there will be no more marine movements of Point Arguello crude after that date certain. And every producer in our partnership understands and accepts that.

I can't say it any clearer than that.

COMMISSIONER DAVIS: Can I ask a question of Mr. Shamas?

As the State's -- one of the State's chief fiscal officers, I'm somewhat struck by the difficulty of your position; you have spent a lot of money.

My question is, how can you recoup that investment between now and January 1, 1996? Let's assume the pipelines are available; how can you recoup all the investment that you've made in this terminal?

MR. SHAMAS: We -- the answer to your question is, we will not. We -- and it's interesting. Lou and I have been working on this. We made the decision back in 1985, when we had two competing terminal projects -- Gaviota and Las Flores. And Chevron was really backing the other terminal. We made a decision and a pledge to the county we would operate whichever terminal we
constructed for four years, and then we would shut it down.

That has now been compressed to 2.8, two years and eight months. That was through the negotiations, which I differed with, but that's what happened when they got together for four months. And Lou was one of the lead negotiators between the State's representatives and the producers.

We will get revenue from the tanks, but we can't get a payout in 2.8 years on about $40 million of our investment that went to go out 3500 feet into the sea and build the tanker loading.

COMMISSIONER DAVIS: Did I hear you suggest that you will get -- you'll be compensated from the pipeline revenues once it's switched to pipeline?

MR. SHAMAS: No. The tanks that are there, which were mandated by the County of Santa Barbara, will be used then to deliver into All American Pipeline, or Pacific Pipeline, whichever line turns out to be the one that ends up being the option to go to L.A.

There will still be a tankage fee, but it will be much reduced compared to what it costs to load a tanker. And we'll do the tankage on about a 15-year payout.

COMMISSIONER DAVIS: But when you crank all that
in, does the investment ultimately pay for itself, or is it not going to pay for itself?

MR. SHAMAS: It has between a two -- well, between a two and three percent return. It's not the kind of thing we'd go into business, you know, to end up with.

COMMISSIONER DAVIS: So, at a two to three percent return, it takes a long time to get the investment back.

MR. SHAMAS: A long time to pay it out. Close to 20 years. So, it doesn't have good economics. But, as I stated in the introduction, we set out to spend $15 million. Everytime we met an APCD condition or the firemen made us add something, we ended up over $60 million. So, it just grew.

CHAIRMAN MC CARTHY: Questions? Mr. Warren.

EXECUTIVE OFFICER WARREN: Mr. Chairman, with the presence of Mr. Blackwell at the lectern, I wonder if he would advise the Commission on the record of the status of the determination by the producers on resolving the question of whether or not they'll pick up the permit?

As you recall, I indicated that was a subsidiary question in my opening remarks. And it's still not clear to me exactly what the intentions are of the producers with respect to the Coastal permit itself.
CHAIRMAN MC CARTHY: Mr. Blackwell?

MR. BLACKWELL: Yes. Mr. Warren, when we started this process in the State facilitation effort last summer, at that time, we were anticipating a fourth-quarter '93 startup, and the permit had a certain cost/benefit ratio associated with it. Because, as you know, we've agreed to some very substantial concessions in this permit.

As this thing has stretched on and we still have not been able to reach full production, because we're still in this process of seeing if we can get the permits -- the value, i.e. the benefit, has continued to erode while the costs have continued to mount. So, we are a partnership of ten companies that in normal -- in our normal business we compete with one another. We are here together in this partnership for this particular project. So, I have to be candid. There are individual partners who are now questioning whether this permit has any value to them.

I am hopeful -- I know from Chevron's standpoint, we continue to believe that this is a fair solution to a very complex problem that the State's been wrestling with for a number of years. And from our standpoint, we would like to proceed. But I have to admit that the longer this drags on -- and I think this was the point of
Mr. Shamas' comment on having another agency review a T & D another 20 days, another request for another hearing, as this drags on, the benefit of this permit continues to erode. And it's a very -- it's in the balance now. And if we can get this thing wrapped up and get going, I'm hopeful that we're going to be able to get everybody on board. I can't guarantee it.

CHAIRMAN MC CARTHY: Incidentally, perhaps you didn't understand the back and forth on the 20 days before. There need not be an additional 20 days. The 20 days will run from the time the T & D agreement is received, and that's to be --

MR. BLACKWELL: Well, I think that -- because this is the February date that we have to hit. And if this thing progresses in the timing that we were on, which has been disruptive a little bit here -- but the timing we were on was going to lead us to where we would have had a T & D by the fourth quarter, in which case we would have had plenty of time. We'd have done it before then.

But with the uncertainty -- in fact, we're going tomorrow to a meeting of the producers in Phoenix. I'm hopeful that I'll be able to carry with them the news that we've gotten a relatively clean lease.

But a lot of this depends -- they're holding back
their decisions based on what they think the ultimate regulatory cost of this project's going to be.


(Thereupon, a brief recess was taken.)

CHAIRMAN MC CARTHY: I thank the rest of the witnesses for their patience. I think the proponents took about 35 minutes to testify, and we took about an hour to ask them questions. So, you still have your 45, and we'll have questions of you as well.

Let's start with Mr. Bill Douros, the Deputy Director of the Resource Management Department of Santa Barbara County.

COMMISSIONER DAVIS: Mr. Chairman, I have a question that I intended to put to Mr. Secundy. Is he still here?

CHAIRMAN MC CARTHY: Mr. Secundy, could you step up? Would you mind just a moment, Mr. Douros?

Mr. Secundy, would you mind taking the microphone for a minute? Commissioner Davis would like to ask you a question.

MR. SECUNDY: Certainly.

COMMISSIONER DAVIS: First of all, do you operate Line 63?
MR. SECUNDY: Yes, I do.

COMMISSIONER DAVIS: How much additional capacity does Line 63 have now that is going unutilized?

MR. SECUNDY: As of today, it has zero additional capacity. What I think you have to do is look at the volumes that we've moved over the last year. Just to go back a few months, in the month of March -- in terms of the PAPCO crude, which we blend with a diluent of about 10 to 12 percent, so we call it high viscosity/high sulfur crude, HVHS crude -- in the month of March, I believe we moved approximately 52,000 barrels a day of that. Excuse me. 56,000 barrels a day of that.

In the month of April, we'll move about 52,000 barrels a day. In the month of May, we've been nominated (sic) about 41,000 barrels a day. With those capacities, and with the light crude oil that we move, we are full. But if you go back over the last year or so, we have had additional capacity that's ranged between 10, 20, 30, 40,000 barrels a day.

It depends on which month that you pick. It's not an easy question to answer, because it depends on how much of the light crude you're moving at the same time. We are certainly very comfortable with the amount that we're moving right now.
COMMISSIONER DAVIS: If this Commission were to condition a lease on the premise that pipeline capacity was fully utilized, would you be in a position to advise our staff and obviously the producers as to when you had additional capacity?

MR. SECUNDY: Yes. Actually, Mr. Warren asked us for a specific proposal as to how this could be done. We propose something that was done on a quarterly basis as opposed to a monthly basis. I think it's feasible. We are not advocating that system, but it is certainly a feasible system, and it would give everyone enough opportunity and time in order to be able to nominate.

The pipeline capacity is going to vary month by month. But certainly, there's a very substantial minimum capacity that exceeds 25,000 barrels a day.

COMMISSIONER DAVIS: When you say minimum capacity, you mean that --

MR. SECUNDY: That's for the heavy sulfur.

COMMISSIONER DAVIS: Pardon me?

MR. SECUNDY: For the heavy crude. For the PAPCO crude. Did I make myself clear?

COMMISSIONER DAVIS: No. But it's not your fault. (Laughter.)

MR. SECUNDY: Let me go back, because, again, it is not an easy subject to understand.
COMMISSIONER DAVIS: My question is just, you know, I just want to utilize all the efficiencies we can. And if there is unused capacity, can we -- if the Commission were to require the producers to first utilize the capacity before exercising any option to tanker, could you develop a plan -- and you suggested it would be something you could do on a quarterly basis. And then my next question was, can you identify -- I think you gave me a figure of about 25 minimum. And I don't know if that was the unused capacity or that was the demand that goes through the pipeline all the time.

MR. SECUNDY: First of all, in terms of a plan, a plan has already been submitted. Mr. Warren has a copy of that plan. I believe it's in the documents that you currently have. So, there is a plan and it is a feasible plan, and it's a workable plan.

In terms of how much capacity that plan would enable you to move, what I'm convinced of is that it would enable you to move substantially more than the 25,000 barrels a day that the Coastal Commission is putting in as a requirement for their permit. That was the reference to the 25,000 barrels a day. But I can't tell you a specific month.

COMMISSIONER DAVIS: Thank you.

CHAIRMAN MC CARthy: Thank you. Mr. Douros.
MR. DOUROS: Thank you, Mr. Chairman and members
of the Commission.

For the record, my name is Bill Douros. I manage
the County's Energy Division. I'm here to present a
letter that our Board of Supervisors approved unanimously
last night.

I also want to say that I appreciate being
sandwiched between the proponents and opponents, because
I think it accurately reflects our Board's position.

(Laughter.)

MR. DOUROS: Our Board offers these comments to
clarify the scope of the County's permit for the Gaviota
Interim Marine Terminal and the SEIR prepared for
Chevron's proposed tankering for that facility, as well
as the relationship of these matters to Exxon's tankering
application.

Our suggestions are intended to ensure that
any lease the State Land Commission issues is based on
accurate facts and is consistent with the County's
local coastal plan and the final development plan issued
to the Gaviota Interim Marine Terminal.

The County's LCP allows for only one consolidated
marine terminal on the South Coast of Santa Barbara
County. In 1987, the County approved Exxon's Las Flores
Canyon Marine Terminal as the permanent consolidated marine
terminal allowed by our LCP, and authorized interim
use of the Gaviota Interim Marine Terminal until either
Exxon's marine terminal was constructed or until new
pipelines to Los Angeles and Texas became operational.
The linkage between the interim status of the
Gaviota Terminal and the designation of Exxon's marine
terminal as the permanent consolidated facility is made
explicit in several related conditions imposed in the
separate permits issued by the County to the Gaviota
Terminal Company and to Exxon.

These requirements assure that there will be
only one consolidated marine terminal in the County.
And also, the reason for this and for allowing
that for only an interim period would be to allow
Chevron to complete its commitment made to the Coastal
Commission in 1983 to, quote, "... assume the lead
role in arranging for the design, permit, organization,
and capitalization of an industry-sponsored pipeline to
Los Angeles," end quote, and also to allow Exxon to
develop its marine terminal in Las Flores Canyon.

In 1988, GTC applied to the County, in coordination
with Exxon, for GTC to become the permitted marine
terminal while Exxon deferred construction of its Las
Flores Canyon Marine Terminal until April of 1994.

Indeed, at our request, the Coastal Commission's
February, 1993 approval of a new coastal development permit for interim operations of the Gaviota Interim Marine Terminal included a condition that we had asked for -- and that's also included on page 2 in Italics of our letter -- I won't read that, but I believe you have that letter in your record.

The second point that the County Board of Supervisors wanted to make is with regard to the volumes of the permit -- the lease before you today. Because Exxon's proposed use of the Gaviota Interim Marine Terminal is beyond the scope of the County and the Coastal Commission permits for use of that facility, as well as it's beyond the final SEIR prepared to review the impacts of Chevron's tankering from the Gaviota Marine Terminal, we also request that any lease authorize a throughput of 50,000 barrels a day rather than 100,000 barrels a day recommended by your staff.

And I'll outline the reasons for that. First, use of the GIMT by Exxon is beyond the scope of the final SEIR prepared under the direction of a joint review panel consisting --

EXECUTIVE OFFICER WARREN: Mr. Chairman -- pardon me for interrupting, but perhaps in the interest of time, the staff accepts that suggestion on page 394, paragraph 6F. Strike the numerals 100,000 and insert
50,000. I think that would be as suggested by the
County. And we find that suggestion appropriate and
acceptable.

MR. SHAMAS: (From the audience) We don't accept
that.

CHAIRMAN MC CARTHY: Well, we'll return to the
point in a minute.

Go ahead and finish your comments.

MR. DOUROS: Well, perhaps, then, because there
is some controversy, I'll continue with reading from our
Board's letter.

When GTC withdrew its application for the
permanent Gaviota Marine Terminal on June 5th, 1992, the
partnership confirmed that it would accept an
appropriately conditioned lease from the State Lands
Commission accommodating Chevron's tankering application;
that is, a term of approximately three years allowing the
transport of at least 50,000 barrels a day of Point
Arguello crude oil to Los Angeles in Chevron Oregon
Class tankers.

As a consequence of GTC's permanent marine
terminal application withdrawal and the desire of GTC
and the Point Arquello Producers to have a county
decision on Chevron's tankering application by August of
1992, the final supplemental environmental impact report
was narrowed to serve as the environmental analysis of
the Point Arquello Producers' May 22nd application to
tanker from the GIMT.

Thus, although the draft SEIR for the Gaviota
Marine Terminal was originally prepared for a larger
project, the County certified the final SEIR, quote,
"...for action by the County on Chevron's tanker ing
application," unquote.

I'll note that that is a quotation from findings
adopted by our Board.

Neither the County or the Coastal Commission
has utilized the final SEIR to approve tanker ing from
the GIMT for Exxon or for volumes greater than 50,000
barrels a day.

On February 12th of this year, the County
demed Exxon's application to tanker 50,000 barrels a day
of its Santa Ynez unit crude oil for five years from the
Gaviota Marine Terminal in single-hulled tankers and
to construct a feeder line to allow Exxon's oil to get
from the Las Flores Canyon to the Gaviota Terminal (sic).

Exxon's proposed use of the Gaviota Terminal and
the new feeder line are beyond the scope of the activities
evaluated for or contemplated by the County's permit for
interim use of the Gaviota Terminal. Allowing such use
by Exxon will require modification of the County's permit
to GTC regardless of the State Lands Commission action on the lease.

GTC has notified the County that it intends to submit an application to modify its final development plan by May 17th, 1993. It is also likely that GTC will seek a modification of the Coastal Commission's new permit to increase the 50,000 barrel a day throughput limitation to allow for Exxon's proposed use of the Gaviota Terminal.

We believe that approval of a State Lands Commission lease to accommodate Exxon's tankering should await final County and Coastal Commission action.

Finally, we commend your staff's efforts to identify lease conditions that can maximize feasible use of existing pipelines. The County's LCP requires that crude oil be transported from the County by pipeline as soon as the shipper's oil refinery center of choice is served by pipeline.

Both the County and Coastal Commission have rejected Chevron's claims that the use of Line 63 to Los Angeles is economically infeasible or constrained by an inadequate market for blended crude oil.

Tankering may occur only if, among other things, available pipeline capacity to a shipper's destination of choice is first utilized.
Our Board also identified a number of clarifications to the staff report. There's five of them. I won't go through those. They are in the letter.

And also, I want to point out one thing that's not in our Board's letter that I've noticed today in reviewing the staff report. And that pertains to Condition 6I on page 23 of the staff report.

That condition identifies that, if for any permit issued by the Coastal Commission or the State Lands Commission, a permittee, a shipper, is notified that they have not met the conditions of compliance, that G -- that the lessee, GTC, shall be notified of the State Lands Commission (sic) of that violation.

Because it's theoretically possible for the County to issue a permit that, if not appealed or if appealed is not accepted by the Coastal Commission, there would be a County permit that would also be a viable permit. We believe that 6I should also include an acknowledgment that a County-issued permit as well as a Coastal Commission-issued permit should carry the same weight. And any notification of a lessee -- of a shipper not in compliance should be one that could be a notification by the County to your staff.

I talked about it with your staff. They understand and agree that that, I believe, is an
acceptable amendment to that condition.

That concludes the comments from our Board of Supervisors. I can answer any questions.

CHAIRMAN MCCARTHY: Let's return to the issue of 50,000 versus 100,000 barrels per day. Was that an argument that the County presented to the California Coastal Commission?

MR. DOUROS: Mr. Chairman, that's an argument we did not need to make because their recommendation and their action was only for 50,000 barrels a day. And our Board concurred with that as part of their action.

So, I don't believe we've specifically made any comments because we didn't need to.

CHAIRMAN MCCARTHY: Mr. Shamas?

MR. SHAMAS: (From the audience) I'd like to have Mr. Milhalik address that.

Just as a lead-in, we've decided that terminal for 150,000 barrels a day. We did an SEIR for 125. The County has continued to just change and drop things. It's the same thing that they've done all the time.

CHAIRMAN MCCARTHY: You did an environmental impact report for 125?

MR. SHAMAS: That's what we submitted. And when we came down to whether or not we could start the terminal up, which was April of '92, the County said we
had to -- how'd they phrase it, Dan? We had to withdraw it, we had to change it.

MR. MIHALIK: We withdrew our permanent terminal application. I think the point that needs to be clarified here is that -- I think it's important throughout this whole process to keep the owners of oil, the shippers and their permits separate from the Gaviota Terminal Company. I mean, they are one of our customers.

And it's true that one of our customers, the Point Arguello Producers, has a limit in its permit conditions of 50,000 barrels a day. But if you go back to kind of the main framework here of conditions for Gaviota Terminal Company -- and that is the County's final development plan -- we have a permit from the County right now that's good for 100,000 barrels a day. That's the Gaviota Terminal. And we have always expected -- and I think the State Lands Commission has always kind of undertaken the approach that they use that final development plan from the County as sort a framework in developing conditions.

So, our expectation would be, we would receive a permit for 100,000 barrels a day. We're mitigated for that. We're designed for that. And we're an open, consolidated facility, open to everyone. Again, you have
a provision in your proposed lease that would cause us to come in and ask for a permit modification later if there are other shippers, you know, you'll be looking at mitigation measures and that whole area.

CHAIRMAN MC CARTHY: So, the 50,000 barrels per day condition in the California Coastal Commission permit refers to Point Arguello Producers only.

MR. MIHALIK: Well, the Point Arguello Producers have a condition; but to be accurate, the Gaviota Terminal Company right now has a Coastal Commission permit which really reflects our ability to run Point Arguello crude oil only. There is a recognition by the Coastal Commission -- so implied in that, it's 50,000 barrels a day if we could only run Point Arguello crude oil --

CHAIRMAN MC CARTHY: Back it goes to the Commission, when the San Ynez people want to start shipping and get another Coastal Commission permit to increase that 50,000?

MR. MIHALIK: Mr. Chairman, that's correct. We would have to go back to the Coastal Commission; we would have to come back to the State Lands Commission to modify our coastal development permit and lease to be consistent with what another shipper like Exxon may propose.
CHAIRMAN MC CARTHY: Have any reason to believe that you would not be granted that permit by the California Coastal Commission? Is there any discussion in the public record that the Coastal Commission might want to limit you in some way that could be shipped daily?

MR. MIHALIK: The Coastal Commission. I think, made it very clear -- I can't speak for them, but I thought they made it very clear the facility is designed for 100,000 barrels a day. It has the capacity for 100,000 barrels a day. I don't think that's an issue with anyone. But we can't predict what will happen with, you know, some future shipper, like Exxon. Don't know.

CHAIRMAN MC CARTHY: Thank you. Mr. Douros, could you give the Commission the reasoning of the County in suggesting that there be a limit to 50,000 barrels a day?

MR. DOUROS: Yes, I can, Mr. Chairman. It's important to keep in mind that there are two permits that we are speaking of. There is a permit that has been issued to the Gaviota Terminal Company to construct and operate the marine terminal. That's the final development plan, but the specific name is not important. It's a permit to GTC.

There's a second permit that allows the use under our LCP that when a shipper wants to ship by tanker,
they need to come and get a separate approval by the County Board of Supervisors.

The original permit that the County granted in 1985 to GTC to construct and operate the terminal has a throughput limitation -- a maximum limitation of 100,000 barrels a day. And that is because that marine terminal was designed and built to accommodate the transportation needs of the Point Arguello Producers, whose peak production at the Chevron facility -- literally across the street -- was 100,000 barrels per day.

So, that is a correct statement Mr. Mihalik made regarding the maximum capacity from a County permit. However, because shippers need to get additional permits to use the terminal to tanker -- and Chevron, as the original intended user of that, has received a permit, but only for 50,000 barrels a day. Anyone using the terminal between 50 and 100,000 barrels a day -- in this case, in practical reality, that's Exxon -- would be introducing a shipper that wasn't originally considered in the permit that the County granted that gave them 100,000 barrels a day throughput.

So, it's because the shipper's permit is limited to 50,000 barrels a day, and the Coastal Commission has acknowledged that and provided an additional permit lease to 50,000 barrels a day, then our view is that you
shouldn't offer them a lease that, in effect, extends the
potential users to incorporate Exxon. That's a separate
discretionary action that will come before the County
later this year and before the Coastal Commission on
appeal, and on a permit modification. And we don't think
it's appropriate for you to extend this lease to
accommodate a shipper not originally intended.

CHAIRMAN MC CARTHY: Let me ask you a question.
Are there any reasons why you anticipate that Exxon will be
requesting that they be allowed to ship another 50,000
barrels a day through the pipeline might be rejected?

MR. DOUROS: Mr. Chairman, I will decline to
answer that, in that we have only just received their
application, and we've begun what is an extensive
environmental review and public hearing process. And I
think in all fairness to Exxon, as well as our Board,
it's just inappropriate for me to give some sort of
speculative response.

CHAIRMAN MC CARTHY: I'm troubled, because there's
sort of an inherent contradiction here in what we're
trying to do to glue all of this together. We're trying to
stop oil tankering. And the only way we stop oil
tankering is put -- ship all this oil through the
pipeline. And we have to ship the maximum amount of oil
through the pipeline to make it as economical as possible
to make this a worthwhile undertaking.

So, to the degree we make it sound like we're taking actions that are going to limit them -- I mean, there's a lot of argument that there's unused capacity. Commissioner Davis was asking some questions on that, because friends that we share are suggesting that there's unused capacity in the existing pipelines, and that the oil companies haven't been operating in good faith; that they wanted to continue oil tankering and didn't use the existing capacity.

Now, either we're going to encourage the construction or expansion of pipelines so that they can ship the maximum amount daily or we aren't. And I'm a little bit confused in this process.

Now, what compelling reason is there for us to amend this from 100 to 50?

EXECUTIVE OFFICER WARREN: You mean reduce it from 100 to 50?

CHAIRMAN MC CARTHY: Right.

EXECUTIVE OFFICER WARREN: Two things, but neither of which may be compelling, however.

First off --

UNIDENTIFIED SPEAKER IN AUDIENCE: We can't hear.

EXECUTIVE OFFICER WARREN: Oh. Two reasons I would offer in reply to your question, but none of them
may be compelling necessarily.

First off, as I understood Mr. Douros' remarks -- and I may have misunderstood -- it's my understanding that the EIR was certified by the County only to the extent of necessary to accommodate the Chevron permit or 50,000 barrels per day. That raises the question in -- a legal question in my mind whether or not we can go beyond the EIR -- certified EIR, which was limited to 50,000.

I have put that question to Mr. Hight, who seems to indicate -- well, what do you indicate? Then I'll have another reason I'll offer.

(Laughter.)

MR. HIGHT: The environmental impact report prepared for the project looked at a capacity of -- of a throughput of 125,000 barrels a day, even though the County only analyzed or only certified it for 50,000. It is our position that the entire EIR of 125 is valid.

The application before the Commission today is for 100,000.

CHAIRMAN MC CARTHY: Therefore, there's no reason to amend it down to 50.

EXECUTIVE OFFICER WARREN: There's no legal reason.

MR. HIGHT: Yeah. There's no legal reason. On
a policy issue, the issue is that Exxon will have to come
back to this Commission anyway. This would be another
signal if it was reduced.

COMMISSIONER DAVIS: What would the signal be?

(Laughter.)

MR. HIGHT: That they need to come back to the
Commission and they need to worry --

EXECUTIVE OFFICER WARREN: There will be a
difference. I'm sorry.

COMMISSIONER DAVIS: If -- this is what concerns
me a little bit. If we reduce it -- if we don't reduce
it to 50,000, is there any way Exxon can get in this
process without coming back to us?

MR. HIGHT: No.

UNIDENTIFIED SPEAKER: Yes.

COMMISSIONER DAVIS: Well, some people suggest
there is.

MR. HIGHT: At the moment, they do not have the
ability to use Chevron tankers. If they can arrange --
make an arrangement with Chevron to use their tankers,
then they can tanker up to 100,000 without coming back to
us. But they would have to go back to the Coastal
Commission.

EXECUTIVE OFFICER WARREN: The Coastal -- the
shipping permit to Chevron requires Chevron -- the
producers to ship by Chevron Oregon Class tankers, which are double-hulled. There are only four such tankers in the world, and I understand that three of them will be dedicated to transporting Point Arguello production.

There are no such tankers available to Exxon. So, Exxon in its application to the County for a shipper's permit, has requested to be -- I don't know if they've made a request -- but the implication is that that requirement would not apply to Exxon; that they would be allowed to ship in tankers other than the Chevron Oregon double-hulled class of tankers.

Now, that is a question which I think is a significant one, and one which I think we might want to take into consideration in the future.

If we could be assured -- and I'm embarrassed to say I cannot give you assurance -- that we would still -- that this Commission would still be in a position to review whatever shipping permit might be given Exxon in the future, then I would withdraw my suggestion of modifying the 100,000. But I'm not quite -- I would like to have that assurance first, because that is an issue that I think we might want to consider.

MR. DOUROS: Mr. Chairman, if I might take one more stab at summarizing the County's position. Our Board has continually, both to the Coastal Commission on
several matters related to this project and in this letter to you, taken the position that whatever permits or leases are issued should be consistent with those of other agencies and with the County.

And our consistency concern with regard to the lease before you is that, in all practical effects, by granting it for 100,000 barrels a day, you are extending the lease to be more than just a marine terminal for the Point Arguello Producers; it's one for Exxon as well. Because, at present, the Point Arguello Producers are capped at 50,000 barrels a day.

And so, if you want to issue a lease that meets the request of our Board -- and that is, issue a lease consistent with previous County actions -- don't extend the lease to other shippers; keep it narrowly focused on those who originally have and currently have permits for that lease.

Does that help?

CHAIRMAN MC CARTHY: I understand what you said. I don't know if it helps. If the point is to end up with no oil tankering within the time frame we're talking about here, while the makeup of this Commission is as it is -- and you never know whether the makeup of this Commission will change after the November, '94 elections. I'm not running for Controller and I'm not running for
Lieutenant Governor --

COMMISSIONER BURTON: I'm not running for anything.

(Laughter.)

CHAIRMAN MC CARTHY: If there's a change --

COMMISSIONER BURTON: Sorry, Mr. Chairman.

CHAIRMAN MC CARTHY: No, not at all. I like it. You'd be too tough.

If there's a change in the governorship, I may request to be Director of Finance, so I can sit on this Commission.

(Laughter.)

CHAIRMAN MC CARTHY: Because I enjoy it so much. But I think my interest is in figuring out how we create these are important words that we used: a good faith chemistry that helps us move forward on whoever shares this common ground of stopping oil tankering and starting to use that pipeline.

And I appreciate what the County has to do. You have your statutory obligations that you have to fulfill. I'm just not sure that I yet see the policy reason for this Commission. Mr. Warren, you said you had one other potential policy.

EXECUTIVE OFFICER WARREN: Well, that was the double-hulled vessel question. I'm satisfied that the
lease we propose will have a special condition in it requiring double-hulled tankers to use that -- before that terminal can be used.

Accordingly, I will withdraw my suggestion that the 100,000 be amended to 50,000. We will have an opportunity to review the lease on that issue. Thank you.

COMMISSIONER DAVIS: Let me just make a point here. Mr. Chairman, I don't understand where you're going. If the point is to facilitate pipeline production, why are we trying to expand tanker activity? I don't understand that.

CHAIRMAN MCCARTHY: I don't want to expand --

COMMISSIONER DAVIS: I don't see any point in emphasizing --

CHAIRMAN MCCARTHY: I don't want to expand tanker opportunity.

COMMISSIONER DAVIS: Well, that's what we're doing by not reducing the 100,000 to 50,000.

CHAIRMAN MCCARTHY: There is no tanker shipping after the date that we're talking about in here. So, what are we talking about? A very limited number of -- a very limited period here.

EXECUTIVE OFFICER WARREN: The concern is that there will be tankering in excess of 50,000 between now
and January 1 of '96.

You're right on that point. So, we're only
talking about that two-and-a-half-year period.

CHAIRMAN MC CARTHY: Now, the other side of it --
the other side of it is that they are trying to figure out
how to put this together with the pipeline companies and
all of the parties involved in that. And what I'm trying
to search here is how do we increase the certainty that
we're going to end up with pipeline shipment?

And so, any changes that are proposed here,
I'm trying to figure out how they affect that basic
purpose.

Mr. Shamas, you want to add to this?

MR. SHAMAS: Well, two things. One, Exxon is
a part owner of Gaviota Terminal. They understand that
everything is going to cease a date certain.

Two, they're going to come on the end of '93
with 12 to 15,000 barrels a day. And then, during '94,
they're going to come on with between -- using the staff's
report -- probably 60 to 80,000 barrels a day.

There's not going to be pipeline capacity by
that time. Line 63 will be chockerblock full even if
Gerry has some magic solutions. But everything's going to
be full until such time as we can get these expanded
facilities on. And Exxon is going to have to come before
you, and the County, and the Coastal Commission and say, "Can we tanker a while while -- up until the drop-dead date until these new pipelines are built?"

That's the real thing. And so, I think to unnecessarily limit this to 50 a day when we all know that Exxon's coming right down the road pretty soon to see if they can tanker on an interim basis. That's why we differ. We built this terminal for 150. It's already been downrated to 100. We've paid for the last three years over 180,000 a year for a hundred thousand barrel a day terminal we haven't been allowed to use. Now the rent's been jacked up to 230, and you're going to downgrade the capacity. We just don't think that's playing fair.

UNIDENTIFIED SPEAKER IN AUDIENCE: That's right.

CHAIRMAN MC CARthy: Any other Commissioner questions of Mr. Douros on his testimony for the County?

COMMISSIONER BURTON: I just wanted to know whether anyone has received a copy of the letter that you were reading to us, so that we might have that for our records.

MR. DOUROS: I would assume that you have a copy.

COMMISSIONER BURTON: Is it in here?

EXECUTIVE OFFICER WARREN: Yes.

COMMISSIONER BURTON: Thank you.
MR. DOUROS: And I have extra copies also.

COMMISSIONER BURTON: Okay.

CHAIRMAN MC CARTHY: Thank you. Is that it?

Thank you, Mr. Douros.

Now, the patient group that's been waiting that have some serious questions about this. And we're going to start with Linda Krop, who represents the Environmental Defense Center, Sierra Club, Get Oil Out, CPA, League of Women Voters, Santa Barbara; SF, HRA. You don't sleep.

MS. KROP: Thank you. Good afternoon. My name is Linda Krop. I'm an attorney with the Environmental Defense Center in Santa Barbara, and I'm here today representing the Environmental Coalition of Santa Barbara.

As the Chair mentioned, I represent EDC, Get Oil Out, the Sierra Club, the League of Women Voters of Santa Barbara, Citizens Planning Association, the Surfrider Foundation, Hollister Ranch Owners' Association, and local commercial fishermen.

Our comments will address the staff report we received on Friday, since we haven't had an opportunity to review the CEQA findings and the other attachments that were made available today.

Before I begin my prepared comments, I'd like to note that we've heard many references to the Coastal Commission actions and reliance on those actions. And I'd
like to point out that both the Point Arguello
Producers and GTC have sued the Coastal Commission twice
over the issuance of the Point Arguello tanker permit,
and now over the issuance of a permit for the Gaviota
Marine Terminal. The last lawsuit was just filed on
April 19th.

The producers and GTC have also both opposed
a bill proposed by Assemblyman Terry Friedman, AB 591,
which would codify the January, '96 tanker cessation
date. And I question, if we're looking at good faith
here, whether we have that on the part of the producers
and GTC if they're opposing those very Coastal
Commission actions.

I'd also like to point out that all five GTC
partners are producers who intend to use the Gaviota
Marine Terminal -- Chevron, Texaco, Phillips, and Oryx
are Point Arguello Producers, and the fifth partner is
Exxon, which has now filed its own application to tanker
from the Gaviota Marine Terminal.

So, although -- you know, as far as corporate
status, we're talking about independent entities, we're
actually talking about the same players. And I think
we need to look at the commitments of the producers when
we look at the commitment of GTC.

First, I would like to put this issue into proper
context. The Gaviota Marine Terminal was approved by the County Coastal Commission and State Lands Commission in 1987 as an interim facility to be used only until a permanent terminal was built at Las Flores or until pipelines were available to transport Santa Barbara OCS crude to Los Angeles and Texas.

The agencies anticipated at that time that the terminal would operate only until 1990, or until 1991 at the latest.

At that time, the County determined that Las Flores was the environmentally preferred location for a consolidated marine terminal on our South Coast. In addition, whether the terminal was located at Las Flores or Gaviota, the preferred location and design was for a single-point mooring system 10 to 14,000 feet offshore.

This design and location would significantly reduce impacts to air quality, esthetics, kelp beds, and other marine resources, commercial and recreational fishing resources, not to mention significantly reducing the risks and effects of oil spills.

Contrary to what the applicants may tell you, then, neither the County nor the State agencies guaranteed GTC the right to operate the marine terminal after 1991. In fact, the original lease granted by this Commission
specifically limited any potential holdover to one year, or to 1992.

That maximum holdover has ended. The applicant has no right to continue operations of the current interim terminal. If GTC wants to continue operations at Gaviota, it should apply for a lease for a permanent terminal.

Now that Exxon has withdrawn its plans to develop the permanent terminal at Las Flores, has quitclaimed its lease to the State Lands Commission, and has applied for its own tanker permit from Gaviota, it certain appears that the producers intend to use the Gaviota facility as the permanent marine terminal facility.

Rather than apply for permanent status, GTC seeks to incrementally extend the life of the marine terminal and avoid its responsibilities to reduce the environmental impacts of the facility by locating a single-point mooring system further offshore.

We urge the Commission to deny the application for a new lease on the following grounds -- and I had prepared some overheads for you and, unfortunately, we didn't have room to put the projector up, so I made a packet for you. And the first item in the packet lists the proposed grounds for denial.
First, there is no need for a marine terminal. There is available pipeline capacity to transport oil from Santa Barbara County to various refining destinations. Environmental review is incomplete. Marine tankering would violate the Public Trust Doctrine by interfering with established fishing, recreational, and environmental uses in the area. Tankering would violate the Coastal Act and LCP preferences for pipeline transportation.

The Gaviota Marine Terminal is inconsistent with the Coastal Act preference for single-point mooring systems. The project would result in unmitigated Class 1 impacts, and there are no significant benefits of this proposal which can outweigh those unmitigated impacts. And, finally, feasible mitigation measures and alternatives have not been incorporated into the proposed project.

The second item in your packet is a chart which indicates the amount of Point Arguello crude which has been transported through the All American and Four Corners Pipeline system to various refining centers in Martinez, in Los Angeles, and to Texas in tankage, as well as through the Sisquoc Line to Santa Maria.

This chart indicates that the Point Arguello Producers have been able to transport up to 69,500 barrels of neat Point Arguello crude. That was transported in
March of '93. At peak production, the Point Arguello Producers expect to produce 85,000 barrels per day. That was listed in their tanker application.

As this chart shows, they currently produce and ship approximately 70,000 barrels a day. And if you'll note on the chart, that was transported without even using the usual 20,000 barrel per day capacity in the Sisquoc Line to Santa Maria. The reason for that was that the Unocal refinery in Santa Maria was temporarily shut down for maintenance.

So, actually, in March, the available capacity in pipelines from Point Arguello's production was 90,000 more than their expected peak production.

The second grounds for denial is that the environmental review is incomplete.

And the third item in your packet gives you an outline of the CEQA requirements which relate to this application.

Under CEQA, it's important that environmental review occur early in the process and that it look at the full potential uses of the project -- of the facility, any potential phases, any potential future use that's reasonably foreseeable.

Environmental review must also address the potentially long-term use of projects, even if they are
termed temporary or interim.

In this case, both the County and the Coastal Commission have already determined that the current environmental review documents do not address the full potential use of the terminal by both Chevron and Exxon. The staff report mistakenly assumes that the EIR certified by the County last August is adequate to address GTC's application for a new lease. This is simply not true as Mr. Douros explained.

Last August, when the County certified the EIR, they made it abundantly clear that the EIR was to be used only for Chevron's tanker permit for 50,000 barrels per day, and that any actions relating to the marine terminal permit or lease would require further environmental review.

As stated by the County, the current proposed use of the terminal is beyond the scope of the EIR certified by the County last August. The County is now preparing a subsequent EIR (sic) to address Exxon's application to tanker from the Gaviota Marine Terminal.

This EIR, which was scoped a couple weeks ago and is under preparation, will encompass all potential uses of the marine terminal and will analyze the cumulative impacts of tankering by both Exxon and Chevron as well as the potential long-term use of the facility.
This EIR must be completed before the State Lands Commission can take action on the lease application.

Staff has presented the proposition that the Commission is somehow exempt from full environmental review because the Commission is a responsible as opposed to a lead agency in this matter.

We disagree with this analysis. In any event, the Commission cannot hide behind labels to avoid its legal duties under CEQA. The fact of the matter is, the EIR which staff seeks to rely upon, is incomplete for the project proposed by GTC. And I think that's been confirmed in the dialogue today.

Therefore, the Commission must complete environmental review before taking action on this lease. Yet another reason to require further environmental review is some alarming news, which we just received earlier this week, that five of the six tankers which will be using the Gaviota Marina Terminal as part of this lease do have accident histories. And I have a few copies of a news report, which details those accident histories. And this was not part of the EIR. We have requested that the County look at this information in the subsequent EIR that they're now preparing, and we think the State Lands Commission should look at this information as well.
Third, approval of the lease will violate the Public Trust Doctrine. As we have stated in our letters, tankering from the Gaviota Marine Terminal would interfere with established public trust uses in the affected area; namely, fishing, recreation, and environmental preservation.

As a State agency, the Commission has a duty to protect the public trust uses in this area. Steve Dunn, a representative of the local commercial fishing industry will tell you about the impacts to local fishing operations.

Tankering will also disrupt recreational activities at the Gaviota State Park and surrounding beaches.

Finally, operations at the terminal will put pristine ecological communities of the entire Gaviota to L.A. Coast at risk.

Fourth, tankering from the Gaviota Marine Terminal would be inconsistent with the Coastal Act and the County's LCP.

And the next, the fourth item in your packet, lists the Coastal Act provisions that this application is inconsistent with -- primarily the preference for pipeline transportation and for single-point mooring systems. And, as the Coastal Commission determined in
February, there are several sections of the Coastal Act which this application would be inconsistent with.

The application is also inconsistent with our County's oil transportation policies, which are set forth in the local coastal plan and coastal zoning ordinance, primarily a series of findings that have to be made before tankering can occur. The findings are that pipelines to the refining destination of choice have inadequate capacity; that a pipeline commitment has been demonstrated before tankering occurs, and that environmental impacts of tankering have been mitigated to the maximum extent feasible.

And as our comments demonstrate, none of those findings can be made; therefore, tankering would violate the County's LCP.

A fifth reason to deny the lease is because the project will result in many unmitigated impacts. According to the County's EIR, tankering from the Gaviota Marine Terminal would result in Class 1 impacts to fisheries, recreation, biological, and marine resources.

In addition, tankering will use up valuable air quality offsets. Therefore, under CEQA, the Commission can only approve this project if the benefits outweigh the Class 1 impacts.
The magnitude of the risks and impacts of tankering are so great that there can be no credible argument that they are outweighed by any alleged benefits. The risks are too obvious. Tankers lead to oil spills, leaks, and accidents. Prevention is impossible, cleanup is incomplete.

One needs only to remember the major oil spills that have occurred within the last six months in Spain, Scotland, Finland, and Indonesia to realize that oil spills are inevitable. It doesn't matter whether the tankers are single-hulled or double-hulled. They explode. They go off course. They crash.

Incidentally, these are not small tankers we're dealing with. Each tanker will hold 250,000 barrels a day, which is the volume of oil which was spilled by the Exxon Valdez. That's not a small amount. And we don't want to be exposed to that risk.

There are no real public benefits of this project. Revenue stream will be unaffected because, as I mentioned earlier, production levels are increasing on a regular basis and existing pipelines are capable of carrying the oil companies' peak production.

Taxes will also be unaffected as confirmed by our County's Tax Assessor last August.

Neither will the project have a benefit on jobs.
According to our County, operations at the Gaviota Marine Terminal will result in only 11 new jobs. On the other hand, construction of a new pipeline will create literally hundreds of jobs. For example, according to the EIRs for the pipeline projects, construction of the Pacific Pipeline will result in a peak 605 jobs; construction of the Cajon Pipeline will generate 211 jobs; and reversal of Line 90 will require approximately 135 jobs.

And although these jobs are temporary, as supposedly tanker jobs would be, the long-term operation of the pipelines will generate more jobs than tankering as well ranging anywhere from 20 to 30 jobs per project.

These jobs will not result from tankering. They only result if pipelines are required to be developed.

Finally, 11 jobs simply isn't enough when one considers the number of other jobs which would be jeopardized in the fishing, tourism, and recreation industries if tankering is allowed.

Finally, the proposed lease does not include mitigation measures and alternatives which could reduce project-related impacts as required by CEQA.

Several mitigation measures and alternatives have already been identified which could reduce tanker impacts. The most obvious is moving the facility 10 to 14,000 feet
offshore and requiring a single-point mooring system.

Reducing throughput is another obvious means to reduce impacts. Because of the existing pipeline network, throughput at the terminal could be reduced without any prejudice to the producers.

Other mitigation measures are available to reduce impacts to fishing resources and commercial fishing activities, and these will be discussed by Steve Dunn.

Those are the grounds on which we hope that you deny this application for a lease. If you do decide to issue a new lease, then we would like to direct you to some proposed conditions which we would like incorporated into the lease, which is the final item in your packet.

Your authority to condition the lease is based upon Public Resources Code Section 6873, which deals with leases, the Coastal Act, and the County's local coastal plan, as well as the Public Trust Doctrine.

The first condition we propose is to clarify that any operation of the marine terminal is consistent with valid tankering permits as issued by the County or the Coastal Commission, and consistent with our County's LCP oil transportation policies.

The second condition relates to pipeline use and
is based upon staff's proposal to maximize the
existing capacity of pipelines.

We've added a couple suggestions to clarify
the scope of emergencies and exceptions to that
certification process.

The third condition deals with the pipeline
commitment issue and mirrors the County's permit
condition, which requires execution of a throughput and
deficiency agreement with the pipeline developer before
tankering commences.

And finally, given the capacity of Line 63 and
Sisquoc, the throughput volumes that we suggest would
be to allow 20,000 barrels per day on a monthly average
since we're dealing with supposedly just the Point
Arguello production.

I'd like to stress the importance of this
pipeline commitment condition. Although Chevron made
a commitment to use pipelines to L.A. in 1983 and
Exxon made a similar commitment to use pipelines to
Texas in 1985, neither company has lived up to its
commitment.

Ten years have passed since Chevron promised
to develop a new pipeline to L.A. Once the producers
are in tankers, it will be virtually impossible to get
them out. We have seen how ineffective deadlines and
terminations have been in the past.

More recently, the producers objected to a proposal which -- by the County which would have required them to put their money where their mouth is by signing a throughput and deficiency agreement with a pipeline developer before commencing marine tankering.

In addition, Chevron and the other Point Arguello Producers have sued the minor partners over their efforts to construct the Mariposa Pipeline. This pipeline, which would provide a direct link from the Gaviota processing facility to the All American Pipeline network, would reduce pipeline costs by about a dollar a barrel. And one would think that if the producers truly wanted to pipeline, they would support a project which would reduce pipeline costs.

Chevron and GTC have also sued the Coastal Commission over its issuance of a tanker permit for the Point Arguello Producers and over the issuance of the marine terminal permit as well.

Finally, Chevron and GTC have both opposed AB 591, a bill which would codify the tanker cessation date set forth in the Coastal Commission's Point Arguello tanker permit and the Gaviota Marine Terminal permit.

At every step of the way, the producers continue to resist their obligation and their commitment to use
pipelines. To compound this resistance, no new pipeline will be built without an upfront commitment in the form of a T & D agreement by the producers.

And the reason is simple. In 1985, Exxon said it would use pipelines to transport its oil to Texas. Based on that promise, All American spent $885 million to build a pipeline to Texas. Now it's sitting virtually empty. Based on this experience, no pipeline developer now will construct a pipeline, will start the shovels until they have a T & D agreement. That T & D agreement guarantees the development of a pipeline, guarantees the jobs that we were talking about, guarantees the cessation of tankering. That's the only thing that guarantees a cessation of tankering. Dates don't mean anything. Pipelines do.

The other importance of the commitment is that it's tied to the capacity of existing pipelines that we've been talking about. We can try to increase the use of existing pipelines by Point Arguello, but when Exxon comes on line later this year, they're going to back out half of that Point Arquello oil. And there's going to be more tankering. So, the only way to ensure that enough oil is going in the pipelines is to require the throughput and deficiency agreement. That's the only way we're going to deal with both Chevron and Exxon.
In conclusion, we hope you'll give this issue your serious consideration and, by the dialogue that's gone on today, I can see that there's tremendous interest and serious consideration of this issue. And we appreciate that.

We urge you not to take action under the threat of litigation. Succumbing to litigation threats is not good planning policy, because it sends a message to other applicants that they can pressure your agency into taking action for their benefit regardless of the laws and policies which may be undermined in the process.

In addition, no matter what you do, no matter what negotiations you make, no matter what deals you cut, you still might get sued. That's what happened to the Coastal Commission. They've been sued twice on this issue this year already.

Furthermore, we urge you not to let the producers' threat of tankering for Martinez influence your decision. They've been sending some oil through pipelines up to Northern California, loading it onto tankers. I noticed in the staff report that they were threatening to resume that tankering if they don't get the lease they want. And I just want to let you know that that tankering has been sporadic. It's been minimal. It's been expensive. It only occurs every time there seems to be a
big public hearing coming up. And more importantly, it's in violation of the OCS approved plan and is subject to Federal enforcement. Instead of making a decision based upon the applicant's threats, base your decision upon the applicable laws and policies adopted by the this State and by the County of Santa Barbara. Encourage the development of a new pipeline. Remember that the only true incentive to building a pipeline is to prohibit tankering. Please deny the lease application, direct the applicant to complete environmental review. Any resulting delay is no one's fault but their own. The GTC partners are the very producers who intend to tanker from the marine terminal. They promised to build a pipeline ten years ago. Had they done so, the pipeline would have been built by now for a lot less money and operational to their refining destinations of choice. Thank you. CHAIRMAN MC CARY: Thank you. Are there any questions? COMMISSIONER DAVIS: I have a number of questions. First of all, in fairness to the producers, there's been a lot of opposition to the construction of pipelines. I
remember at one point, Mayor Bradley came out against
the proposed pipeline in Los Angeles. So, I don't
think -- believe me, I'm not their champion, but I don't
think it's fair to say that they have not made an effort
to build a pipeline from roughly the Santa Barbara area
down to Los Angeles.

MS. KROP: I do have a comment on that. The
SCOP's pipeline project was abandoned in 1986, and it
wasn't until the County forced them to pursue another
pipeline project in 1990, that the Pacific Pipeline
became a new proposal.

So, I agree that there have been some permitting
problems, but there also has not been a consistent effort
on the part of the producers to encourage the
development of a new pipeline.

COMMISSIONER DAVIS: Let me ask you a couple of
other questions. You say there's no need for a marine
terminal, and that is based on your perception that
there's unused pipeline capacity?

MS. KROP: That's correct.

COMMISSIONER DAVIS: And also based on the
perception that only Chevron's contribution to or PAPCO's
contribution to -- let me see if I'm getting this
confused here. What assumption are you using as to the
total amount of oil that's now moving through the pipelines?
MS. KROP: The assumption is that there's been demonstrated adequate capacity to transport all of Point Arguello's peak production, which then leaves us with Exxon, which committed to send its full production to Texas.

Now, that they want to change destinations, they can't tanker yet until the County's environmental review and permitting process is complete, which won't be until the end of the year. At that point, we'll probably be up there objecting to that application for various reasons. But one of them would be that a pipeline hopefully will be under construction by then, and Exxon could be held to its earlier commitment to transport to Texas until that new pipeline capacity to L.A. is available.

In the alternative, they should at least have to show a financial commitment or T & D commitment to the pipeline to L.A. before they can tanker.

So, it's -- they're not going to be ready to tanker yet for quite some time.

COMMISSIONER DAVIS: So, you're assuming Exxon is not going to come on line. When you say there's no need for a marine terminal, that's based on that assumption.

MS. KROP: There's no need for a marine terminal now. We do see Exxon in the picture, because they filed
their application, and we think that's part of the big 
picture that has to be looked at. 

And that's why development of the additional 
pipeline capacity is so critical.

COMMISSIONER DAVIS: Okay. I think we all agree 
on that. I think that's -- I'd like to put the cart 
before the horse, too.

What about Mr. Shamas' response to my question 
about a throughput agreement. He's basically saying 
there's no point in signing one until you get the 
pipeline permitted.

MS. KROP: We --

COMMISSIONER DAVIS: Because you say that we 
should insist.

MS. KROP: Yeah. The County's permit, which we 
supported, required execution of a throughput and 
deficiency agreement with a pipeline project that has its 
discretionary permits. Otherwise, we agree, it does have 
no meaning.

The only way the pipeline developer will obtain 
the construction financing is if it's an unconditional 
throughput and deficiency agreement and if the permits 
have been obtained.

COMMISSIONER DAVIS: Okay. But then you say 
that -- I thought you recommended that we condition any
lease by the signing of a throughput agreement, throughput and development agreement.

MS. KROP: I do. The County's condition, which is the same condition we would like you to impose, conditions the commencement of tankering upon evidence of an unconditional throughput and deficiency agreement, which is executed with a pipeline developer that has all discretionary permits. It's our --

COMMISSIONER DAVIS: And none exists, right?

MS. KROP: None exists at this time, but it's our understanding that the Cajon Pipeline expects to have permits in May and that Line 90 expects to have permits in September.

And perhaps the pipeline companies can confirm that. But that's the information that we've been given in staff reports and EIRs.

Again, there's no prejudice in that six month or whatever delay, because Point Arquello, which is the producer that now is ready to tanker, is sending 70-plus thousand barrels a day in existing pipelines, and can send their full peak production. So, again, if it takes until the fall to have a pipeline project that's ready to execute T & Ds, that's no prejudice to Point Arquello, and it's no prejudice to Exxon, because Exxon can't tanker till the end of this year, beginning of
next year anyway.

COMMISSIONER DAVIS: Can I ask Mr. Secundy a question, Mr. Chairman? Just while she's there?

CHAIRMAN MC CARTHY: Yes.

COMMISSIONER DAVIS: You may just answer from there.

MR. SECUNDY: Okay.

CHAIRMAN MC CARTHY: Would you stay up there, please (speaking to Ms. Krop).

Excuse me. Would you come up, Mr. Secundy?

Use the microphone. Thank you.

COMMISSIONER DAVIS: Would you agree that there is capacity to handle the production from Point Arguello Producers between now and the end of the year through your pipeline?

MR. SECUNDY: Through just my pipeline?

COMMISSIONER DAVIS: Or existing pipeline capabilities between here and Los Angeles.

MR. SECUNDY: It depends upon the destination of choice of the producers and the people that are buying their production.

In terms of Line 63, it would be my best guess, we probably have between 40 and 50,000 barrels a day of capacity that we could move to Los Angeles. There's an additional 20,000 barrels a day that can go to the
Santa Maria's refinery, Unocal's refinery. It's about 5,000 barrels a day that can go to Bakersfield. There is some that can go east; there's some that can go north. It depends on who wants to purchase it.

COMMISSIONER DAVIS: I guess, at least conceivably, the capacity exists, but people would have to route the oil in different directions.

MR. SECUNDY: Well, again, yes. What you're saying is correct. But it does depend upon the refinery of choice by the producers, who wishes to purchase the oil.

If everyone in Los Angeles wishes to purchase all of the PAPCO production, there is not enough capacity to go just to Los Angeles. The only way that you could accommodate all of the current production of PAPCO producers is to have some go to the Unocal refinery, which it's currently doing; some going to Bakersfield, and some going to other destinations.

Our pipeline also, Line 63, for a fairly nominal amount, can be expanded by about 10,000 barrels a day. So, we can put on some additional capacity on an interim basis. But we've received no indication that anyone's interested in that at this point in time.

CHAIRMAN MC CARTHY: Yes, Mr. Shamas?

MR. SHAMAS: We need to straighten out some
misconceptions. The total production could go by
pipeline if you wanted to send it to Texas at a loss of
two to three dollars a barrel. But nobody wants to.
In April and part of March, Gerry's pipelines were
prorated, because they were full. So, when you stand up
and say that all of it can go out now, yes, we can take
20 a day to Martinez and tanker down the shore to L.A.,
and that went out by pipeline. You can't move all this
crude right now by pipelines. That's not a true
statement.

Gerry said the right thing. You try to give
all that crude to him, he's going to back out all the
San Joaquin Valley crude and all the independent
producers' testimony you heard, where they had crude to
go to L.A.? That all gets backed out.

So, it's not true that you can ship everything
today. We've been throttling back production there
because there isn't room in all the pipelines to go to the
markets where that crude makes the most sense.

CHAIRMAN MC CARTHY: Okay? Thank you,
Mr. Secundy. Other questions of Linda Krop?

COMMISSIONER DAVIS: Thank you. Let's see.

That's all I have.

CHAIRMAN MC CARTHY: Any questions? Thank you
very much.
MS. KROP: Thank you very much.

CHAIRMAN MC CARTHY: Next we hear from Jana Zimmer, American Oceans Campaign, special counsel. Welcome.

MS. ZIMMER: Thank you, Mr. Chairman, and Commissioners, and good afternoon.

My name is Jana Zimmer, and I represent American Oceans Campaign, which is a national ocean protection advocacy organization with offices in Washington, D.C., Seattle, and Santa Monica.

I want to stress the connection to the Los Angeles area, because the constituencies in Los Angeles were not included in the facilitation process that was organized by the Resources Agency, neither the environmental groups from Los Angeles nor the local governments in the Los Angeles area.

Our position in this has been consistent throughout, and that is that the only way that we could accept interim tankering would be if we were assured that we were not, in effect, on the slippery slope to permanent tankering from the Gaviota Marine Terminal.

And, unfortunately, everytime we try to dot the "i's" and cross the "T's," we hear equivocation and resistance from the producers.

One of the first things I want to clarify today
is the record, as I understand it, as to the history of the parties legitimate expectations in this regard.

The staff report reports at page 18 that Texaco has claimed that they relied, when they invested their millions of dollars in the interim terminal, on an expectation of an ability to continue to use that terminal on a long-term basis.

And that simply does not square with the facts. It does not square with the lease that was issued by this Commission in 1987. That lease, at page 2, the term provision acknowledges that GTC may wish permanent tankering, but clearly indicates that additional environmental analysis may be required, and I quote here: "The Commission in any decision to convert the marine terminal to permanent use may deny such conversion."

That lease, I'm sure, is already in your record. So, the concern here is that GTC did apply for a permanent terminal. It was only after we and other groups raised objections to the adequacy of the environmental document for that terminal that that application was withdrawn and they reapplied or resubmitted for an additional interim term.

Our concern, of course, is that, given the economics of the situation, they will continue to
attempt to gain permanent use of that terminal at that site.

So, there's no basis in the permits that were in the lease that was given by this Commission for GTC to assert any sort of legal right or vested right to continue use of that permit -- of that terminal.

In addition, the Coastal Commission permit that was issued in 1987, specifically states that -- I'm just going to read this little sentence -- "Circumstances may develop such that GTC may desire to continue marine terminal operations beyond the interim period, but GTC acknowledges that the Commission has made no commitment to the approval of a new permit. GTC further acknowledges that the expenditures it will undertake in connection with the knowledge that the terminal has been permitted for an interim period only, and that the Commission may, but shall not be required to consider these expenditures in evaluation of compliance with the Coastal Act on any subsequent proposal for continued operation."

So, from the permits that were accepted by GTC, it's clear that the investment that they made was made with the knowledge that that was an interim use and that they could not claim those expenditures to assert a right to a continued use.
Now, the economics of the situation have not turned out to be what the producers and GTC had expected originally. And we can all sympathize with that. But the question here is not whether we sympathize with their economic situation, but whether this Commission has to bail them of that sorry economic circumstance. And the fact is that the problem here has much more to do with the fact that oil is selling for about $20 a barrel, rather than the $40 that they expected it to be selling for, than it does any other factor or issue.

The second area that I'd like to cover -- Ms. Krop has already told you why the environmental document that you're using is inadequate under CEOA. And we believe that there's a problem with the lease approval today because that would violate additional specific provisions under the Public Resources Code that are directly applicable to your leasing activities.

And those provisions include Section 6873, 6873.2, and 6873.5. The two latter provisions -- and I have copies to distribute here -- involve a requirement of holding a hearing on at least 30 days' written notice on the environmental document that supports your permit release action.
Although the Environmental Coalition requested a hearing in Santa Barbara -- and that statute does require that the hearing occur in the area, the geographic area where the leasing is to occur -- that has not happened.

In addition, under 6873.5, consultation is required, specifically with the Department of Fish & Game, the National Marine Fisheries, and representatives of local fishermen who fish in the area.

Mr. Dunn will be testifying after me. He's the representative of the local crab and lobster fishermen, and he will tell you that no such consultation has occurred.

Finally, under 6873.5(b)(3), in considering the lease, the Commission needs to consider the cooperative efforts that have been made to mitigate the effects of the operation of the marine terminal on fishing activities. And to our knowledge, that has not been done. There's no reference to it in the staff report.

These failures to comply with these provisions, we think, are especially prejudicial to this process, because staff has recommended and GTC has insisted that they're entitled to 100,000 barrels a day capacity for that marine terminal. None of the hearings before the County, none of the hearings before the Coastal
Commission contemplated that this -- that the capacity of the terminal would be 50,000 barrels a day. In both cases, the public was repeatedly reassured that the use of the terminal by Exxon was a separate issue and involved additional considerations which would be given serious consideration.

So, we believe there's some serious procedural problems with proceeding with an approval today on that basis.

The third area that I would like to stress -- and this has to do with commitment and making sure that we dot the "i's" and cross the "T's" on the producers' commitment and GTC's commitment to absolutely stop tankering on January 1, '96.

Ms. Krop mentioned AB 591, which was co-authored by Terry Friedman and our Assemblyman in Santa Barbara, Jack O'Connell. All that statute would do is put into the Coastal Act the final cessation date for tankering.

At the March 29th hearing before the Assembly Natural Resources Committee, industry representatives, including Mr. Mihalik for GTC, the Western States Petroleum Association, and also Mr. Van Buskirk for the producers, vigorously opposed this provision in the Coastal Act.

Now, I might agree that, in general, it's not a
great idea to codify permit conditions through legislation. But given the history of this project and the ten years of failed commitments, we thought and Assemblymen Friedman and O'Connell also thought that it was appropriate to provide that additional guarantee that under no circumstances would tankering continue beyond that date.

Mr. Van Buskirk testified on behalf of the producers that if this bill became law, that that, by itself, would force the producers to go back to court and to reject the permit.

And we've discussed -- you've discussed good faith several times in this hearing. And we cannot imagine why a bill that would merely codify their promise would lead them to reject the permits that have been offered to them.

This concern relates additionally to a condition that we have proposed and, if you do issue a lease, that under no circumstances can there be any holdover. Your standard lease forms have a holdover provision. And the lease that was issued to GTC in 1987 was in holdover status for almost two years. And we think, given the policy concerns and this Commission's concerns about not extending tankering under any circumstances, that if you do issue a lease, you should direct that it be
explicit that there can be no administrative holdover under any circumstances.

I just want to summarize and attempt to respond to some of the comments that were made with regard to the fairness of this process.

In addition to the claim that they have a vested right to continue using this interim terminal, the producers have asserted in testimony to the Assembly Natural Resources Committee and also here today that this process represents an example of the unfair way in which businesses are being treated in California and, in some great measure, have contributed to the lack of economic recovery in this State.

Their assertion is that the rules have been changed on them in the course of the process, and that's simply not correct. The County's coastal policies have been the same since 1984. The permits that I'll be putting into your record have been in existence, the conditions haven't changed. The only thing that has changed here is the economics of the project. The project was an expensive project to begin with, the rate of return -- even in 1990, when the County did a crude oil transportation analysis -- was a minimal positive rate of return.

So, whether they received tankering -- a permit
for tankering or not, this project has not been what it was intended to be economically.

So, the problem is not regulation, overregulation, or changing conditions. The problem is that the worldwide -- worldwide price of oil is not what the producers had anticipated.

So, in answer to the speaker earlier who asked what the message is to the business community if this Commission adheres strictly to the resource protection policies of the Coastal Act and under the Public Resources Code generally? The message is that businesses who comply with the rules and who adhere to their commitments will be well treated. But, as in this case, if you have a ten-year history of failed commitments, then there are going to be problems.

And we don't believe that the coastline should be put at risk in order to solve those problems. Thank you. Do you have any questions?

CHAIRMAN MC CARTHY: Thank you very much. Any questions of Ms. Zimmer?

Thank you very much.

MS. ZIMMER: Okay. I'd like to put these exhibits that I've referred to in the record.

CHAIRMAN MC CARTHY: Commissioner Davis.

COMMISSIONER DAVIS: Yeah, I thought your point
on administrative holdovers was a good one. Do we have the authority, Bob, to write that into a lease, to say that, basically -- because this particular lease was kaput and it's still going on. How can we legally do that?

MR. HIGHT: You can put it in the lease, but a subsequent Commission could change it. So, you can put it in and it gives -- it creates a condition today, but that condition can be changed later.

COMMISSIONER DAVIS: Well, how can -- then any subsequent Commission could change the term -- all the terms of the lease.

MR. HIGHT: Correct.

COMMISSIONER DAVIS: But not without consent of the other party.

MR. HIGHT: Correct.

CHAIRMAN MC CARthy: Thank you very much.

MS. ZIMMER: Thank you.

CHAIRMAN MC CARthy: Steve Dunn, Santa Barbara Trap Fishermen. Mr. Dunn, welcome. Thanks for your patience.

MR. DUNN: Thank you very much, members of the Commission. My name is Steve Dunn. I'm a local commercial fisherman from Santa Barbara. I was born and raised there. I've been fishing crab, lobster, and/or
fishnets for the last 17 years. I fish in the area of
the Gaviota Marine Terminal as well as other areas in
our channel.

Today, to my knowledge, I'm the only permitted
commercial fishermen coming before you here today. I'm
also here in representation of the Trap Fishermen of the
Joint Oil/Fisheries Committee. I'm also here in
presentation of eight of approximately 12 gill net
fishermen who fish in the Gaviota area, as well
representation of members of the Central Coast Hook & Line
Commercial Fishing Association.

As the permit exists today, or the idea of the
permit to tanker oil out of Gaviota, our group is opposed
to that permit on the grounds that the conditions that
have been specified, if they still stand, are inadequate
to address our issues.

In August of 1992, the Santa Barbara County
designated the impacts to commercial fishing in the area
in relation to tankering as Class 1 impacts. This is
based primarily on the fact that the voluntary vessel
traffic corridor program in relation to us is a failure.
The Joint Oil/Fisheries Committee originated some ten
years ago as a result of devastating losses of said
fishing gear by commercial fishermen at the hands of
the seismic exploration industry as well as other oil
service vessels. The trap fishermen were at major loss of all the fisheries here. And finally, after many years -- or several years of trying to reach some sort of an agreement, some sort of method of coexistence in the channel, we sought legal remedy. The permits for seismic testing were issued using a negative declaration. We sought legal means to have those permits withheld, and they were, pending further economic review.-- excuse me -- environmental review.

At this time, we face much the same situation with the vessel traffic corridor program. Since it doesn't work, we're asking for relief. We've been asking for relief from the County, we've been asking for relief from the Coastal Commission, and we're following up today asking for relief from you.

We have in the last several months sent copies of letters to your staff and to the Commissioners, letters that were originally addressed to the California Coastal Commission. These letters -- I have copies today that I'd like to submit for the record if they're not in your possession today. I'd like to digress a little bit -- being a little unprepared here -- the small boat trap fishing industry in Santa Barbara generally considers the full range of their operations to be in the Gaviota area. The representation here today is for all of those
fishermen who fish traps and gill nets inside 3 miles, which will be terminated at the end of this year; as well as outside of 3 miles, which will continue.

The jobs involved probably on the magnification of 10 to 1 after the fish hits the dock, we've just been subjected to the full beginning of another El Nino situation similar to the 1982-1983 storms. We have a large body of warm water moving into our area. A lot of species of fish are harder to catch right now than they normally are.

We've gone through about 12 weeks of some severe weather conditions, where fishermen have a hard time getting out of port to get to their fish.

I've come up here today -- I'm not paid to come here. I'm representing those of us who are at a loss here and feel that tankering will create more of a loss and more of a hardship for us. We don't come here today to suggest that there are jobs waiting for us from tankering. We're here to tell you that we have jobs now. We don't want to lose them.

The economic loss is certainly something that, in our community, we really can't afford to have. And we're quite frustrated, in that the conditions that we've proposed following this permit process have not been addressed. The County, as I say, defines our impacts as
Class 1. I'd like to know from the Commission -- actually from the Director (sic) perhaps -- in relation to establishing a mandatory traffic corridor program, can the Commission enact civil penalties for noncompliance?

EXECUTIVE OFFICER WARREN: Well, let me answer. We have explored that opportunity available to the agency, and we could through the means of liquidated damage provisions in our leases and contracts. But beyond that type of approach, I'm not at all sure we're in a position to impose penalties. I'm willing to be corrected if legal staff can suggest another answer.

CHAIRMAN MC CARY: That's the answer.

MR. DUNN: Correct. I would like to continue to -- actually, I have another question. The State Constitution in 1925 defined fishermen as having a right to fish in State waters from State waters in State waters from State lands (sic). And that right, to our knowledge, has never been usurped or withheld. Currently, we have fishermen -- I'm among them -- who have had direct conflict with either debris from oil exploration, conflict with site specific fishing and oil company operations. And I'd like to know, since the State Lands Commission leases the sea floor to the oil companies, how does that relate to our right to fish?

CHAIRMAN MC CARY: The Public Trust Doctrine.
which the State Lands Commission has the obligation
to uphold, includes the people's interest in the
commercial fishing and recreational values of the waters
within our jurisdiction.

From time to time, we have to reconcile
conflicts -- and you've just pointed out one -- that arise
in pursuing these interests. We have imposed during the
years I've been on this State Lands Commission
innumerable restrictions on the pursuit of oil so that it
did not unfairly interfere with the commercial and
recreational fishing industry.

It is not possible to have a perfect world, given
the statutory and constitutional mandate that we have,
as I've just described within the Public Trust Doctrine.
But we do the best we can in trying to protect your
interests. And we, on many occasions, have attached
conditions to leases, exploration, drilling leases to
try to protect commercial fishermen.

MR. DUNN: Thank you, Commissioner. I'm aware of
some of the efforts we've all made in those regards.
I would like to ask here today that, in relation to
the local contingency fund in the Santa Barbara Channel
area -- actually, it's in the Tri-County area, I believe --
which are funds that are set aside from oil revenues to
be directed to mitigating gear loss of set fishing gear,
I would ask that rather than those funds being directed
to the areas where the fishing and -- excuse me --
rather than being directed to the areas where the oil
companies have already set equipment -- that is, drill
rigs, sea floor completion units, pipelines, so on, and
so forth -- I would like to ask, in relation to this
tankering permit, if it is issued, if the Gaviota Terminal
lease is issued, that the local contingency fund be
extended to cover gear loss as well as production loss
by a set formula in those areas which are generally
considered to be oil company areas.

I'm maybe not expressing myself fully. In the
Gaviota area, we rely on the traffic corridor area as
fishing grounds for all the fishermen who I've just
described. Since we're talking about reauthorizing an
existing lease, it's important to note that there's been
little or no activity relative to what we're talking about
coming over the horizon in this area.

And so, fishermen who have gear that gets hung up
on a pipeline or gear hung up on the remains of an oil
rig that perhaps wasn't removed, any debris, I would like
to ask that the contingency fund be extended to cover
those circumstances. Right now, there is a claim by one
of our hook and line fishermen for gear loss on a piece of
oil equipment that is charted and, therefore, it is not
covered.

CHAIRMAN MC CARTHY: Let me get an answer.

EXECUTIVE OFFICER WARREN: That contingency fund
is a County-administered fund. We have no jurisdiction
over its creation or its use.

CHAIRMAN MC CARTHY: You've got another target,
Mr. Dunn.

MR. DUNN: I understand, and I started with
that.

CHAIRMAN MC CARTHY: We'll be happy to support
your reasonable request.

MR. DUNN: Thank you. Thank you. I understand,
and I need to make note that we did start with those
previous targets some months and some years ago.
And we need very much to have State Lands consider these
issues. I would like to submit the two letters that went
to the Coastal Commission that have already been received
by State Lands and the conditions that we've asked for
be considered if the permit will be extended.

CHAIRMAN MC CARTHY: Thank you very much.

MR. DUNN: Thank you.

CHAIRMAN MC CARTHY: Any questions? Thank you.

MR. DUNN: Are there questions?

CHAIRMAN MC CARTHY: No, thanks. Mr. Robert
Klausner? And after this, Joy Piazza. Would you both
please come up? Mr. Klausner representing himself, and Ms. Piazza representing the Greater Santa Barbara Lodging Association.

   Yes, sir.

MR. KLAUSNER: Commissioners, it is refreshing to have a staff present the options, which didn't happen at the Coastal Commission. And I want to compliment your staff for at least giving you your four options.

   Now, it appears that industry's only interested in one of those options and has told you the other three will not survive or fly. So be it.

   I appreciated your comment, and I think you made the key question today, which said, "What can we do to make it happen, to get pipelines," which is essentially State policy and it's County policy.

   And that's what we've been wrestling this for a long time. And the reason we're here is because the assumptions we made back when -- and we go back a long time -- were that it would be in the economic interest of industry, because there was enough volume to get pipelines, certainly to L.A. when Arco was going to be producing and when Chevron was going to be producing, and there would be pipelines to Texas.

   Well, it didn't work out that way. And the net result is, there's a lesson to be learned. And the lesson to be learned is that you cannot regulate that
decision. That decision is an economic decision.

So, the key question then is what can you do
in the equation to make it happen? I don't think there's
anybody here, including industry, that knows whether
it's in their economic interest at this stage of the
game to increase capacity to Los Angeles so that they can
produce the field as fast as they want to produce the
field. It may not be worthwhile increasing capacity and
may be more economical to phase the field and use what
capacity there exists.

We won't know that, and we certainly won't
know that if we allow them at this stage of the game,
for the next three years, to ship by tanker. Because the
volume, the key volume, the biggest volume is at the
front end. It's not at the back end. And when Lou tells
you that within three years, they can guarantee they won't
tanker, they can guarantee that, because by that time,
they will have passed their peak and they'll be down in
figures that they'd have a tough time arguing there weren't
pipelines to go to L.A. to carry.

And we certainly can't accomplish what we're
trying to do by not maximizing the use of the pipelines
that already exist, because that would be counterproductive.
So, the number three option that industry wants you to
accept and pursue doesn't even take advantage, truly, of the
pipeline capacity that has been demonstrated here -- is
here over and above what the Coastal Commission required
them to put into the line.

So that doesn't really make sense to me either.
If, on the other hand, there is no pipeline, then we
really are going to test whether or not there is enough
capacity between what Chevron has with Point Arquello and
Exxon has coming down to justify a pipeline that both
of them want to be in. Because what I can foresee is that
there's a fight for turf here. There's only so much
capacity down there for refining. And these guys are
after getting as much as they can and getting as large a
share of the pie as they can, and there's no love lost
between Exxon and Chevron or anybody else.

That's just plain business. And I accept that.
Figure this one. Southern Pacific comes in, permitted,
and Chevron lives up to their agreement. They offer them
an unconditional T & D to ship their full production or
whatever it will be through Southern Pacific. And Exxon
says, gee, why are we facilitating a pipeline for Chevron.
We'll go the other way, because we want to go to Texas,
and we want to go to L.A., and it's more to our interest
to go by Four Corners. And we can't get the volumes
together. Are you going to hold Chevron responsible
for the whole industry lining up to go one place?
You can't hold them accountable for something they can't produce. So, what we've got here is a situation where you think you're doing something through a regulatory process to produce a result. And I guarantee you it won't produce the result, unless it's in their interest economically. And we don't know that.

So, I think that what's happening here is your best shot, truly, at finding out whether it's economically in everybody's interest to increase the capacity to go down there, is to deny the permit without prejudice. And I think you have a very legitimate reason for denying that permit without prejudice. And this gets down to process.

If you had somebody walk in here with a hundred acres -- one-acre zoning -- and tried to develop that on the basis of going for a lot split, three one-acre parcels and 97 is left over, and then come back a while later, we've got 97 acres, we want to lot split, and try to get through the process of a subdivision by lot splits, you wouldn't allow that.

Now, we agreed back when, and we went through this -- and I may not like all the policies, but by golly, we worked those policies out and we accept those policies -- that industry had a right to interim tankering while they took time to build that pipeline both to Texas and to L.A.
And this has been going on long enough to get a pipeline. And the reason we did that was we didn't want to hold them ransom to the pipeline not being able to be built in a timely fashion and hold up their production.

But this interim is not interim anymore. This interim is essentially a permanent tankering. And if it is a permanent tankering, then they should come in and apply for a permanent tankering. When you said no oil tankering after '96, that's contrary to our policies. Our policy says that there shall be a permanent tankering facility, which means that there can be tankering under certain conditions. And I expect that we should live up to those policies. And they'd have every right after '96 to have a terminal there that could handle oil under certain circumstances.

Now, I appreciate staff trying to lay out a protocol, which essentially they did for a permanent tankering facility. Yet they're coming in and asking for an interim and only doing what an interim tankering facility and terms and conditions -- for all the talk of the number of conditions requires (sic). And we're saying, "You're entitled to a permanent tankering facility. Go for it."

Do it right, and under what terms and conditions we will then determine how you can have a
final permanent tankering facility in Santa Barbara.

Not "There will be no tankering after '96." That's making policy through a condition. That's not the way we do it, nor would we want to do it, because it violates the integrity of the process. Once you've got those policies, that's what should be controlling everything.

And what they're trying to do is they're trying, through the guise of interim, in effect, they are going for a permanent tankering facility.

And that's why you start to get -- you say, "No, Lou. It's not the way to do it. I disagree with you."

So, I've covered the point about maximizing the pipeline use that's there already. The timeliness of those time frames, I don't honestly believe that you can hold these people responsible for something they can't control. You have no guarantee you're going to get everybody together to go on the same pipeline. And, therefore, you have no guarantee that the volumes will be large enough for them to accept the tariffs. The net result is, you'll get nothing.

Thank you.

CHAIRMAN MC CARTHY: Thank you very much for your testimony.

COMMISSIONER DAVIS: Mr. Klausner?

CHAIRMAN MC CARTHY: I'm sorry. Commissioner Davis.
COMMISSIONER DAVIS: Sorry that my falling blood sugar forced me to leave for a short time. I missed part of your beginning of your testimony; so, I apologize if I'm asking you to repeat yourself.

But I think all of us here want a result that you mentioned in the part of the testimony I heard, which is -- which may be contrary to Santa Barbara's policies, but which are that all the oil humanly possible be shipped to Los Angeles by pipeline.

MR. KLAUSNER: That's certainly consistent with our policy.

COMMISSIONER DAVIS: I understood you to say that Santa Barbara has basically established a policy that would allow Gaviota Terminal to operate as a tankering facility, you know, in perpetuity.

MR. KLAUSNER: No, I said this. Way back when, and we had to deal with it in the early eighties -- and you folks were involved then also -- we had to set in policies about transportation. And one of the policies that the transportation element said -- there were a couple of things. First of all, aside from the consolidations in the transportation, we said we would allow an interim facility to bridge the gap against the time in case they couldn't get that pipeline onstream as fast as their production was coming up. That interim terminal was
supposed to be for a certain length of time. You've already heard testimony about that.

I mean, now they're asking for an interim terminal that, in reality, almost becomes ten years by the time you get through with what Exxon's asking for. That's not interim. You could have had a pipeline before this.

The second thing that we had in the transportation policies was that we would allow and permit, which we did, a permanent terminal. And Gaviota and Exxon fought for who was going to get it and decided that the Las Flores was a better, more environmentally practical site, and Las Flores got the blue ribbon or whatever it was.

Subsequently, Las Flores has turned it down (sic) and said -- they quitclaimed it. They don't want to bother doing it.

So, now what you really have is a tanker facility there where there's a lot of money been spent already. So, the odds are, and they already came in here a while back and ultimately withdrew because of some logistics and trying to get through the hoops as fast as possible, which hasn't worked out -- it appears that Gaviota will be the terminal -- the permanent terminal. And it's consistent with our policies. We have to allow
a permanent terminal. And there are conditions under
which that would operate.

One, in case of emergency, a breakdown. You
wanted to ship something to a place that had no pipeline.
And they talked at that time -- I remember the
testimony. We might want to take a shipment up to

If there was no pipeline to destination of
choice; at that time, we had no pipelines, or at the
time that was going through we had no pipeline to Texas,
nor did we have what we hought was a reasonable pipeline
going to L.A.

Well, so, all I'm saying is that you can put
these time frames in and say, "We're going to stop
comes the year 1996." Yes, you're going to stop the
interim tankering. Is anyone here under the impression
that there will be no tanker facility there? I can't
conceive of that, at least not the way they made the
case back then that they had to have a backup system
in case, and those were the conditions under which we
set the policies.

And we're not about to -- I don't think we're
about to change those policies.

So, it may sound a little crazy. I mean, I'm not
happy about it, but it's a policy.
COMMISSIONER DAVIS: If we were to take your advice and deny the lease, how would that facilitate at least the State Lands Commission's objective, which is to get a, you know, greater pipeline capacity?

MR. KLAUSNER: I'll tell you how I see it.

If you deny the lease at this time, then there is no interim tankering. So now, they're faced with some permits coming through by Cajon, Four Corners, Southern Pacific. That'll all be known within the next six months. Certainly, at that time, if it's in their economic interest, they will give T & D's jointly, or however, to get a pipeline to relieve the compression that you've created by having no tankering and their having an ability to produce more than they can ship out with the lines that exist right now.

And you will be able to test the economics of the deal within the next six months to see whether it's practical. If it is practical and they go ahead with it, well, what the hell. Let 'em interim tankering during the construction period, which is what the County called for anyway.

But if you allow tankering for the next three years -- and what's going to happen Chevron comes in here in January, we gave a T & D to Southern Pacific, but, you know, the volume wasn't large enough to get it at a
price that, you know, that we could afford, and they're not going ahead with it.

You're going to say to them, "Well, gee, you haven't lived up to your bargain." They've lived up to their bargain, but that hasn't produced the economic result we're looking for. The best way to produce that result is to test it by changing that equation as to what their options are.

Now, if after that, it doesn't pay to build that pipeline and they can produce more, what will happen under your policies, you will no doubt end up with a tankering facility, and you'll have to decide at that time under what conditions you'll allow tampering and how much more -- whether you want to accommodate for the next couple of years their phasing in at maximum rates, or whether you want to phase them so that they don't have the need to go above and beyond.

And I'll tell you something. I can't for the life of me figure out how you're going to handle the Exxon deal.

Exxon predicated -- I mean, those guys back there predicated over $800 million of investment on the fact that Exxon's destination of choice was Texas. You say now it's not Texas? What happens next Tuesday?

If you get a pipeline to L.A., they'll say, "Well,
we want to go to San Francisco"?

I mean, you can't allow that. I mean, that wasn't what the policy was meant to do. The policy was meant to establish where they wanted to go and then get pipelines built there. And since they're not building it themselves, this is the problem we have -- we didn't know that then. We should have tied the whole thing together and said, no. "Unless you build the pipelines yourself, it's no deal."

But we didn't do that. So, we have to live with it the way it is.

CHAIRMAN MC CARTHY: Thank you. Ms. Piazza?

No?

MS. KROP: Now I'm Joy Piazza.

Joy asked me to read this letter into the record.

(Thereupon, the reporter requested the speaker to identify herself.)

MS. KROP: I'm Joy Piazza.

(Thereupon, the reporter replied she was not.)

MS. KROP: Okay. I'm Linda Krop, K-r-o-p, presenting this letter on behalf of --

CHAIRMAN MC CARTHY: She looks like Linda Krop.

(Laughter.)
MS. KROP: Same outfit, too.

Joy Piazza's the President of the Greater Santa Barbara Lodging Association and was unable to make this hearing, and asked me to read this letter.

"Dear State Lands Commission:

"I regret that I or a Board member of the Greater Santa Barbara Lodging Association are unable to attend the scheduled hearing concerning the issue of oil tankering in the Santa Barbara Channel by Chevron Oil Company. The Greater Santa Barbara Lodging Association represents the local hospitality industry -- the hotels, motels, inns, and tourist-related businesses. Our purpose is to create and maintain tourism in Santa Barbara County. We monitor issues pertaining to the hospitality industry, tourism, and our environment. Our association supports the ruling which states that Chevron Oil may tanker up to 17 months with the signing of a contract to build a pipeline. I recall the last local oil spill in 1967. . . ." I think that was 1969, editorial comment.

". . . It was devastating to our community.
and our economy. Travelers still recall the ugly black goo on the beaches, the suffering wildlife. It takes many years for those mental images to fade, let alone the devastation to the environment to disappear and at what loss? The tourism industry cannot afford to run even the slightest risk of a disaster like Valdez or the one suffered by the Shetland Islands. Santa Barbara County has been plagued with a major fire, a major drought, a toxic water spill via Southern Pacific Railroad, and the Los Angeles riots, which affected our economy due to our close proximity to Los Angeles.

"Tourism is the number one industry in our area. We are one of the major employers in Santa Barbara County. The City and County depend on our TOT taxes to provide the many services our community enjoys. We cannot take a chance that an accident would happen. By being dependent on the tourism market, the jobs lost, the loss in revenue to the City would be devastating. Building a pipeline would
provide more local jobs. Using tankers, the jobs are limited and there's no need for labor to reside in the County where the production is located. With tankers, we gamble with the chance of disaster. Chevron Oil cannot guarantee that there will be an accident in the channel. And if there is one, the clean-up time is greater than one on land.

"The Greater Santa Barbara Lodging Association urges the State Lands Commission to uphold the decision to stipulate that Chevron sign a contract to build a pipeline within a designated date before tankering is allowed to commence.

"Cordially, Joy Piazza, President,
Greater Santa Barbara Lodging Association."

Thank you.

CHAIRMAN MC CARTHY: Thank you. That completes the list of witnesses. I think we've had a fairly flexible give and take, back and forth. Is there anyone on either side that feels there has been some outrageous misconstruction of the truth that they must rescue us? Or have we had a chance to air this out?
All right. Step forward, sir. You want to
hang on for just a second, Mr. Mihalik, and I'll give
you a shot.

Are you together? You want to come up?

Anybody that hasn't testified yet is what I was looking
for here.

You want to give your name and identify
yourself? With the mike, please.

MR. MOORE: My name is Tom Moore. I'm with the
Chevron Corporation. I'm the Vice President of
Chevron Shipping Company.

And there's been a lot of talk about terminals,
permits, pipelines, tanks. But an issue was raised
regarding tanker safety by Linda Krop, and I just felt
that I'd like to add some clarity to --

UNIDENTIFIED SPEAKER IN AUDIENCE: Can't hear
you.

MR. MOORE: I'd like to add some clarity to the
document that was submitted.

CHAIRMAN MC CARTHY: Use the mike. Just aim
right at it, please.

MR. MOORE: I'll lean forward. I have
responsibility for our worldwide tanker operations at
Chevron, some 40 ships that we own and operate and an
average of 40 others that we operate in worldwide trade.
The GT vessels as we call them -- you call them the Oregon Class vessels. A point of information, there are five of this class, not four. Three of them have been named as those which were intending to be permitted for Gaviota Marine Terminal operations.

These were built beginning in the mid-seventies through the late seventies as a modernization project. They were state of the art, very modern tankers, and actually continue to be so today with the facilities and the details and equipment that was put on them.

At that point in time, they were built as double-hulled tankers, not required by law. In fact, they have been the model of the current law that is requiring the double-hulled tanker construction today. Our Oregon Class tankers are, in fact, one of the models behind that law and were sought after by the Federal commission that did the research.

The issue raised by Linda Krop -- and I believe it was submitted in your packet -- was a newspaper article of last Sunday in the San Fernando Valley Daily News. And the inference was that these tankers are -- our Oregon Class tankers are unusually accident prone or perhaps unsafe for the service that we're intending to put them in.

I'd just like to cite the four accidents
that have been mentioned in this article, and comment
a little bit for those of you that were reading this,
perhaps after the fact.

One incident was cited by the vessel that
lost steering while on trial run in 1975 in the
Willamette River, and impacted a bridge, having a
collision of sorts.

This accident occurred -- and it did occur,
but it was actually before the vessel was commissioned.
It was out on what we call the builder's trials. The
vessel was not complete, but the builder was taking the
shakedown run, and it was under the operation of the
shipyard and the technicians of the equipment they had
installed. And, yes, there was a control failure, and
there was a slight impact brushing with absolutely no
damage, and had no impact in the sense of consequential
damage.

I assure you that the conditions that caused
that control failure have been corrected. But the point
is, it was taken out of context that this is a failure
that exists today. It was actually corrected well
before the delivery. And it was the purpose of the
shakedown cruise to find these kinds of problems under
a controlled environment at a very, very controlled speed.

The second item was -- that was noted was an
accident that occurred in 1989, by, again, another of the Oregon Class tankers.

This accident did occur and it was very, very serious. We were headed upbound with a full cargo of oil. And southbound, another ship ran into us. We were hit. This happens. It happens in the open oceans, and it happened in the Columbia River, which is a particularly confined waterway. But it happened with both vessels under the con of a pilot, a mandatory State pilot in this case. The point I want to make about this is that the Coast Guard investigation found no fault of the ship or of the personnel handling our ship in their findings. In fact, through subsequent recovery, we were found exonerated and we were fully recovered for the damage to our vessel.

The point, though, is that this was a double-hulled vessel. The outer hull was not creased -- I'm sorry. It was no punctured or ruptured. It was a dent. But it leads to show that it could have been a rupture. And, in fact, had it been, it would have been protected by the inner hull. It was a clear case of a case where double-hulled tankers were a benefit and would have provided and did provide that extra ounce of protection.

The third reference was an accident that occurred in 1983. This was not an accident. The
reference was that we had a vessel that lost steerage in Los Angeles and had to be towed to San Diego for repairs.

We have a very, very disciplined approach with regard to steering. Steering and propulsion are the two primary conditions of tankering. And before any vessel departs any safe mooring or berth, we go through a very, very rigorous checklist, much like a flight control list, of testing all of the steering gear. And, in fact, it was during one of those tests that we found a rudderstock movement that was more than usual on the -- inside the bearing in the engine room. And it was reported, and it was -- the decision was made by our office that we would not proceed as planned, but we would go directly to the shipyard and make the repairs.

We were not towed. The ship went under its own power, under its own steerage with a tug escort as an extra precaution of safety. This was no accident. This was accident prevention.

The last item that was referenced in this article was the oil spill in 1977. An Oregon Class vessel spilled over the side a hundred barrels of fuel oil while loading. It was operator mishap. There's no excuse for it. We were embarrassed, and it was -- it happened. That's all I can say. But I can also follow
through to say that it had insignificant short-term impact -- no long-term impact. The oil was cleaned up responsibly, quickly, and the conditions that led to that oil spill, operator error, have been relieved. And, in fact, there has been further mitigations and defenses against this similar happening (sic).

I'd like to point out, that happened 15 years ago, 16 years ago. I would like to reference the performance of these ships.

The suggestion is that these are perhaps unsafe ships. I would like to maintain that these are, in fact, very, very safe ships; in fact, about the best that you could ever expect, if you're concerned about tanker safety, to be calling at a port in California. That was the basis on which these ships were designed, double-hulled tankers.

The three ships in question -- the Chevron Oregon, the Chevron Washington, and the Chevron Louisiana -- that we're considering for the utilization at the Gaviota Marine Terminal have for the last four years combined, these three ships have caused one gallon overboard the side average per year. That's a three-ship combination.

I'm a small boater, and I'm looking at these boats out here. I would maintain that the average boat here is responsible for more than one gallon overboard.
But we do have a zero spill policy, and we enforce it rigorously.

I can go back many other years. If we go back the fourth year, we had a one-barrel spill, so that raises the average up to 10 gallons for these three ships.

I consider that an impeccable record. But those one gallons, by the way, weren't spills or mishaps. Much of that was reported operational spills as a result of minor hydraulic leak or a minor whatever. But one gallon per year for those three ships, I would ask any tanker operator to try and match that.

And that's not luck. We operate 41 ships -- 40 ships today -- we just sold one -- worldwide. I'm going to switch now from gallons -- let me reference another point. Those three ships -- that one gallon overboard? We carried more than a billion -- the math gets too high -- more than a billion gallons in the course of one year. So, that's one out of a billion.

And I think the number's many, many billions. But the number that does stick in my mind, because we use barrels, is that our worldwide feet carried 600 million barrels last year. And we caused three and a half barrels to go over the side in a number of very small, minor incidents. And, again, that's not luck. If I look
back, our ten-year average history, the averages are in the under five barrel per year spill.

This is a discipline of our company, and it's a mandate of all those people that serve on our ships. It's a culture, it's a commitment, but it's also economic reality. We cannot afford -- we cannot afford what Exxon could. Yet we are forced to operate on the West Coast -- the most rigorously regulated arena, as we're seeing here, and I tell you, gentlemen, my company's job -- my company's on the line. We risk this with unlimited liabilities, and I risk personal, criminal liability, my career, my family's welfare. This is all on the line. We have a priority for absolutely safe tankering.

Just to close out. This article also refers to a rating system of tankers. It suggests that one of these Oregon Class tankers is not very highly rated. The Marine Tanker Advisory Center has this system whereby they use published reports. We don't give this credence, not many people in our industry do, but Mr. McKenzie does find himself in the news a lot, because when people want to get a rating of the tanker, he's willing to give one.

I think I've perhaps categorized some of these situations that were publicized in the press. I would
invite you to consider referring to your State Lands Commission inspectors who, under statutory authority, frequently -- every port call -- board our ships. And save for a few administrative interface problems in the startup of this statutory inspection, find that our ships are, in fact, at the top of the list with regard to compliance and with regard to performance. And I would also invite you to look at the Coast Guard records.

We -- the question of risk management is a very real issue. And it's what -- it's what really controls us. And, as I mentioned, the exposure that we have, and we're not going to manage that exposure without full consciousness of the risks, and the risks are extreme.

The environmental risk, the public concern are indelible in our minds, but we're looking at the financial risks, and we can't afford to do anything but the absolute, most prudent, proper, fault-free, spill-free operation.

But there are risks. And we can't guarantee no spills. But what I can guarantee and what we stand by is the excellent performance that these ships have had through the years and, furthermore, we'll stand by our commitment to maintain and improve that performance and
our commitment to providing the operation here that satisfies the expectations of zero spills.

But, again, we can't guarantee a risk free operation, but we can guarantee the maximum commitment to make that performance work to everybody's expectations. Any questions?

CHAIRMAN MC CARTHY: Any questions? Thank you very much. Mr. Mihalik?

MR. MIHALIK: I'll be very brief, Mr. Chairman. My name is Dan Mihalik, representing the Gaviota Terminal Company. And I would just like to briefly respond to several of the speakers. The County brought up a new condition. We believe the condition's redundant. It's already carried in the County and Coastal Commission permits.

As far as the Daily News that Ms. Krop mentioned, I just want to make it clear that this was an area that was thoroughly studied in this recent EIR -- types of spills from moorings, especially spills that could occur at a mooring like Gaviota, was extensively studied.

Another topic brought up by Ms. Krop was taxes and the tax assessor. And I think the facts are that $1.5 million per year are being lost to Santa Barbara County due to the fact that these facilities are not running at capacity.
Jobs was another topic brought up. And I think it was a sad level of insensitivity to our employees and to our contractors in this area. We've had facilities here since the late 1800s. We've had three, four generations of families as employees and as contractors, and there literally are over a hundred jobs involved with contractors in this facility all the time.

Size of tankers, this tanker's one-tenth of that, or approximately, I guess, of the Valdez. The proposed conditions by the -- brought up by Ms. Krop I think are extreme and unreasonable. She also mentioned the Mariposa project. And I think it should be clear or made clear that the County and Coastal Commission recognize that the Point Arguello project cannot operate without the storage at the Gaviota Terminal. You can't operate the project with simply one tank being installed at Mariposa. No one has ever made the conclusion in any of these hearings -- none of the agencies have -- that this results in a dollar-per-barrel savings in pipelining. That's simply untrue. And it's totally unrealistic.

I think it continues to be important for your Commission to, you know, make a clarification between the producers and the Gaviota Terminal Company. We are not privy to a lot of the work that's going on with
pipelines and producers and that sort of thing.

We're in the business of operating the terminal.

Just quickly, Jana Zimmer made a comment on the permanent terminal application. It was withdrawn because of some environmental opposition. It was withdrawn because Santa Barbara County asked us to withdraw it. And this was part of the process. They didn't want two terminals there, an interim terminal and a permanent terminal, and all of that sort of permitting going on as the producers were trying to get through their permit.

And it's been made clear, and the State Lands Commission staff made clear to us, call it what you will -- permanent, interim -- it's always going to have conditions that really make this an interim terminal. That's always been the understanding. The permanent terminal concept was something we went forward with at one time to attempt to increase the capacity of this facility from 100 to 125; that doesn't seem necessary under the circumstances, so we withdrew the application.

Jumping then to the next speaker, Steve Dunn on fisheries. I think it's important to note that -- I think it's this year or next year, we're contributing roughly $200,000 a year to a coastal resources enhancement fund. We contribute to a fisheries contingency fund, and
a fisheries enhancement fund, and the EIR again thoroughly studied this area. And the conclusion was that the impacts on fishermen are much less than the payments we're making to these various funds.

And the topic of vessel lanes and mandatory lanes is very, very stringently been controlled by the Coastal Commission.

Those are all the comments I have. Thank you.

CHAIRMAN MC CARTH: Thank you very much.

Now, is there anybody remaining in this audience -- it's been a long hearing. Is there anybody remaining that thinks that an outrage has been committed that they have to redress? If there isn't, does the staff have any summing up that it wants to do before the Commission takes the matter?

EXECUTIVE OFFICER WARREN: Just a brief few comments on process. There were some references to staff's compliance with the Environmental Quality Act and with a number of cited statutes. And insofar as the leases are concerned, we've been aware of those contentions. Staff has carefully reviewed them and is content that the issue is properly before you and in compliance with CEQA and all statutory sections relating to -- or at least provisions. We are prepared to go into them, if you wish, but I did want to assure you that
we feel that the issue is procedurally and appropriately before you.

Insofar as the terminal is interim or permanent, it seems to me that the key question here is that the witnesses seem to be putting particular stress on the timing of a throughput and deficiency agreement. Many say that that agreement should be signed now before tankering can commence. The Coastal Commission has said, "Well, you can commence tankering, but you have to have a throughput and deficiency agreement signed by February 1, 1994, and if you don't by that time, then you stop tankering."

The question, I suppose, goes to the good faith of the parties. I can understand why some of those who've been dealing with this issue for as long as it has lasted and have met disappointments are not comfortable by waiting a period of 10 months in order to see to it that that way point can be established.

I do not find that unreasonable. And with the provision that it is clear and explicit that, if no throughput and deficiency agreement is signed by February 1, then tankering will stop and the further use of that terminal will be discontinued.

We will now within the tenure of this particular Commission whether or not there will be a throughput and
deficiency agreement, and whether or not tankering on an interim basis -- that is, until January 1, 1996 -- will be contemplated.

Insofar as the difference between the full pipeline -- so-called full pipeline option is concerned and the Coastal Commission's condition that designate 25,000 barrels per day through Pipeline 63 to Los Angeles, it occurs to me, in listening to the testimony, that the Coastal Commission's actions were a part of a process between it, the industry, and the administration, and could well have been the result of some compromise developed in the course of that process. And one can only speculate what consideration -- what benefit the Coastal Commission obtained by the designation of that 25,000 barrels per day minimum.

I would like to say, unfortunately, neither the existing pipelines nor this agency were participants in that facilitation process. I think because of that it was flawed, but we can only speculate whether or not the agreements reached as a result of that process would have been otherwise.

It should also be pointed out that, whereas, the environmental community and the County of Santa Barbara were part of that facilitation process, they did not agree to the results of that process. So, it was not
a unanimous -- it was not a consentual agreement.

The fact that we were not -- that we were
either overlooked or prohibited from participating in
that facilitation process only encourages me to urge that
in the event you go with the Option 3, that you authorize
us to put in the Coastal Commission's conditions
specifically in the lease.

When I was asked earlier, am I confident about
the actions of the Coastal Commission -- well, I had the
dubious honor of serving on that Commission for four
years and, therefore, I paused. I have more confidence --
frankly, I have more confidence in this Commission
on this issue than I do in the Coastal Commission. Its
members change rather quickly, and I think that these
matters should all -- should be reviewed if they're to
be reviewed again by this particular Commission.

That's all I have to say, Mr. Chairman.

CHAIRMAN MC CARTHY: The matter's before the
Commission.

COMMISSIONER DAVIS: I have just a couple
observations.

CHAIRMAN MC CARTHY: Commissioner Davis.

COMMISSIONER DAVIS: First of all, I find this
to be one of the more difficult decisions I've had to make
in public office. I'm on 62 boards and I make a lot of
decisions. I think Bob Klausner may have captured part of my dilemma, because we can't control what other Commissions do.

It's very clear to me that the original purpose in allowing this terminal was to -- the original condition was that oil be transported by pipeline. And, yes, we needed tanker facility, but it was really not designed to be used as anything but a backup or in emergency conditions.

And I have a little trouble thinking how we're going to get a throughput agreement in January or February when we can't have one yet. I mean, I would like to find a way to vote in favor of this. But I have to -- I need another sign of good faith. I need another miracle here. Why can't the proponents support either AB 591 or -- it just seems -- and why do they resist our efforts to codify the Coastal -- I mean to incorporate the Coastal Commission conditions? And I guess I have a little problem believing that come January 1, 1996, that there won't be tankers moving around. I guess I'm looking for a way to vote yes, but I'm not getting much help.

CHAIRMAN MC CARTHY: Well, has there been a specific objection to incorporating the Coastal Commission's conditions?
COMMISSIONER DAVIS: Yes.

CHAIRMAN MC CARTHY: All right. What was that objection?

MR. SHAMAS: Not by us.

EXECUTIVE OFFICER WARREN: Well, the applicant objected, as I understood their testimony, and I also believe the applicant represented that the producers also objected to our -- to the February 1, 1994 date and the January 1, '96.

Except our lease terminates on that date, so there's no big -- you know, there's no need to deal with that way point, but there is the need to deal with that February 1, 1994 way point.

And we would -- staff would urge that that be an express condition of the lease.

CHAIRMAN MC CARTHY: Do you have a problem with that, Mr. Shamas? Dan?

MR. SHAMAS: Now we've got a real attorney.

(Laughter.)

MR. KIRBY: I'm Stève Kirby, counsel for GTC. There's no objection to the February, '94 date in the lease, nor to the January '96 date in the lease. The objection was to having another level of review on the adequacy of the agreement. That was all.

COMMISSIONER BURTON: That's what I heard.
EXECUTIVE OFFICER WARREN: Well, that's an incidental responsibility to the date.

CHAIRMAN MC CARTHY: We covered that in the discussion, the 20-day limit we would impose --

MR. KIRBY: I think you've given a lot of comfort on that score.

CHAIRMAN MC CARTHY: All right. All right. Okay?

COMMISSIONER DAVIS: Okay.

CHAIRMAN MC CARTHY: So, one of the two issues you raised is addressed. Mr. Warren suggests that those dates be specifically included and they will be included without objection by the members of the Commission.

COMMISSIONER BURTON: That's fine. I was the one who raised the question about our review, which I still consider to be redundant, our review of the T & D agreements. It seems to me that one State agency reviewing T & D agreements should be sufficient, and having the Coastal Commission staff do that is fine.

EXECUTIVE OFFICER WARREN: You would think so if one State agency worked and cooperated or involved another State agency. But as I just pointed out, on this particular issue, we were excluded from any of this participation, from participating in this process. So, our exclusion may continue in the future. That's my fear.
COMMISSIONER BURTON: I understand what you're saying, and my point remains. It may be just my point. I have concerns about what I consider to be redundant processes in government, and it seems to me that if the Coastal Commission has imposed on their staff a requirement that they determine that the T & D agreement is adequate and they've defined what adequate is, that they should be able to do that, and not have another State agency do the same thing.

Now, if --

CHAIRMAN MC CARTHY: Well, we're going to get a staff view on the point, and I think my sentiment on this, if it is material -- materially consistent with our purposes and views in the fulfillment of our responsibilities, that'll be satisfactory.

COMMISSIONER BURTON: Right. It seems to me the point of concern, to me, are the dates. And the dates are meaningful only in the fact that they show progress toward the objective of getting out of tankering completely.

CHAIRMAN MC CARTHY: I quite agree.

COMMISSIONER BURTON: And the details associated with how you get through those dates should not be the subject of dissension among the ranks among various staff agencies.

CHAIRMAN MC CARTHY: And I don't think we have to
be, Commissioner, if we get a copy of the T & D agreement promptly from the applicant and we get the opportunity to review that T & D and get word back to them as to whether it's our opinion that there is -- there are material differences between the intent we're expressing today in taking this action and what's in the T & D agreement.

I, at least, have made the argument that we're trying to get past redundancy wherever that's possible to reach the main objective of stopping oil tankering and putting it in the pipeline.

So, as one vote out of the three out here, I'm going to try very hard not to do things that get in the way of that objective.

On the other hand, we're trying to build good faith here. We've talked about lawsuits and about other things, and I think maybe we call need to take a few steps here that help build that chemistry of good faith.

COMMISSIONER DAVIS: Well, Mr. Chairman, what about the lawsuit against the Coastal Commission? Why do you guys need this lawsuit against the Coastal Commission? It's not been satisfactorily explained to me and it casts doubt on this good faith issue.

MR. KIRBY: That was filed because the time
within which to file the lawsuit was running, and the companies asked for an extension from the Coastal Commission so they wouldn't have to file that lawsuit. We didn't know and don't know just yet what your Commission's going to do. You're the last piece in the puzzle. So, the lawsuit was filed as a protective measure. It has not been filed -- excuse me. It has not been served, and it will be dismissed if this compromise comes together the way everyone hopes it will.

CHAIRMAN MC CARthy: I haven't read the lawsuit. I'm not, at this point, interested in the lawsuit, because I don't want it to affect my judgment on the issue before us.

I am driven by the central point of whether we go away from oil tankering to a pipeline, and what we need to do to get there. Now, we have -- we have other bites of the apple here that we can take if this gets ugly in some way. But we don't need to talk like that, because we're trying to build a positive chemistry with good faith. We're trying to forget whoever's to blame or not to blame for the sequence of events over the past decade.

We're trying to look where we are today and see how we get in the time frame we've outlined here into pipeline construction or expansion and utilization. That's
where we want to be. So, you can make your judgments and understand that, if there are lawsuits and other things, that obviously colors the view of the human beings that are part of the process. So, those are risks that you can accept on your own behalf.

Now, to get back to Commissioner Davis' point. I think we've addressed the issue of dates. --

EXECUTIVE OFFICER WARREN: Yes.
CHAIRMAN MC CARthy: -- being included.
EXECUTIVE OFFICER WARREN: I hope so.
CHAIRMAN MC CARthy: They'll be incorporated.
COMMISSIONER DAVIS: What about my other point about AB 591? Why are you opposed to supporting that bill where all it does is codify the Coastal Commission conditions?

MR. KIRBY: I can't speak to that subject.

MR. MIHALIK: Dan Mihalik again. Much of our objection was on the process. When a statute's enacted, like the Coastal Act, the Coastal Commission is given charge to look at permits like Point Arguello and come up with permit conditions. But I don't think there's ever been a case that anyone ever saw where somehow a permit condition that an agency came up with was -- an attempt was made to codify it. There just doesn't seem to be any need for it.
In addition to that, one of the objections that was raised by the Gaviota Terminal Company was that the proponents of that statute said they were trying to codify something the Coastal Commission did, but it was -- the statute clearly goes to shippers other than the Point Arguello Producers. It goes towards, for example, Exxon, who has not gone through the permitting process, in an attempt to codify something for them.

So, it was both the process that was going on and the fact it really wasn't codifying what the Coastal Commission did. It was doing more than that.

COMMISSIONER DAVIS: I don't understand why it was doing more than what the Coastal Commission did.

MR. MIHALIK: Well, for example, Exxon and any other shippers that might be out there, they haven't gone through the Coastal Commission and gotten a shipper's permit. This particular bill attempted to codify dates for future shippers. And there aren't any permit conditions for future shippers yet, at least from the Coastal Commission.

COMMISSIONER DAVIS: All right.

MR. MIHALIK: Thank you.

CHAIRMAN MCCARTHY: The matter's before the Commission. Do I have a motion?

COMMISSIONER BURTON: Let me back up first. And
after picking on staff, say thank you to them for what I consider to be an extremely well-presented document for us to work our way through, and to all the people who made presentations. I know this is a tough issue to prepare for. Some of us have been more involved than others in these matters, but I appreciate the thoughtful way in which you've approached this matter.

And I'd like to put before the Commission for its consideration that we adopt what's been listed as Option 3, with the understanding that all of the comments that we've been made be taken into consideration. And that is that the purpose of imposing the conditions that are also outlined in the pages that follow and the staff's recommended conditions, the purpose of taking this is to continue to show good faith efforts toward progress toward getting us away from tankering. And it is not our intention to make people jump through hoops just for the sake of jumping through hoops; that we will be thoughtful in the way we approach the implementation of these conditions.

So, with that, I move that we approve the lease as consistent with Item 3.

CHAIRMAN MC CARthy: Second?

COMMISSIONER DAVIS: I'm reluctant to second that. As I said, I would like to find a way to vote yes.
I have a feeling my vote is not necessary, but I just feel that there have to be other ways that we can achieve the certainty that a pipeline is going to be built. And I have a little trouble believing that come February, that those throughput agreements will be signed, or come January, 1996, that all tankering will stop. I have a lot of empathy for the companies. I think -- I have no quarrel with Chevron's safety record. I think they do an excellent job. Texaco's a first-rate company. And I wish I could control the whole process, because then I could say, we'll give you the pipeline in February, and you can tanker up to then, and I'd feel confident that there would be no slip between the mouth and the lip.

I can't second it.

CHAIRMAN MC CARTHY: I will second the motion and speak briefly to it. By my questions, I revealed what my thinking is on this. If we can stop oil tankering off the California Coast, I think we achieve a major environmental goal. There are doubts in many environmentalists' minds based on a ten-year history of whether this is really going to happen or not.

In addition, if a pipeline is going to be built, whether it's a significant expansion of Line 90 or if it's a new Pacific Pipeline, a lot of jobs are going to be created in a State which has 1.5 million unemployed people.
It's not very often in my history in California where I think you can achieve a major environmental goal and do a good hit for a lot of working people that are in fairly desperate shape right now.

I don't know if this is all going to come together or not. But I think we're moving in the right direction if we act on this motion, and I'm going to support it.

You want to abstain?

COMMISSIONER DAVIS: No. I'll be recorded as no on that.

COMMISSIONER BURTON: Okay.

CHAIRMAN MC CARTHY: Two aye votes, one no vote. The matter is concluded. Thank you all very much.

(Thereupon, the meeting was adjourned at 4:05 p.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 was reported in shorthand writing by me, and thereafter transcribed into typewriting.

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

IN WITNESS WHEREOF, I have hereunto set my hand this 29th day of May, 1993.

Nadine J. Parks
Shorthand Reporter

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