MEETING
STATE OF CALIFORNIA
STATE LANDS COMMISSION

--000--

LEGISLATIVE OFFICE BUILDING
1020 "N" STREET
SACRAMENTO, CALIFORNIA

--000--

TUESDAY, MARCH 8TH, 1994
1:37 P.M.

--000--

Doris M. Bailey, CSR. RPR
Certified Shorthand Reporter
License Number 8751
APPEARANCES

COMMITTEE MEMBERS:

Gray Davis, State Controller, Chairman
Leo T. McCarthy, Lieutenant Governor, Commissioner
Theresa Parker for Russell S. Gould,
   Director of Finance, Commissioner

STAFF MEMBERS PRESENT:

Charles Warren, Executive Officer
James F. Trout, Assistant Executive Officer
Alan Hager, Deputy Attorney General
Robert Hight, General Counsel
Proceedings

Call to Order 1

Confirmation of Minutes of Meeting of November 9, 1993 1

Consent Calendar, Items C01 through C87, with the Exception of C21, C33(c), C47, C60, C65, C81, and C86 2

Questions/Comments 2

Commission Action 2

Regular Calendar:

Agenda Item Number 88 - Pulled 2

Agenda Item Number 89 3

Questions/Comments 4

Commission Action 5

Agenda Item Number 90 5

Stephen Burrell, City Manager
Hermosa Beach 10

Don Macpherson, Jr., President
Macpherson Oil Company 14

Edward Lee, Assistant City Attorney
City of Hermosa Beach 23

Leonard W. Brock, Consultant 26

Jan Chatten-Brown, Attorney
Shute, Mihaly & Weinberger 29

Lisa Weil, Policy Director
American Oceans Campaign 44

Tom Morley, President
Hermosa Beach Stop Oil Coalition 46
<table>
<thead>
<tr>
<th>Name</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Roger Gorke, Policy Analyst</td>
<td>59</td>
</tr>
<tr>
<td>Heal the Bay</td>
<td></td>
</tr>
<tr>
<td>George Sacks, Resident, Hermosa Beach</td>
<td>60</td>
</tr>
<tr>
<td>Rosamond Fogg, Treasurer</td>
<td>62</td>
</tr>
<tr>
<td>Edward Lee, Assistant City Attorney</td>
<td>68</td>
</tr>
<tr>
<td>City of Hermosa Beach</td>
<td></td>
</tr>
<tr>
<td>Don Macpherson, Jr., President</td>
<td>76</td>
</tr>
<tr>
<td>Macpherson Oil Company</td>
<td></td>
</tr>
<tr>
<td>Jan Chatten-Brown, Attorney</td>
<td>80</td>
</tr>
<tr>
<td>Shute, Mihaly &amp; Weinberger</td>
<td></td>
</tr>
<tr>
<td>Questions/Comments</td>
<td>81</td>
</tr>
<tr>
<td>Commission Action</td>
<td>96</td>
</tr>
<tr>
<td>Agenda Item Number 91</td>
<td>97</td>
</tr>
<tr>
<td>Elizabeth Patterson</td>
<td>98</td>
</tr>
<tr>
<td>Senior Planner</td>
<td></td>
</tr>
<tr>
<td>Questions/Comments</td>
<td>98</td>
</tr>
<tr>
<td>Commission Action</td>
<td>99</td>
</tr>
<tr>
<td>Adjournment</td>
<td>100</td>
</tr>
<tr>
<td>Certificate of Certified Shorthand Reporter</td>
<td>101</td>
</tr>
</tbody>
</table>
CHAIRMAN DAVIS: Gavel this open session, the formal session of the Lands Commission into session. Welcome our colleagues. We're going to start the formal session of the Lands Commission. I've noted that all the Commissioners are present.

I guess the first item of business is the review and adoption of the minutes from our last meeting. Do I have a motion?

COMMISSIONER MCCARTHY: Moved.

CHAIRMAN DAVIS: All right. Without objection the minutes will be deemed adopted.

The next item before us is the consent calendar. Mr. Warren, would you like to make any comments about the consent calendar?

EXECUTIVE OFFICER WARREN: No, Mr. Chairman, consent calendar items are one through 87. Two speakers have asked to comment on consent calendar items. Mr. Pete Rabbon on item number ten and Mr. Corkill on item number 83, but I assume those requests are only if those items are removed from the consent calendar. But I know we recommend approval of the consent calendar.

CHAIRMAN DAVIS: All right. Governor McCarthy brings to my attention the items that have been removed from
the consent calendar. Correct me if I'm wrong.

EXECUTIVE OFFICER WARREN: All right.

CHAIRMAN DAVIS: The following items are removed from the consent calendar, C21, C33C, item number 60, consent item number 65, number 81, number 86, number 88, and number 47.

EXECUTIVE OFFICER WARREN: 88 is a regular calendar item which is to be removed.

CHAIRMAN DAVIS: All right. 88 is removed from the agenda.

EXECUTIVE OFFICER WARREN: Yes.

CHAIRMAN DAVIS: Okay.

EXECUTIVE OFFICER WARREN: But you have the numbers correct, yes, sir.

CHAIRMAN DAVIS: Do any of the members want to pull any of the items from the consent calendar? All right.

Is there any objection to the adoption of the consent calendar?

Do the two speakers have any objection if we adopt their item rather than pull it from the consent calendar and run the risk that we'll find some fault with it in light of your testimony?

Hearing no objection then the consent calendar is adopted.

88 has been -- can we keep it down, please? 88 has
Mr. Warren, would you speak to item 89?

EXECUTIVE OFFICER WARREN: Item 89, Mr. Chairman and Commissioners, is a non-controversial item but we thought it should be brought to your attention because of its significance. It would authorize the purchase of 10,000 acres in north San Pablo Bay known as the Cargill Salt Ponds. The purchasing parties would be the Wildlife Conservation Board, the Coastal Conservancy, the Shell Oil Spill Trustees, of whose number we are one, and the Kapiloff Land Bank Fund administered by the commission.

This item seeks approval for the executive officer to purchase up to 1,000 acres at no more than one million dollars. The item is submitted to you in that way because it is not known exactly what amount the Kapiloff Bank will contribute. Most recently we heard that perhaps we could, no more than 486,000 I believe would be required from Kapiloff. But in any event we, in the past we've indicated our willingness to recommend to you up to one million dollars, and so this item would ask for your approval to spend up to that amount in exchange for up to 1,000 acres of the 10,000-acre parcel.

CHAIRMAN DAVIS: Make sure I understand. The staff request is that we authorize up to a million dollars worth of capital funds should they be forthcoming for the stated
purchase?

EXECUTIVE OFFICER WARREN: The funds are available. We have the funds available. The question is how much will be necessary in order to supplement the funds from under, from other funding agencies. Wildlife Conservation Board I think is spending up to a million and a half, Coastal Conservancy a million, and the Shell Oil trustees six and a half million, for a total of ten million dollars at $1,000 an acre.

CHAIRMAN DAVIS: Do any of my colleagues have any questions?

ACTING COMMISSIONER PARKER: Mr. Chairman, I just have one question of Mr. Warren. If there's no contention about the amount of acreage that we're talking about -- is it 10,000 acres?

EXECUTIVE OFFICER WARREN: That's correct.

ACTING COMMISSIONER PARKER: So it's just a matter of how much funds are available from the other entities who are participating in this?

EXECUTIVE OFFICER WARREN: That's correct.

CHAIRMAN DAVIS: Therefore it's at least possible that we won't have to spend all of our million dollars.

EXECUTIVE OFFICER WARREN: That's correct.

CHAIRMAN DAVIS: All right. Does anyone in the audience want to speak in favor of the proposal?
Does anyone care to speak in opposition to it?

ACTING COMMISSIONER PARKER: I would move the staff recommendation.

CHAIRMAN DAVIS: All right. Do you second that?

Then the staff recommendation is adopted unanimously.

And I want to commend Mr. Warren who I know worked personally on this project diligently, and the entire staff.

EXECUTIVE OFFICER WARREN: Thank you.

CHAIRMAN DAVIS: These days it's not easy to put together that kind of public private funding.

EXECUTIVE OFFICER WARREN: This is a significant acquisition in my opinion.

CHAIRMAN DAVIS: Very good work. Now we go to item 90.

EXECUTIVE OFFICER WARREN: Item 90, Mr. Chairman and Commissioners, is a reconsideration of a proposal by the City of Hermosa Beach for leasing of offshore parcel for the purpose of oil development. It will be presented to you by Mr. Hager of the Attorney General's office.

CHAIRMAN DAVIS: Welcome.

DEPUTY ATTORNEY GENERAL HAGER: This matter has been before you before. It's a proposal by the City of Hermosa Beach to lease its granted tide and submerged lands for oil and gas development. These granted lands are within
a drilling sanctuary which encompasses Santa Monica Bay. And in order for the city to lease the lands it must receive approval of its leasing proposal from the Commission. And in order for the Commission to give that approval it must make several findings, three to be specific. It must find that oil is believed to be contained in the tidelands, that the oil is being drained from wells on adjacent lands, and that the leasing of the tidelands is in the best interest of the state.

In June of 1962, the Commission found that oil was believed to be contained in the tidelands and was being drained by wells on adjacent lands. It based this finding on an interpretation of the operative statute 6872 of the Public Resources Code that drainage can be a product of a reservoir pressure differential causing mass production of wells that are currently plugged and abandoned. That was the opinion advanced by the city and its lessees. All it did at that time was make a drainage finding. It did not move on to the issue of approval of the lease because at that time agreement had not been reached between the city and the staff regarding the adequacy of the environmental document and the sharing of the revenues that would be produced by the oil and gas development. When agreement on those issues was reached the matter came back to the Commission -- this was in April of '93.
At that time the issue before the Commission was approval of the lease. The Commission approved the lease making all of the three findings. One, that oil and gas is believed to be contained in the tidelands, it's being drained by wells on adjacent land, and leasing was in the best interest of the state.

Following that action a group of, several environmental groups composed primarily of residents of Hermosa Beach sued the Lands Commission. They brought a writ of mandate in Los Angeles Superior Court. Their challenge was successful. The court, however, made several different rulings.

One, it sustained the interpretation that the Commission made that drainage must, you can, you can have drainage even though there are not any actively producing wells. There are wells that had previously produced that, created a pressure differential within the reservoir.

It also found that there was substantial evidence supporting that finding, but where the court had a problem was that the court felt that the Commission's, in the Commission's decision it did not make adequate factual findings supporting its determination that leasing of the sanctuary lands was in the best interest of the state. And for this reason it granted the petition and remanded the matter back to the Commission to reconsider its decision.
The staff has prepared a rather lengthy calendar item that fully discusses the issues and the options available to the Commission. There are people here from both sides, both environmental groups and the city and its oil companies, and I think they all have quite a bit to say. If this is an appropriate time to let them speak or if you want more discussion from us.

CHAIRMAN DAVIS: Let me make sure we frame the issue. Is the whole matter before the Commission to no vote or are we only to deal with the third component, the third finding which is whether or not this is, real drilling is necessary in the best interest of the state.

DEPUTY ATTORNEY GENERAL HAGER: The former, the whole matter is before you. They know you can be guided by what the court said, but it is remanded to you to reconsider your decision, so yes, it's before you.

CHAIRMAN DAVIS: Mr. Warren, how do you suggest we proceed?

EXECUTIVE OFFICER WARREN: We have, you have before you, Mr. Chairman, attendance records of those who want to speak for the item and there are five such speakers, and the attendance record sheets before you are in order of their appearance.

There are six speakers who want to speak against the item, and the attendance record sheets are in order of
their request of the appearance they've requested. I suggest that each side be given a reasonable period of time.

CHAIRMAN DAVIS: Three or four minutes?

EXECUTIVE OFFICER WARREN: Well --

CHAIRMAN DAVIS: Five minutes?

GENERAL COUNSEL HIGHT: Maybe five --

EXECUTIVE OFFICER WARREN: Five minutes.

GENERAL COUNSEL HIGHT: -- per person.

CHAIRMAN DAVIS: Yeah.

EXECUTIVE OFFICER WARREN: Per person, that would be more, per person. I was a little hesitant. Three minutes per person would appear to me to be adequate, that would be a total of 15 to 20 minutes each side.

CHAIRMAN DAVIS: Okay. Would the staff care to make any other preparatory remarks or recommendations? You want to wait until the conclusion?

EXECUTIVE OFFICER WARREN: I think we prefer to await the conclusion of the testimony of the witnesses.

CHAIRMAN DAVIS: All right. Fine. The first witness in favor of the project is the city manager of Hermosa Beach, Stephen Burrell.

And I might add, as you come up, Mr. Burrell, if there's some way that the proponents as well as the opponents can decide amongst themselves which individual points they want to make so that each proponent doesn't say the same
thing as every other proponent and each opponent doesn't say
the same thing as every other opponent. This is the,
apparently this is the third or fourth time this matter has
been before the Commission.

EXECUTIVE OFFICER WARREN: Yes, sir.

CHAIRMAN DAVIS: Okay.

MR. BURRELL: Mr. Chairman and Lieutenant Governor,
this is actually the first time I've been before the
Commission so I'd like to introduce myself.

My name is Steve Burrell and I'm the city manager
of Hermosa Beach and I appreciate the opportunity to -- is
this on?

ASSISTANT EXECUTIVE OFFICER TROUT: You have to get
very close to it.

MR. BURRELL: That sounds better. Okay.

I appreciate the opportunity to address the
Commission today regarding the Superior Court's action to
send this matter back to you so the Commission may explicitly
state the best interest finding for the record and cite the
evidence supporting such a finding.

At this time I'd like to make a few, take a few
moments to review the history of the project which I think
sheds some light on why you're here today.

In 1919, the city received the grant of the state
of the tidelands submerged lands of the Santa Monica Bay that
were within the city limits.

In November of 1984, the voters of Hermosa Beach approved two exceptions to a prior prohibition of oil drilling that would allow drilling to take place in the city.

The first measure allowed oil drilling to take place in the tidelands from a site that the city owns at its maintenance yard. This is at the corner of Valley Drive and Sixth Street, approximately a half a mile inland from the shoreline.

Second measure allowed drilling on an upland only site, onshore site that was then owned by the Hermosa Beach School District commonly known as the South School site. This is about one block south of the maintenance yard.

In September of 1985, the city applied to the State Lands Commission for approval of the lease for the tidelands for exploration and production of oil and gas in order to offset the drainage cost by the Redondo Beach tideland wells.

In November of 1985, the Commission acknowledged receipt of the application, directed staff to work with the city on completing that application, and report back to the Commission as soon as possible.

The city advertised and solicited bids for oil and gas leaks of a city-owned onshore properties in June of 1986. GLG Energy, Windward Associates, and Macpherson Oil were the successful bidders.
And the city entered into a oil and gas lease with surface drilling where the operation was confined to the onshore city maintenance yard sites in October of 1986.

The city then began the process of preparing the Environmental Impact Report which lasted for several years. As part of the EIR process and as a mitigation measure, the project was consolidated from two sites to one. The South School site was dropped, and Macpherson Oil subsequently entered into a separate agreement with the School District so they would receive royalty from the oil drilling.

After numerous public hearings, extensive public input, the City Council certified the final EIR on May 8, 1990, and in an accompanying statement of overriding considerations, subject to Commission approval, the City of Hermosa and Macpherson Oil entered into a tidelands lease January 14th, 1992.

On June 30th, 1992, the Commission found that the tidelands were being drained pursuant to the Public Resources Code. On April 28, 1993, the Commission approved the oil and, oil -- excuse me, oil and gas lease between the city and Macpherson Oil, the final EIR, the accompanying statement of overriding concerns, and the Memorandum Of Understanding between the city and the Commission staff stating their agreements to project-related matters of interest and concern to the Commission and the state.
As was mentioned earlier, Hermosa Beach Stop Oil Coalition and others commenced an action for writ of mandate on August 17th, 1993, challenging the Commission's 1992 drainage finding and its approval of the tidelands lease.

The Superior Court has now sent this matter back to the Commission to explicitly state for the record that the proposed lease would be in the best interest of the state.

As the transcript of the June 30th, 1992 public meeting reveals, there was substantial evidence presented to support a finding that the proposed lease would indeed be in the state's best interest. There was testimony offered that the project would potentially produce 30 million barrels of oil over a 20-year period. And one, will generate revenue for the City of Hermosa Beach School District, State of California.

And two, decrease the state's reliance on imported oil from other states and nations.

And three, create jobs.

And four, provide additional and better open space facilities available to all Californians.

CHAIRMAN DAVIS: You're down to about a minute, Mr. Burrell.

MR. BURRELL: I'm timed perfectly. The city requests, respectfully requests that the Commission reaffirm its prior finding of June 30th, 1992, and explicitly state
the finding that the proposed lease is in the state's
interest along with the evidence of supporting such a
finding.

That concludes my remarks.

I would like to next introduce Don Macpherson.

He's the lessee with the city.

CHAIRMAN DAVIS: Okay. Mr. Macpherson, you want to
speak next?

MR. MACPHERSON: Please.

CHAIRMAN DAVIS: We have Mel Wright next in line, but if Mr. Wright doesn't mind.

MR. MACPHERSON: Thank you, Commissioners, for the
opportunity to speak.

As previously stated, there's been two votes in
Hermosa Beach of the people. Both overwhelmingly approved
oil and gas development from the Hermosa Beach city yard.

CHAIRMAN DAVIS: Just a little stickler for detail
here. The second one didn't put the issue of drilling again, did it? The issue was just how the royalties would be
divided?

MR. MACPHERSON: No, the second one was how the
revenue, what would be done with the revenue to buy parks and
open spaces. Specifically the vote was to buy parks and open
space which was the decision of the public with the revenue
from the oil.
CHAIRMAN DAVIS: Okay.

MR. MACPHERSON: With that vote the next step for the city was to prepare a Request For Proposal. Before doing so the city went to the State Lands Commission to conclude what it would, what steps were necessary to lease the granted title. The State Lands Commission stated they had to make three findings; that there was oil, that there was drainage, and that it was in the best interest of the state.

The city submitted drainage data to the State Lands Commission staff. And at that time the staff stated that there was sufficient evidence to make the drainage finding.

The next step for the city was to adopt a oil code. The city went through a series of public hearings which ultimately did adopt an oil code which permitted oil drilling in the city yard.

The next step was for the city to prepare a Request For Proposal. The city did go out on a competitive basis for bids to develop the city yard. Part of the bid included the obligation for the bidding company to pay for the cost of an Environmental Impact Report necessary to obtain approval of the tidelands lease. Macpherson Oil Company and GLG were the successful bidders.

The next step was an Environmental Impact Report. Over a series of public hearings, both in the Planning Commission and City Council, the Environmental Impact Report
was ultimately certified by the City Council as being accurate and adequate.

The Environmental Impact Report identifies the environmental impacts of the project, and then it makes recommended mitigation measures to mitigate those impacts.

Those mitigation measures were then made a part of the conditional use permit with the city. Conditional use permit was adopted in 1993 after a series of public hearings. There were 108 conditions in that conditional use permit.

In that process there's been a total of 11 public hearings on this process. In addition to that there's been four public hearings here at the State Lands Commission, including this hearing today.

As far as the project is concerned, Macpherson Oil Company has conducted engineering and geologic studies to determine how much recoverable oil there may be in Hermosa Beach. These studies include seismic studies, horizontal drilling, technology studies. And the one thing we can say about Hermosa Beach is the geology is only as good as the information.

Here in Hermosa Beach we are fortunate that we have 60 wells right next door in Redondo Beach. We have several wells in Hermosa Beach that were drilled before the original prohibition. There were several portholes drilled offshore plus there was seismic data. With all that information we
were able to come up with our estimated recoverable reserves which totals up to 30 million barrels.

Now we've made estimates of how much revenue the city would receive based on their royalty ship -- city, state, and public.

CHAIRMAN DAVIS: Is there any revenue at all for the state?

MR. MACPHERSON: I believe that there is revenue that benefits the state, yes.

GENERAL COUNSEL HIGHT: There will be no revenue coming to the state general fund, no revenue -- the only revenue to the state will be through income tax and the like.

MR. MACPHERSON: We've prepared estimates and we've recently prepared estimates based on current oil prices. Oil prices as you may know vacillate up and down, but we've taken the last five-year average oil price for this particular oil. The last five-year average was $14.60 a barrel.

Assuming $14.25 a barrel and assuming 27 million barrels of oil recovery, the total revenue to the public would be $104 million, of which the city would be entitled to 71 million; the school would be entitled to roughly five million; and the public land owners, 28 million.

If you -- that's based on current oil price based on the last five-year average and an inflation factor of four percent. If you assume oil prices did not increase at all.
just take $14, and did not escalate at all over the life of the project which is 20 years, there would still be total revenue to the public of $78 million.

Clearly this project brings revenue to the city. It's a good project to the city. It's a good project to the public. And it's a good project to Macpherson Oil Company.

The city has safeguarded itself by providing a minimum royalty requirement of $500,000 a year regardless of what the oil prices are or what the oil quantities are. At current prices we will develop this project. It's a good project and we plan to develop it at current prices. There is up side on lower prices related to the Alaskan North Slope issue which is currently being discussed in Washington D.C., and if Alaskan North Slope is released from its current ban there could be an increase in California oil prices somewhere between $3 and $5 a barrel based on recent studies. To date Macpherson Oil Company has spent two and a half million dollars on this project and we, as I said earlier, it's a good project. The benefits to the city and state --

CHAIRMAN DAVIS: You're down to your last minute.

I'm just trying to be a good timekeeper.

MR. MACPHERSON: Okay. I'll hurry along here. Let me just speak to the drainage issue then if I may.

Apart from a definitional question which has been laid to rest, there's been no difference of opinion on the
issue of drainage. There have been several studies made in
the past, and I have copies of those studies here which I
believe are all part of your administrative record.

In January, 1977, in a report prepared by the State
Lands Commission's division, which was a joint effort between
the State Lands Commission and the City of Hermosa Beach,
prepared by registered geologist Paul -- Robert Paul,
registered geologist John Cothunter, and registered engineer
Ragi Shaki. They stated,

"The upper main zone, the extension
of oil saturation reservoir conditions
into the City of Hermosa Beach granted
lands and drainage of same by boundary
wells is logical."

Number two, in the lower main zone, significant
accumulated oil production from border wells completed in
this zone, compared with interior lease production wells that
suggest that the existence of drainage of larger areas than
the leased lands, including the City of Hermosa Beach granted
lands in a report prepared on July, 1985 by Robert Hacker for
the City of Hermosa Beach.

Robert Hacker stated, quote,

"All the evidence presented in this
report establishes that not only has
there been drainage from Hermosa Beach to
Redondo Beach in the past, but it is currently ongoing and will continue in the future."

On March 19th, 1986 in a letter from the State Lands Commission executive officer Claire Dietrich to the Hermosa Beach council member Gary Brut, she stated,

"Further, since our meeting of December 3rd, the drainage question has been re-examined and detailed by our engineering and geologic staff who believe drainage is taking place."

On March 20th, 1986, in a letter from State Lands Commission supervising mineral resource engineer, Al Willard, to the City of Hermosa Beach manager Greg Meyer he stated, quote,

"That the geologic and engineering staff of Commission has completed a analysis of production characteristics of wells completed in the adjacent Redondo Beach tidelands. The staff has concluded that there is sufficient evidence to support the drainage finding."

In February of 1992, a report prepared by Leonard Brock and Mel Wright for the City of Hermosa Beach. They state, quote,
"It is our strong professional opinion that continued drainage of the Hermosa Beach tidelands tract is presently taking place. Such drainage will continue until the pressure depletion caused by 34 years of offset production resulting in five million barrels of oil has been stabilized."

There's never been a question of drainage over the past 18 years and nothing has changed the facts on that issue.

On the issue of the best interest of the state, this project will create 342 high paying jobs. In addition, it will allow the recovery of commercially valuable oil which would otherwise be permanently lost.

The economic benefit includes tax revenue to the state. And that revenue is in the form of state tax, sales tax, and property tax.

Furthermore, it will reduce the state's dependence on imported oil from other states and countries.

CHAIRMAN DAVIS: I'm going to have to ask you to wrap up here.

MR. MACPHERSON: Okay. I'll just wrap up by saying that last year in April, 1993, the State Lands Commission approved the tidelands lease. And when they approved, when
this Commission approved it at that time it was my opinion that the Commission did so because they believed that it was in the best interest of the state. And I suggest to you that nothing has changed. It currently is in the best interest of the state, as it was then, and we respectfully request that you approve the tidelands lease and conclude that it is in the best interest of the state. Thank you very much.

CHAIRMAN DAVIS: Thank you, sir.

MR. MACPHERSON: I do have for the record copies of these I'd be happy to give to you.

CHAIRMAN DAVIS: All right. We skipped over Mel Wright.

MR. LEE: Excuse me. Mr. Chair, we had set an order in which the city was going to make its presentation.

My name is Edward Lee. I am actually going to be the next to make the presentation on that.

CHAIRMAN DAVIS: What happened to poor Mel Wright? Did he die or what happened?

MR. LEE: He's right here.

MR. WRIGHT: Put me on the bottom of the pile, please.

CHAIRMAN DAVIS: All right. Number two.

MR. LEE: Thank you, Mr. Chairman.

CHAIRMAN DAVIS: State your name for the record, please.
MR. LEE: My name is Edward Lee. I am with Oliver, Barr and Vose. I'm assistant city attorney for the City of Hermosa Beach.

CHAIRMAN DAVIS: Welcome.

MR. LEE: And I'm here today before you primarily just to emphasize again the legal context in which the city finds itself before the Commission again.

We have asserted and we continue to assert that in fact this body made its finding of the best interests in the State of California in April of 1993. The Superior Court has sent it back to this body simply because you failed to say the magic words and that wasn't part, that was the basis for the court's remand of this matter back to you. That court upheld the legal foundation for your findings with respect to the existence of oil and the existence of drainage.

I have a copy of that court order to submit to you, and for your review. You can see exactly the language of the court. I think it's fairly clear that the court has only asked that you make that finding and essentially say the magic words and allow us to proceed with a decade worth of effort on the part of the city to try and get oil drilling in place as approved by a vote of the people of the City of Hermosa Beach.

The, there are a number of issues that have been raised by staff with respect to environmental issues. It's
our contention that there have been no new environmental issues raised, either in the several public hearings that the city has conducted on this matter, in light of the various permits that have had to be issued. In point of fact, the city has imposed 108 conditions under its conditional use permit to allow oil drilling as already noted. The environmental concerns of this body, the Commission, were addressed in a Memorandum Of Understanding which was executed between the city and the state in April of 1993.

In point of fact, if environmental concerns are true then that is an issue that's going to be decided by a court within the near future as there has been a subsequent writ action filed against the city to contest the adequacy of our environmental findings and actions.

We again are simply here to ask you to restate your decision that was made in April of 1993. Along those lines I have with me and would like to present to the Commission a proposed draft resolution which would say the magic words, and if I can submit that to you. I would note that a copy of this draft resolution had been submitted to your staff earlier and I present it to you again.

Notwithstanding the scope of the court order, staff continues to raise the issue of drainage which we believe you've already made a finding of. In that respect the city has brought with us and asked that to attend this
Commission's meeting, the city's consultants on oil. Mr. Leonard Brock and Mr. Mel Wright, the infamous Mr. Mel Wright, are both here in the audience to present testimony. They both have extensive expertise in the oil industry. They are here and available to answer any technical questions that you may have if you wish to reopen that issue, which we would hope you would not.

And at this point, Mr. Brock -- I would turn this microphone over to Mr. Brock who will make some preliminary comments and then again be available to answer any technical questions you may have on this issue. Thank you.

CHAIRMAN DAVIS: I just --

MR. LEE: Yes.

CHAIRMAN DAVIS: I just have one question. As I read this order from Judge Wayne, it basically says that we need, as you suggested, to make an explicit finding that the proposed ruling is in the best interest of the state, or to vacate and set aside or revoke our action of 1993.

So our, as Attorney General's representative has stated, our charge here is a little broader than just simply adding the magic words.

MR. LEE: We're asking you to consider the equities and fairness here, that in fact the city has been back before you several times over the last decade asking for approval of this oil and gas lease, and that in point of fact we believe
that the Commission made its' finding, all of those three
findings as required by the Public Resources Code in April of
1993, and the only reason why we're back here is because you
didn't say the magic words.

CHAIRMAN DAVIS: I'm not insensitive to that but
the order did not say that.

MR. LEE: I understand.

CHAIRMAN DAVIS: Are there any questions? Yes, sir.

MR. BROCK: I am Leonard Brock, and unlike Steve,
the city manager, I have been in before. I believe the first
time Glen Anderson was sitting here, Alan Cranston was
sitting there, and Hale Champion was on the end.

CHAIRMAN DAVIS: I hope you weren't here on this
issue.

MR. BROCK: Anyway, I think that this drainage
issue has been really beaten to death. Our report was
misinterpreted by the State Lands' staff. We did not base
our opinion that the high pressures in Hermosa were
projections of the Stinnett wells. We knew that under
original conditions the Hermosa Beach properties were at
hydrostatic pressures.

The first pressures taken in the wells drilled were
at hydrostatic. All of these reports from the geology shows
that these reservoirs that we're producing on Redondo
extended under Hermosa Beach. I don't think there's any,
anyone that has contested that. I believe that probably the
one statement by the state that there was no drainage because
there was no evidence, no credible evidence of commercial
quantities of oil migrating.

First of all, I don't believe that there, that is
necessary, but I do also believe it's incorrect. I believe
that with the high pressures that existed on the Hermosa
Beach that there was extensive oil migrating and is still
migrating to the lower pressure areas, the known lower
pressure areas in Redondo Beach.

When you say credible, the State staff indicated
that you must have a well drilled into an area to know what
is there, or to be credible about what is there. If that had
been the case, we probably wouldn't have any oil in the
United States now. Almost every time, with the exception of
lives, structural or seismic blaze have been by wildcat
drillers drilling into areas there was no wells before.

Also to say that it's credible to think that
there's extensive oil production under Hermosa is the fact
that we have all of these geologic studies. We have a
seismic study that indicates there are highs under Hermosa
Beach.

I believe that the fact that a small producer is
willing to expend large sums of money to prove what he thinks
is there, I think that's credible evidence that there's a good possibility that there's oil there.

In addition to this let me say, I believe it's possible that there are commercial, extensive oil in the extensions of the current production under Redondo Beach. I believe there's a possibility that these reservoirs that are known to extend under Hermosa Beach could possibly have false or permeability barriers that will allow additional production from those same reservoirs. I believe there's the possibility that there's oil that exists deeper and in other formations that do not exist in Redondo Beach.

I think with all of those things you have to say that it's credible to think that there is additional oil to be recovered under Hermosa Beach.

We have reviewed Macpherson's Oil Company's estimates and projections of revenue and oil recovery. We find that, that they are based on realistic assumptions, and we think it's very possible that there is a large commercial oil field under Hermosa Beach.

CHAIRMAN DAVIS: Any questions by the members?

Thank you, Mr. Brock.

CHAIRMAN DAVIS: Now, Mr. Wright.

MR. WRIGHT: Mr. Brock stated most all we wanted to say. Can I just pass and say something later if I want to or do I pass out?
CHAIRMAN DAVIS: Well you certainly don't pass out. Do you have anything else to add to the Commission's deliberations, Mr. Wright?

MR. WRIGHT: Not at this point, Mr. Davis. Thank you.

CHAIRMAN DAVIS: I'm not guaranteeing you have rebuttal rights, but I appreciate in the interest of time you foregoing your opportunity to speak. All right. That concludes the people who have signed up to speak on behalf of this project.

Does anyone else from the audience care to come forward to speak on behalf of the proposed project? All right. Then let's move to the opponents.

In the order given to me -- and I would again encourage the opponents to try and make differing points during their testimony, the first is Jan Chatten-Brown.

MS. CHATTEN-BROWN: Thank you, Commissioners. We have coordinated amongst the various opponents to the project and will try to be as succinct as possible. I would ask the forebearance of the Commissioners in terms of, to give us some leeway on time. We'll try to be as concise as possible but quite a number of people came a long distance because there is a tremendous environmental issue here.

And I am, as indicated, Jan Chatten-Brown with the law firm Shute, Mihaly and Weinberger here representing both...
a community group, Hermosa Beach Stop Oil Coalition; and
two environmental groups, American Oceans Campaign, and
Lisa Weil from the campaign is also here; Heal the Bay, Roger
Gorky will be speaking; and Terry Tamminen from the Santa
Monica BayKeeper sent a letter but was not able to be present
because of a previous commitment. Three members of the
Hermosa Beach Stop Oil Coalition will also address specific
issues as referenced on my materials.

I do want to underscore a slight difference in an
interpretation from Mr. Lee. I was looking for the
transcript from the hearing but in fact the judge made it
very clear, first of all, that on the issue of drainage the
action of the Commission quote, "Is not clearly erroneous or
unauthorized."

That was the question of whether or not you could
have drainage when there was simply migration without any
actual extraction of oil. She did not say, except that it
was in the caption on the, on the tenative ruling that it was
quote "correct." She also made it very clear that you were
free to consider the drainage issues.

CHAIRMAN DAVIS: She said as long as we didn't
abuse our discretion making that finding.

MS. CHATTEN-BROWN: Correct. Correct. At the
hearing back in June of 1992, Commissioner McCarthy
specifically asked the staff whether there was environmental
impacts and was told that they were minimal. I'm delighted that the staff has reassessed their position. In fact, this is a, this project would result in very substantial adverse environmental impacts.

And I would like to just start, since it wasn't possible for you to come down to Hermosa Beach I would like to start by attempting to put -- if I can find it and Tom Morley will help me out, the current president of the Hermosa Beach Stop Oil Coalition.

I'm going to show you a diagram of the area --

CHAIRMAN DAVIS: Can I just interrupt you for a second? What I'm going to do is hold the proponents to the same total so that's six proponents for five minutes, so you get 30 minutes.

MS. CHATTEN-BROWN: Right. Thank you. I appreciate that.

CHAIRMAN DAVIS: If you speak 29 minutes and they speak a minute, that's fine.

MS. CHATTEN-BROWN: They have definitely more to say than that but I think some of them can be substantially under the five minutes so hopefully we'll do that.

Just to show you first of all. This is the proposed, this is the single site. Here is obviously the ocean. Herondo Street is the, is the junction of Hermosa Beach and Redondo Beach. Redondo Beach has some industrial
development. That's the Southern California Edison plant.
Hermosa Beach is almost exclusively residential. There is
some light industrial immediately adjacent to the, to the
site which is right up here.

This is the property, the school site that had been
discussed originally for a tank farm. It had been considered
in the Environmental Impact Report. It has since been
acquired by the city as open space. It is being developed
this very summer for park space.

Immediately across the street from the site there
is the greenbelt of Hermosa Beach. It was acquisition of
this property that caused the citizens in 1984 to grant the
exception from the prohibition on oil drilling in order to
generate the funds to acquire those properties. Since then
those properties have all been acquired from other sources.

The, to give you a little bit more feel for the
property, this is the greenbelt area and we'll pass these
around. This photograph is actually a picture of, people use
the greenbelt for jogging, various recreational activities.
This is a picture from the sidewalk right in front of the
site. And you can see that homes, this is a densely
developed area, residential area. There are as many as
three --

CHAIRMAN DAVIS: But in fairness, the proposed site
is zoned for industrial purposes.
MS. CHATTEN-BROWN: Yes, it is, but the adjacent properties are all very light industrial. There is no heavy industry in the City of Hermosa Beach. There's just commercial, light industrial, silk screening, Body Glove.

And this is a photograph actually looking at the site. The city maintenance yard is there now. This would be the view with a 135 foot derrick looking toward the ocean from the homes on the hill above. This is in the bottom of a natural gully. There's sand dunes now covered with homes to the west of it. There are homes to the east of it and all of them look down. This forms a natural kind of amphitheater in terms of noise. Visually the people that have homes to the east will have their view toward the ocean now pierced by 135 foot derrick which is about five stories high.

COMMISSIONER MCCARTHY: May I make a comment, please?

MS. CHATTEN-BROWN: Uh-huh.

COMMISSIONER MCCARTHY: It would be very helpful if you and the other witnesses understood the role of the State Lands Commission in a matter like this before us.

We do not sit as the City Planning Commission. We are trying to fulfill the requirements of state law directing this Commission to protect certain public interests.

We could be totally sympathetic toward every point that you're making regarding the view, regarding the, you
know, the impairment of the general area because of this rather than an additional residential development.

If there is a history of the City of Hermosa Beach having explored these issues and having made a finding at the local level you're free to raise these points, but I think perhaps you hit on what we have to look to under state law.

Now it's different offshore because that's under state jurisdiction and we have been very restrictive in not allowing a lot of offshore oil drilling to the dismay of many people in the industry. When it's onshore and within a political subdivision that under state law is given authority to make certain decisions that's made there, and when this gets to us we then have to base our decisions on the role of the State Lands Commission. I just want you to appreciate that.

MS. CHATTEN-BROWN: I do appreciate that but certainly --

COMMISSIONER MCCARTHY: We can't substitute our judgment --

MS. CHATTEN-BROWN: I understand that and we do have a separate --

COMMISSIONER MCCARTHY: -- even if we disagree with it.

MS. CHATTEN-BROWN: And we do have a separate lawsuit involving the California Environmental Quality Act.
But on the question of what is in the state's interest, the judge, without any briefing on this issue had stated, you know, if you're going to consider the environmental impact you're really talking about the balance. If there are adverse environmental impacts and, as we believe there are, no significant economic benefits. In fact, there may be no economic benefits.

I mean, we will address the issue of drainage. We have a petroleum geologist that reviewed this and we do concur with the staff on that issue, but I wanted to make it very clear we're not talking about a project that has minimal environmental impacts. This has very significant environmental impacts both to the immediate community and of great concern to Santa Monica Bay, because once you lift the oil and gas sanctuary for one location that can be the domino because you do that, and if they found oil, which we doubt, but then the adjacent jurisdictions to them would then come back to you with the same request. It really makes the oil and gas sanctuary meaningless in our opinion if you can base a finding of drainage upon past drilling, many years in the past.

CHAIRMAN DAVITS: Perhaps keep in mind that this is a granted, these lands are granted to the city without any mineral reservation. That is not always the case up and down the coast. That's why we get no revenues.
MS. CHATTEN-BROWN: Correct. Yes. No, I do understand that, but of course I'm going to get to the finding of drainage. I just wanted to point out that a well that has been managed by the city on this site for years, the Stinnett well and which was abandoned recently, and this is in Terry Tamminen's letter, Appendix A -- and I did tab these for the Commission, talks about how he went and discovered that the hundred gallons of petroleum were leaking from this old capped well. It was capped. It wasn't capped at that time. I'm sorry.

A hundred gallons, even though it wasn't in operation the city failed to clean it up until they made, the Santa Monica BayKeeper made a public issue of this.

The City of Hermosa Beach is also being sued by the Natural Resources Defense Counsel for failure to comply with provisions of the Clean Water Act. So we don't have great confidence in terms of their oversight of an operation as difficult as this. We're talking about --

CHAIRMAN DAVIS: You have, just for the record, about ten minutes into the presentation.

COMMISSIONER MCCARTHY: We'll deduct time for questioning.

MS. CHATTEN-BROWN: Thank you. Thank you. Here's the diagram, the site plans. When I say this project is being shoe-horned on to a little more than an acre, that's
very clear from this diagram which shows these five tanks, which can be 16 feet high and 40 feet across, in close proximity with the wells and in violation of both the State Fire Code, and that is included as Appendix -- things are getting out of order here, Appendix B, the State Fire Code, and the Public Resources Code, provisions under the division of oil and gas regarding well spacing. So I would urge you additionally not to issue a, approve a lease where the specific plans for implementation of that lease are in violation of State Fire Code.

One of the environmental impacts that we feel has not, was not adequately addressed initially and certainly now needs to be re-addressed, is the issue of earthquake hazards. And we have a declaration from Dr. David Jackson who's on the National Academy of Sciences. He is a respected geophysicist, teaches at UCLA. He is on the California Earthquake Prediction Evaluation Council.

And he said that the reinjection of water into this site, well the reinjection of water into any site will increase the likelihood of risk of earthquakes based upon an L.A. Times article and other studies that have come out recently about the fact that Northridge has increased the risk of earthquakes in our basin.

I think that anything that would further increase that risk should be seriously questioned.
CHAIRMAN DAVIS: Could I just interrupt you for a second?

MS. CHATTEN-BROWN: Uh-huh.

CHAIRMAN DAVIS: You're an enormously well respected environmental attorney but just reflect on what you just said. We had the Northridge earthquake so now does that mean there should be no drilling in Southern California?

MS. CHATTEN-BROWN: No, I'm not saying that, but in Southern California there are studies that indicate it is a more perilous venture now because of a certain instability. We don't believe the EIR initially, properly considered that issue of earthquakes. They've never had the preparation of the Emergency Response Plan, the Hazard Mitigation Plan. Many of the other plans for this site had been promised, the subsidence study, for example. There's issues about liquefaction. I am saying not that we should never have oil drilling, you know, but really, perhaps one of the earlier witnesses said it best when talking about wildcatting. What we're saying is wildcatting is not appropriate in the midst of a residential neighborhood.

Macpherson Oil drilling has no experience in urban oil development. Frankly, I'd feel a little more comfortable if you were talking about somebody with a great deal of experience in this kind of development to put this kind of a project -- not saying there should be no oil drilling.
I, we are very concerned about the impact upon the oil and gas sanctuary in the bay. Pipelines will go into the bay but could rupture in case of an earthquake. We're saying on the earthquake issue it wasn't properly considered by the city initially and now there's new information. They didn't talk about water reinjection at the time of the EIR. That was raised, that was proposed subsequently because they were concerned about the tidelands so they said, "Okay, then we'll have water reinjection." The problem with that is there are studies that indicate that that increases the likelihood of earthquakes.

I really urge you to look at the declaration of Dr. Jackson. He talks about two specific studies where when water was reinjected into a site they had a series of earthquakes.

CHAIRMAN DAVIS: Just again, in Long Beach, Mr. Warren, don't we have, aren't there a great number of wells that currently function in Long Beach as a result of water injection?

GENERAL COUNSEL HIGHT: There's probably in excess of 2,000 wells in Long Beach.

MS. CHATTEN-BROWN: I'm not saying, there is the Newport fault that goes very close. We didn't bring in maps of all the faults, but there are several faults very close to this site. I'm not familiar with the faults down in Long
Beach. I'm just saying it's an issue.

I, probably because I don't want to use everybody else's time, should focus on the issue of drainage which we really think is critical to this project anyway. We don't believe that this is in the interest of the state for environmental and economic reasons. But I want to focus for a few minutes on the issue of drainage because the various reports that have been submitted -- and first I should say we concur with the analysis of the Commission staff. Even if there was drainage in the past, which is questionable, there is not drainage today.

First, we think, and the letter presented by our petroleum geologist who again is, I think has impeccable credentials. He teaches petroleum geology at UCLA. He is Exhibit H of the documents. He serves on the State Board for Registration of Geologists, etcetera.

He examines and it goes through, and again I would urge you to read this because I'm not going to have time to go through each of the points, but he examines the issue of drainage and concludes, and this is the most relevant portion based upon the maps, division of oil and gas maps which he looked at which do not show the reservoir extending significantly into Hermosa Beach, just a tiny, tiny portion that goes into it all, reviewed the production data from the Redondo Beach wells which were well over 96 percent water
before they were shut down.

I mean, this is why Redondo Beach shut down their wells, because they were producing water. And those are the only wells, if in fact this is one reservoir which is the only way you could approve a finding of drainage then the, as Mr. Hallinger says -- it's very difficult to again get a flow of oil once you've gotten that kind of quantity of water. His point is stated on the fourth page of his letters,

"That they're located such that it is possible that they did in fact --"

This is the wells directly offsetting the Hermosa Beach tidelands,

"-- did in fact drain some portion of oil from under the Hermosa Beach tidelands. This has not been conclusively proven by the studies reviewed for the report. Nonetheless, that drainage, if it did occur, essentially stopped with the cessation of production of those wells. In fact, the characteristics of last production of those wells is such as to prevent the re-establishment of any channel of drainage in the future.

"I therefore must conclude that
there is no credible evidence of current
drainage from the Hermosa Beach
tidelands."

I would also point out that of the various reports
prepared by Hester and Hacker, those were in 1984 and 1986,
even then Hacker said quote, "It's doubtful that much
drainage is occurring." That's back in 1984. The city's own
experts in, in the Hester report he said, and I put the page
numbers and the exact quote in my materials, quote, "Creating
only slight if any drainage." The city's own experts. And
then you have the statement of our expert.

Also, I would bring to your attention that Mr.
Barker who submitted a letter, I know he's not here today,
but submitted a letter, a technical letter in support of the
reports of Merrill Wright and Brock previously, is a limited
partner in this project, and I would ask you to count his
previous testimony.

I have a whole entire section on why we believe
that the Macpherson estimates are economic projections, are
unrealistic, and one of the other witnesses, Tom Morley, is
going to cover that.

What I really want to say is the economic benefits,
if any, are minimal. There are issues of diminishment of
property values that will be addressed by another witness.
There is the loss of the recreational values, the open space,
the park that's one block away, the greenbelt which is immediately adjacent, across the street from this property. There is the loss to the community of a real sense. The type of community this is as well as the risk of opening Santa Monica Bay to repeated tideland oil development. And both Commissioner McCarthy and Commissioner Davis I know were extensively involved in offshore oil drilling issues in the past.

And one of the reasons for the federal sanctuary was that this state had a sanctuary. If that sanctuary is violated, I think somewhere down the road we may have the specter, face the specter of offshore rigs.

We don't believe that the economic benefits offset the significant environmental impacts. The risk of additional liability to the city -- and by the way I should mention that the city's lease provides that portions of the royalty go into the Emergency Trust Fund. I question whether that's an appropriate use, the uses of the Trust Fund are supposed to be for beach pier protection, etcetera, etcetera, something else that this staff might want to look at.

Anyway, I am going to just close in strongly urging you to disapprove this lease for all of the reasons that are listed and ask Lisa Weil to come up.

And I'm sorry I've gone over my time. I hope everyone will be as concise as possible.
CHAIRMAN DAVIS: I'm being a very generous

timekeeper that we've used up 17 minutes of the --

MS. WEIL: I'll speak fast. Thank you. Good

afternoon, Commissioners. My name is Lisa Weil. I'm the

policy director of American Oceans Campaign. We are a

national organization with offices in Santa Monica,

Washington D.C., and Seattle, and our mission is basically to

protect and preserve all of our nation's coastal waters.

This proposal is flawed not only from a technical

point of view but from an economic best interest of the state

point of view as well. No drainage exists pursuant to the

provisions of Section 6872 of the Resources Code.

The staff report from State Lands Commission

specifically articulates that the report offered by the City

of Hermosa Beach is based on conjecture. Surely conjecture

should not be sufficient to undermine the coastal protection

laws of our state as well as subjecting our precious coastal

waters to the high probability of an environmental disaster.

How many more alarms need to be sounded before we realize

that a Valdez disaster can happen in our backyard?

To get to the bottom line, this site is totally

inappropriate for oil and gas development. Oil is a highly

toxic and hazardous fossil fuel. Pollution to our marine

ecosystem resulting from tanker accidents, pipeline ruptures,

and natural disasters have escalated the past five years
since the disastrous Valdez spill.

Technology to respond to oil spills before detrimental environmental impacts occur is still far behind in being able to sufficiently respond and clean up before damage occurs.

Our position is that there is no evidence supporting drainage or that this will be in the best interest of the state is hardly based upon conjecture. In fact, you have before you more than sufficient scientific and technical documentation from geologists and other experts which strongly support our position.

Santa Monica Bay is designated a marine sanctuary by state law. Drilling is prohibited except in cases of drainage by other wells. It has been estimated that a major Valdez type spill will happen in Santa Monica Bay within the next two decades, which is within the life of this project.

This type of project, unsupported by either scientific evidence of facts that would be in the best interest of the state as well as the inexperience of the proposed driller would clearly undermine the state laws that protect our coastal resources and sanctuaries.

Oil drilling and a protected marine sanctuary has tremendous statewide impacts. We urge the Commission to reject this proposal. Thank you.

CHAIRMAN DAVIS: Any questions by the members?
Thank you.

MS. CHATTEN-BROWN: Tom Morley.

MR. MORLEY: Thank you, gentlemen. I have here some presentation materials that will allow you to follow my presentation a little bit earlier. It's five copies of my presentation materials that relate to the financial aspects of this project. I will make this brief.

Firstly, Macpherson Oil Company has always had this estimate to the city regarding the maximum amount of revenue to the city and the maximum amount of volume to the city of oil to be recovered. Generally on the first page of that document it shows that they expect to -- here, 9,500,000 barrels of oil over the life of the project. But they also expect the oil prices to start at $18 and escalate at seven percent a year.

The city tidelands portion of that mineral royalty is estimated here at $19.6 million on the estimate the city's been, that's been promoted by Macpherson Oil and used by the city in all of their decision process throughout the life of the FJR and the other studies and public hearings that have occurred. Therefore this was the basis, the nine and a half million barrels, that many decisions were made on in the City of Hermosa Beach.

And I'm here to tell you how that is not a realistic figure on this volume oil, that the $18 a barrel
escalating at seven percent a year is not a realistic oil price, and that tidelands mineral royalty will not be $19 million a year. And in fact, there's very little benefit to the tidelands with this project.

To support that is a letter from Macpherson Oil himself which during the Environmental Impact Report hearings there was much discussion about whether or not this portion of Redondo Beach where the Edison Plant is would be a more desirable site, something that's already industrialized rather than high density area of the city.

There were six sites that were suggested by the public. And the State Lands Commission in fact asked the question in their submission for the EIR hearings whether or not those alternate sites had been studied. Macpherson's response to that was in its' letter on February 27, 1990, where he said that all of the oil could not be recovered from the Hermosa pool, from any alternate site, that this would be the only appropriate site for the project.

And the paragraph here justifying that he says that he, "The average well will produce about four million dollars in revenue." And, which means that any well costing more than about a million dollars will be noncommercial. He's stating that there's some limitation to whether or not this field is commercial, and also that he could not drill more than 4,700 feet which would limit this project's access, the
oil field to only the city yard site.

So in justification of using the city yard site he writes this letter. But that letter has no reality in relationship to the oil promises previously made. Again, Macpherson's original estimate, which Mr. Davis is the first item in that presentation packet, is Macpherson's original economic estimate to the city. In that estimate he mentions that only nine and a half million barrels of oil would be produced at $18 a barrel, creating the city tidelands mineral royalty of nineteen and a half million dollars.

Using the letter justifying why he could not drill from any other site, Macpherson states that he would get maximum, or on an average four million dollars per well. Four million dollars per well doesn't relate to the volume estimate that he projects his revenues on.

Using Macpherson's oil prices, because all of this occurred during the same 1990 period, using his volume of nine and a half million barrels which creates this $19 million for the tidelands, he would be producing $11 million per well. But in his own letter he states that he couldn't drill from any other site because his average well will have four million dollars a well. Something's not right about these numbers.

His promises to us are $19 million for tidelands which means he could have created $11 million a well. But
his actual letter saying why he has to do it from here says he's only getting four million dollars a well. What does that relate to? It relates to Macpherson's own expectation was less than four million barrels were going to come out of this project in order to come up with this justification of why the project has to occur in Hermosa Beach. This number is very important. Four million barrels is not nine and a half million barrels. What he mentioned earlier was 27 million barrels of oil. That's three times the highest estimate ever presented to the city. It is eight times -- seven times the amount of volume he relied on to pin himself down on this one site. Something's wrong with these numbers.

So I have four scenarios of what these numbers might more likely be. This is Macpherson's own numbers, his nine and a half barrels. We go to a more realistic figure of $10.50 for the current oil price of that type of oil. That's the price that's stated in your staff report. Using that 10.50 we also escalate the price at seven percent a year. That's what was on his original estimate starting at 18. The total value of oil at those prices throughout the life of the project is almost a hundred million dollars for the Hermosa, for the total volume of oil times those kind of prices. Out of that hundred million dollars the tidelands royalty would be about nine and a half million dollars, not $19 million, at today's prices.
But that figure there isn't reality. Reality is what's the present value of a dollar today. For future dollar, and he's projecting the project will be 30 to 35 years. Today he said it would be 20 years. We used the figure of 24 years. Using his own volume and today's prices and the present value reduction of 15 percent, it's not 19 million, it's not nine and a half, it is $3.3 million to the tidelands.

But there's other costs involved in this project. The first $636,000 of this project is an advance loan by the oil company to move the city yard which is operating on that site now somewhere else, and it gets paid back immediately out of royalty.

The second expense for the tideland fund -- excuse me.

This is a hundred percent out of tidelands revenue according to the lease. I don't know why, but it is.

Second, from years five through fifteen, five percent of all the city's royalties has to go into an Emergency Fund which is to be built up to two million dollars. That further reduces the net royalty to the tidelands through the life of the project.

So now there's $19 million that we were first promised. Now it's three times that according to his volume estimate today. There's really only $1.9 million or ten
percent of the original estimate. And these are all costs that are in the lease not associated with any risk involved in this project. This is what the lease says. So I'm looking at other numbers here about, you know, what would be more realistic.

The Hester Report, where that nine and a half million barrels came from was a high estimate. The Hester Report had a lowest estimate of 6.2 million barrels. That's the city's consultant. If the number is 6.2 million barrels, using the same scenario here, the real revenue to the tidelands after the costs of relocating the city yard and Emergency Fund is less than a million dollars. It's not $19 million.

Another scenario here, if you look at Redondo Beach's actual 30 well production, he mentions that 60 wells are in Redondo Beach, 30 wells were adjacent to Hermosa Beach. Sixteen more were added in 1971 but they're farther south, away from the border.

Using the actual production over the first 14 years and estimating what the 30 well portion would be for the following years, that's only four and a half million barrels of oil actually recovered in Redondo Beach using the same oil prices and the same scenario. The royalty after cost to the tidelands is 3.5, $356,000, not 19 million, using numbers that are realistic today.
But actually the scenario boils down to what Macpherson himself relied on. In his letter to the city he mentions four million dollars, an average well. That's why he has to drill on that site.

CHAIRMAN DAVIS: What was the date of that letter?

MR. MORLEY: February 27, 1990.

Using that information that he used to rely on to use this site, and not something else that's already industrialized, the revenues come up -- I think you might have missed this, at four million dollars a well using the numbers that he was using in 1990. That's less than four million barrels of oil. He was relying on a pool of four million barrels. Today that 3.9 million in today's dollars extended out a net royalty to the tidelands after the built in expenses from the lease is $227,000 over 24 years. It's not $19 million. And this is, the 27 million barrels of oil is seven times the amount of oil he used to justify this. It's six times the actual amount of oil that Redondo Beach used, actually recovered from that board area which he's calling a common pool. Either Redondo Beach left most of their oil down there or, or there's some amazing new technology that wasn't there three years ago when Redondo shut down. Something's unrealistic about this picture.

I am saying here that any educated person with a calculator can do these same figures using today's prices of
oil. The staff's recommended number was $10.50. Escalate it annually and generously at seven percent, get a present value, and see that less than a quarter million dollars is not $19 million or three times that. This is before any risk involved in the project.

Venice has a problem, it's in your presentation pack, where there's two and a half million dollars required to clean up a one-acre site. They only had $700,000 in their trust fund. That's taxpayers' money and it's not coming out of revenue. That could happen to us.

Finally, in closing, the numbers aren't realistic, but some protection is offered in the lease related to it, Emergency Fund. That Emergency Fund is only required to be fulfilled to a level of two million dollars for the city and six million by the oil company, only in the years five through fifteen and at a rate of five percent of the total oil revenue to the city and to the oil company. So the oil company is, after expenses, after all of their royalties and production costs and so forth, using the most optimistic estimate of the nine and a half million barrels and today's price of oil, this Emergency Fund is never fulfilled. At most 38 percent of the city's portion of two million is fulfilled, and at most 44.5 percent of the oil company's money is fulfilled, and it's never fully, and there's never much in there in the early years anyway. Anything could
happen if this is not a good enough situation. There wouldn't be anything to help an Emergency Fund, to clean it up.

But that's using the highest estimate, nine and a half million barrels. Using the estimate that he appears to rely on to use the site is four million barrels of oil. This Emergency Fund is only funded, the two million dollars of the city fund, $280,000 over those ten years, 14 percent funded. What kind of fund is that? It's embedded in the lease. Also Macpherson's portion is only funded 16.4 percent over fifteen years into the project. There's still only $665,000, there's not four million.

There's something wrong with these numbers. There's something wrong with the person that can tell you now, not a person but a projection, there's 27 million barrels of oil.

COMMISSIONER MCCARTHY: Did you make this presentation down in your city to the Planning Commission, the City Council, general bodies, we're hearing? Did you have all of this in hand at that time --

MR. MORLEY: No.

COMMISSIONER MCCARTHY: -- what you've pointed out to us?

MR. MORLEY: We've been stopped along the way from discussing anything economic. During the EIR hearings there
was a letter from the city attorney saying that economics
don't have to be discussed in an EIR hearing. That would be
the area of consideration at the CEP hearing. At the CEP
hearing the city attorney told the Planning Commission and
the City Council that you don't have to discuss economic
issues.

There's never been an independent estimate from our
city on this project. The only thing ever used in our city
is this original projection from the oil company back in
1989.

COMMISSIONER MCCARTHY: Now from the first
estimates of how many barrels might be drilled for to the
last estimates, what was the span of time between those
estimates?

MR. MORLEY: The first two estimates of either nine
and a half million barrels or 6.2 million barrels was in
1986, Hester Report, the city's own consultant.

COMMISSIONER MCCARTHY: That was the nine and a
half million barrels?

MR. MORLEY: Nine and a half and 6.2. The four and
a half million barrels is out of the actual production
records in the City of Redondo Beach. And the last eight
years I've estimated based on the number of wells and their
production capacity, the actual drainage in Redondo.

COMMISSIONER MCCARTHY: Have you shared these
figures with the proponents of this application to ask them
to respond to the points that you're making that there
are many fewer barrels recoverable, therefore the revenue
produced to the city would be much less than the -- have you
addressed this?

MR. MORLEY: Well there's no ability for a citizen
to have communication with the lessee. We've made every
attempt in every public hearing to get them to address the
financial aspects of this project ever since 1989 and we've
never had the opportunity.

Last April in your hearing was the first time any
citizen had, has been notified we had an opportunity to talk
to Sacramento. And I'm sorry to say sometimes we have to
circumvent our local decisionmakers because what they want is
to remove the obstacles to this project, not look to find an
obstacle.

CHAIRMAN DAVIS: Well since we're over the 30
minutes already I'm going to give the proponents the five
minutes that Mr. Wright so generously declined to take to use
in any fashion they want to.

MR. MORLEY: Thank you, commissioner. I think this
project is not good for the state. There's no evidence that
there's any financial benefit whatsoever. Thank you.

COMMISSIONER MCCARTHY: I think you have, if your
testimony is to believe that the revenue would be as low as
you say it is, well there is some benefit to the state. Your argument is that it's substantially less than what the proponents advocated in this case.

MR. MORLEY: The, on an assets and liability side of the equation there would be some assets, but liabilities are innumerable, and there's evidence in Venice how the citizens had to pick up the tab well and above any fund created to pay for them.

CHAIRMAN DAVIS: You're also saying the assets are a great deal less than publicly stated by the proponents.

MR. MORLEY: I'm saying the highest estimate using today's oil dollars are ten percent of what is publicly stated. The lowest estimate is less than a quarter million dollars not 19 million, more like five percent.

CHAIRMAN DAVIS: Any questions?

ACTING COMMISSIONER PARKER: Mr. Morley, to follow up on Mr. McCarthy's question, the Commission, the City Council voted on this following the Commission's action in April of 1993, and at that time the City Council, there was no presentation or were they willing to listen to your comments?

MR. MORLEY: They've been unwilling to listen to economic arguments entirely since 1989.

ACTING COMMISSIONER PARKER: So there was an attempt at that point in time to clear the issue before the
council and the council did not even give you an opportunity to address it?

MR. MORLEY: Yes, the city has a normal procedure to have future agenda items on their council packets and their Planning Commission packets. There was never a future agenda item presented that there would even be a conditional use permit process. Immediately following your approval back in April 29th of '93, immediately within a month the conditional use permit item was on the agenda and had been advertised. We had a month to prepare for that.

During those hearings my first and next opportunity to discuss the financial aspects, the city attorney told the Planning Commission that this is not the time, conditional use permits are not the time or place to discuss financial aspects. Same with the City Council, when they went to look at the conditional use permit which had several hundred items promised in the EIR, remove 200 of 'em and leave 108. At that time they also would not discuss the finances of this project. We feel steamrolled.

ACTING COMMISSIONER PARKER: Thank you.

CHAIRMAN DAVIS: Thank you for your time.

All right. I'm going to, before we call the proponents I'm going to give, and I will extend the time to the proponents. You're over your 30 minutes. Anything anyone else wants to say will be added to the proponents'
time, so be succinct.

MR. GORKE: I will be brief. My name is Roger Gorke. I'm the Policy Analyst for Heal the Bay. Heal the Bay is a nonprofit environmental organization with over 12,000 local members in Los Angeles. We feel we represent the tens of millions of people that visit Santa Monica Bay and use its' resources, both recreationally and economically.

Probably the biggest thing that we're concerned with is the economics versus the environmental impacts. Hermosa Beach is one of four entities that has been sued by the Natural Resources Defense Counsel for their lack of compliance with the municipal NPDES permit for stormwater. They just don't understand the impacts that stormwater has on Santa Monica Bay. And this project, as you can very well see, is very close to the bay, is very close to the beach. And having a large oil project that close to the beach can cause spills and pollute the beach that many residents use.

And again, I don't want to say what other people have said, but this is basically, it may open the door for other oil exploration in Santa Monica Bay.

Santa Monica Bay is finally starting to recover. In the nine years since the City of L.A. has stopped dumping sludge from the municipal sewage treatment there's been remarkable increase in biodiversity and biomass in the ocean and near the ocean outfalls.
And I ask that you just finally don't allow, subject Santa Monica Bay to another new source of pollution. There's a reason that there's an oil and gas sanctuary there, and we ask that you not go around that sanctuary and not allow the oil drilling to go there. Thank you.

CHAIRMAN DAVIS: Thank you. Any of the other proponents that were signed up to speak?

MR. SACKS: My name is George Sacks. I'm a resident of Hermosa Beach and I live over here and the project's going to be over here, and I'm a worried man. I'm speaking I feel, also for residents who couldn't be here because this room would be full of citizens waiting to voice their concerns about drilling in a crowded community, I'm sure.

The last public hearing on this issue in May '93, at the Hermosa Beach City Council, 35 spoke before the Mayor and the public session till near midnight. Thirty-three were opposed; two in favor; and one of those in favor worked for Mr. Macpherson, or had worked. They were concerned about fumes, noise, dust, traffic, truck traffic, all of which would make life unbearable.

CHAIRMAN DAVIS: Could I interrupt you? What action did the City Council take?

MR. SACKS: They approved the CUP. There was, a few stand out in my mind. It was a, even a twelve-year-old
boy spoke who was worried about his little brother who had a respiratory disease. A mother was desperate at the thought that her asthmatic daughter would be exposed to dust and oil fumes. I mean all these residences are very close to that site. A postman had just bought a house near that proposed site, invested all his earnings. There's an elementary school on this same Valley Drive at which the oil site would be located. Children will be walking down that street past the oil site to the school. And these were all concerns which we expressed and had at that time.

And since the earthquake of January 17th, which shook us up pretty badly down in the Los Angeles area, a number of new frightening concerns have arisen.

One I think wasn't mentioned, that the contractor proposes to build a pipeline to connect the site with, with the main pipeline going to the refinery. This would run along the same small narrow street in front, very close to residences. And in the last earthquake there were breaks in oil pipelines, I believe in Ventura, which caused fires, and this is very close to my house.

Also, as mentioned about oil injection -- I mean water injection to these wells, this produces devastating condition of liquefaction which also devastated a marina district of Los Angeles -- I mean, of San Francisco. And actually in the South Bay even though we were shaken pretty
badly the damage was comparatively light except at one place and that was King Harbor in, in Redondo Beach. And I'd like to just give you this news article. At King Harbor we had this devastating mixture of, of water and sand which's literally dissolved the whole area, that is the paved area surrounded by the sea wall, and the cars just collapsed into the sink hole, and structures and the sea wall was pushed 20 feet. And I'm really frightened about this.

So I think that considering the threats to life and property of drilling in a crowded urban area this lease is not justified and it would be in the best interest of the state and the people of California if this lease were revoked. Thank you.

COMMISSIONER MCCARTHY: Thank you.

CHAIRMAN DAVIS: All right. Thank you very much.

Rosamond Fogg.

MS. FOGG: I have supporting documents. The single most thought I'd like to communicate today is that in this instance the interest of the state and citizens of Hermosa Beach are not mutually inclusive. Materially affecting our community is setting the precedent that broadens and weakens the definition of drainage, allowing an inexperienced driller to undertake and environmentally and financially prepare this project would harm all of us.

Currently Hermosa Beach has no heavy industry. In
one, our most intent zone allows light assembly, wholesale, bakeries, and now incongruously, oil drilling.

A decade ago we halfheartedly approved drilling as the lesser of two evils. The more evil being the loss of important recreational open spaces. We were persuaded by the argument that one acre of property was needed to be sacrificed in order to prevent development on 25 acres of land. And today it's doubly ironic that the land in question has now been bought and paid for by citizens and would only be harmed by allowing oil drilling next to it.

Former Mayor Roger * Creighton who finalized the EIR and signed the statement of overriding considerations wrote you a letter that says in part,

"The open space in question has been acquired by other means. I hope you consider the incentive that initially prompted our city to trade one acre of development for 25 acres of parks, is now anachronistic."

Newspaper polls show that both the voters and today's City Council, the majority oppose drilling. Unfortunately the lease obliges the city to make every effort to support this project which leaves us citizens with a local government powerless to act on our behalf.

Our city is entrusting a complex project to an
operator who lacks the necessary experience. The many contradictions and broken promises are very troubling. We've lost confidence that this project is feasible and that our city would exercise responsible oversight.

In one mass mailing Macpherson wrote, "Redondo Beach has generated over $70 million in oil revenue."

Fourteen is the accurate figure. When confronted with this falsehood he said, "I did not state nor was it intended to imply that Redondo Beach generated over $70 million in oil revenue." Macpherson may have spent two and a half million dollars on this project; the city has received $100,000 for its bid; $57,000 for the EJR study; and the city relocation study, $20,000, it's not been drawn on yet; and then there's a $50,000 litigation fund.

When Macpherson needs to persuade that drainage is occurring he describes the oil reserve as a large pool. When he needs to argue that the oil he will withdraw in Hermosa Beach differs from the Redondo Beach one percent low quality oil, 99 percent water mixture he says, "The bulk of Hermosa Beach reserves remain untapped. If so I would assume they are also undrained." I know geologic changes occur over time, but I seriously doubt that they happen so rapidly and at the convenience of Mr. Macpherson.

Before the State Lands Commission today and elsewhere Mr. Macpherson refers to himself as the successful
bidder. Mr. Macpherson was the only bidder, largely because the invitation to bid wasn't published in an oil trade journal, wasn't published in the Wall Street Journal, wasn't published in a national paper, instead run one time in the back of a Hermosa Beach throwaway newspaper.

A former city attorney's memorandum reveals that the City Council deliberately worded the RFP so as to eliminate consideration of alternate sites and specifically prevent a Redondo Beach driller from bidding to slant drill from their site.

Elsewhere city correspondence mentioned the concerns about exposing the non-competitive nature of the bidding process. When Mr. Macpherson last appeared before this Commission he failed to disclose to you that his partner, GLG Energy, had already sold off 75 percent of their assets and had announced their intention to dissolve the company.

We're very disappointed the final plans failed to provide important mitigations promised in the EIR. I will not go into them except to say that the emergency catch basin is now less than a third the size of the one promised in the EIR.

A recent accident last summer underscores the necessity for adequate safety measures. Just north of our city an oil storage tank at the Southern California Edison
plant ruptured. Because the barrel could not contain the fluid, oil clogged the storm drains and backed up all over the beach. A major thoroughfare was closed for over a month. Now this major utility company couldn't prevent the accident, but at least it could afford the cleanup.

We take no comfort in the assurances given us by someone with Mr. Macpherson's lack of expertise and financial resources. As far as I know all he's done is lease an exhaustive oil field and invest in two failed test wells in the Los Angeles area. Macpherson's performance bond for the city of $100,000 for 30 oil wells is almost criminally inadequate. The lease requires a meager five million dollars in liability. Certainly such terms would create undue hardship in the event of a major accident.

And I deeply hope your decision today will be the one that protects our quality of life, our economy, and the sanctity of the Santa Monica Bay. Thank you.

Questions?

COMMISSIONER MCCARTHY: Do you have the name of the other oil company that was prepared to drill from another site?

MS. FOGG: Yes, sir, Triton Oil. And there is a --

COMMISSIONER MCCARTHY: Did they appear at public hearings on this matter and indicated they wanted to bid on the process?
MS. FOGG: There is a newspaper article in there that refers to Triton Oil. There's a memorandum from Jim Lowe that talks about the city deliberately omitting Triton Oil. I believe Triton Oil, itself at least, didn't believe it was feasible to continue to drill, you know, their high water cut convinced them presumably to pull out.

COMMISSIONER MCCARTHY: Did Triton Oil indicate publicly that they were prepared to bid for drilling the same reservoir of oil that's at issue here?

MS. FOGG: No. No.

COMMISSIONER MCCARTHY: I don't mean to --

MS. FOGG: Not publicly that I know.

COMMISSIONER MCCARTHY: I don't mean in an official document. Did they state publicly at any time that they were prepared to enter into a competitive bid?

MS. FOGG: No. And I would assume based on their experience with Redondo Beach that they would, perhaps wouldn't have, but the fact that our city took steps to eliminate the possibility that they would bid is revealing. But no, I have no concrete evidence about that and I wouldn't want to imply one way or the other something that I don't have tangible evidence for.

COMMISSIONER MCCARTHY: Thank you.

MS. FOGG: Thank you.

CHAIRMAN DAVIS: All right. Now we'll conclude
this with any rebuttal that, you can take ten minutes if you'd like, and I'd appreciate it if you wouldn't but you are entitled to it.

MR. LEE: Can we keep the order if we split up the rebuttal?

CHAIRMAN DAVIS: If you want.

MR. LEE: Thank you.

CHAIRMAN DAVIS: If you at least join the issues raised by Mr. Morley on the revenues expected.

MR. LEE: I will leave those comments actually to Mr. Macpherson because actual, in point of fact, the economics of this project, while the city benefits the, I want to make sure that we distinguish the city does receive, will receive economic benefits, and I will make comment on that in terms of we want to ensure though that we separate the issue of risk and who assumes that and that is the oil operator and the lease. Our lease is very clear on that.

With respect to environmental issues just --

COMMISSIONER MCCARTHY: Which risks are you referring to, Mr. Lee, that the oil operator assumes, not the city?

MR. LEE: The risks of if there are environmental hazards there's a five million dollar insurance requirement. They have the bulk of the requirement for the Emergency Trust Fund of six million dollars. The city's requirement to put
monies into that Emergency Trust Fund are from oil royalties.
I would point out that the development of the oil, the drill
site, whether or not that's with respect to monies advanced
by the oil operator, by the city, are all payable only from
oil royalties. They are not a general fund obligation of the
city. We don't have any obligation otherwise to repay those
monies. If oil drilling, if they don't find commercial
quantities of oil as they begin their exploration, all of
that risk is on their shoulders and not on the city. We
don't have to pay them back for relocating our yard. We
don't have to pay them back for the studies that have gone
into looking for a new maintenance yard.

The risk to the city at this point has been its
administrative and legal cost to bring us to this point of
giving that oil operator an opportunity to take advantage of
the Tidelands Trust as well as the uplands that is in the
city's authority to grant. And that's where we're at in
terms of the economic benefits.

While I'm on that subject, we believe that if in
fact he can find commercial quantities of oil there is
continuing benefits to the city. While it's true that we've
acquired open space using other sources of funds, there is
the issue of maintenance of that open space which is a large
issue for any city. In today's tight budget times the city
needs whatever revenues are available to continue to maintain
and keep that open space, whether or not it's park land or
the beaches, available not only to its residents but to all
of the residents of the County of Los Angeles, the State of
California, who may possibly use those recreational
facilities.

With respect to environmental issues it is our
contention that in fact the city has never minimized
environmental concerns. I think that a number of conditions
in our CUP make that fairly evident. The length of time it's
taken for us to process and certify the final EIR makes that
evident. The fact that we are not drilling from an offshore
platform makes it evident that we are concerned about a
sanctuary of Santa Monica Bay.

In point of fact, one of the benefits that we would
contend from an onshore drilling site is that it will reduce
the risk of tanker spills. We will have less dependence upon
transport by tankers, and that is a good reason for this
Commission to once again reaffirm its position.

With respect to the, there are a number of other
issues raised about the existing well that had been
undertaken by a former oil operator, Stinnett. That's an
existing well that's been there since the early thirties. In
point of fact, the city brought a lawsuit against that oil
operator under a lease that had been in place with the city
for some number of years to force them to abandon and
undertake their abandonment obligations and cleanup obligations, and we have finally entered into a settlement agreement which would accomplish that task.

With respect to the lawsuit by NRDC, quite honestly I think that's irrelevant to the issue before you about the environmental impacts created by oil drilling and whether or not this particular project has environmental impacts that cannot be mitigated. We believe that we have substantially addressed those particular issues. And that in point of fact, the MOU with the State of California which has been executed back in 1993, in fact addresses all of those concerns that the state, that the State Commission and your staff had asked and raised with us with respect to environmental concerns. We believe we've been very sensitive to the issue of addressing environmental concerns and will continue to be.

With that I would turn over this podium to Mr. Macpherson to address the economic issue, because again I believe that really is a question for the oil operator.

COMMISSIONER MCCARTHY: I don't know whether you or the city manager wants to address this question.

Opponents, the other side of this issue has said that there were six sites where drilling might have occurred but the city government in this entire process systematically -- and not their words, my words, my
understanding of what I heard, systematically excluded in that process a potential choice of other sites for drilling, based as I heard it, on the allegation that the oil company, that the, that the revenues would be reduced because the number of barrels that could be extracted would be reduced.

Would you comment on that please? Were there any other serious sites? Were there six sites? Were any of them seriously considered? My question is, again I'm not going to place myself in a position of being a member of the City Planning Commission's council. Rather I'm asking the question how this bears upon the basic issue of the revenues and the benefits in a broader state sense which is one of the issues in the best interest of the state.

MR. LEE: My recollection of the final EIR that was approved and certified by the city did in fact consider alternative sites. One of which was outside of the city. Within the city -- let me point out that the only two sites that the city could consider were the sites that by an initiative of the people was allowed for drilling operations, and that is the existing city yard maintenance site upon which this drill site, this project is being planned as well as a site that is about a block down the road which is the, what we term the South School site.

Through that environmental process this project was consolidated for environmental reasons on to the city
maintenance yard site. There are no other sites that are
allowed by a vote of the people.

COMMISSIONER MCCARTHY: The two sites you're
referring to --

MR. LEE: Are both within the City of Hermosa
Beach.

COMMISSIONER MCCARTHY: -- were included in the
1984 vote?

MR. LEE: Correct. By ordinance of the people the
City Council had no choice to consider any other alternative
sites within the city.

COMMISSIONER MCCARTHY: By ordinance contained in
that initiative?

MR. LEE: Correct.

COMMISSIONER MCCARTHY: That was a city initiative
voted upon in 1984?

MR. LEE: Yes.

COMMISSIONER MCCARTHY: Or was that placed on the
ballot by the City Council?

MR. LEE: No, that is, was a people's initiative.

COMMISSIONER MCCARTHY: So whoever drafted the
initiative included those two sites?

MR. LEE: Correct.

COMMISSIONER MCCARTHY: Why was the other site
rejected?
MR. LEE: The other site was an alternative. You're aware under environmental CEQA we are required to look at feasible, consider other alternative sites. Another site was identified that is outside the City of Hermosa Beach and that site was addressed within the EIR.

I will let Mr. Macpherson talk about the economics of drilling from that site, but from the city's perspective obviously we can't enter into a drilling lease, oil lease for a site that's outside of our community.

COMMISSIONER MCCARTHY: Where was it?

MR. LEE: In Redondo Beach.

COMMISSIONER MCCARTHY: Redondo Beach?

MR. LEE: Correct. Now with respect to the question of economics and how that should or shouldn't have been addressed by the City Council, my office has never issued an opinion that the economics should not be questioned on this project. We have issued an opinion that in fact under CEQA that an economic analysis is not a requirement under CEQA, but that has never precluded the opponents of this project from raising those issues at public hearings and in point of fact they have done that.

I don't recall these particular sets of numbers, whether or not any of those numbers were presented to the council, but they'd never been precluded.

COMMISSIONER MCCARTHY: Have the estimates of the
number of barrels that could be extracted and the revenue projections based on the number of barrels extracted, have they been part of the testimony before the City Council or any public bodies --

MR. LEE: Yes.

COMMISSIONER MCCARTHY: -- of your city?

MR. LEE: Yes. Estimates both conducted by the city's consultants as well as by the oil operator's consultants and their projections have both been made.

COMMISSIONER MCCARTHY: My question is, have any of the opponents of this project had the opportunity to challenge those numbers, the numbers as to the barrels that could be extracted, numbers as to the revenues projected on that?

MR. LEE: We have had innumerable public hearings at any of which they could raise that issue. At the point in time of the approval, consideration of this oil and gas lease before the City Council, that was conducted in a public hearing into which a number of the opponents had attended and provided testimony. The issue of economics of this project could have been attacked and contested at that point without any problem on their part.

CHAIRMAN DAVIS: Do you recall if it was?

MR. LEE: My recollection was yes, that he did present questions and information on that issue, raised those
questions with the City Council.

COMMISSIONER MCCARTHY: Mr. Morley says flatly that that is not the case, that opponents of the oil drilling project were not allowed to contest these numbers.

MR. LEE: I think Mr. Morely is confusing again the issue of whether or not he had the opportunity to discuss that as a consideration of approval of a lease versus in the CEQA context. And again it's my contention that CEQA does not require the city as part of its Environmental Impact Report to do economic analysis. However, all of these numbers, projections of the city, projections of the oil operator have been part of the record, have been under consideration by the council in making its decision whether to move forward with the oil and gas lease.

MS. CHATTEN-BROWN: Mr. Chairman.

MR. LEE: All subject to comment and debate by opponents of the project.

CHAIRMAN DAVIS: Let's, let's hear from Mr. Macpherson and that will wrap it up.

MR. MACPHERSON: Thank you. On the issue of projected recovery, barrels of oil, I think Mr. Morley is mistaken or confused on the revenue estimates. Our estimates have always been up to 30 million barrels of recoverable oil. I believe he's referencing a study done by another party, Mr. Hester, not Macpherson Oil Company. Our estimates have
always been 30 million barrels.

Our geologic and engineering studies have been submitted to the City of Hermosa Beach's consultants, Mr. Brock and Mr. Wright. They have reviewed that and I think they concur or give you an opinion as to what they believe our estimates are. But that's really all I can say on that. Our estimates have always been 30 million barrels and, as I said before, 27 million barrels was a projection, a conservative projection that would generate $104 million in revenue.

On the question of Macpherson Oil Company's experience, Macpherson Oil Company has been in operation in the State of California for many years. We operate some 400 wells in the State of California. In the past ten years we've drilled roughly 30 wells and we've participated in two wells in the L.A. basin in this type development project.

To the contrary of previous speakers, we do have experience in the state and this is what we do, and we believe this project is an excellent project. And that's why we're here today and that's why we've spent two and a half million dollars to date.

On the issue of environmental --

COMMISSIONER MCCARTHY: I am sorry, Mr. Macpherson. Did you state where else you drill along the coastal region?

MR. MACPHERSON: In the L.A. basin we participated
in two wells in the Sawtelle field. Sawtelle field is --

CHAIRMAN DAVIS: That's inland, isn't it?

MR. MACPHERSON: Yeah, it's about eight miles inland.

COMMISSIONER MCCARTHY: Anywhere else in the state?

MR. MACPHERSON: In Kern County, in around Mount Field, Midway, Sunset Fields.

COMMISSIONER MCCARTHY: Okay.

MR. MACPHERSON: We also have production out of the state as well.

On the issue of environmental, there was testimony earlier about oil spills related to oil tankers. This project is not a project that permits platforms in the water. There's no pipelines in the water. In fact, this project produces oil onshore. And to the extent there are 30 million barrels recovered by this project, that will reduce the amount of tankers ultimately bringing oil into the State of California. We estimate, based on tankers carrying 100,000 barrels of oil, this would reduce the number of tankers coming into the L.A. basin by 300 tankers over the life of the project.

CHAIRMAN DAVIS: Just a second, Mr. Macpherson. If, there would be some kind of a pipeline, wouldn't there, to return the oil from offshore to, to your drilling site on land?
MR. MACPHERSON: There's no, no, there's no pipelines.

CHAIRMAN DAVIS: You would just drill straight down?

MR. MACPHERSON: Yeah, they're down. There are no pipelines in state waters. There's no platforms in state waters.

On the issue of alternative sites, I'll just confirm what the city attorney said. Alternative sites were studied in the Environmental Impact Report.

And on the issue of questions related to economics, those questions were raised in public hearings. We've had 11 public hearings on this project, and I promise you this group had made similar statements, and testimony has been received by the city and considered. So these are not new arguments that I've heard.

So all I can say in closing is thank you very much for your, for your consideration in this matter.

CHAIRMAN DAVIS: Okay. All right.

MS. CHATTEN-BROWN: Mr. Chairman, could I have just two minutes make three points?

CHAIRMAN DAVIS: I think all the issues have been made unless the Commissioners want to hear it.

MS. CHATTEN-BROWN: It's just three very brief points I'd like to make.
CHAIRMAN DAVIS: All right.

MS. CHATTEN-BROWN: Thank you.

First, I was present at the Planning Commission hearing, and I confirmed my recollection with Rosamond Fogg who was also present, that Mr. Morley attempted and was denied the opportunity to make a presentation.

CHAIRMAN DAVIS: You were at the Planning Commission in Hermosa Beach?

MS. CHATTEN-BROWN: I was at the Planning Commission hearing in Hermosa Beach when Mr. Morley attempted to raise the issue of the economics and he was told not to. There was a two minute limitation on all presentations, in any case that would have been impossible to do this.

Secondly, if you'll note that in response to Commissioner McCarthy's questions about where they had operated there are, to the best of our knowledge, no urban oil sites that Macpherson Oil has operated. They have participated in two dry wells in Sawtelle. That's very different than operating an urban oil drilling site.

Finally, in terms of the consideration of alternatives, I have reviewed the EIR. The alternatives were rejected out of hand. The alternatives, specifically of the Redondo Beach site which at the time was being operated as an urban oil drilling site, and in our opinion that is because in 1986, before any environmental review, this city entered
in the lease, and essentially everything since that date has
been a post hoc rationalization for a decision that has
already been made. Thank you.

CHAIRMAN DAVIS: All right.

MR. MORLEY: Sir, may I present something just for
the record?

CHAIRMAN DAVIS: If you want to submit something,
fine, but we have to make a decision here.

MR. MORLEY: It's items from the Environmental
Impact Report regarding the consideration of the alternate
sites.

CHAIRMAN DAVIS: All right. Mr. Warren, you've
heard the proponents and the opponents' testimony. What is
the staff recommendation?

EXECUTIVE OFFICER WARREN: The staff
recommendation, Mr. Chairman, is set forth on pages seven and
eight which is to deny the application. However, having said
that I would like to note that the record contains testimony,
and the testimony from these witnesses are such that on the
points that are in contention and are relevant to the
decision by the Commission there is ample evidence on either
side to justify your decision. It, there is no convincingly
persuasive body of evidence on any of the points. It's a
perspective and subjective consideration for your decision.
There is evidence to support your decision in the record on
the points at issue before you.

CHAIRMAN DAVIS: Let me ask you this question. We're basically being asked to make an exception to the oil and gas sanctuary that is in effect in this state.

EXECUTIVE OFFICER WARREN: Yes, it is an exception which is provided by the sanctuary provisions.

CHAIRMAN DAVIS: Right. Has this Commission made such an exception in Southern California?

ATTORNEY GENERAL HAGER: No.

GENERAL COUNSEL HIGHT: Not in the last 20 years.

CHAIRMAN DAVIS: And where was that exception made?

GENERAL COUNSEL HIGHT: Previous to that there was an attempt at the City of Los Angeles in the harbor, but that was in the sixties if my recollection serves me correct.

CHAIRMAN DAVIS: All right. Under what authority is Redondo Beach drilling?

ATTORNEY GENERAL HAGER: I believe the wells predated the sanctuary.

CHAIRMAN DAVIS: They were grandfathered in --

ATTORNEY GENERAL HAGER: Yeah.

CHAIRMAN DAVIS: -- and the sanctuary was proposed?

ATTORNEY GENERAL HAGER: The sanctuary was established --

CHAIRMAN DAVIS: Legislatively.

GENERAL COUNSEL HIGHT: Legislatively.
ATTORNEY GENERAL HAGER: -- legislatively.

CHAIRMAN DAVIS: In the early seventies?

ATTORNEY GENERAL HAGER: Early seventies, correct.

Could have been a little earlier. The wells are very old.

CHAIRMAN DAVIS: Didn't the Commission on a piecemeal basis start to set aside various parts of the state in the sanctuary and then the legislature acted?

DEPUTY ATTORNEY GENERAL HAGER: My recollection is that when, actually that goes back to the fifties, the Cunningham Shell Act. When the Cunningham Shell Act, which is the basic statute that authorizes leasing of statewide submerged lands, and that was passed in the fifties. At that time the legislature set aside various areas in the state to be sanctuaries and they have since then added on to areas. And then this Commission has administratively determined not to lease some areas that are not sanctuaries.

GENERAL COUNSEL HIGHT: And the legislature has in almost all of the cases with the Commission, has imposed an administrative sanctuary, done it legislatively.

DEPUTY ATTORNEY GENERAL HAGER: And I was just going to add one point, that the sanctuaries are not absolute. The exception is really, to use the word again, drainage. If somebody's out there draining the sanctuaries, the state or the grantee of the lands need not stand idly by and see that public resources taken by someone else. And
that is the reason for the exception in the Public Resources Code that would allow you to permit drilling in a sanctuary.

We have talked about best interest of the state. Best interest of the state in the way I read the statute is if you find that there's no drainage, that ends it. There's no way you can approve leasing, approve an exception to the sanctuary. However if there is drainage and you still have questions about the leasing then you can say, well in that case is leasing still in the best interest of the state even though we have found drainage? And that's why the issue was before the court and was before you previously because you had found drainage.

So I just want sort of put it in perspective. First, you must find drainage if you want to allow an exception to the sanctuary.

COMMISSIONER MCCARTHY: We've already acted on that.

DEPUTY ATTORNEY GENERAL HAGER: You had before. And then if there is drainage, then you must determine whether in spite of draining leasing is still in the best interest of the state.

COMMISSIONER MCCARTHY: That's it.

CHAIRMAN DAVIS: All right. Are there any comments or suggestions from the members?

COMMISSIONER MCCARTHY: This is a very painful
decision. This is not a Court of Appeals that can insert itself in place of every local government body that has heard a matter. I sat on a city board of supervisors for five years and I knew that the decisions that we had to make on land use issues. And had I bee on the Hermosa Beach City Council ten years ago, I think maybe I would have argued for some alternative choices.

But we're presented here with a, with a succession of actions by people in Hermosa Beach and then told that some of them, like Mr. Creighton, have changed their mind after the fact. We have the initiative that created part of the factual pattern here. We have action by the City Planning Commission. We have action by the City Council. The question is, what attention do we pay to all those choices? Do we just ignore them? Do we do what we think is the correct thing and substitute our judgment for what those judgments were when under state law we have delegated some rights and responsibilities to the local government jurisdiction in this case? I am very reluctant to do that.

I have never been reluctant to, to act on offshore because we had that clear authority, and we moved decisively to control offshore oil drilling on numerous occasions in this State Lands Commission.

But this is not a unique set of facts in the sense that we've been asked by other groups of citizens coming from
other local government actions, not identical to this one, but in substance the same, where a series of decisions were made at the local government level and then we were asked to simply overturn them, not necessarily based on our mandate under state law even liberally construed. So this presents a dilemma to us which we have seen before.

I asked myself as I was listening to the persuasive testimony of some of the witnesses opposed to the drilling, why hasn't there been another attempt at an initiative in the past several years? Why hasn't there been a recall of the elected officials of the city government to throw the rascals out if you thought they committed grave misdeeds? Are we sitting here to substitute ourselves for all of the judgment calls that were supposed to be made by the voters of Hermosa Beach? I don't know.

We've been asked to do something similar in dozens of other cases coming from other jurisdictions around the state, and we try to resist that to avoid being arbitrary. We're not afraid to exercise authority but a little bit respectful, I hope, of how we delegate and divide up that authority in the State of California.

This is, this is, this is a very hard thing that's presented before us. I'm, I am not inclined to, to substitute my judgment for all of the sequence of actions that has occurred in Hermosa Beach, even though if I were
there ten years ago I probably would be one of the advocates for the position of the opponents, at least seeking another site or doing something, because I understand what you're saying about the residential neighborhood. But that's not our role here.

MS. CHATTEN-BROWN: But your role is to make a determination about what is in the interest of this state.

CHAIRMAN DAVIS: Please, Ms. Brown. We've been very patient with you.

MS. CHATTEN-BROWN: Thank you. You have been.

COMMISSIONER MCCARTHY: I have a, you know, based and trying to balance all of the, how you make these decisions.

One thing that we have seen in our duties as elected officials here is the bitter recession the state's been in for three years. And I've talked to a number of individuals out of work or working for half as much and so on, and while I heard the testimony that said this won't produce that many jobs or this won't produce that much revenue, we hear the same exact testimony opposing every kind of development around the state. And I guess I've talked to an awful lot of people who were unemployed or were not able to support their families and going through some humiliation.

I'm not suggesting to you that the burden for curing the recession falls on the shoulders of those who are
opposed in this oil drilling, but there are scores of proposed developments. Somehow we have to make a judgment in the larger context as well of where the economy in this state is and where a lot of families are. So that's an issue that I would put as a factor in trying to assess what's in the best interest of the state if you will.

I was, I mean obviously the evidence on, on the amount of revenue that would come in is in direct conflict. I think Mr. Morley's testimony was persuasive if it were left uncontradicted, if it were demonstrated to be quite accurate. We have now a direct contradiction of that testimony before us, and we have to make some kind of judgment call as to whether or not that kind of evidence was allowed at any point in the hearings along the way.

And I only raise that issue because the number of revenues goes to what additional taxes are available to the State of California, sales and corporate and personal income taxes to help mitigate the problems we're facing in trying to pay for schools and other vital services which we've cut back on savagely in the last two or three budgets up here. And some local government which we have reduced up here because recession and economy is draining our revenues. Those are the issues that I'm including in my evaluation of this thing.

And I'm, I must say I was moved by some of the testimony that I heard by opponents of the drilling, but on
balance, Mr. Chairman, I'm going to vote to make findings
that this decision we made several months ago is still in the
best interest of the state.

CHAIRMAN DAVIS: Thank you.

ACTING COMMISSIONER PARKER: Mr. Chairman, I have
not had the advantage of either of my colleagues here,
sitting through obviously a number of previous hearings on
this. It seems that there has been much debate and much
conversation and is certainly a lot of testimony here today,
particularly noting the fact that this is an exception to,
asking for an exception to the drilling in this particular
sanctuary area. In that sense it is a significant item to
move forward on. However my presumption is that these things
have all been discussed on previous hearings and taken into
consideration by this Commission in its previous decisions.

For myself, it's a matter of trying to listen to
the testimony today and see if there has been something that
has been presented that might be new information or perhaps
really a re-discussion of issues that had been talked about
in the past and then left, as Commissioner McCarthy is
saying, from the standpoint of having to make a decision
which would override or perhaps be in lieu of what has been
done at the local level.

I am uncomfortable with trying to make a decision
here outside of the community and the people who are in
Hermosa Beach who have essentially, through either their vote or their representation, their community leaders, have made a decision about going forward with drilling.

So it is with respect to that that I would concur with Mr. McCarthy from the standpoint of making a finding that there would be this, that this would be in the best interest of the state.

CHAIRMAN DAVIS: Okay.

EXECUTIVE OFFICER WARREN: Excuse me, Mr. Chairman. Given the nature of the motion I wonder if we could have read into the record before the vote on the motion and its second, a statement of finding. Mr. Hager has prepared such a statement.

CHAIRMAN DAVIS: All right. I will make my comments and then we can read it into the record.

EXECUTIVE OFFICER WARREN: Fine.

CHAIRMAN DAVIS: At the last hearing my representative abstained on this matter. The vote was two to zero. I too think that times call for a reappraisal of what is in the state's interest. I have voted for projects in the last year that I wouldn't have voted for in the previous seven years I was controller because we have an obligation to people who aren't working. And we certainly have an obligation to the next generation.

And I think my friends in the environmental
movement have to ask themselves, what is it that we say to people who are looking for a job? What is it do we say to the 300 people that I talked to at the Institute of Government Relations at Berkeley last month, about a fourth of whom had found job opportunities? I mean, this is a very different world than most of us were born into, and we have to re-think our priorities.

I, however, am not going to cast a vote in favor of this project for one reason. I am not convinced there is subsidence. If I was the swing vote on this I would be willing to put it to a third party. The Department of Conservation has offered to send experts down to make their own best judgment on whether or not there has been subsidence.

It seems to me when you are making an exception to a statewide moratorium on oil and gas drilling it ought to be clear and convincing evidence that oil in fact has been, has subsided from one jurisdiction to another, and it's not clear to me that that has occurred. It might have, it might not have, but it's not clear and convincing in my view. If I was convinced there was subsidence I would vote for this project for the reasons I stated before. We cannot just say no, no, no.

I went to see -- this is a little bit, digress a little bit, but I went to see a major lender, as a matter of
fact one of the premier mortgage lenders in this country who is about to move 2,500 people out of the state and I said, "How can you do that?"

And he says, "Well you can't be competitive here."

I said, "What do you mean competitive? You don't have to manufacture. You don't have CEQA. You don't have any OMD."

He says, "95 percent of my workers' compensation cases come from California."

And I said, "Well why don't people sue you in other states?"

He said, "People don't sue their employer in other states. They're happy to have a job. They're not suing their employer."

So we have to have a change in attitudes, my friends, or this state is going to go down the tubes like a rock in a pond. Maybe you just want to sit here looking at one another with nobody making any money and the schools going down the tubes, but I don't want to be part of that. So I am voting no because I don't believe subsidence --

GENERAL COUNSEL, HIGHT: Drainage.

CHAIRMAN DAVIS: Drainage, I am sorry. Drainage, excuse me, drainage has occurred. But I'd be willing to be proven wrong on that, to have a third party look at that, and be guided by that third party decision. But again, if I was
certain drainage had occurred I would vote in favor of this project. These are extraordinarily difficult times and we can't pretend the world hasn't changed because it has.

With that, let's read into the records the findings that the majority of the Commission will adhere to.

GENERAL COUNSEL HIGHT: Yes. In the event that you had decided to make the findings that the court said that were necessary to make, we prepared findings that we believe will pass muster with the court. And let me read those:

"The leasing of the Hermosa Beach tidelands submerged lands will be in the best interest of the state for the following reasons:

"One, additional domestic oil resources may be produced.

"Two, drilling and production operations in Hermosa Beach will bring additional jobs and demand for services and materials that will help the economy of Southern California.

"Three, tidelands oil can be developed from an inland drill site several blocks from and out of the view from the beach. This means that there will be no platforms in the ocean, no
well locations and production facilities

on the beach, and no transportation of

crude oil, whether by tanker or by

pipeline, in the ocean off the California

coast. Therefore the serious risks of

oil spills in the ocean usually attended

to tidelands oil production will not be

present.

"Four, drilling will occur from the
city maintenance yard. The drilling rig

which will be present during less than

one-seventh of the estimated 35-year life

of the project will be camouflaged by

being encased in a tower. When

production phase begins, the rig and the
tower will be removed leaving no visual

intrusion. During the production phase

the only impacts on the residents will be

some traffic from trucks servicing the

production facility. The electrically

operated equipment will be soundproofed.

"Five, the development of the
tidelands oil resources will provide

money to the city for use in improving

and maintaining its beaches."
CHAIRMAN DAVIS: All right. So do you recommend we -- Mr. Attorney General, what do you recommend?

DEPUTY ATTORNEY GENERAL HAGER: I would recommend that you --

COMMISSIONER MCCARTHY: I move that we place that finding of facts into the record, Mr. Chairman.

CHAIRMAN DAVIS: Let's have a motion to adopt the finding.

DEPUTY ATTORNEY GENERAL HAGER: I adopt the finding, yes. Two, you should make a determination. I think we should, just to make sure that we've been done this right, let's go through and make the determinations in 6872 making all the -- that there,

"That oil and gas deposits are believed to be contained in the Hermosa Beach tidelands, that these deposits are being drained by wells on adjacent land, and that leasing of the tidelands for the production of oil and gas would be in the best interest of the state."

Those findings, the first two being based on the record before the Commission previous to this; the last one, in the best interest of the state, being based on the findings that were just put into the record.

And then also you must then approve, you must
approve the leasing of the tidelands pursuant to 7054.5 of the Public Resources Code, and then you must find that an EIR was prepared and certified for the project by the city and that the Commission has reviewed and considered the information.

CHAIRMAN DAVIS: All right. So shall we vote on these sequentially?

DEPUTY ATTORNEY GENERAL HAGER: It's all one thing.

GENERAL COUNSEL HIGHT: One package.

DEPUTY ATTORNEY GENERAL HAGER: One package.

CHAIRMAN DAVIS: All right. The Commission will construe that as a motion put before us by counsel.

And the vote in favor of that will be two to one.

ACTING COMMISSIONER PARKER: Yes.

CHAIRMAN DAVIS: I oppose and the other two Commissioners support it.

COMMISSIONER MCCARTHY: It's, of the motion that I made before the Commission -- Mr. Chairman, if I may?

CHAIRMAN DAVIS: Can we say your motion was amended by the --

COMMISSIONER MCCARTHY: Yes, it encompasses everything that the Attorney General's representative just said.

DEPUTY ATTORNEY GENERAL HAGER: Sounds fine.

CHAIRMAN DAVIS: And that vote, that motion passes
two votes to one.

DEPUTY ATTORNEY GENERAL HAGER: Okay.

EXECUTIVE OFFICER WARREN: Thank you very much, Mr. Chairman.

We have one other item on the regular calendar which will be brief and then -- we have one more item on the regular calendar which will be brief, Mr. Chairman and Commissioners, and then if you will, we need to save some of your time for an executive session which we were unable to do before the public session. We can hold that in this room after it's been cleared.

As the room is being cleared the next item, 91, Mr. Chairman, requests that you ought to -- may I proceed?

CHAIRMAN DAVIS: Please.

EXECUTIVE OFFICER WARREN: Item 91, Mr. Chairman, requests that you authorize the Executive Officer to execute a Memorandum Of Understanding with eight local governments and districts as part of an initiative by the State Lands Commission to enhance the public trust values of the eastern shore of San Pablo Bay in the Carquinez Straits which connects that bay. It has the support of the local governments and Congressman Miller, Senator Compton, and Assemblymembers Campbell, Hannigan, and Valerie Brown.

It may well be a useful pilot for further similar initiatives by the State Lands Commission in its management
of public trust lands.

The initiative itself consists of four parts which Elizabeth Patterson, our senior planner and the project director of this initiative, will briefly summarize, if I may.

MS. PATTERSON: Thank you. The MOU initiative is a planning process that also has a status of trends report that will be prepared on the public trust resources and uses of the Carquinez Strait, an area that actually is interesting in its fragile balance of industrial water related commerce and explicit scenic and open space and habitat values.

The Resource Management Plan will take all of those uses and resources into consideration, integrate and coordinate the existing plans, and resolve any conflicts.

We have the inner governmental process which is the MOU, and we have a preservation trust which is being established by the MOU parties and the organizing committee that was mentioned of the legislators. And that trust is for the purposes of implementing the Resource Management Plan.

EXECUTIVE OFFICER WARREN: I might add that the trust will consist of not only the MOU participating governments but also an equal number of representatives from the business and industry community and an equal number from the public interest community itself to help with the process. So we're trying to bring both government and the
private sector into a collaborative effort to deal with, to try to enhance the, not only the, well the environmental but the economic public trust values of the region. So it would be worthwhile.

CHAIRMAN DAVIS: Sounds like it. Are there any other comments?

ACTING COMMISSIONER PARKER: No, I just concur in this environment, that in this environment, economic environment, to see business public and government in a collaborative effort. I'm very impressed with staff's work.

COMMISSIONER MCCARTHY: I wanted to just say I think this is a great piece of work and I really want to compliment the staff who put this together. This is a significant, significant achievement.

CHAIRMAN DAVIS: Talk to Charlie Warren on that.

COMMISSIONER MCCARTHY: My congratulations to Carquinez Strait Public Trust.

EXECUTIVE OFFICER WARREN: Are you, I would appreciate an aye vote on that.

COMMISSIONER MCCARTHY: Moved.

CHAIRMAN DAVIS: The motion is unanimously adopted.

COMMISSIONER MCCARTHY: Okay.

EXECUTIVE OFFICER WARREN: One other thing, just for your information, make sure that we are now ready for the executive session, next week the staff will be testifying.
before Senator Mike Thompkins' subcommittee on river
restoration. Senator Thompkins is, as you'll recall, the
chairman of the Senate Committee on Natural Resources and
Wildlife. Following the publication of our Public Trust
Report on the state's rivers he formed a subcommittee on
river restoration.

Our information is that he intends to, for the
subcommittee to hold hearings throughout the state this year,
the first of which will be Tuesday, but we've been given the
responsibility of making the lead presentation, and we'll be
representing you at that subcommittee hearing and at
subsequent hearings by the Senate.

CHAIRMAN DAVIS: Good.

EXECUTIVE OFFICER WARREN: And now I turn it over
to our chief counsel for the executive session.

(Thereupon the foregoing State Lands
Commission meeting was concluded at 4:05
p.m.)
CERTIFICATE OF CERTIFIED SHORTHAND REPORTER

I, DORIS M. BAILLEY, a Certified Shorthand Reporter and Registered Professional Reporter, in and for the State of California, do hereby certify that I am a disinterested person herein; that I reported the foregoing meeting in shorthand writing and thereafter caused my shorthand writing to be transcribed by computer.

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

IN WITNESS WHEREOF, I have hereunto set my hand as a Certified Shorthand Reporter on the 14th day of March, 1994.

Doris M. Bailey, CSR, RPR
Certified Shorthand Reporter
License Number 8751