MEETING OF THE CALIFORNIA STATE LANDS COMMISSION

TRANSCRIPT OF PROCEEDINGS
Friday, September 3, 1999
10:00 a.m.

One World Way
Board of Commissioners Meeting Room
Department of Airports
Administrative Building
Los Angeles, California

REPORTED BY:
Katherine Gale,
CSR 9793
Our File No. 1-58315
APPEARANCES:

COMMISSION MEMBERS:

CRUZ M. BUSTAMANTE, Lieutenant Governor, Chair
KATHLEEN CONNELL, State Controller, Member
ANNETTE PORINI, Chief Deputy for Department of
Finance

COMMISSION STAFF:

PAUL THAYER, Executive Officer
JACK RUMP, Chief Counsel
RICK LUDLOW, Senior Staff Counsel
PAUL MOUNT, Chief, MRMD
DWIGHT SANDERS, Chief, Environmental Planning and
Management
SHARON SHAW, Administrative Assistant II

ATTORNEY GENERAL'S OFFICE:

DENNIS EAGAN, Deputy Attorney General
MATTHEW RODRIGUEZ, Deputy Attorney General
COMMISSIONER BUSTAMANTE: I'll call this meeting to order. All the representatives of the commission are present. My name is Cruz Bustamante, and I'm joined today by Controller Kathleen Connell and Annette Porini, Chief Deputy and Director of the Department of Finance.

For the benefit of those in the audience, the State Lands Commission was established to administer and sovereign tide and submerged lands of the state as well as the state's mineral interests. Today we will address proposals concerning the leasing and management of these public properties.

The first item of business will be the adoption of the minutes from the commission's last meeting.

Do we have a motion to approve the minutes?

COMMISSIONER CONNELL: Mr. Chair, I move that we approve the minutes.

COMMISSIONER PORINI: Second.

COMMISSIONER BUSTAMANTE: The record shows that there's been a unanimous acceptance of the
minutes. The minutes are approved unanimously.

The next order of business will be the adoption of the consent calendar. Paul, our executive officer, Paul Thayer, to indicate which items have been removed from the consent calendar.

MR. THAYER: Good morning, Mr. Chairman and commission. There's one item pulled by the applicant, C6. And in addition we have requests to speak on two other items: C65 which has to do with the borings off of the shell mounds off of Santa Barbara, and C75 which is a proposal by Benton to defer drilling and production obligations.

So in light of our rules on the consent calendar having to be -- have only items for which there's no opposition or no concern, I would recommend that those be taken off as well.

COMMISSIONER BUSTAMANTE: All right.

C70 --

MR. THAYER: C75 --

COMMISSIONER BUSTAMANTE: C75. Okay.

MR. THAYER -- and C65.

COMMISSIONER BUSTAMANTE: All right.

MR. THAYER: And so I would recommend that you take up the calender --

COMMISSIONER BUSTAMANTE: Did they
indicate that that was opposition, or did they
indicate that there was just --

MR. THAYER: They wanted to speak.

COMMISSIONER BUSTAMANTE: They wanted
to speak.

MR. THAYER: They wanted to speak. And
I think the only way to really handle that is go
ahead and take it off.

COMMISSIONER BUSTAMANTE: That's fine.

You want to do that? We need a motion.

COMMISSIONER CONNELL: I move the
consent calendar with the exception of C6, C65, and
C75. Is that correct?

MR. THAYER: That's correct.

COMMISSIONER PORINI: Second.

COMMISSIONER BUSTAMANTE: Let the
record show that the -- the motion passes unanimously
all those consent items.

Is there anyone in the audience who
wishes to speak on any item that -- for any of those
that are wanting to speak, please, if you haven't
already filled out your cards, please make sure you
fill out all the cards, indicate which item you would
like to speak on, and pass it on to the press.

The next order of business is the
executive officer's report.

Mr. Thayer, may I have your report?

MR. THAYER: Certainly. I wanted to touch on a few items with the commission that were in previous meetings but for which we don't have particular items on today.

But first I want to introduce we have the usual staff lineup but in addition we have Matt Rodriquez here from the Attorney General's Office in the center.

Matt was recently promoted to take Rick Frank's place. He's a Senior Assistant Attorney General in charge of the land law section and is Dennis Eagan's boss, therefore. We have Dennis at most of our meetings.

And he has a lot of experience in dealing with issues that relate to the Lands Commission's work with the Coastal Commission for a number of years, and we know we've got a good guy here in Matt. I just wanted to make sure that you were aware.

COMMISSIONER BUSTAMANTE: Do we have any comments? Congratulations on your promotion.

MR. RODRIGUEZ: Thank you very much.

COMMISSIONER BUSTAMANTE:
Congratulations on being a good guy too.

MR. RODRIQUEZ: And that's what I really like. And I also want to just add that I don't know that anybody can really be Dennis Eagan's boss. I've been working with Dennis for 12 years, and it's been a wonderful working relationship, and I look forward to continue to work with him as he advises this commission.

I did want to let the commissioners know that, as Paul indicated, I have been with the land law section in our office for 12 years, and during that time I've had the pleasure of representing this commission and working with your staff. I look forward to continuing to do so.

And I also want to let you know that I am aware of the history of our section and that our section was initiated to represent this commission and many of its works.

I still consider that to be a priority mission of the land law section and wanted to assure you that anything you need from our office, we're there to give it to you, and so you should never hesitate to ask us for assistance as you're conducting your very serious business. So with that I'll let you continue.
COMMISSIONER CONNELL: Thank you.

MR. THAYER: The next --

COMMISSIONER BUSTAMANTE: I'm sorry.

Go ahead.

MR. THAYER: The next item I wanted to
talk about is that at our last commission meeting we
had an extensive discussion on the abandonment of the
Belmont platform/island.

This is not back before you today, but
at that meeting the commission expressed its interest
in getting additional information before proceeding
on that.

And in response to that we're
developing sort of a half day, two-thirds day
conference at which we're going to invite a number of
people that are interested in this issue from the
public use sector, the professional expert sector,
and the public agency sectors.

They're a lot of the same people, the
same interests you've heard from at the Belmont
hearing. And we would propose to hold that
conference on the same day as the next commission
hearing.

So if the commissioners care to come
and listen to this additional information or send
their staff, we would recapitulate that briefly at the regular commission meeting, probably here and at Belmont. And you can call in a conference so that that information would be available to you and you could consider it when you're making your decision.

COMMISSIONER CONNELL: Would that be in Long Beach?

MR. THAYER: It will probably be -- we're thinking about Ventura. It makes it a little bit closer to the Santa Barbara folks who are very interested in this and close to some of the experts.

COMMISSIONER CONNELL: So our meeting would be in Santa Barbara?

MR. THAYER: In Ventura. So unless there's any objection, we'll go ahead and schedule that.

At that meeting we may very well -- we are planning to have a roll-out of our new marine facilities inspection program. As part of the most recent budget, we finally received enough money that we can inspect what we refer to as non-terminal marine facilities.

What this means is that it's the kinds of facilities that have the potential to leak oil into the water but which we haven't been inspecting
in the past.

We're going to have that program ready to go, and we think that that would be a nice adjunct.

I also wanted to mention that at our last meeting -- or update you on it -- at our last meeting we had the proposal from Eureka to lease public trust lands on the waterfront there, and the commission directed me to try and resolve that issue, the portions of the lease that were inconsistent with the public trust between meetings.

And I'm regretful to have to report that we were unable to do that. We drafted up a lease that would address all the concerns that the commissioners had to make sure the public trust was carried out and forwarded that to the city and indicated to them we would be willing to negotiate over some of the points. But they didn't want to proceed at that point and abandoned the project.

Somewhat coincidentally several weeks ago there was an adjacent site where a Wal-Mart was proposed, and some of the opponents described that were connected to that referendum in the city failed and, therefore, Wal-Mart, we understand, may be pulling out of their project up there.
So a lot of the pressure for development along the waterfront there has lessened, and the city is reconsidering what they want to do with the parcel that was in front of you last time.

The last -- or two more items. The commission will recall that back in April we had a press conference to announce the settlement on the Brother Jonathan litigation which resulted in 200 points coming to the state.

There's going to be an exhibit in the state capital later this month. It will open up and last through January. And we'll advise the commissioners and their offices when that occurs to see if you want to participate in that, but we thought you would want to know about that.

COMMISSIONER CONNELL: Is that exhibit going to travel throughout the state?

MR. THAYER: This particular one will not. However, we are working -- we've received inquiries from some other museums to see if we're willing to lend them coins and other artifacts from the Brother Jonathan.

And of course this exhibit might end up becoming the method of doing that. But there is interest. There is widespread interest in these
artifacts, and we're certainly looking to facilitate and accommodate that.

COMMISSIONER BUSTAMANTE: Is there interest in using the 150th anniversary?

MR. THAYER: We have been in contact with that organization and haven't yet heard from them on that.

Then the final point I wanted to raise is the retrosection of the El Toro Marine Air Base. The issue here is since the base closure the commission has a very unique authority and distinct authority to accept transference of the police and fire and other municipal responsibilities from the federal government to the state and local governments that doesn't relate to any of our other functions. And that has now been proposed for El Toro.

However, there's a lot of controversy over the reuse at El Toro, and as a result of input from the opponents of that project and the advice from the Attorney General's Office, we have not brought that before the commission because CEQA had not yet been complied with.

Last week we received documentation from the county, and we received some preliminary review from our staff and that of the Attorney
General's Office, and we may be in a position where we can bring that back in November. Both the commissioners and staff have received a lot of inquiries about the status of that, and I wanted to make you aware of that.

There is a potential auxiliary issue dealing with toxics. And although the commission does not have direct jurisdiction over that, the commission may be interested in learning how that's resolved. And we may need to look into that a little bit further before we can bring that to the commission in order that we can be satisfied on that.

COMMISSIONER BUSTAMANTE: Is that because there is no state lands that are going to be affected by any toxic situation or -- what do you mean by jurisdiction over it?

MR. THAYER: The issue before us is not so much land use or ownership of the land but the transference of the police authority. And as such we're not involved in what is a fairly elaborate process which we researched for the other retrosection that's on today's calendar, George Air Force Base.

There's a process which involves the State Department of Toxic Substance Control and the
Regional Water Quality Control Board, and those entities are usually dealing on behalf of the state with the toxics issue.

But I'm aware that the commissioners do not want to be in a position where they're approving or facilitating a transfer where there remain outstanding issues. And so this is something that we need to take a look at.

COMMISSIONER CONNELL: I have a question in that regard, Mr. Chair.

This El Toro, did it ever have a live ammunition field? I remember we dealt with this in a San Diego property in my first term. I want to make sure that when we -- if we have any transfer of this property to us, albeit briefly, that we do not have any problem with live ammunition that has not yet exploded being available on the land damaging people.

I would want to make sure that they have swept that field and that any artillery range that existed has been swept clean.

They had a tragedy down in San Diego, as you recall, when they failed to do that when they transferred the San Diego naval base, and children were killed in the process. And we certainly want to make sure that that has been -- that safety has been
observed and that danger has been removed.

MR. THAYER: I understand. And we'll make sure we investigate that before we bring it back to the commission.

COMMISSIONER BUSTAMANTE: Are we aware that there in fact is problems of toxic -- well, toxic problems on the land?

MR. THAYER: We've received some letters which have made that allegation.

COMMISSIONER BUSTAMANTE: Letters not by any agency or by any scientific entity, but just generally --

MR. THAYER: That's correct. From citizens and from one council member down there.

COMMISSIONER BUSTAMANTE: Have we reviewed that information to find out if that's at all true?

MR. THAYER: We're in the process of doing that. We'll certainly complete that before we bring it back to the commission.

COMMISSIONER BUSTAMANTE: I know that our jurisdiction on this is very limited, but I have a problem in moving forward on something which we are allowing the military to -- because they can't transfer the land until this police situation has
been transported.

It seems to me that the military has the obligation in assisting in the cleanup of that facility, and dumping a piece of property on the county just seems to me -- even if they want it, it seems to me to be a problem.

COMMISSIONER CONNELL: Well, this is what I was referring to what occurred in San Diego. This is exactly what happened. There wasn't a complete cleanup of the property. In that case it was an artillery range which unfortunately detonated on these children. In this case it may be toxics.

I am absolutely insistent that the federal government remove all toxics, whether they are toxics which are pollutants or whether they are toxics which may be undetonated artillery.

We do not want to have any contact legally with this land. I would like to make sure that the Attorney General protects us in that regard. We do not want to have any momentary possession of this land in a situation in which the land has not been cleansed. Obviously we don't want the state to be the deep pocket here that can be associated with a problem that is later identified.

COMMISSIONER BUSTAMANTE: Also, if
there's any -- if there's any legal way of
segregating land that we could -- I know that there's
some interest by the county because there is some
potential revenue that could be received from the
property. I know that they're interested in moving
forward.

If there's any way of segregating land
so that those areas that are a problem could be
somehow isolated appropriately without liability,
without major problems, and clearly without jeopardy
to the public, that might be an interesting proposal
to at least give us some information on.

MR. THAYER: So partial retrosection?
Geographically a more limited --

COMMISSIONER BUSTAMANTE: I think as
long as the commission feels that we're not exposing
the public even though we don't have specific
jurisdiction over the toxic issues, this is clearly
the step that they need to transfer the property.

And we'd like to see a little bit more
attention made to what they plan to do. In fact they
may have a plan. We just may not know about it. I'm
sure that's the case.

MR. THAYER: Sure. We'll consider all
these comments before bringing it back to the
COMMISSIONER BUSTAMANTE: Okay.

MR. THAYER: And that concludes the executive officer's report. If the commission would like, we could move to the two items -- since they're earliest in the calendar -- that were taken from the consent calendar.

We could make a staff presentation, but perhaps it would be best to listen to what the concerns are from the public that's causing to take the items off.

COMMISSIONER BUSTAMANTE: That will be fine. Why don't we go ahead and start with C65. Let's see. How many people do I have here to speak? Only two people; is that correct?

MR. THAYER: That's all I have as well.

COMMISSIONER BUSTAMANTE: Okay. I have -- I'll read the names.

MR. THAYER: Susan Jordan.

COMMISSIONER BUSTAMANTE: Susan Gordon?

MR. THAYER: Jordan.

MS. JORDAN: Jordan.

COMMISSIONER BUSTAMANTE: Jordan and Linda Krop.

Susan.
MS. JORDAN: Good morning. My name is Susan Jordan, and I'm with the League for Coastal Protection. It's my first time at a State Lands Commission, so forgive me if I don't know of the nuances.

But in terms of the Chevron shell mounds, part of the concern here, I've watched this at the Coastal Commission for quite some time, and I think the general concern is that this issue has just been dragging on forever.

We're all very gratified that we're finally doing this -- doing these core samples because they need to be done, but what I want to urge is that the commission really stay on top of this issue and move it towards resolution.

It's more of a concern now than ever because of what's happening in terms of the federal offshore leases. We recently had 4 of the 40 expired. We are moving towards expiration of the remaining 36.

But there's a great possibility that we won't prevail in that struggle and that there will be some development. If there is development, we have to be very clear at the state level as a signal to the federal level that we take care of our own house.
And we can't set a precedent for allowing any kind of development where debris removal is not completed, which is where I'd like to take an issue with the staff report.

The staff report gives an impression that debris removal has been completed both here in C65 and later in your staff report on the federal -- on the state leases. Our position is that debris removal has not been completed.

So we're glad that you're moving forward on this, and we would like to encourage you to look at it very closely. Thank you.

COMMISSIONER CONNELL: Can I ask you a question, Susan?

MS. JORDAN: Uh-huh.

COMMISSIONER CONNELL: What would you ideally like us to do in regards with the shell mounds?

We're obviously -- we're talking about -- I think the four names are Heidi and Holly and Hazel and Hilda or something like that; right?

What would you ideally like us to do?

MS. JORDAN: I think you're making the first step. I'm not from that area. I've been watching this more in a general position. So I'm not
right up on the exact details. EDC has been following this for years, and I really think they can give you a better direction. I think the core sample idea is necessary to understand what is there.

I think also there is -- while I don't like to promote trawling because it has its own issues, but I think that there has been an impact, and there was a promise made to the trawlers.

And they apparently need equipment to help them avoid impacts while this drags on and gets resolved, I think to stay on top of it and make sure that it gets resolved.

And this issue of it becoming habitat is another problem, okay, because if you leave something in the water and something manages to survive around it, it doesn't make it proper habitat.

You know, for us we look at this issue if this was a developer who was leasing state land and left their debris or garbage on the land, there would be no question that this would be removed.

What we're dealing with here is a marine environment where it's not visible, and I think that's part of the problem.

So I guess what we're hoping to do is figure out if this can be removed in a safe manner
and to have it removed and to set the precedent for any future development either at state or federal level for how these platforms and their abandonment will be handled.

COMMISSIONER CONNELL: Thank you.

MS. JORDAN: You're welcome.

COMMISSIONER CONNELL: Mr. Chair, may I ask does our staff have a response to that?

MR. THAYER: Certainly. We agree. We would like to bring this issue to a resolution than have it drag on too long. Basically the problem is there are a variety of interests there with different concerns.

Where we are at this point, though, in the process is that we and the Coastal Commission have asked Chevron to develop some additional information about shell mound removal or the habitat that exists now.

And the lease that's -- or permit that's in front of you today is actually to permit us as an organization to do these borings, but the borings would actually be done by Chevron.

The concern here is we would like to move things along in a rapid fashion the work program for developing additional information. A feasibility
study has not yet been completed, and our concern was that if we waited until November to bring this to the commission, we would have lost time that could have been used to start the boring and that kind of thing. So our approach is we would like to see some additional information developed before we bring it to this commission.

The commission -- just in the way of background on this, the commission acted back in 1994 to approve removal of the four H platforms, the four that you named.

In its staff report, the mounds were acknowledged to exist but were not required to be removed. However, as Ms. Jordan points out or alludes to, the commission's action requires that all debris be removed.

And I think it was not contemplated at that time that the shell mounds would prevent trawling in the area. The conditions required eventually that a test trawl be done to make sure that all the debris was removed. The test trawls hung up on the mounds.

And it's based on that that Ms. Jordan and others believe that the mounds should be treated as debris, because they've had the same physical
effect as the other kinds of debris that were there. I'm not as concerned about the particular name to it. The issue is how do we proceed from here.

Chevron has worked out a deal with the fishermen where they would like to provide global positioning and satellite navigational equipment which would allow the fishers to operate much more closely to the mounds than they can now.

Right now they're not sure where they are. They're under water. So they have to avoid a much larger area. If they had the satellite navigation gear, they could operate much more closely.

Chevron would like the commission to amend the previous conditions to allow them to do this in lieu of passing the trawl test.

It's in contemplation of that proposal coming to the commission that we're developing this additional information so that the commission will know not just about the GPS equipment but asking the commission about whether or not removing the shell mounds is something that the commission wants to pursue.

COMMISSIONER CONNELL: Have we removed
shell mounds elsewhere along the coast of the California?

MR. THAYER: I don't believe so.

COMMISSIONER CONNELL: Has it ever occurred anywhere else in the world that we have an experience?

MR. THAYER: I've talked with some of the federal people, MMS, about the Gulf of Mexico where there are, of course, a lot of platforms in development.

My understanding of the shell mounds, they have shell mounds there, but they're dramatically reduced in scope. They're 60 feet wide and 10 feet high, not consolidated.

What we're talking about here is a mound that's 30 or 40 feet high and 200 feet wide. So although I know of other shell mounds, I don't know of other mounds that are quite this big.

COMMISSIONER CONNELL: So we would have to pioneer an entire technique here.

MR. THAYER: Potentially. Potentially.

COMMISSIONER CONNELL: And what would be the negative environmental consequences if we got it wrong?

MR. THAYER: Well, I think the one that
most people talk about is what the impacts of the environment will be from removal. We don’t know what the method is that could be used, whether you can break up these -- the shells have actually reconsolidated, so they’re almost like concrete. And so the question is whether you can get that out with anything short of explosives. I think this part of the feasibility study would be important to see what’s the least damaging alternative for removal.

But if it turns out to be explosives, then we’re looking at the impacts that come from that from turbidity, the immediate shock, and that kind of thing. But we don’t know if that’s the only way there is to remove it.

COMMISSIONER CONNELL: Will you be researching that?

MR. THAYER: Yes.

COMMISSIONER CONNELL: Between now and November?

MR. THAYER: Well, as part of the feasibility study. This shell mounds issue won’t be back in November. This feasibility study won’t be done for a while. We’re hoping that the borings can start, but that’s the only part of the overall study.
COMMISSIONER CONNELL: Thank you.

COMMISSIONER BUSTAMANTE: Anything else?

Linda Krop.

MS. KROP: Thank you and good morning. My name is Linda Krop. I'm the chief counsel with the Environmental Defense Center, and I represent the Environmental Coalition of Santa Barbara and the Pacific Coast Federation of Fishermen's Association on this issue.

I appreciate the dialogue that's gone on so far, so I can kind of abbreviate my comments and address Commissioner Connell's questions.

First and foremost what we want is permit enforcement. When this permit was issued by the State Lands Commission in 1994 the contemplation was that the site would be completely restored to its natural condition. That's what the negative declaration said, that all debris and all matter would be removed.

And this site was identified as a potential trawling site. As you know, trawling was very limited. This was identified as a trawling site, and one of the permit conditions specifically also stated that the site had to be free of
obstructions for trawling.

The platforms were removed three years ago, and we've been trying for three years to get the site cleaned up. We've been working quite closely with the State Lands Commission staff in terms of trying to get the permit either enforced or set a deadline for Chevron to come in and apply for an amendment if they do want to leave the shell mounds in place.

And it's been three years later. We still don't have the permit enforced. We still don't have an amendment on the table. What we do have now is a process of negotiation informally going on between the staff and Chevron regarding a feasibility study. This negotiation has been going on itself for quite sometime.

As of now there still is no agreement regarding the feasibility study. There's no agreed scope of work, there's no agreed financing mechanism. So what we want at this point is really move the process forward.

Either require the removal, looking at the best way to do it, or tell Chevron to come in for an amendment and process it, do the environmental review, whatever you need normally when an applicant
comes in to change a condition on a permit.

We do support the core sampling permit.

We think that's a very important piece of information that is necessary to evaluate the various alternatives. So we do support that.

It's clear from the permit in front of you, which is one permit, and the discussion that you've heard from your executive officer that this is going to take a while to get all the information, to look at the alternatives.

One of the key concerns has been protection for fishers in the meantime. And it's not just trawlers. It's other fishers that operate in the area as well.

And we have been talking to Robert Hide, the former executive officer, for the last three years on this issue, and he was quite supportive of the concept of providing some interim protection for the fishers in the area with GPS equipment. That hasn't happened.

Chevron has tried other methods of protection like buoys and radar, and that does not work. The buoys don't stay in place. They move around so they don't really tell the fishers the information that they need. The radar did not work
So they're stuck out there. There's no protection at all. At least four fishers we know have sustained significant gear damage, and it's been a real problem. They have claims in for compensation.

The last point I wanted to make is really two points of clarification.

COMMISSIONER CONNELL: Can I interrupt you just for a minute?

Timing seems to be an issue here, Paul. Why can't we make a more expeditious move here? Why is it taking so long?

MR. THAYER: I think the overall goal would be to try and come up with some sort of solution that everybody can agree with, and I don't think that's going to happen on this no matter what. But that is one of the reasons this is taking a while.

We were prepared to bring this to the commission actually back in June, the GPS proposal by Chevron to resolve this issue by giving GPS to the fishermen.

But in contact with the Coastal Commission staff, they wanted to act in a more
cooperative fashion with, I believe, both commissions.

And I think we agreed with them for benefit of having more information to us available at the time, because we felt that, you know, the Environmental Defense Center and others were interested in not just evaluating the GPS approach but looking at the shell mound removal approach.

The legal framework is that if we wanted to do the GPS approach, that would take the form of an amendment to the previous commission action.

We could bring that to the commission in November if you choose. But then you'd be acting without information about this alternative on the shell mound.

COMMISSIONER BUSTAMANTE: Chevron's offer was really to devise a GPS to finalize --

MR. THAYER: Yes. It wasn't meant to be --

COMMISSIONER BUSTAMANTE: -- not to -- to provide that and then still look at the possibility of removing the shell mounds. It was to resolve it.

MR. THAYER: Their proposal was to
resolve it by providing GPS. And again, the initial commission's action would have left the shell mounds in place. If they got hung up in the nets --

COMMISSIONER BUSTAMANTE: The difference in the position by the folks that are represented by Ms. Krop is this is why we started doing this -- this sort of core sampling activity, in order to find out if in fact there is -- and this is also setting a major precedent.

Because this is not the only platform that we have with shell mounds; correct?

MR. THAYER: That's correct.

COMMISSIONER CONNELL: In fact, as we just learned from earlier dialogue, we appear to be pioneering new grounds here on the shell mounds.

COMMISSIONER BUSTAMANTE: It's also setting a precedent for the deconstruction of others and the disassembly of other platforms should they occur in the future.

MR. THAYER: I want to be careful about the pioneering part. They haven't really done anything within this scope in the United States. I think as part of this feasibility study it would be important to check in other places in the world.

COMMISSIONER CONNELL: That's what my
question was to you, Paul.

I'm very concerned that we not be creating adverse impacts by the removal of the shell mound. I mean, if something goes wrong in the middle of the removal that we have not anticipated and we are not prepared to mitigate the damage -- we may be causing more damage than we would have had we kept the shell mound in place. I am very concerned that we be aware of what the consequences are here.

MR. THAYER: That's exactly what the question is: Which is the best way to go. And I think that the Environmental Defense Center would invite the studies done to make sure that the right thing is done.

Now, I would be remiss if I didn't also point out that it's our view as the staff that the lease provisions, the contract we have with the oil industry for these platforms for these leases, provides that at the commission's option it can require the oil company to remove everything that's there including the shell mounds is our perspective. Now, the commission has not acted to do that at this point. It has not formulated what part of the mounds be removed. But --

COMMISSIONER BUSTAMANTE: The language
that's in the -- that -- well, first of all, shell
mounds were never anticipated in the construction of
the proposal; correct?

MR. THAYER: That's correct.

COMMISSIONER BUSTAMANTE: I think that
in the development of the agreement, my guess is that
they were referring to anything from manmade
materials that had been placed on site, that no
debris would be left of any kind, would be
inappropriate.

And I think that this is -- although
there is a generic statement in there which I think
we should take very seriously, I don't think that
anybody at the time that the agreement was developed
really thought that there was going to be such a huge
problem with the shell mounds.

So I think that it's appropriate for
the commission to make sure that we study this and to
make sure that the core sampling takes place, to make
sure that we have more information before we start
suggesting that we start removing, doing other kinds
of things.

I don't know how -- I ask the staff --
we don't know if it's not appropriate to still pursue
the GPS activity and why we couldn't pursue that
despite --

MR. THAYER: As an interim measure?

COMMISSIONER BUSTAMANTE: Yeah.

MR. THAYER: We could do that.

Presently there are buoys out there, and as some of the -- as I think Linda or Ms. Jordan indicated, there's -- they've been unreliably in place, so they haven't provided much guidance to the fishermen --

COMMISSIONER BUSTAMANTE: What does that mean, "unreliably"?

MR. THAYER: Well --

COMMISSIONER CONNELL: They move.

MR. THAYER: They either move or the chain breaks.

It would seem to me that the Coast Guard is able to attach buoys that stay in place a little bit better. I don't know what the problem is, whether they're poorly designed or maintained. But that --

COMMISSIONER BUSTAMANTE: Maybe we should attach them to the shell mounds. They don't seem to be going anywhere.

MR. THAYER: Regretfully, no.

But if the commission would like, we
can certainly look into that, as to whether or not we
want to require some kind --

COMMISSIONER BUSTAMANTE: Well, for
instance, it's outrageous to think there's supposed
to be buoys out there and they're being moved and
they're not -- they're not staying in place.

So let me -- is there anybody in the
commission who doesn't believe that we should make
sure that --

COMMISSIONER CONNELL: Well, obviously
you need to enforce what is a requirement.

COMMISSIONER BUSTAMANTE: And then, you
know, I think that we should look at the
possibility -- I'd like to see the staff come back
with a recommendation at the next meeting as to
whether or not pursuing the GPS activity isn't an
appropriate next step.

MR. THAYER: Okay. We'll do that.

COMMISSIONER BUSTAMANTE: Or is the
commission ready to deal with that now?

COMMISSIONER CONNELL: I think we ought
to get the information that's required. I'd like to
have a fuller presentation of this in November.

MR. THAYER: We'll do that.

COMMISSIONER BUSTAMANTE: All right.
COMMISSIONER CONNELL: I didn't mean to interrupt you. You were continuing. Go ahead, Linda.

MS. KROP: I will close.

And I appreciate the commission's interest in the GPS as an interim measure. I would just like to remind the commission that Chevron is in violation of their current permit.

Their current permit has a condition which requires them to successfully complete a trawl clearance test. They have not done that. So they are in violation of their current permit.

It doesn't matter whether the shell mounds were anticipated. Debris and obstruction were anticipated. The permit requires that all obstructions be removed.

The negative declaration requires that the site be restored to its natural condition. If you don't do that, that's where you're pioneering and setting a precedent that for all 20 platforms in our channel they're going to leave their junk. That's what we don't want.

All we're asking for is enforce your existing permit. And if it takes a little bit of work to find out how to best do it, we're all in
favor of that.

And in terms of looking at the relative impacts of removal versus non-removal, keep in mind there's a difference between short-term impacts and long-term impacts.

There will be some impacts of removal, but they will be short-term compared to the long-term impacts of leaving this junk in place and setting a precedent.

So please remember that there is a permit condition that's been violated for the last three years and we're trying to get a remedy. And we look forward to working with your staff on this issue. And thank you very much for your interest.

COMMISSIONER BUSTAMANTE: Point well taken.

Staff, any other comment?

MR. THAYER: We would agree with the assessment that the permit requirements have not yet been met, and that's why we're working on this.

COMMISSIONER BUSTAMANTE: Okay.

COMMISSIONER CONNELL: Moving on.

COMMISSIONER PORINI: Do we need a motion?

COMMISSIONER CONNELL: Do we need any
action to direct you, Paul, to -- is this an action
item or is this --

MR. THAYER: Yes. We would now need to
vote on the boring permit itself which I believe the
witnesses would not object to.

COMMISSIONER CONNELL: Well, I move the
staff recommendation on boring.

COMMISSIONER PORINI: Second.

COMMISSIONER BUSTAMANTE: The
recommendation has been moved unanimously by the
commission. And also we anticipate that just the
verbal direction to you to bring this back in the
November meeting is sufficient.

MR. THAYER: That will be done.

COMMISSIONER BUSTAMANTE: All right.

We have item No. 75. We have quite a group for item
No. 75. I don't believe that these are in any kind
of order except perhaps the way they were received,
so we'll just go from top to bottom.

John Stahl.

COMMISSIONER CONNELL: Mr. Chair, while
we're waiting for members to come up to speak with
us, I would just like to urge everyone who does come
up to try to recognize that this is probably -- at
least in my view, and I think the colleagues and the
commission join me -- probably the most critical public policy issue that we have before this commission in the course of my term here on the board.

I think the need to deal with the oil and gas leases off the coast is not only timely, it is essential to the future of our coastline in California.

So I appreciate the fact that many of you have traveled as far as you have to address this today. I think this will probably be the signature work of this commission over the next four years, Mr. Chair.

COMMISSIONER BUSTAMANTE: Mr. Stahl then Mr. Rieber.

MR. RIEBER: Actually, my name is Frank Rieber. Good morning. Mr. Stahl, myself, and Mr. Harper are representing Benton Oil and Gas.

COMMISSIONER BUSTAMANTE: Do you want to all come up at the same time?

MR. RIEBER: It might be in a better interest to -- for us to refrain and hear what some of the other issues are, and that would enable us to then answer those issues.

COMMISSIONER CONNELL: You would rather
MR. RIEBER: Correct.

COMMISSIONER CONNELL: Fine.

COMMISSIONER BUSTAMANTE: Okay.

We have Linda Krop, Hannah Eckberg, and then Carla Frisk.

MS. FRISK: Good morning, Chairman Bustamante and commission. I'm Carla Frisk. Actually, I think we're going to do it slightly in reverse. It would be more practical for the commission.

Just before I begin, I'm representing Senator Jack O'Connell today, and I wanted to thank Commissioner Connell for your -- just your comments that you just made. I think this is going to be the signature work on this commission.

And while I didn't to speak on the prior issue with regards to the shell mounds, Senator O'Connell has been fairly extensively involved in this issue as well.

And I really want to -- I know you were unfortunately unable to be here at the meeting that we had. You had a plane to catch. Just a portion of our presentation -- I know you received the written materials, but we're very appreciative of your
COMMISSIONER CONNELL: By the way, I never made that plane nor did I make the subsequent plane or the plane after that. Four planes later we made it back to Sacramento.

MS. FRISK: Well, I'm really sorry now.

COMMISSIONER CONNELL: I'm really sorry. I would have been better off listening to your presentation than sitting in the airport that I was at.

MS. FRISK: Well, thank you anyway for your interest. We certainly appreciate that very much. And you know, our staff is always available to your staff or commission staff. We talk with Paul very regularly. You wonder why his phone bill's so high, you'll know.

Just a couple of comments on this particular item. Actually, a couple of questions. One of the questions that we had is with regards to this request for deferment.

When an oil company like Benton comes before you for deferment, what kind of reasons? Is there some kind of litmus test that they have to pass in order to get a recommendation or approval for such a deferment?
And if this deferment is granted today, would Benton be eligible for further extensions? This leads right into the question that Mr. O'Connell has raised, you know, how do we have control over the longevity of this.

MR. THAYER: Do you want me to respond to these questions?

COMMISSIONER CONNELL: Yes, please.

MR. THAYER: I would like Mr. Mount to backstop me on this. But I think the general criteria in this particular case, the owner is interested in continuing development here. They've built one test well which was unsuccessful. They found gas, but the sandstone was not permeable enough to be able to withdraw the gas that was available. It would stay in place, so to speak.

And so they've asked for a deferral because they would like to do some additional work and figure where they're going to go from here in terms of figuring out how they can get the gas out. And of course the commission can grant additional deferrals. There's no limit as to how many they can grant.

MR. MOUNT: That's correct.
MS. FRISK: Thank you very much.

COMMISSIONER CONNELL: Does that answer your question?

MS. FRISK: Yes.

And I guess I'll just leave you with a short story about a situation we have in Santa Barbara.

We had an old hotel in the downtown Santa Barbara. It housed a lot of elderly senior people. And we had a proposal come in to turn that hotel into a very fancy hotel, and it was approved by our city council.

And they demolished the hotel downtown, and now there is a giant hole in the middle of downtown Santa Barbara because it's just midway and it stopped.

And I think we would really be concerned about similar stories occurring like this or on any other leases.

Thank you very much.

COMMISSIONER BUSTAMANTE: Okay. Thank you, Carla.

Linda.

MS. KROP: Thank you. Again, Linda Krop representing the Environmental Defense
Center. And then Hannah Eckberg couldn't make it, but I do have a letter she wrote to present to the commission.

COMMISSIONER BUSTAMANTE: All right.

MS. KROP: A few years ago, the Environmental Defense Center represented a couple environmental groups that were concerned about this project.

We did ultimately settle with the applicant. We achieved some additional mitigation measures. That was back in 1996. The project was approved at that time by the county and the state agencies.

Since that time we have been concerned about the delays in the project. And as Ms. Frisk pointed out, we don't think it's appropriate to allow these leases and these permits to continue to perpetuate but at some point they should either be developed or quitclaimed back to the state, and we think this is one example.

Molino has had a permit for the three years. They have not undertaken any exploratory activity since November of 1998. They pretty much stalled their -- at least their perceptible activities.
We don't know the reasons. I do have a news article I would like to pass out to the commission that talks about their financial woes. They're in about a 183 million dollars shortfall as of 1998.

In situations like this, I think it's important for the commission to really carefully scrutinize why a lessee is not developing their lease, and if they don't have a valid reason, that lease should be quitclaimed.

The staff report has some incorrect information about the status of the county's action on this and implies that your agency may be bound in this discretion to allow this county process to proceed before Benton or Molino can be required to continue their operations.

That's not true. I talked with the county staff this morning, and actually there are a couple representatives in the audience that can address you.

The staff report indicates that because of a separate permitting item regarding the Chevron Gaviota processing facility which could handle some of this gas -- some or all of the gas is in an abandonment review process.
And this report makes it sound that because of that, the Molino project has been put on hold. That's not true. That process is totally separate, has nothing to do with the Molino project. Molino has its own abandonment review condition. It's referred to in your staff report as an R1 condition.

The R1 condition that's relevant, that's the condition in the county permits that says if production drops below a certain level, 3 percent of capacity, it triggers an abandonment review by the county to say basically are you closing up shop, should you be required to abandon your facilities and remove them.

Molino has an abandonment review condition. And in April of this year it came into the county to amend that condition. And the county gave them a 24-month window to resume their activities from when they last undertook exploration, which was from November '98. So the county gave them 24 months from November '98 to November 2000 to resume some activity. Once they do, then the traditional R1 kicks in that once they start producing, if it drops below a certain level, they are subject to
abandonment review. So really what the county did is they did give them some more time.

What we're here to ask you is to assert your own independent discretion on this. Look at how long Molino has had to develop this lease and whether or not it's reasonable to give them this requested deferral or whether to give them a shorter deferral given that they haven't done anything on the lease for almost at least a year.

That's our request is that you assert your independent jurisdiction and examine whether or not this deferral is appropriate and if so, for how long.

And I -- the letter from Hannah Eckberg is as executive director of Get Oil Out. The letter states -- it's very short, so if I may just read it into the record.

"Get Oil Out, a 30-year old watchdog organization, works to defend the Santa Barbara Channel and coastline from the dangers and pollution of the oil industry.

"I'm sorry I could not be here personally, but I would take this opportunity to thank Lieutenant Governor Bustamante for his word to protect the California coastline from any new oil development. Now is the time to demonstrate your dedication to our precious coastal environment. "There's something this
commission can do to protect the Gaviota coast, more than is suggested in your staff report on the Molino project. The scenic area is under consideration for National Seashore status. The Molino project, if pursued, will scar this beautiful region.

"The County of Santa Barbara has issued the deadline of November 2000 for the Molino project to either move ahead with production or come under the R1 review process of abandonment. Should the project start before this date and dip below 3 percent of its maximum capacity, the review will still be activated.

"A plethora of reasons exist why the Molino project should not be allowed to continue. In light of the people of California and elected officials' overwhelming opposition to new oil development, Get Oil Out feels the State Lands Commission should request a quitclaim of these leases or move up the deadline to November '99.

"Recent exploration of the leases has shown insufficient resources, and the financial status of Benton Oil Company, the main financial sponsor of the project, is questionable.

"If they do go ahead with the project, will there be the finances available to cover an accident?

"As Chevron, Venoco, Unocal, and other Santa Barbara oil and gas operators have demonstrated, it is possible for the oil industry to operate without accidents. The people of our community are tired of living with this hazardous industry.

"Get Oil Out looks forward
to working with this commission  
to do everything possible to  
protect our coastal environment  
and the health and safety of the  
people of California.  
"Sincerely, Hannah  
Eckberg, Executive Director of  
Get Oil Out."  

Thank you.  

COMMISSIONER BUSTAMANTE: Staff, isn't  
the deferral supposed to coincide exactly the same as  
the Santa Barbara County?  

MR. THAYER: That's exactly the case.  
The applicant, the oil company, originally asked for  
a two-year deferral, but when we -- and there was  
some confusion about how long the county has extended  
their deferral for because of the -- of the typo in  
their report.  

But when we learned that they had only  
granted up to about 14 more months, November of next  
year, our recommendation is that the commission only  
grant the same deferral, reduce it for a period of  
time that the county grant. That's our  
recommendation.  

COMMISSIONER BUSTAMANTE: Does the  
commission have any thoughts at this point?  

COMMISSIONER CONNELL: I would like to  
hear the rest of --
MR. RIEBER: Again, my name is
Frank Rieber, and let me open by saying that --

COMMISSIONER BUSTAMANTE: If you all prefer to come up at the same time, you can. You don't have to stand back there in the shadows.

MR. RIEBER: We have no qualm there was a typo in the original letter which caused us as well to believe that the extension granted by the county would go for 24 months starting from November of '99 when in fact on subsequent examination there was a typo.

And we're in agreement with the extension from the state that is proposed now coinciding with the county extension so that they would vote -- have the same time lines.

Now, with that, I really don't want to bore you with what we're trying to do here. But there have been some allegations made that I think possibly need some response.

COMMISSIONER BUSTAMANTE: Maybe you could bore us just a little.

MR. RIEBER: I would be happy, but I know that time is precious.

COMMISSIONER BUSTAMANTE: I'll give you extra time.
MR. RIEBER: Thank you.

We started this project some years ago, and exploration of oil and gas is an expensive process. By November of '98 we had drilled our Molino prospect into the Gaviota field, spending in excess of 10 million dollars.

And as was pointed out, we discovered some tidelands. We also discovered that we drilled off structure, and by that I mean that we did not drill at the top of the structure.

That leaves us with some choices here. Our choices are to evaluate stimulation of the current well bores so that the gas can feed into the well bore in an economic fashion. Right now there's not enough to come in. We can investigate some other stimulation, which we're doing.

We can also sidetrack out of that well bore to a more crestal position for a variety of geologic reasons: one, we might expect a higher amount of reserves; and, two, we might expect a better rock quality which would allow production without future extensive and expensive stimulation. We're working on that right now and expect to come up with a plan very soon.

COMMISSIONER BUSTAMANTE: What does
stimulation mean?

MR. RIEBER: It can take a variety of answers, but in this case it basically means going in and hydraulically breaking the reservoir rocks and providing flow channels.

You break them, you hydraulically expand them, and then you pump a more porous media in so that you have a larger area for the gas to flow in. If there's a larger area, more gas comes in, and the well, in a lot of cases, can become economic.

COMMISSIONER BUSTAMANTE: How much more damage to the surrounding areas does all this stimulus create?

MR. RIEBER: Absolutely none. Absolutely none. The equipment to do it is confined to the well site. It's all truck mounted. They come in, hook up to the well bore, and basically these materials are pumped via tubing all the way down.

And as you know, this is an offshore location drill from an onshore site. We did an extended reach to get there. So this equipment would be set up actually at the Gaviota site.

But the site of the work, if you will, is actually out under the ocean in the sandstone that we're trying to fracture. And you do it by pumping
these materials and applying this hydraulic pressure
at the reservoir sand face which is some is 8,000
feet below the surface. So there's no damage done.

COMMISSIONER CONNELL: What quality of
oil are you taking out now?

MR. RIEBER: We're not -- we have not
established any production on the site yet.

COMMISSIONER CONNELL: What are you
imagining you're going to be able to get out?

MR. RIEBER: Gas.

COMMISSIONER CONNELL: Just gas?

MR. RIEBER: Not oil. At this point --
COMMISSIONER CONNELL: So how can you,
if you're just getting gas out, make this profitable?

MR. RIEBER: Gas is very profitable.

COMMISSIONER CONNELL: What price are
you assuming you're going to be able to sell this at?

MR. RIEBER: Our price index right now
are looking a bit north of two dollars.

COMMISSIONER CONNELL: How much do you
have to have in volume to make this a profitable
venture?

MR. RIEBER: That's really a good
question. We worked it. It depends -- we spent a
lot of money on the first well that we drilled.
Again, we would have to on subsequent wells get our costs down, but then again we have really come a long ways on our learning curve in this first well, this extended reach well.

But we expect that we would have to have a reserve size perhaps north of 30 to 50 BCF. We just don't know at this point --

COMMISSIONER CONNELL: What other location in Southern California has been able to achieve that volume?

MR. RIEBER: In Southern California? I'm thinking the landslide project over in the San Joaquin Valley has been north of that. Certainly the Lost Hills project that they're working on right now is going to be way north of those numbers.

And everything -- the federal platforms offshore have also been north of those numbers not only in unassociated gas but also in the volumes that they recovered from associated gas.

COMMISSIONER CONNELL: I'm sorry. I don't mean to interrupt you. I'm just triggered by the economics.

MR. RIEBER: No, I'll be happy to answer your question.

COMMISSIONER CONNELL: You know, my
economics fascination burdens me everywhere.

COMMISSIONER BUSTAMANTE: Fire away.

MR. RIEBER: Economics are our -- we're not out here for fun. We're out here for profit and to be able to economically -- to economically bring these projects to fruition.

So it's something that we study all the time. That's why we work very hard on back looking at what we've done, so that we can improve our efforts and get our costs down.

And actually, that's a good segue into another comment that was made, and that's these R1 hearings and the disposition of the Gaviota site.

One of the reasons that we have for asking for these deferments is to be able to work with the county on the disposition of the Chevron site so that we can utilize, if we can, not only some of the equipment that remains there but also some of the real estate that's there for future drilling and for future sites for our production equipment.

And it's -- we don't want the process to become circular where we can't wait for the county and Chevron to reach a disposition without our input, so we're going to be working very closely with the county in the very near future so that they have our
input on what we propose and suppose our needs will be.

And of course these are based on a scenario where we find what we think we might find. We will provide them with this information to go into the R1 hearings so that they can come out of them with a good plan for the disposition of the Chevron site that takes into account the needs of some of the processors in the area.

COMMISSIONER CONNELL: Is it appropriate to ask questions?

COMMISSIONER BUSTAMANTE: Sure. Ask away.

COMMISSIONER CONNELL: Is it Mr. Rieber? I'm sorry.

MR. RIEBER: It is Rieber, yes.

COMMISSIONER CONNELL: Mr. Rieber, can you go through with us -- I'd like to go through an understanding of what this litmus test is for deferment and the question of abandonment.

What level of production do you need to achieve in order to continue operation?

MR. RIEBER: Well, since we haven't started production, that's a difficult question. But we have always contemplated somewhere above 20 to 30
million cubic feet a day as a volume that we would like to achieve.

And of course if our explorations are right and we're wildly successful, we could be quite a bit above that. But there's some thresholds in terms of manpower and equipment that one would have to achieve before you ramped up from there.

And remember that we're looking at three offshore sites here. We've got the Gaviota field which is the structure we've just drilled. We also have the Caliente and Molino fields which would contribute in the future.

But we have to be able to develop these one at a time. It's a step function rather than moving ahead on all fronts. It's just too expensive. We've already spent in excess of 10 million dollars on this first well, and we're kind of back licking our wounds and determining how we can move ahead from here in an economic fashion.

COMMISSIONER CONNELL: Can you amortize -- are these wells independent corporations, or can you share the capital costs and amortize across the production revenues of all three wells?

MR. RIEBER: You get into oil and gas accounting now, I mean, there are some accounting
which is full accounting. There's other schools of thought where you have a sunk cost and you move ahead; with that being behind you, looking for new reserves. And if you're successful, you only count what you've spent ahead.

But my personal thoughts on that and not necessarily those of Benton is that you have to count every penny going in and have enough production to amortize that cost.

COMMISSIONER CONNELL: Can I ask my standard questions that are becoming my signature questions here?

COMMISSIONER BUSTAMANTE: Does staff have any input at this point?

MR. THAYER: No. If you'd like the staff's statements on these technical questions --

COMMISSIONER BUSTAMANTE: You should clearly jump in. I mean, the other members behind you as well as staff. You know, you should be a part of the discussion, what this is.

MR. THAYER: I think the particular part of the conversation we also particularly need to be involved in is, you know, there have been some allegations made that the company is not in good enough financial shape to go forward.
COMMISSIONER CONNELL: Well, this is what my questions are directed at.

MR. RIEBER: I'm happy to address that.

COMMISSIONER BUSTAMANTE: Is that the only area?

MR. THAYER: Yes.

COMMISSIONER PORINI: I'd also like to hear from the county representatives.

COMMISSIONER CONNELL: Is the County of Santa Barbara here?

UNIDENTIFIED SPEAKER: Yes.

COMMISSIONER CONNELL: Good.

MR. RIEBER: Would you like me to address the questions of the company's financial stability?

COMMISSIONER BUSTAMANTE: Would you like to hear the response to your question, or would you like to ask the questions first?

COMMISSIONER CONNELL: No, I would like to hear his response first. I thought you were asking her of Santa Barbara.

MR. RIEBER: When the allegation was made that we lost -- or that we were in the hole I think 183 million dollars at close of business 1998 we in fact did suffer a loss as have most of the oil
and gas companies in 1998. That loss was in fact 198 million dollars as a result of depressed oil and gas prices throughout the world.

However, where we stand right now is with a substantial amount of cash in our bank. I don't think I really need to go into the number, but it's certainly substantial. Oil and gas prices have rebounded, and our operations in other parts of the world are quite profitable.

So although we didn't do real well and we still had some losses in the first and second quarter, we're closing the gap as are other oil and gas companies, and we're expecting a profitable third quarter.

I mean, it's the way the business has gone for years and years. It's cyclical. It depends -- I'm finding more and more we're stock market driven than we are product price driven in some cases.

But the fact that we have weathered the storm of the losses in the last couple of years and still have a substantial amount of cash in the bank and the fact that we run our business such that our drilling operations and all of our other operations are substantially insured speaks to our financial
wherewithal to move ahead not only in Santa Barbara County but in all our other operations worldwide.

Does that answer your question? Is that sufficient?

COMMISSIONER CONNELL: Yes. I have -- these are not questions that are directed only at Benton Oil, they're questions that I have generically about this whole arena of the oil and gas leases in California.

And my concerns really are defined in four areas.

I'm concerned about the operational life of physical equipment which may not be as much of a concern in your particular operations. But in some of our facilities and our leases, we are dealing with aging facilities where the equipment is beyond what we would assume one would have thought was their life expectancy. So I'm concerned about the ability to maintain aging equipment and the expense that that represents to a company.

Secondarily, I'm concerned about adequate personnel expertise to operate facilities and to respond to emergencies when they occur.

What I have seen from my own analysis of these facilities, at the time that I initially
joined the commission in 1995, most of these facilities were run by large oil companies. They have subsequently sold off their operations to smaller, less capitalized companies, certainly less capitalized than Chevron, you know, BP and Arco and others. And therefore, some of the key insurance and management contracts have not continued forward. So I'm concerned about the level of expertise that a new company, a new operator brings to an equation.

The third concern that I have is the financial protection that exists and in a case of a -- of a -- an accident is there sufficient reserve to clean up the problem and to immediately deal with it whether that's represented in insurance, in bonds, in some capital reserve, in borrowing against the company's balance sheet, however that's handled. And the fourth area that I'm concerned about is the state-of-the-art safety approaches that exist in every one of those facilities, to make sure that projects that are located on our state property are periodically retrofitted to make sure that they have state-of-the-art capacity to deal with current standards, not standards that existed when these
leases were originally negotiated, you know, many, many years ago.

Because the world has dramatically changed, and I would hope as we consider the continuation of these leases, should we choose to do so, that we would put these kinds of concerns before the board and get resolution of those issues.

I don't know if you are prepared or care to respond to any of those factors.

MR. RIEBER: I am probably prepared and qualified to respond to all of those.

I will do so as Frank Rieber rather than as Benton Oil and Gas. I will do so citing that I have 35 years of experience in the oil and gas business of which the last 22 prior to my two years here back in California -- I am a native -- but the last two years have been off the shore of the Gulf of Mexico. And I have extensive experience in those offshore operations both in state and federal waters.

So I can give you some insight into not only how I personally operate but how Benton Oil and Gas will operate if we happen to be offshore in any state waters, how we will operate on state lands, and how we would operate in federal waters.

That being said, I'm going to kind of
backtrack through your questions.

COMMISSIONER CONNELL: I'm sorry if I
laid so many on you.

MR. RIEBER: That's okay. I think by
backtracking, the way my mind works, I can get easy
ones out of the way first. And your last question
was that of financial responsibility in the event of
some type of catastrophic failure or a failure of any
type for that matter.

We, as Benton Oil and Gas, and most
other -- at least Benton Oil and Gas and I would say
most of the other operators, but I'm not willing to
speak for them, carry insurance against these type of
catastrophic failures.

We carry both blowout insurance, and we
carry pollution insurance. The combined values of
these can range from a low of 40 to 50 million
dollars on up from there. In some cases the umbrella
policies carry -- that go past those values.

I will tell you that I was involved
after the fact on a large blowout and fire in the
Gulf of Mexico three years ago which was very large
by any stretch of the imagination, and the amount of
money it took to drill the relief wells, salvage the
platform, do all the work that it took to get it back
together including any type of pollution control was
55 million dollars.

I tell you that so you can get an idea
that the insurance is in line with the magnitude of
the costs that it takes to put something like that to
rest and do it under the supervision of the Coast
Guard and other agencies which do have the right if
you're not doing the right job to come in and take
over your job for you.

COMMISSIONER BUSTAMANTE: Is that also
a full restoration of the environment?

MR. RIEBER: Absolutely.

COMMISSIONER BUSTAMANTE: Loss of
fisheries or loss of --

MR. RIEBER: In this case there was no
environmental damage; however, the insurance for that
portion of it was not tapped, if that's the right
answer for that.

Now, to address aging equipment. I
guess the best way to do that is to tell you that
having worked for majors and also for the last
15 years having been involved with three different
independent oil companies all of which have worked
offshore and all of which have kept the same high
standards that the major companies have kept, nobody
wants to have a failure any more than the operator themselves.

We don't want to be in somebody's newspaper, and we don't want to have the expenses that go with failed equipment.

So in most companies there are aggressive programs for preventative maintenance where valves are looked at, where pipelines and flow lines are inspected using ultrasonic and radiographic techniques to find out if there's wear in them and the same with the vessels. There are paint programs, there are paint chipping programs.

All those are put in place to not only judge the condition of this, quote, unquote, "aging equipment" but also to keep it up and replace it before there's a failure.

COMMISSIONER BUSTAMANTE: I think the commissioner is referring perhaps to more than this one, but we had a very, very recent experience with aging equipment here in California along our coast. So --

COMMISSIONER CONNELL: We are sensitized in this issue.

COMMISSIONER BUSTAMANTE: And they were obligated as well to do all the reviews of valves and
everything else that we put down in the standards.
And so we appreciate the words, we take you at your
word, but you don't mind if we check.

MR. RIEBER: Of course not.

Now, let me speak for Benton Oil and
Gas in this Molino project just so you will know that
what we intend to put in would either be new or
as-new equipment. I want to be on record with that
as well.

But I would still speak for the
industry. And I know there have been some problems
to which you're referring, and I would tell you that
I have the highest respect for that company's
expertise, and I know that they're doing everything
they can, and I also know that it's a lot better than
it was.

COMMISSIONER CONNELL: Well, you know,
I guess I'm not an engineer. I'm just wondering at
some point, Paul -- I guess I would direct this to
our staff and you as well, Jack -- I would be
interested and I'm sure the other commissioners would
be in knowing what the design line was at these
facilities.

When they were originally designed
there certainly must have been some expectancy as to
how long these facilities can safely operate without having -- I'm not talking about coming in and chipping paint and doing a paint-up job.

I mean, we may need to make major structural replacements in these facilities. And my concern is is that possible to do that physically without disrupting the environment to which these facilities are now placed.

Secondarily, has anyone done that anywhere in the world, and has it been effective. And if it hasn't been done before, are we again pioneering kind of in a situation where we don't know what the negative consequences may be.

Third, what are the costs. And, fourth, how would we know the timing when that is required.

Because as we enter into looking at these leases, I think should we choose to extend any of them, these are the kinds of detail issues that I would need to be comfortable understanding that we have addressed.

And I guess we should start gathering some of this information right now because I'm not at all confident -- and I appreciate your response, but I'm not at all confident that we have staff
knowledge, material yet available. At least that
hasn't been shared with us as a commission. And that
would be helpful for us to know.

MR. MOUNT: There is a calendar item
that we're going to talk about in a few minutes
addressing those very same issues.

MR. RIEBER: Okay. The last question
that you asked was training of personnel, I believe.
Actually the first question and then we went from
there.

And I would say that the training of
the personnel that are manning these facilities --
and I'm going to refer at this point to Benton Oil
and Gas -- would be of the highest quality.

Onshore they would be trained in the
operation and experience, previous experience, in the
operation of any facilities and well bores that we
would be putting in.

I have no reason to believe it will be
any different for any of the other operators here
along the California coast. It's just too big a risk
if you don't have these trained, experienced people.

And in many cases -- now I'll go back
and cite my experiences in the Gulf of Mexico with
independents and tell you that often, if not
100 percent of the time, our procurement ground for these people was the majors and the major operating companies where these operators had 20, 25 years of experience before we hired them and brought them to our project because we wanted that quality of people running our projects in the field where their hands-on experience makes a difference.

COMMISSIONER CONNELL: How would you suggest, Mr. Rieber, you bring several decades of experience to this field? How would you suggest that a commission stay on top of companies?

Because you know, I used to be an investment banker, and I think that the best advice for policing an industry often comes from members of the industry.

You don't want to be -- you don't want to have a black eye because somebody else along the coast is performing. You don't want the whole industry to have a black eye and have this board, therefore, react in a sweeping fashion against an entire industry.

How do you help us do our jobs effectively and police the industry aggressively enough?

MR. RIEBER: I would say that you might
consider doing it the same way that it's been done or in a like fashion to the way that it's done along the Texas and Louisiana gulf coast which has, I think, an exemplary track record of good operations in the Gulf of Mexico.

And my recommendation would be to you that you worked hand in hand with the Minerals Management Service and some of the policing methods that they have put in place to provide oversight in federal waters.

My experience has been mostly in the Gulf of Mexico, mostly in federal waters; however, I've had a lot of overlap into Texas and Louisiana state waters.

And with the companies that I have worked with in the past, we have always kept our state standards to the same level as federal standards so that we could never be accused of having dual standards.

COMMISSIONER CONNELL: In fact, Paul, we discussed that when I was in Santa Barbara recently, the fact that our -- I'm sure you're probably aware as well, Cruz.

I don't know if you've had a chance to visit any of these facilities yet, but our state
standards are not quite up to federal standards in some regards, and we need to discuss that at some point, because we should be managing our facilities at the same level of protection and enforcement that the federal government does.

COMMISSIONER BUSTAMANTE: Or higher.

COMMISSIONER CONNELL: Yes. I appreciate that. Thank you.

MR. THAYER: And we've looked into that very issue. As Paul Mount indicated, our next item will be a presentation that covers a lot of these issues.

COMMISSIONER CONNELL: Good. Thank you.

I didn't mean to extend the questions.

MR. RIEBER: No problem. I've done this before.

COMMISSIONER BUSTAMANTE: We have another question.

MR. RIEBER: If you have any other questions, I'd be happy to answer them.

COMMISSIONER PORINI: I'd just like you to back up for a minute.

You talked about the fact you were reassessing where you were going to go and what you
were going to do in terms of this well.

What's your best guess about timing
given the time period that you have been granted by
the county?

MR. RIEBER: We intend to meet the
county and hopefully the state -- new state deadline
should we vote it that way to provide action probably
via some stimulation work or existing well bore so we
can get a better handle on how these rocks, this
reservoir is going to respond to stimulation efforts.

Because based on a cross-section of
one, which is not a very good cross-section, we need
to know the realities of how the Gaviota reservoir
and that particular accumulation is going to perform
before we can move ahead.

And to do so we're actively and
actually have an interest from partners so we can
bring in some capital so we don't have this same
outlay again, and we're going to be working towards
work on this well bore to establish production.

COMMISSIONER PORINI: So you're kind of
at the beginning of that evaluation process now?

MR. RIEBER: We're a ways into the
evaluation process.

COMMISSIONER PORINI: And you
anticipate it will be completed in November of 2000?

MR. RIEBER: Yes.

COMMISSIONER BUSTAMANTE: I think the only other comment -- and this is a personal one. I think that the comment that was made earlier by one of the other representatives indicated that unused leases, we have a general -- I have a general interest in trying to get those oil leases that are not being productive, they're not being used, to take them out of commission and to move them along.

You have a lease, you have a bona fide lease, you have a bona fide right, you've invested a lot of money. I think the point is that we should move this thing along quickly.

And if you're going to do it, you better do it quickly. Because at this point otherwise there are -- I, along with others, will look to try to figure out how to just move this thing off the table.

So just -- it's -- I don't know what you would call it except a friendly advice. Because after the -- this particular deferment I think it's going to be more difficult to continue getting additional time to take care of the business that you are doing.
MR. RIEBER: Your point's well taken.

COMMISSIONER BUSTAMANTE: The County of Santa Barbara. This poor woman is sitting here, standing here, wherever she went. There she is. If you would like, you can wait here in case there's any questions or comments you would like to make after the Santa Barbara County representative.

Please state your name for the record.

MS. MEESTER: Excuse me. My name is Dianne Meester. I'm the manager of the Energy Division of Santa Barbara County. I'm not exactly sure what you wanted me to comment on, but maybe I can explain the situation that we faced in April when we were reviewing an amendment to the Molino development plan when this extension request came about.

The Santa Barbara planning commission reviewed an amendment at Molino's request to relocate a natural gas pipeline in conjunction with this project that had to do with some timing requirements. So it's kind of a complex development plan that included quite a few phases, and certain things were to occur in certain phases. And it, after working through the initial development of the
project, just didn't make sense to do it quite the
time we had structured it. So we are reviewing this
relocation indication of the natural gas pipeline and
the timing.

The original development permit was
issued, I believe, in 1996. It was a development
plan with a five-year time frame for development, so
they're still within that time frame.

The original condition that required
this review of abandonment options specified that
abandonment issues would be reviewed if development
activities ceased for 12 months.

Well, their development activities have
begun. And if the commission didn't modify that
language, then they would have been in a situation of
doing the abandonment review.

Our planning commission did not feel
that that was appropriate at this point in time given
that Molino intended to continue their development
activities.

And so they determined to extend the
amount of time Molino would have to conduct their
development activities by 24 months from the
November '98 date.

COMMISSIONER CONNELL: Mr. Chair, I
have a question.

Dianne, this litmus test that we were talking about earlier, let's assume that they go on and they're developing.

What will you have to do and when? You wait now basically until November of 2000 before you do an evaluation of whether they've met the standards? Or is it an ongoing evaluation?

In other words, do they have a two-year period here that they've been granted, you know, freedom to develop and to try to produce at the level that they need to, or will you be evaluating them along the way, or do you just wait until the year 2000 and come in and evaluate whether they've met the test?

MS. MEESTER: I think I understand your question.

Well, we monitor the projects within Santa Barbara County very carefully and closely, first of all. So we know what people are -- what the companies are doing in the field as they're going through their development activities. So we'll know whether or not Molino has obviously begun or reestablished their development activities.

In terms of whether we would do
anything actively in reviewing the abandonment issues prior to the November 2000 date, no, we would not. That would be the trigger date where we would say, okay, you haven't continued to develop and, therefore, we're going to put you into this other review process which we'll look at abandonment or continuation of activities or curtailment of activities.

COMMISSIONER CONNELL: So they basically have a holding period here where they're able to continue operation without -- unfettered basically without having involvement until November 2000?

MS. MEESTER: The issue here is that they're not operating. They're not continuing operations. They're continuing a holding pattern where they're determining and developing options and making a decision about what their next step should be. And they have under our permit up to November of 2000 to decide.

COMMISSIONER CONNELL: When you permit a facility like this, do you go through any evaluation of the quality of the material they're using or their personnel expertise or maintenance issues? Are those standards that you impose?
MS. MEESTER: Yes. We have a pretty extensive set of conditions that we impose on most of the oil and gas developments that are related to option one production.

They include safety and maintenance requirements, training requirements, inspection requirements, any number of issues. Our permits are really quite extensive. So we do try to anticipate the issues that you were addressing earlier.

COMMISSIONER CONNELL: Thank you.

COMMISSIONER BUSTAMANTE: Any further comment by the commission or staff or members of Benton?

MR. RIEBER: I guess the only additional comment I might make is that the County of Santa Barbara's requirements for our materials and training as she just stated are as rigorous as I've seen in my career.

So I think that from the standpoint of what we've been talking about in training, longevity, equipment, that I am feeling as well pleased as I've ever felt, if that's the right way to say that.

COMMISSIONER BUSTAMANTE: Well, your agreement means basically to me that you believe that you have sufficient amount of time to be able to do
whatever you have to do.

MR. RIEBER: That's correct.

MS. MEESTER: Chair Bustamante, there's one issue that came up that I may ask to just clarify, the relationship of the Benton development to the abandonment review process that is underway for the Chevron facility.

I just want to clarify that we've communicated pretty clearly to the Benton folks -- and I can't tell you exactly which ones because this is my staff -- that it would be helpful to us to know what their future plans are.

And so we've not asked them to defer expressing their future plans until the Chevron R1 process is complete. We've actually asked for the opposite. So I think the staff recorders have been mistaken in that respect.

COMMISSIONER BUSTAMANTE: The only thing else I would add as a way of some amendment by staff is that it is my understanding that this item basically -- the only thing we're doing here is moving and deferring the time until November 14, 2000.

Is that correct?

MR. RIEBER: That's correct.
COMMISSIONER BUSTAMANTE: What I'd like to do is I would like to have -- six months prior to that date I'd like to see -- whatever the meeting is that's closest to that time -- to get a progress report of what's going to take place so that we can begin to think about what we need to do rather than reacting six months later.

MR. THAYER: Certainly. We'll make sure that's on the agenda.

COMMISSIONER CONNELL: Actually I would like to also direct the staff, I'd like to see a time line of these oil and gas leases along the coast. I think it would be very helpful for us to understand what kind of pressures are going to exist at this commission level for consideration of these. And obviously they're grouped in different kinds of operation, styles, and volumes, et cetera. They each have their own peculiar issues. But I would like to have a full presentation on the time line basis of when these matters are going to come before this commission.

MR. THAYER: We can certainly look at that. A lot of that information is contained in the lease status report which we'll be discussing in a couple of these items.
And it's sometimes very hard to forecast when this is going to come in. But we'll try and come up with something, to give you as much information as we can.

COMMISSIONER CONNELL: Very well.

Thank you.

MR. THAYER: Thank you.

COMMISSIONER CONNELL: Mr. Chair, is it appropriate for me to move the staff recommendation?

COMMISSIONER BUSTAMANTE: It is.

COMMISSIONER CONNELL: I do so.

COMMISSIONER BUSTAMANTE: Is there a second?

COMMISSIONER PORINI: Second.

COMMISSIONER BUSTAMANTE: Let the record reflect that it's passed unanimously with the amendment that staff will come to us six months prior to the deadline with a progress report. Okay.

And we're going on to item No. 78; is that correct?

MR. THAYER: Yes.

COMMISSIONER BUSTAMANTE: This is an informational report on offshore oil. Is staff making a presentation? Mr. Thayer, are you going to be presenting that?
MR. THAYER: No, sir. Paul Mount will be responding. This will contain a lot of information as to the discussions that appeared before the commission beginning April and focuses on a lot of the concerns that the controller expressed today in terms of aging facilities, independent operations --

COMMISSIONER BUSTAMANTE: Give your name for the record, please.

MR. MOUNT: Paul Mount, Chief of Mineral Resources Management Division.

A couple of meetings ago Commissioner Connell asked a number of questions, also asked the same questions again today. We were prepared to discuss it at the last meeting but ran out of time. So we have some of that information available for you today.

I want to point out I'm going to start out talking about regulations and how we compare with the MMS.

I want to point out, No. 1, that our regulations were our 1980 regulations. We're trying very hard to get regulations updated with a joint cooperative effort between us and the Division of Oil and Gas, and we've been working on that, and we're
trying to accelerate that.

I would also like to point out the fact that we work very closely with the MMS and go out and are working on joint inspections with them. We're intending to do a joint audit on one of the federal platforms very soon, so we are working very closely with them on this. And the county is well aware of their standards.

Let me point out some of the differences between the MMS federal regulations and our state regulations.

On drilling and well control we will go system safety. It's the same, both the state and the federal.

On structure regulation for platforms and pipelines, they review them every five years, American Petroleum Institute major modification of the platform is requested, then we review the structure of the platform and the pipelines.

On air pollution regs, they're pretty much the same except we don't normally enforce the air pollution regs. Those are done with the AQCS or AQMD or the air quality districts in the state. So as far as the air pollution regulations, those are -- we make sure they're in force, but we don't have
primary enforcement on that.

Police power, cease and desist and fines, again, that lies within the Division of Oil and Gas. The State Lands Commission does not have the cease and desist authority, but the Division of Oil and Gas and Fish and Game have some of that authority that we can use if we needed it.

COMMISSIONER CONNELL: May I ask a question at this point?

Going back to the structural regulation for platforms and pipelines. I visited one of these platforms in the Santa Barbara Channel. And in the process of that visit I was informed by the operator of the oil platform that the federal regulations were more severe than state regulations in relationship to structural regulations.

What was he referring to? Because your chart would indicate that that's not true.

MR. MOUNT: We have worked with the MMS on developing those standards or structures, and platforms are now required to meet a 1,000-year event standard.

In other words, they're required to withstand a 1,000 year earthquake in the event of an earthquake, and the structural integrity of the
platform has to be maintained.

We -- as the operators request modifications to platforms, we will require them to meet that 1,000 year standard. All of our platforms currently meet that standard except for one that meets a 500-year standard, and they're intending to upgrade that platform very soon to meet the 1,000-year standard. So all of our platforms will meet the same standard as the MMS platform.

I think he was referring to facilities and meeting current standards on facilities and on top sites. And in that respect we're going to be auditing all of our facilities and bringing them up to the current standards as the MMS has, and we can require that under existing regulations as well, and I'm going to be talking about that.

COMMISSIONER CONNELL: Would it be fair to say that we're not currently up to all federal standards?

MR. MOUNT: Not currently. But we will be soon.

COMMISSIONER CONNELL: Soon being the next six months? The next year?

MR. MOUNT: The problem is the audit program and the program that we've said established
is going to take us three or four years because
they're very exhaustive, intensive.

And it's going to require some staff,
and it's going require some money and additional
staff to complete that. So we're trying to
accelerate that as quickly as we can.

We've asked for a budget change
proposal to accelerate that program. We're trying to
get the money to do that. And we'd like to do that
as quickly as possible.

COMMISSIONER BUSTAMANTE: Just to
follow up on the controller's comment.

Platform Holly was shut down. Did we
learn anything from that? Anything that may be
particular to California? Anything that would
require us to in fact exceed certain standards or to
have certain emergency regulations that would allow
us to move quicker or wire things together in a
different way so that, as we have to deal with those
types of issues, we're able to effectively deal with
them?

MR. MOUNT: We have learned a lot from
that -- platform Holly problems. We've audited the
platform. We've learned about the nature of the
platform and the age of the platform and the
stability of the platform and functionality of the
equipment.

They've made a lot of the modifications
based on our requirements. After the audit they
spent a lot of money -- I don't know exactly how
much -- millions of dollars modifying the platform.

We've also incorporated those things
that we found in our new joint regulations that we're
trying to move forward with as quickly as possible.
We've strengthened our joint regulations so we're
going forward with the Division of Oil and Gas.

In short they at least meet the MMS
rate of standards. And so, yes, we have learned a
lot. We're taking action to both strengthen our
regulations, inspect all our facilities including
some onshore facilities that have never been
inspected before.

COMMISSIONER BUSTAMANTE: So this
platform has met the federal standards? It would --
can be configured exactly the way it is today?

MR. MOUNT: That's correct. It's not
quite yet there. It takes some time to get some of
these repairs completed. And what they're actually
doing is replacing a lot of equipment, replacing
d valves, replacing compressors, replacing a lot of
things that we talked about that are aging. They are no longer aged, they're new.

COMMISSIONER BUSTAMANTE: So it's a matter of while we're reviewing other platforms because you believe at this point the standards are appropriate if we use federal standards to maintain these facilities in such a way that they're not going to be in jeopardy --

MR. MOUNT: With the exception of pipeline inspection standards we believe the MMS standards are sufficient and adequate, and we're going to continue to review that and apply best available technology in the future in looking at this. We're building the regs so that we have some discretion to increase the standards as we need to.

COMMISSIONER BUSTAMANTE: And the American Petroleum Institute standards are higher than federal standards?

MR. MOUNT: In most cases they're the same. There's a few exceptions, but in most cases they're the same.

COMMISSIONER CONNELL: Actually in some cases they're not as strong as the federal from my understanding.

MR. MOUNT: In some cases they're not
COMMISSIONER CONNELL: That's my understanding, Cruz. This is my concern. This is why I'm directing my questions here. Because when I visited the platform I was surprised to find out that we were not at federal standards. And in subsequent research I found out federal standards were higher than these American Petroleum Institute standards. So I'm happy to hear we're moving up. I'm distressed that it's going to take us three or four years to do that. I think the more important issue might be why were we not at federal standards to begin with.

MR. MOUNT: Again, like I pointed out, we were dealing with 1980 regulations, and until recently we really haven't had any problems that focused us on this issue.

MR. THAYER: And I want to reemphasize one point that Paul's already made which is that these joint regulations which we've discussed with the commission back in April and the commission at that time was very anxious for us to proceed promptly with them, we've gone back and made some additional changes to them since that meeting. So it's not like we're just kicking around the same old regulations.
and working up the gears.

Some of the lessons from Holly have informed us in terms of making some additional changes in those regulations so that we can bring our standards up to the federal standards.

MR. MOUNT: Many of these standards just recently changed. We had new air quality standards and regulations in 1998, a year ago. A year before that came the structural standards, the 1,000-year earthquake priority standard.

So they're fairly recent, many of the new standards. And the MMS have brought their rates up to date, and we're in the process of doing that. They brought their regs up in 1997, '98. We're a little behind that because of the joint reg process that's taken us longer than we thought.

COMMISSIONER CONNELL: There are two issues here. There's -- the training requirements here assume that you train the person initially, but that does not deal with the fact that as you look at many of these oil platforms in California, there is a dwindling pool of people who know how to operate these facilities. They're retiring. They are moving out of state. They are not being picked up by the new operators of these facilities.
How are we certain that we have adequate personnel coverage? I mean, a person is working a 24-hour shift five days a week. I'm not comfortable that that person is going to have the attention capacity to do what they need to do on a platform to avert a problem.

MR. MOUNT: We're, number one, requiring training standards for all the operators, and they must be certified. Number two, we're requiring annual training requirements of the operators and the key personnel on the platform.

And to answer your third question about the -- what we would call human error factor in operating platform facilities, we're going to look at that very seriously during our audit program in the next year and determine if there's something we need to do about establishing standards for both the hours worked out there and then the -- and standards for operations personnel for days off and that kind of thing.

COMMISSIONER CONNELL: I raise that issue, Chair, because when I was out there I was really alarmed to find that there seems to be no backup. There is no bench for these personnel. And these facilities need to be operated at the
state-of-the-art level or we are going to have problems.

And should we have a problem, if we don't have an adequately trained person because the senior person is on vacation or on their day off, this becomes a serious hazard to the operation, the safe operation of that facility.

Now, we mandate, as you -- my colleagues may know on the board, limited hours for the operation of our prison facilities in California, number of hours on.

We operate -- since we audited them I speak to this in some detail. We are required by the federal government to audit the number of hours that people can work at our dams in California, for example, federal dams. We audit that program for the federal government.

We audit the number of hours people can work at pollution facilities in California for this exact reason, that you want to make sure that people are refreshed and that they are not overworked and that they don't miss what would otherwise be a red alarm if they were more attendant to what is going on.

So I would just suggest as you develop
your audit standards that you might want to look at
some of these audit standards that exist for the
federal government and similar high profile
facilities where the operation is critical to safety.

MR. MOUNT: We are going to meet or
exceed the federal standards on training requirements
and personnel requirements out there. We have worked
on this human error issue about human error causing
many of the problems out there, lack of sleep or
whatever.

So we are involved with that, and we're
looking at maybe placing requirements on these
companies to limit the hours they work and those type
of things.

Again, here's some more comparisons.
The one thing I mentioned on the frequency of
testing, that's one thing where we're more stringent
than the federal.

They only require annual testing of
safety valves, pressure safety valves. And pipelines
are biannual. We require monthly inspections on
these types of equipment and annual inspections on
pipelines.

We're negotiating with the MMS right
now to bring up their standards to ours to -- because
that's the only one that they appear to be significantly weaker than we are.

The pending joint regulations, these are some of the things that they're trying to do for us, in other words, require -- adopt the H2S and -- you're looking at the guy who is working -- his primary job is regulations.

COMMISSIONER CONNELL: Are you working 24 hours a day, 6 days a week?

MR. MOUNT: We're overworking trying to get these joint regs going.

It includes new training requirements to meet or exceed the federal standards, incorporates the latest API standards, adds structural regulations, expands our pipeline regulations, requires higher certification for equipment and personnel, by the way, requires compliance with our quality rates and reporting valve releases which we did not do in the past. It requires facility engineering audits on a regular basis. And that's, again, what I'm needing money to do next. And that's it. That covers pretty much the joint regulations.

Now, there's some questions about financial status of the operators, and we've already talked a little bit about Benton. By the way, they
have about 180 billion barrels of oil reserves worldwide.

These are our operators offshore. Our primary operators are Aera, who is the 23rd in size of all the oil companies in the United States.

That's including Chevron, Exxon.

Nuevo is another operator. They are 47 in size of all the oil companies, majors and independents. There's a list here of their earnings. And you can see Aera, who is a substantial company, 4 million -- 4 billion dollars in assets -- lost 109 million last year. Nuevo lost 94 million last year. So Benton, 183 million.

COMMISSIONER CONNELL: I suggest that more important than the earnings is the debt-to-equity ratio.

MR. MOUNT: Debt-to-equity ratio looks fairly good. That's what we looked at very closely.

Venoco, being a public company -- this information is not available to the public, but what is available are the following -- is the following information that we can show you.

Their assets are 400 million dollars, their revenues in '99 were 65 million. Revenues for Holly were 17 million. They had a credit line of
200 million and 250 million in insurance to cover liabilities, as Benton was talking about; oil spill liabilities, those types of things.

And then they have a letter of credit to state lands for 7.6 million. And I've been informed they may go public soon with the stock offering.

Now, the next issue was the age of the facilities. And we talked a little about that in bringing up the standards. Just to give you an idea of our facilities that we have currently. These are the platforms when they were installed they had facility upgrades in these dates.

And you talked about earlier can we upgrade them, can we strengthen the platforms. Yes. The answer is yes. Yes, we can strengthen the platforms to meet better seismic standards. Yes, we can replace equipment. All of those things can be done, and in fact in Holly's case much of that is being done.

We have some other facilities that are mostly onshore stuff down here that we should be inspecting but we haven't inspected a whole lot in the past.

Next.
COMMISSIONER CONNELL: Go back there. I just want to look at those dates again. See, these facilities were all solved -- many of them were solved we're talking about 30, 35 years in some of these cases. And even more than that if you go back to the '40s. I mean, we're talking about facilities that are 60 years old. I'm talking about Huntington Beach.

MR. MOUNT: Huntington Beach is onshore. Again, that's an onshore site, and the facilities have all been replaced since 1940. So what was there in 1940 does not exist any longer. All the tank props have been totally replaced. All the pipelines have been totally replaced. The only thing that probably hasn't are the well bores that go down into the ground. They've been repaired, I'm sure, but they last 50, 100 years sometimes.

But the facilities associated with these operations have in most cases been totally replaced and revamped. Many of those don't exist any longer. They've been abandoned or they have been taken out with newer, more modern facilities. So platforms. The only thing left on some of those platforms are the legs and the
structural portion that holds up the top sides, what we call the top sides.

And many of the platforms' structural has been improved. They put cross-members in that to improve the stability. They also grouted the legs and improved stability. So they've done things since these were installed to improve the stability of the platforms.

So what you saw there in 1965 or 1940 probably, you know, most all cases does not exist there any longer.

Just to give you an idea, we've reduced the number of oil spills from our offshore facilities since 1978. This is the gallons spilled from state offshore oil facilities. We're down to a few gallons a year.

Next one.

This is oil spills since 1978. Spilled from state platform, 61 barrels; spilled from federal platforms, 809 barrels. A lot of that was Platform Irene (phonetic) Pipeline spill.

Ships, marine terminals, and other unknown spills that might have come onshore as well, 90,000 barrels. The seeps are estimated to have spilled 292,000 barrels during that same period of
We did audits in 1991 on all the facilities. Again, we were dealing with 1980 regulations. Our current audits are now dealing with -- we're auditing to our joint regulation standard even though they aren't approved yet.

We are going to do extensive audits on all the facilities by April 2003, assuming we get the support to do that. We'll bring all the facilities up to the latest standards within four years. I'd like to accelerate that to three or two if we can.

COMMISSIONER CONNELL: What would prevent you from accelerating them?

MR. MOUNT: It's a matter of getting out there, auditing facilities, and trying to get the operators to bring it up. Even though we can require them today.

I think we need to police them and go out there and inspect what they've done, audit their facilities, which takes -- frankly they're very extensive audits.

It takes six months to go through everything: all the equipment, all the separation vessels, everything they have out there. It takes us to do a complete audit from the beginning to the end
about six months. It takes about four engineers to do that.

COMMISSIONER BUSTAMANTE: What effect does that have on the seeps?

MR. MOUNT: Pardon?

COMMISSIONER BUSTAMANTE: What effect does that have on the seeps?

MR. MOUNT: Seeps?

COMMISSIONER BUSTAMANTE: Go back one.

COMMISSIONER CONNELL: If you were to be doing more aggressive auditing, I think that --

COMMISSIONER BUSTAMANTE: None? Why don't we attack something that's a problem.

MR. MOUNT: Seeps are seeps from the ocean.

COMMISSIONER BUSTAMANTE: They're not coming as a result of the platforms or the drilling or anything that results from it?

MR. MOUNT: No.

COMMISSIONER BUSTAMANTE: Okay.

MR. MOUNT: Those are just natural seeps mostly in the Santa Barbara Channel.

COMMISSIONER PORINI: Do we automatically go in and do an audit any time we have a reportable release? What does a reportable release
trigger?

MR. MOUNT: We go out and inspect the cause of that. We don't audit. Audit again is like a six-month process. But when there is a release of some sort, that's investigated, and whatever problem was located is solved.

And if it's a facility design issue, we require them to redesign it. If it's a human error issue, we look at the operator qualifications or the time they've been working and to see if there's something we can do to prevent a human error problem.

Or if it's an equipment failure, we look at why we didn't catch that earlier, why that equipment wasn't located through our inspection and something done about it, and then of course repair it right there. So we do look at and investigate all these incidents.

COMMISSIONER CONNELL: When you do audit, and you're auditing to these joint standards even though we have not yet raised our standards to the joint level, what's the ability when you issue an audit finding to require that they bring their facility up to the joint standard?

MR. MOUNT: In our regulations they're required to meet those standards. If we say that the
API standard is such, then they're required to bring it up to that standard. Otherwise we would have to take action against that. But we've not really had that problem. They cooperate fairly well.

Here's our audit program, the way we've laid it out, assuming we get our budget change proposal. We of course started --

COMMISSIONER CONNELL: Of course you know you are lobbying the right source here. I see the Department of Finance is sitting here.

We wouldn't want to put any pressure on you.

COMMISSIONER PORINI: Absolutely not.

MR. MOUNT: Well, you know, frankly we really wanted to do this in-house. We would have like to have accelerated this as much as we can, but it really is exhausting. And to bring it up to the standard that you all want and we want, we really need to do this.

But this is our schedule. This includes a number of onshore facilities too; some that the counties -- in the case of Santa Barbara County looks very extensively at, and we work very closely with them and probably cut short the process.

And some other counties that are not as
much interested in onshore facilities, we would probably bring a full audit to bear on those facilities.

COMMISSIONER BUSTAMANTE: It sounds expensive.

MR. MOUNT: What was the full cost of that? Do you recall?

COMMISSIONER BUSTAMANTE: Or the approximate cost.

MR. MOUNT: I think it was about -- we wanted to hire about four people, and we're talking about $100,000 per year each. So we're talking $500,000 a year for the hiring. And then each company we were going to require to pay for a consultant to also work with us on it so it won't cost the state anything.

COMMISSIONER PORINI: Just one question, because I know when we evaluate your ECP you'll be asked the same thing.

You're adding additional people for the audits and yet you're still just doing two audits a year?

MR. MOUNT: Well, that's right, because it takes -- I believe it's three engineers six months to complete from the beginning to the end -- to
complete an audit.

Sometimes these audits also involve the onshore sites as well. So like I said, there's a lot of equipment out there and a lot of valves and a lot of things that have to be looked at. So --

COMMISSIONER CONNELL: If you look at your footnote, it says it takes you six months per audit, so that would enable you, though, to do two audits a year.

Don't you have any staff at this point that are able to do audits?

MR. MOUNT: We have staff, but we don't have staff that are, number one, qualified auditors and, number two, most of those staff are working on our inspection program.

There's a difference between an audit program and inspection program. An audit program will determine if the facilities are built properly, if the design of the facilities is done right. If the stability of the facilities is correct and if they're too old, do they need to be replaced.

The inspection program only ensures that what you have there works. In other words, do the valves work, do the safety equipment work, does the automatic...
electrical engineering system work.

But the audit program would determine
is it adequate, is that system adequate. So that
requires a little more qualification and certified
engineers to do that.

This is our budget change proposal. As
you point out, most our facilities are over 30 years.
Many of them do not currently employ the best
available technology. We have deficiencies.

COMMISSIONER BUSTAMANTE: That last
point there is really the Holly lessons that you were
bringing up. A lot of this was generated as a result
of your input this last spring what we learned from
Holly.

COMMISSIONER CONNELL: I must tell you
I appreciate your response, coming through with this
audit. Because I think that as these facilities
continue to age and particularly timing, as I said,
since this commission is going to have to make some
decisions over the next few years with regard to the
continuation of lease activity, I want to have as
much audit material in front of us as we can. I
think it's -- I don't mean to put unfair pressure on
the Department of Finance. I do think it's a dollar
well spent.
MR. MOUNT: We've also learned something from Holly, and anytime a facility changes hands, anytime another company takes a facility, we want to audit. We think that's essential.

The next one.

We're going to do onshore facilities, again, that we've never done nor have we inspected until recently. And these are the things we'll be auditing for.

COMMISSIONER CONNELL: If you've never audited before, may I ask the question why not?

MR. MOUNT: They did an audit in 1991. It was not as extensive as this audit. And again, the age of the facilities kind of snuck up on us, but more importantly, again, you pointed out that many of our facilities had been taken over by independents. The majors did some of their own audits in the past.

And it's just they've gotten old on us. It's about time to do it. So we would have liked to have done it more frequently, but our regulations frankly didn't allow us to do that. Our new joint req has written that in. And again, this is the reason for our audit program.

That's all I have to present. I hope that answers most of your questions. I can supply
you with more information if you'd like.

COMMISSIONER CONNELL: What is the
action required here on this item?

COMMISSIONER BUSTAMANTE: Just
information.

COMMISSIONER CONNELL: We don't have to
take an action before asking you to submit a BCP?

MR. THAYER: It's been done. It's in
the resources.

COMMISSIONER BUSTAMANTE: It's in the
resources.

UNIDENTIFIED SPEAKER: This hasn't been
received by finance yet.

COMMISSIONER BUSTAMANTE: Not yet.

COMMISSIONER CONNELL: It has to go
through the agency.

UNIDENTIFIED SPEAKER: I see.

COMMISSIONER BUSTAMANTE: On to item
No. 80.

COMMISSIONER CONNELL: Did we have
anyone who wanted to speak on it?

COMMISSIONER BUSTAMANTE: No. But we
did have someone who wanted to speak on -- that's
right.

Dianne Meester. You did want to speak
on this issue, didn't you?

MS. MEESTER: I meant to put it in for 79, but I have one comment, so I'll take it.

COMMISSIONER BUSTAMANTE: Susan Jordan.

MS. JORDAN: I was going to speak on 79.

COMMISSIONER BUSTAMANTE: Go ahead.

MR. THAYER: Oh, no. That's the next item.

COMMISSIONER BUSTAMANTE: Oh, I'm sorry.

MS. MEESTER: Chairman Bustamante and members of the commission, I just wanted to let you know that you're not the only agency who has been struggling with these issues.

As you probably know for a very similar reason Santa Barbara County has been attempting to address the issues that you're discussing today as well.

And we've, I think, established a very good relationship with your staff and working on the particular facility that brought this all to light, the platform Holly and Venoco's Ellwood onshore facility, and I just wanted to express appreciation.

One additional item that we're looking
into at the county level, and I didn't see any overhead presentation from your staff, change of ownership, operatorship requirements.

And that is something that we're pursuing at the county level through a state request that we have, and the MMS does have fairly extensive regulations for a change of ownership and operatorship --

COMMISSIONER BUSTAMANTE: You mentioned an audit, but you didn't mention --

MS. MEESTER: Right. They do more than just an audit, although an audit is certainly the right step or a step in the right direction.

MR. MOUNT: Yes. We do that routinely. There are requirements that are set when they do change ownership.

COMMISSIONER BUSTAMANTE: Through MMS?

MR. MOUNT: It's not exactly the same as MMS. We have different opinions. But I think we're probably a little stricter in some cases, and in others they're more strict.

But MMS has had the same problem we've had. They've had to deal with independent operators coming in and taking over federal platforms, which is an issue for the MMS.
MR. THAYER: I presume the issue you're talking about there has to do with the financial capabilities of the company, their training.

MS. MEESTER: Exactly.

COMMISSIONER CONNELL: So the same issues that I identified in those four kind of standard issues would prevail in this situation on the transfer of property?

MS. MEESTER: It's a good place to be able to assert some review.

COMMISSIONER CONNELL: Okay.

MR. MOUNT: Just to give you an idea, the there were well facilities which were recently going to be transferred to a certain company that I won't name, but the deal fell through after some scrutiny by the agency and other interested parties.

COMMISSIONER BUSTAMANTE: Thank you.

Item 79.

MR. THAYER: Item 79 is the lease status report. This is a continuation of the discussion we had at the last meeting. You'll recall that Secretary Nichols from the Resources Agency requested that the State Lands Commission and the Coastal Commission prepare a report on offshore oil leases both in state and federal waters.
At the meeting which we represented that report to you, the commissioners had some additional questions, and there were additional questions from Santa Barbara County, Senator O'Connell, and the Environmental Defense Center.

We've prepared this additional report to try and answer those questions and to provide some more specificity about the status of our lease. We hope it provides the answers that were requested.

We've sent copies to the individuals who requested that additional information. Most of them we have spoken to earlier representatives of those organizations.

To reiterate, some of the particular information and the conclusions that you can draw from this report, by the way of background information we've had 58 leases offshore California. Presently there are 5 leases with no production. There's 17 with production of oil, there are 20 where production has ended. There was once production that has now ceased, and we've had 16 leases quitclaimed back to the state.

The report shows that the individual lease situations for the current leases vary greatly.
There are a couple conclusions you can draw. The first one is that the oil development and production in offshore California is the Sunset industry.

The clear majority of the leases -- 36 out of 58 -- have either been quitclaimed or production has halted on them. In fact, if you look at the revenue production from our offshore leases, we at one time topped half a billion dollars 10 years ago, and of course this year we're down to probably -- I think Annette knows better than we do, but 10 or 15 million dollars. It shows that the direction in offshore in California is that this industry is going away.

The report also shows that a significant factor in eliminating leases where production is ended is the clearing of debris and restoring the lease sites. It says shell mound issue is somewhat smaller in most of the leases. We don't have as big an issue with shell mounds.

But when you look at the report you'll see that in most cases these leases that have ceased production have only very recently had the final debris taken off them and the wells properly abandoned.

The SWARS project which brought to the
commission a progress report or a final report last
year involved the removal of debris and the subsea --
the abandonment of subsea wells on a lot of leases in
Santa Barbara County. Now that that process is
pretty well done we're expecting quitclaims to come
more quickly to the commission to eliminate these
cases.

The oil industry does have very little
interest at this point in developing -- starting
development again on these presently non-producing
leases, and so we would expect more of these
quitclaims.

As you know, three of these quitclaims
are on the calendar for today, and another one was
received too late to put on the calendar. You'll
probably be hearing it November. I think this kind
of shows the direction that we're going at this
point.

Whether it does remain interest for
production, the production that will result will
probably be much reduced over what might have
occurred before.

But obviously before any production can
occur there would have to be extensive environmental
review and ultimately the commission's concurrence
before any new development could occur. And you
know, that process is, of course, going to be as
rigorous as the law and you would require.

So in conclusion, we have discussed
some of these issues before. We discussed generally
the status of our leases last meeting. We're hopeful
that this report responds to any of the questions
that you had and the others who commented at the last
meeting, but that in general offshore oil production
is declining and leases are being returned to the
state. Some other direction from the commission is
our intent at staff to continue to work to obtain
quitclaims for the remaining non leases.

That concludes our presentation. Are
there any questions?

COMMISSIONER BUSTAMANTE: I think
that's clearly the direction that I would like to see
staff go. But we have some -- I think the dynamic
trio: Jordan, Krop, and Frisk.

MR. THAYER: While they're coming up,
there was one error in Exhibit B -- actually three
errors, but it's the same. It has to do with Benton,
again, on pages 34, 35, and 36. There is a typo
about when the Benton referral ended on the county
level. And the correct year is 2000, not 2001.
MS. FRISK: Carla Frisk from Senator Jack O'Connell's office. And I'm sure all of you know that Senator O'Connell carried the legislation that created the California sanctuary. And unfortunately in that legislation we of course were unable to lift existing leases. And so we want to thank this commission for taking an aggressive action to start picking up leases and making them covered by 82,444 that we will reduce to the smallest number possible the number of active leases or potentially active leases that we have, particularly in the Santa Barbara Channel but throughout the state lands on state waters.

So we're very pleased that later on in your agenda that you have three quitclaims that you've received, and I assume are up for approval by the commission.

And I'm pleased that that will be happening later today and that four additional quitclaims have been requested. And hopefully those will come in. I guess one of them already has. And soon we will be seeing a lot of this narrow down.

Basically what we have left of major concern are a few of these leases that are not being quitclaimed right now that something or other is
going on with them. And I had some questions about
three of those. And I think that some of the others
are going to have similar questions.

One of them is Venoco 208 and 129. The
staff report indicated that those are going through
abandonment. And the question is are those then
going to be ready to be quitclaimed.

And I think there's several of them
like that. Lease No. 2879 by Unocal, which I think
is the closest from Gaviota. Conversations I had
this morning with your staff indicated that one may
be potentially out there.

And so then the question is now that
they're abandoning existing wells and they're already
introducing, what kind of due diligence do they have
to perform, how much time do they have until they are
going to have to either send a quitclaim in or do
something.

There are some leases in Ventura and
Orange County that are going through abandonment.

And then with regards to the time line
issue that was brought up by Commissioner Connell, I
think one of the first things that, according to this
report, you'll be having to deal with is -- I hope
I'm saying this right -- the POOL drilling deferments
which expired November of 1999.

And the question I have on that was what then happens to them and will there be an action before this commission on the November agenda. And do they already have permits to drill that they're just not acting on, or are they still way behind in the regulatory curve.

I think I'll just stop there and let the groups go in a little bit -- or the other speakers --

COMMISSIONER BUSTAMANTE: Staff, why don't you -- do you have response to these concerns?

MR. THAYER: It was hard to keep up with all of these.

COMMISSIONER BUSTAMANTE: Why don't you start with the abandonment issues 208 and 209?

MR. THAYER: Actually, Paul, do you want to respond to these?

MR. MOUNT: 208 and 209 Venoco has requested that they use these leases for future drilling opportunities. We just received a request recently, and so we'll get a good look at that.

But on 129 we did send them a letter requesting a quitclaim which they responded saying "We don't want to quitclaim." Now we're going to
have to get with Venoco and look at that and see what
requirements they have to meet and whether they're
willing to do that.

MS. FRISK: They're not giving up 208
either; is that right?

MR. MOUNT: 208, they, again, have
plans to drill. We didn't send a letter out on that
yet, but Venoco does have plans for that lease. And
they're supposed to be coming in to discuss that with
the commissioners in the near future, but I don't
have a date on that yet.

MR. THAYER: And actually our report
does indicate that 208 -- it does say 208 is
apparently -- that Venoco is preparing a development
plan for the lease.

COMMISSIONER CONNELL: On 208.

COMMISSIONER BUSTAMANTE: And on 209?

MS. FRISK: It was 129.

COMMISSIONER BUSTAMANTE: I'm sorry.

129. Okay.

MR. MOUNT: That's the one we requested
the quitclaim for, and they said they don't want to
quitclaim.

MS. FRISK: And then the others were
2879 which is the Unocal lease.
MR. MOUNT: 2879 -- and they're currently abandoning four wells on there. Until they're abandoned, we would not request a quitclaim. We anticipate we would be requesting a quitclaim after those wells are abandoned, but I expect some discussion on that one because we believe there is oil in productive quantities on that lease.

COMMISSIONER BUSTAMANTE: Which one?

MR. THAYER: 2879.

MS. FRISK: It's the one closest to Gaviota; right? Point Conception.

And then the other ones were the Ventura and Orange County abandonment, the four leases that are down there.

MR. THAYER: Belmont Island?

MS. FRISK: Is that all?

MR. THAYER: When they're properly abandoned we can anticipate they're coming back.

MS. FRISK: You don't anticipate any further request?

And then the other one was the PO01.

MR. MOUNT: PO01. They have a drilling deferment until November of this year. We anticipate that they will be coming to the commission on the next calendar, at the commission meeting.
We're not sure what their plans are. And we asked them to submit plans to us either requesting deferments or requesting development or a quitclaim. So we're meeting with POOL to find out what they want to do with those leases.

MS. FRISK: They have no permits right now to drill; is that right?

MR. MOUNT: They have no permits to drill.

MR. THAYER: It would take action by this commission.

COMMISSIONER BUSTAMANTE: And again, what's the lease number?

MS. FRISK: Those are 7911 and 4000.

Thank you very much.

COMMISSIONER CONNELL: Thank you.

MS. FRISK: And just a great report in general. Just all the information we had been asking -- or that Senator O'Connell had asked for was in there. We appreciate it.

MS. JORDAN: Susan Jordan for the League for Coastal Protection. I've been working on this issue primarily in the terms of the 40 federal leases. And so I've been very focused on federal waters.
But then of course it became apparent with the coastal commission report that maranet was requested. When we looked at the section on state waters, which was really kind of small and thin, we figured we needed to start to focus attention.

So it was a concern that drew me here, and it's a concern I feel in many ways has been alleviated because I can see that the commission is taking a very aggressive stance and taking a very close look.

Because there are disturbing trends that we're facing here in California. One of them is for producing facilities, they're aging facilities; they're old; they're outdated. Have they kept up the regulations? Are they complying? Yes, you tell them to. They know they have to. Are they? I'm not so convinced that they all are.

You're also dealing with the other trend that you brought out, which is more -- the trend away from the bigger operators to the smaller operators that are less capitalized.

So but I feel very relieved and I'm very grateful that you're moving this way. I would also like to get a copy of your slides because that was not in the information that we received on item
And I think, you know, when you look at Santa Barbara you get a degree of comfort because that's a county that's on top of it. But that is not the situation in other counties. Okay? And they don't shine that kind of light, and they don't track as closely as Santa Barbara does.

Santa Barbara is highly sensitive because of the oil spill there, and so they stay on top of it. But your work is not going to be quite as easy when you're dealing with other areas, I think.

Anyway, so I just wanted to say thank you.

MS. KROP: For the record, my name is Linda Krop. I'm the chief counsel with the Environmental Defense Center.

First of all, I would like to thank staff for preparing the report. It does include a lot of the information -- additional information that we had requested from the June hearing. So we appreciate that.

I have several questions about the status of some of the individual leases, and I think they were partially answered.

For the remaining leases where the
status is unresolved, they're partially in abandonment, I would request that perhaps status reports be agendized every quarter or for some appropriate interval to allow the public and the commissioners to know what's happening with those lease in terms of when requests for quitclaim go out or with the requests that are out what the responses are so that we can continue to track these leases.

And my only other comment then was that we are in support of the quitclaims that are on the agenda for today, and we are in support of the request for quitclaims that have been sent out by your staff.

I think this goes a long way for addressing the Chair's direction in June to get these outstanding leases resolved, at least by the end of the year to know which ones are, which ones are out, and for the ones that are out let's get the quitclaim process completed.

So we do appreciate the attention this commission is giving to this subject. Thank you.

COMMISSIONER BUSTAMANTE: Is the commission interested in having quarterly updates on --

COMMISSIONER CONNELL: Is that the
appropriate interval, or would that be too frequently
that you wouldn't see enough movement?

MR. THAYER: How about if we look at
that and I'll talk with Ms. Krop separately and see
how we can work this out.

I'm thinking one way, especially if
we're going to have some more quitclaims coming in,
maybe we attach a standard form to that, that once
that quitclaim comes in, of course, it will change
the tallies, and as part of that it's worthwhile
having a new tally.

COMMISSIONER CONNELL: Could some of
this information be converted to our Web site? It
would seem to me that those people who are interested
in following this, you know, activists who can't come
to our meetings might choose to be educated by having
this information on the Web site.

MR. THAYER: We'll see if we can do
that.

COMMISSIONER CONNELL: I don't know if
that's a good idea.

COMMISSIONER BUSTAMANTE: It's a great
idea. But I think that she wasn't just talking about
the quitclaim issue.

COMMISSIONER CONNELL: No, I would like
to have a whole site that is devoted to this issue.

COMMISSIONER BUSTAMANTE: All of the abandonment -- the question from the controller is quarterly, do you think that that's too often or should it be twice a year or --

MR. THAYER: I guess what would matter is how quickly the status changes on these leases, whether they are new development proposals and this sort of thing. And so if the changes were not occurring very often, every six months may be sufficient.

COMMISSIONER PORINI: Could we just have a sheet that appears in our agenda every month that just lists all of the leases? And then if there's any change, we'll be able to pick up the change and you can give us a report at an appropriate time that way?

MR. THAYER: That might be a way to go, is anytime there's a change in any lease development -- proposal or something like that -- we will highlight that. We'll have a lease status.

COMMISSIONER CONNELL: Well, I'd like to go back to this idea.

COMMISSIONER BUSTAMANTE: I think it's intent of the commission to do just that.
COMMISSIONER CONNELL: Of how we handle public dissemination of this information. You know, this is going to be a growing issue for many people along the coast and I think for many people in California whether they are fortunate enough to live along the coast or not.

I would like to have the staff spend a little time thinking about how we might create a special Web site -- on our Web site a special section to be devoted to this whole issue so that the public is aware of the commission's commitment to this issue and the fact that we are staying on top of it and they can seek to have information available to them.

COMMISSIONER BUSTAMANTE: It will also be helpful to the businesses we're trying to do business with.

COMMISSIONER CONNELL: That's right.

MR. THAYER: I'm sure we'll be able to work something out in that regard.

COMMISSIONER BUSTAMANTE: Dianne Meester.

MS. MEESTER: I'm sorry. I really intended it for this item.

COMMISSIONER BUSTAMANTE: That would be on 78? You wanted to speak on 78? Okay.
Is there anything else on 79?

MS. MEESTER: No, I mean, I do want to speak on this item. I'm sorry.

COMMISSIONER BUSTAMANTE: All right.

MS. MEESTER: I just wanted to thank again the State Lands staff for putting together a very comprehensive report. I think it responded to all of the informational requests that we made by way of letter in June.

And we also support the commission's approach to the existing leases to quitclaim those leases where the production has occurred in the past so that abandonment is completed where no production is occurring and development potential appears low.

From the information in the report it does appear that there are 10 leases offshore Santa Barbara County that are not currently under production but have some development potential, and those include the POOl leases, the Venoco leases in the South Ellwood field, the Unocal leases which I believe are anticipated to be developed in conjunction with the Gato Canyon area the OCS, the Benton leases, and the Unocal Agapo (phonetic) lease.

For these leases it would be helpful for us to have additional information on this
schedule of operations for exploration of production
similar to the requirements that the MMS imposes.

And it would -- it's particularly, I think, important for us to obtain this type of
information to round out the information that's presented in the draft CUBA (phonetic) Report.

That report only explicitly assumes development in the state tidelands of the Unocal Cobo (phonetic) Field and the South Ellwood fields based upon a determination of resources that can be economically developed. So I'm curious to know the true development potential and development and intent of the rest of those operators.

Thank you again for the report.

COMMISSIONER CONNELL: Thank you.

Maybe when we put together the time line that I was asking for, this type of information can be incorporated.

Do you think that would be an appropriate place to do it?

MR. THAYER: Certainly.

COMMISSIONER CONNELL: And I assume that when we do get this information you would make it publicly available to all local agencies, not only Santa Barbara but other counties that may have
interest.

MR. THAYER: Certainly.

COMMISSIONER BUSTAMANTE: Were the slides put in our binders?

MR. THAYER: The slides that you saw were previous items that we were responding specifically to questions from the commission earlier. It wasn't part of this presentation, so that was meant to be an oral report right from the beginning. There was never any staff report on that.

COMMISSIONER BUSTAMANTE: Could you send me an extra copy?

MR. THAYER: Absolutely.

COMMISSIONER BUSTAMANTE: There's no action on this one?

MR. THAYER: No action.

COMMISSIONER BUSTAMANTE: Item No. 80, report on the marinas.

MR. THAYER: This is the final report. We did a survey of the marinas to look at the MTBE contamination. We've completed the field dock inspections on all of our marinas.

The general conclusion is that we found no evidence of fuel leakage from the actual facilities themselves.
We have some pictures up there, I should note, but we found no evidence of tanks leaking or pipes leaking or pumps leaking. We found also in general that marina operators were fairly well trained in proper fueling procedures and were aware of spill containment measures.

We did find that there were some losses, some contamination occurring during the actual fueling operation from two different causes. And one was -- actually we'll call it operator error particularly where there was self-service at these marinas where the boat owners themselves were doing the tanking.

And the second problem had to do with an issue that I think the controller staff in particular focused on which was the design of the nozzle and that often the nozzles that are used are the same ones that are used in service stations but that they're sometimes incompatible with the design of the -- of the fueling system of the boats themselves.

And so really it's the lower left-hand picture up here that's most critical. It's not -- the other pictures would show the equipment. It's the people actually using the equipment where there's
a problem.

And so we've been -- in order to address those issues we're in contact with and working with the State Water Resources Control Board who is in the process of working on regulations for marina fueling facilities. And in particular we're bringing to their attention the problem with those nozzles.

In terms of boating education, we have been involved over the last few years actually cooperatively with a number of different agencies distributing literature.

The staff accumulated some of this, but there's a whole variety of stuff, boating waterways, coastal commission, others. We helped distribute this through the Delta Protection Commission in the delta itself.

There's a variety of key chains that talk about protecting waters from used oil. A variety of these things talk as well about proper refueling techniques and have good advice for the boater to prevent that problem.

The recent national clean boating campaign the week of July 10 through 28 we concentrated on keeping our water clean, use careful
refueling practices. This was the poster that we put together. So we're focusing on that effort.

And finally we're looking at perhaps providing some decals or stickers, and we have examples of those pinned next to the pictures up there that we might provide to our marina operators that could be out there.

We kind of like the one at the top most because that really does show what we're trying to do is to keep the gasoline out of the water, as a reminder to --

COMMISSIONER CONNELL: What is this "Keep Our Water Clean"?

MR. THAYER: Well, "Keep Our Water Clean" is a slogan that was used during this national clean boating campaign week in which we participated in July.

So I guess in conclusion we think we started down the right path in previous years in dealing with some of the issues with respect to ensuring the carelessness and lack of knowledge by the boaters doesn't contribute to these problems.

But we're also very pleased that as a result of the efforts over the last few months we've been able to go out and confirm what we hoped to be
the case, is that the marinas themselves aren't --
don't have equipment problems.

So that would conclude the staff's
report --

COMMISSIONER BUSTAMANTE: Are you -- in
a previous conversation you had indicated to me that
the facilities themselves are in fairly good order,
that the potential spillage would come from
operators, whether it's self-serve operators or they
are the operators, young kids, whatever, who are
pouring the gasoline into the -- in the different
boats.

MR. THAYER: That's right.

COMMISSIONER BUSTAMANTE: We talked at
that point about finding any kind of technology for
nozzles that would give us the greatest protection in
doing that.

Do we have anything like that?

I mean, I know that there's no way to
avoid it. I know it's going to be spilled. But is
there anything mechanically that's available as a
nozzle that would help even a little bit?

MR. THAYER: I don't think we know that
that's the case now, but we are definitely working
with the Water Resources Control Board to try to
develop those nozzles; see if they're available and
to perhaps end up with regulations that they
promulgate that would mandate their use.

And so we're still -- we're not done
with this issue. And we're going to continue to work
on that aspect of it. But today I can't tell you
that there's a nozzle available that would address
that.

COMMISSIONER BUSTAMANTE: Okay.

Are you suggesting to the commission
then to in fact create a campaign of some type? Is
that what this is about?

MR. THAYER: Yes, we are. And in
effect it's a continuation of really what the
commission has been doing for several years in terms
of looking at our responsibility to serve the public
trust which would involve trying to prevent public
trust users from polluting the resource.

So as I say, in the last couple of
years we've been involved in these clean boating
campaigns. And we think that as a result of this
study, identifying this particular issue, that we can
have some additional -- make some additional
difference by furthering our effort and coming up
with new stickers and that kind of thing.
COMMISSIONER CONNELL: May I suggest that everything we do in this regard we share with the schools in California? It seems to me to be the right vehicle through which we might be able to educate -- if you educate a child, you educate a family in many cases, and this might be a way of reaching out to the public.

MR. THAYER: We'll see what we can do on that. Of course the other opportunity there is the Web site, put information on that.

COMMISSIONER BUSTAMANTE: Do we require any kind of basic operator training for -- for people who are paid to pump fuel?

MR. THAYER: We have a general requirement that there be no pollution. But let me ask -- is it Bob Lynch?

MR. LYNCH: Yes.

Not to my knowledge.

MR. THAYER: No, not at this point, but I guess we'll look into that.

COMMISSIONER BUSTAMANTE: Is it possible that rather than making this huge training process, that there could at least be something that the -- that the owner of the marina or the people responsible for the pumping station at least just go
over with the -- with people who are in fact pumping
fuel that they just are -- they're told about this
program, they're told about the need to keep the
water clean, and just to go through it with them? I
mean, is there -- I mean, at least to bring it to the
front of their thinking on this and --

MR. THAYER: When we were preparing
this -- or working on this survey and doing this
study we consulted with the MRA, the Marine
Recreational Association, who consists generally of
marina operators.

And I think if we can work through
them, we might be able to come up with something that
we're all agreeable to that would involve providing
some material and they would help with the
distribution, that kind of thing.

COMMISSIONER BUSTAMANTE: I would love
to see a voluntary program, but if it -- if we need
to go to a mandatory program, I guess we could always
do that.

MR. THAYER: Let us try and work with
this association first and see if we can achieve
something.

COMMISSIONER BUSTAMANTE: The only
other comment would be that I don't know who came up
with the graphics -- they're nice, but at least the
commissioner might have a little bit of understanding
of campaigns.

And if you're going to be putting these
things up, sometimes the graphics, when you're
looking at them at arm's length, are not the same as
if you're looking at them 10 feet away or 15 feet
away or even 30 feet away.

So I would just suggest that you find
somebody who could give you some counsel as to the
kind of graphics you're going to want in order to be
able to get the results you want from a little bit --
because up close that looks like the best one, but
I'll bet you that it's not when you put it 10 feet
away.

MR. THAYER: Okay. We'll do that.

COMMISSIONER PORINI: Do we have any
requirement in our leases when we sign a lease with
someone for one of the marine fueling stations that
they have a training component?

MR. THAYER: I'm hearing that we don't.

COMMISSIONER PORINI: But having
something in the lease would be short of the mandate
that we would have to pay for, but it would put folks
on notice that they would --
MR. THAYER: If it were in the -- we have various requirements in the lease that probably costs money to carry out. And there's no reason why we can't do something like that.

But I think maybe if we take the first step to see if we can work with existing marinas, and if that doesn't work, then we'll see what we need to put in the lease.

COMMISSIONER BUSTAMANTE: Okay.

 Anything else? Any other comments?

MR. THAYER: That concludes that item.

The last two items are in fact the -- well, the next item, item 81, I understand that we're going to put that off until another day. And with that I would move on to the next two items which are the two quitclaim items. And I think Paul Mount is going to present those.

MR. MOUNT: As was stated earlier, we have received a request for quitclaim of three state leases. Those leases are offshore Santa Barbara County. They're indicated on this map.

One's an Exxon lease located here; this is Point Conception; over here Santa Barbara, down in this area; and two Texaco leases, 2725 and 2726, one of which had a platform that was abandoned years ago,
removed years ago, about 1986.

So all of the facilities, all of the pipelines that needed to be in all the subsea wells have been abandoned, and they're ready to be accepted for quitclaim back to the state.

In addition we've sent letters out on this lease 2206 requesting a quitclaim. We have received a request to quitclaim that lease, but it was too late to get on this calendar.

We've also sent a request for a quitclaim on this lease as well. We sent a total of five letters out for additional quitclaims. So you're to consider receiving and approving the quitclaim of these three leases right here (indicating).

COMMISSIONER CONNELL: Mr. Chair, if it's appropriate, I would move staff recommendation to accept the quitclaim.

COMMISSIONER PORINI: Second.

COMMISSIONER BUSTAMANTE: Is there anything that would prevent us from doing both items at the same time?

MR. THAYER: There's no reason why not.

COMMISSIONER CONNELL: Then I will move item 80 and 81.
COMMISSIONER PORINI: And I second.

COMMISSIONER BUSTAMANTE: 82 and 83.

COMMISSIONER CONNELL: 82 and 83? I stand corrected.

COMMISSIONER BUSTAMANTE: Let the record show both items have been passed unanimously.

We think it's a great direction anytime we can move these things off the table. If there's no production being done, why leave them out there. I appreciate the work of the staff to do this.

That concludes the regular calendar.

There is a time for public comment. We have one request for public comment.

Ms. Krop, do you still want to --

MS. KROP: This will be brief.

COMMISSIONER CONNELL: I'm feeling that we should give you a pair of roller blades.

COMMISSIONER BUSTAMANTE: You're not going to have the other two with you this time?

MS. KROP: My backup. I'll do this one on my own.

COMMISSIONER BUSTAMANTE: All right.

MS. KROP: But I think they'll support me on it.

My public comment is about public
comment. We have taken a renewed interest in the State Lands Commission agendas of late, and we noticed that on the printed agenda there is no designation for a public comment period as most other agencies do. So we have talked to your staff about it.

What we would recommend is that you actually include it in writing on the agenda. There are a lot of people out there who don't know without seeing it in print that they would have an opportunity to address this commission.

We think it's really important that you make these hearings accessible for people to talk to you about issues that may not necessarily be on the agenda but are timely for your consideration. They may bring up issues that you would want to place on an agenda.

So we would recommend that actually list it in writing on your agenda. And normally most agencies put it on at the beginning of the agenda. They indicate if there is going to be a time limit or some parameters but clearly stating that this is an opportunity to address the commission on items that are not normally on the agenda.

And we would greatly appreciate that.
Thank you.

COMMISSIONER BUSTAMANTE: Does staff have any comment?

MR. THAYER: I have spoken with Linda -- or Carla Frisk most recently. Yes, I think that's a good point. Legally we are required to afford that opportunity to the public.

There is no specific requirement that it be placed on the agenda. But Carla's point was, well, no one knows when to show up and make their comments. I think that's well taken.

COMMISSIONER CONNELL: Well, Annette and I sit together in 57 boards and commissions or close to that, and in the other boards that we do sit on they do have public comments. Generally, however, they're at the end of the session and not at the beginning.

MR. THAYER: That's an issue.

MS. KROP: If I might respond to that. I think one experience we had back in June when it was at the end we actually lost part of the commission by then and the rest were, I think, hungry and ready to leave. So I realize --

COMMISSIONER BUSTAMANTE: It's always a danger.
COMMISSIONER CONNELL: It's a danger even now.

COMMISSIONER BUSTAMANTE: As you speak it's a danger.

MS. KROP: As a representative of a lot of environmental organizations we would request that it be at the beginning. That's what most local agencies do, and it seems to work quite well. Thank you for your consideration.

MR. THAYER: Of course we would do whatever the commission would want to do.

COMMISSIONER BUSTAMANTE: I think the commission has consensus to put it at the end but to put it on the agenda.

MS. JORDAN: The only thing I was going to offer in terms of transmitting the information about what your activity is on these state leases and the oil, there is a very extensive list of people statewide that are working on this issue, and we can provide that to you so that you could send these notifications of changes to them so they could be kept up to date.

MR. THAYER: Sure. We'd love to see those.

COMMISSIONER BUSTAMANTE: Or we can put
them on our Web site and they can --  

    MS. JORDAN: Right. Well, until you  
get that Web site. It takes a little longer than you  
think.  

    COMMISSIONER BUSTAMANTE: I'm sure it  
would be next week.  

    Is that it?  

    MR. THAYER: We'll have a closed  
session.  

    COMMISSIONER BUSTAMANTE: We'll have  
our closed session. So the regular meeting is  
adjourned.  

          * * *
STATE OF CALIFORNIA  )
COUNTY OF LOS ANGELES  ) ss.

I, Katherine Gale, CSR 9793, a Certified Shorthand Reporter in and for the State of California, do hereby certify:

That said proceedings was taken before me at the time and place named therein and was thereafter reduced to typewriting under my supervision; that this transcript is a true record of the proceedings and contains a full, true and correct report of the proceedings which took place at the time and place set forth in the caption hereto as shown by my original stenographic notes.

I further certify that I have no interest in the event of the action.

EXECUTED this 10th day of September, 1999.

Katherine Gale, CSR #9793