APPEARANCES

Kathleen Connell, Chairperson
Cruz Bustamante, Lieutenant Governor
B. Timothy Gage, Director of Finance, represented by Annette Porini

In Culver City, Cindy Aronberg

STAFF
Paul Thayer, Executive Officer
Jack Rump, Chief Counsel
Barbara Dugal, Public Land Manager

In Culver City, Jack Rump

ALSO PRESENT:
Michael Dunn, Kern River Gas Transmission Company
Richard Huff, Williams Gas Pipeline Company
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PETERS SHORTHAND REPORTING CORPORATION
3336 BRADSHAW ROAD, SUITE 240, SACRAMENTO, CA  95827 / (916) 362-2345
COMMISSIONER BUSTAMANTE: This meeting, it will be informational until the Controller comes on and can assume the official Chair of the Commission. The only two members in attendance are Annette Porini and myself at this point, and the Controller will come on in a few moments.

EXECUTIVE OFFICER THAYER: And if I may interrupt.

COMMISSIONER BUSTAMANTE: Sure.

EXECUTIVE OFFICER THAYER: For the purposes of Government Code Section 11123, which requires that there be a presence at all noticed locations, Cindy Aronberg is in Culver City.

COMMISSIONER BUSTAMANTE: For the benefit of those in the audience and on the telephones, State Lands Commission administers real property owned by the State. They will hear a proposal concerning the leasing and management of these public properties. If you wish to speak on them, I guess, do we still have forms here? Okay. To address the Commission on any matter, please fill out the speaker slip. If you wish to address the Commission on any matter not on the agenda, also fill out a slip and you may speak at the end of the meeting during the public comment period.

The first item of business will be the adoption of the minutes from the Commission's last meeting.
ACTING COMMISSIONER PORINI: Move approval.

COMMISSIONER BUSTAMANTE: Let the record show that it is unanimous to accept the minutes of the last Commission's meeting.

And the next order of business is the Executive Officer's Report. Mr. Thayer.

EXECUTIVE OFFICER THAYER: Two quick points. I wanted to point out that like other agencies, and probably your own offices, the State Land Commission's staff is now grappling with the direction from the Department of Finance to come up with a reduction in our budget, proposed reduction, that could be implemented in the next fiscal year. And that's a 20 percent. We'll let you know where we think the best reduction should be, but, as with other agencies, there undoubtedly will be an impact to our operations from that kind of reduction. We had a reduction last year that was close to ten percent mid year. So it's a serious impact and we're hoping to avoid layoffs by cutting back on travel funds, but we can't guarantee at this point. It's still the early days in terms of getting our public investment money back.

COMMISSIONER BUSTAMANTE: Mr. Thayer, last year was all of the reduction, was it absorbed without any layoffs?

EXECUTIVE OFFICER THAYER: That's correct. We
were able to meet most of the reduction goals by eliminating some contract programs.

COMMISSIONER BUSTAMANTE: Is there any plans this year that in order to implement the 20 percent reduction that you would have to layoff any staff?

EXECUTIVE OFFICER THAYER: We're not at a stage where we can say definitively. We don't believe we'll need to do that this fiscal year, meaning 2002/2003, absent further direction to reduce our budget. It would not be -- we don't think it would be a surprise though if sometime later this year we were asked to reduce our existing budget below what it is right now, and that we've given up our contract money means that we have less flexibility to meet the reductions without staff layoffs as we have before.

COMMISSIONER BUSTAMANTE: Will any of the benefits be decreased by staff?

EXECUTIVE OFFICER THAYER: No.

COMMISSIONER BUSTAMANTE: We won't lose any staff, no reduction of benefits. Will there be any restrictions on time?

EXECUTIVE OFFICER THAYER: There may be restrictions on overtime, because that costs more per hour. We may restrict travel in order to save money.

COMMISSIONER BUSTAMANTE: So restrictions on overtime and travel is going to be the predominant reduction?
EXECUTIVE OFFICER THAYER: That's the first thing we're going to explore. But, again, in terms of meeting the requirements of the 20 percent reduction for next July 1st, for the budget starting next July 1st, we can't say at this point that there would be no layoffs.

COMMISSIONER BUSTAMANTE: Is the result of these reductions, either in overtime or travel, will the services that we provide to the various businesses of the State of California or those wishing to do business in California, would it be restricted or would there be any slow down of those activities?

EXECUTIVE OFFICER THAYER: We would, of course, do our best to avoid that impact, but it's absolutely the case that most of our work is with businesses on leases and things like that, and the cutbacks are going to affect how we do our business.

COMMISSIONER BUSTAMANTE: Is there any kind of leeway, is there any kind of --

EXECUTIVE OFFICER THAYER: Alternative?

COMMISSIONER BUSTAMANTE: No. Some kind of understanding of an agency that --

MS. ARONBERG: Lieutenant Governor, excuse me.

Madam Controller, are you on the phone?

CHAIRPERSON CONNELL: I am on the phone.

COMMISSIONER BUSTAMANTE: Great.
MS. ARONBERG: Okay. Thank you. The Lieutenant Governor has commenced the meeting and we were just listening to Paul Thayer's report. So why don't you go ahead and continue from there.

CHAIRPERSON CONNELL: Thank you, Lieutenant Governor, for chairing the meeting for me. I appreciate that.

COMMISSIONER BUSTAMANTE: Yes. We were just in the process of listening to Mr. Thayer's report with respect to the 20 percent reduction that's coming up this year in terms of his agency. I asked some questions with regard to whether or not services to the people we serve, businesses, et cetera, would suffer as a result of the reductions. And that's where we were at right now.

So is there any kind of allowance provided for agencies that create revenue?

EXECUTIVE OFFICER THAYER: Last year that was a consideration. As a result, the Lands Commission did not suffer a level of cuts that some agencies did last year, and that's something that we would certainly bring up again this year.

COMMISSIONER BUSTAMANTE: Okay.

CHAIRPERSON CONNELL: Paul, may I ask a question in that regard?

EXECUTIVE OFFICER THAYER: Certainly.
CHAIRPERSON CONNELL: Is this 20 percent number from your understanding going to be applied across the board. From our understanding, running a major agency, and I agree with Cruz's question here, there has to be obviously some flexibility. Not every agency, you know, has the fat, so to speak, to cut back here. And we're going to end up, I think, having severe reductions in some of these services. Have you been able to formulate exactly how far you can cut back? Have you done like a 10 and a 15 percent budget reduction, as well as a 20?

EXECUTIVE OFFICER THAYER: We had gone through that last year when we were asked to come up with various proposals for cutbacks, based on these different percentages. This year the budget letter specifically didn't make reference to smaller amounts, but did require us to come up with a proposal for the 20 percent. I think at this point it's still early in terms of knowing how financing, and Annette is much more of an expert on this than I am, but it's still early in terms of deciding what sort of cutback is necessary. And I think they have also asked us to prioritize where the cuts would occur, so that if there were lesser cuts necessary, we would have already determined which ones we could most easily endure.

COMMISSIONER BUSTAMANTE: Madam Controller.

CHAIRPERSON CONNELL: Yes, well, I just think we
ought to stay on top of this, if we can, because obviously if we need to make some decisions regarding where we go with this budget, and we need to comply with the Governor's request, obviously, on submission. But I think that we ought to be able to argue very effectively, you know, at what level we would begin losing blood, versus shedding fat and a little muscle.

EXECUTIVE OFFICER THAYER: Certainly.

COMMISSIONER BUSTAMANTE: According to Paul's earlier comments, Madam Controller, when you were not on the call, he indicated that the 20 percent over the 2002/2003 year would not necessitate the loss of staff, nor benefits of any kind, however, that there would be a cutback on overtime and travel. So in how we do our business without a loss of staff, there might be some need for perhaps more tech ways of doing, rather than personal contact ways, of doing business for the agency. And if that can be done and a more tech-based approach can be used and still not restrict the amount of business that would flow into California, it might end up being an interesting exercise for the use of --

CHAIRPERSON CONNELL: Oh, I think -- excuse me, I'm sorry, I can't tell when you're finishing, Lieutenant Governor. I do think that, you know, always cutting back is good. I've done that at the FTD and the DOE by 15 percent.
I just am concerned that, you know, will we recognize the point at which we are on life support.

COMMISSIONER BUSTAMANTE: Yes.

CHAIRPERSON CONNELL: We found that they were able to sustain the cuts and that's great.

Should we move on to the agenda then?

ACTING COMMISSIONER PORINI: Controller Connell, if you don't mind, since the budget letter that's been referenced is the budget letter the Department of Finance sends to our departments and agencies in preparation of submitting budget change proposals for the Governor's January budget, I'd just like to add that the Department of Finance has always had a process where they have heard specific appeals from departments and agencies. We would continue to do that this year, as well as we have been, as you know, Controller, always much more sympathetic in terms of providing appeals to departments and agencies that produce revenue. So what I would anticipate as Mr. Thayer completes the process of preparing for submission of his prioritization that he would appeal to Department of Finance if he finds that there's going to be a great diminution in that ability.

EXECUTIVE OFFICER THAYER: Good.

CHAIRPERSON CONNELL: I appreciate that input. I think that's very encouraging.
COMMISSIONER BUSTAMANTE: And we had somebody on the inside too.

(Laughter.)

ACTING COMMISSIONER PORINI: Yes, but an inside contact.

CHAIRPERSON CONNELL: Right. Paul, do you have anything else on the agenda item of your report?

EXECUTIVE OFFICER THAYER: The one other item I wanted to mention was that for our next Commission meeting, we are looking to have a hearing, perhaps the week of September 16th. There are a couple of projects that won't be ready until September 16th, and then we'd want to have the meeting as soon as possible thereafter. And we'll get in contact with your offices to find out what's workable for you.

CHAIRPERSON CONNELL: And I will ask for the courtesy of our fellow members in that regard. Is it appropriate at this point then, Paul, to go back to the first agenda item?

EXECUTIVE OFFICER THAYER: Yes. And we hadn't taken that up yet. Do you mean the project before us today?

CHAIRPERSON CONNELL: Yes.

EXECUTIVE OFFICER THAYER: And we already did adopt minutes, so, yes, we're ready for that. Let me first say that the application before us which has to do with the
Kern River Gas Pipeline project is one that we're having a
special hearing on. Because this project has the potential
to assist California in meeting its energy needs and because
of construction schedules in Wyoming and Colorado, the
applicant has asked for this meeting. And so with the
assistance of all the Commissioners in reaching a mutually
agreeable date, we're able to accommodate the applicants.

With that, Barbara Dugal from our Land Management
Division is here today to give general background on the
project.

MS. DUGAL: Good morning, Commissioners, I am
Barbara Dugal, as Paul mentioned, with the Land Management
Division, and I will be presenting background information
regarding the project that you're considering today. The
applicant for the project is Kern River Gas Transmission
Company, a Texas general partnership and a wholly-owned
subsidiary of Mid American Energy Holdings Company, which is
a unit of Berkshire Hathaway.

In order to expand its existing pipeline system,
Kern River proposes to construct and operate a new natural
gas pipeline system from southwestern Wyoming to southern
California. The proposed new pipeline system basically
parallels Kern River's existing pipeline route and involves
the construction of about 117 miles of pipeline and other
appurtenant facilities.
In California, the construction will involve the installation of approximately 104 miles of 36-inch pipe, and 82 miles of 42-inch pipe, and modifications to one existing compressor station and four metering stations.

Approximately 1.7 miles of new pipe will cross two sections of school land in San Bernadino County that are under the jurisdiction of the Commission. And those that have the map in front of you, it's the two red parcels, are the parcels that are under the jurisdiction of the Commission.

The only improvements that will be placed on these two parcels are the buried 36-inch pipe and above ground markers. Additionally, a temporary construction area adjacent to the pipeline route will be used.

Once constructed, Kern River anticipates that over 95 percent of the natural gas capacity will be used for delivery points in California to serve existing or new power generation markets. The new pipeline system will be constructed and operated to meet or exceed State or US Department of Transportation construction and safety standards. These regulations, which are intended to protect the public and to prevent natural gas facility accidents and failures, include specifications of material selection, minimum design requirements, and protection of the pipeline.

As I mentioned earlier, Kern River currently
operates a natural gas pipeline system. When the Commission approved the issuance of the two leases for the existing pipeline at Kern River, the two general partners in Kern River were Kern River Corporation and Williams Western Pipeline Company. The two general partners have assigned their respective 50 percent interest in the partnership to Kern River Acquisition One, LLC., and Kern River Acquisition Two, LLC. Pursuant to the terms of both of these leases, the applicant has requested the Commission approve the assignment.

There are actually three actions that staff is asking the Commission to consider today. First is the certification of the environmental impact report that has been prepared as part of a joint federal EIS/EIR for the pipeline project. The second action involves issuance of two general leases to Kern River Gas Transmission Company for the portion of the pipeline that will cross the two parcels of State school land. And third is the assignment by the general partners and the general partnership.

I would now like to introduce Dwight Sanders of the Environmental Planning Division who will provide information relative to the EIR that was prepared for the project, and also in Culver City are Commission engineering staff and they're prepared to respond to any questions you may have regarding engineering details. Thank you.
CHAIRPERSON CONNELL: Well, let me just interrupt before we start the staff presentation. Do we need to hear the EIR presentation at this point? I have certainly reviewed it. Have other Commissioners reviewed it and feel we need to have that presentation?

COMMISSIONER BUSTAMANTE: I think that there were some concerns that were raised, but it appears that most of the concerns have been pretty much resolved. I mean if we're talking about the re-vegetation issue or the desert tortoise issue or those issues with regard to the specific guarantee of the holding company to ensure performance, I think all those kinds of things appear to have been worked out in some reasonable fashion. Was there something else, Madam Controller, that you were thinking?

CHAIRPERSON CONNELL: No. That's why I don't feel it's necessary to review the entire EIR again.

ACTING COMMISSIONER PORINI: I'm comfortable --

CHAIRPERSON CONNELL: I'm comfortable. I'm comfortable with the staff recommendation today, and I don't know, since I'm not sitting with you all, who for the public wishes to address this. I'd rather go directly to public comments at this point than have another staff discussion on the EIR.

ACTING COMMISSIONER PORINI: Controller, I do have one question. In our staff write up, there were a list,
there was quite an extensive list of further approvals required, and I just wonder if I could hear from staff or the applicant. Have these approvals been issued now or where are you in the process with all the rest of those?

MR. DUNN: Can I see which ones you're speaking about?

COMMISSIONER BUSTAMANTE: It's the mega list.

MR. DUNN: Further approvals required.

ACTING COMMISSIONER PORINI: Yes. I understand that the EIR approval is first in the line of things --

MR. DUNN: Right.

ACTING COMMISSIONER PORINI: -- but I wondered how quickly or --

MR. DUNN: Right. I can go down the list here. I am Michael Dunn. I am the Director of Construction for Kern River Gas.

The United States Department of Agriculture Forest Service, we have two Forest Service parcels. This is federal land that the record of decision and right-of-way grants has been issued for that by the Bureau of Land Management. It would be the same for the Edwards Air Force Base parcel and the Bureau of Land Management parcel. A substantial amount of this property is on BLM property. The U.S. Fish and Wildlife Service, I'll defer to Tim Powell here, but they have issued their biological opinion --
MR. POWELL: July the 9th.

MR. DUNN: -- July the 9th for the project. Tim Powell is the environmental lead for the project.

COMMISSIONER BUSTAMANTE: Does that mean it was approved?

MR. POWELL: Yes.

MR. DUNN: The United States Environmental Protection Agency, Tim, can you help me on that one?

MR. POWELL: Yes. The EPA would be commenting on the four permits from the Corps. And then the State's -- the NPDES program is deferred to the State. The EIR, approval of the EIR, would then trigger. We have been notified by the Corps of Engineers that the project qualifies for nationwide Permit 12 and that it would be issued pending approval of the EIR.

MR. DUNN: Do you want to go ahead and address the Corps of Engineers permits as well? Right now we have authorization in Wyoming, Utah, and Nevada from the Corps of Engineers, and I believe the only outstanding issue is the certification of the EIR prior to the same notification from the State of California.

MR. POWELL: Right. It would allow issuance of the 401 Water Quality, which is needed for the Corps.

MR. DUNN: I'm not sure on the United States Department of Treasury Bureau of Alcohol, Tobacco, and
Firearms, what we need there. That may be something associated with blasting. I'm not sure what type of authorizations we need from that. It's very typical in the industry that we require blasting for some of the pipeline and we're quite experienced in getting those types of permits. I'm assuming that's what that is.

The California Department of Fish and Game, Tim?

MR. POWELL: That's the 2081 and the Stream Bed Authorization permits, which we've received in draft, but they can't be issued final pending approval of the EIR.

MR. DUNN: I believe Cal-Trans is the same, waiting on the certification of the EIR. The State Water Quality Control Board, the same.

MR. POWELL: Right. Yes, we provided draft stormwater and hydrostatic plans, which they commented on, and now we've provided final plans based on their comments.

MR. DUNN: The California State Historic Preservation office, Tim?

MR. POWELL: The treatment plan for California is presently in the Federal Energy Regulatory Commission's hands. It's received comment from the FIRC and the Bureau of Land Management and needs to be issued to the State Historic Preservation Office for comment. And that would be the final step of the programmatic agreement.

MR. DUNN: And the Lahontan River Basin Regional
Water Quality Control Board, I'm assuming that's some type of hydrostatic test permit?

MR. POWELL: Correct.

MR. DUNN: I'm not sure if we have that yet.

That's fairly straightforward.

MR. POWELL: Those have been submitted.

MR. DUNN: Okay. The Mojave Desert Air Quality Management District. We don't have any emissions sources in California associated with this project, but we do need dust control permits. And most likely, I am assuming that that's what that is with Mojave Desert. San Bernadino County Flood Control District, is this another hydrostatic test permit or is this a -- Tim, help me out there.

MR. POWELL: That might be a Rick -- Rick Huff may be best.

MR. DUNN: Rick Huff's our Right-of-Way Lead for the project as well.

MR. HUFF: All of the --

CHAIRPERSON CONNELL: May I just interrupt here. How long is this list? It's hard for me to figure out where we are on going through this list.

MR. DUNN: Okay. There's only two left.

CHAIRPERSON CONNELL: Okay. Go ahead.

MR. DUNN: Okay.

MR. HUFF: Okay. The flood permit is being sought
after at this time. We anticipate early restitution.

MR. DUNN: The next one is the San Bernadino Franchise Authority Special District Department. I don't believe we do need Franchise authority for the project for many of the counties. And the Kern County Road Department, that would just be road crossing permits.

That would conclude the list of further approvals required that I was given.

ACTING COMMISSIONER PORINI: Thank you.

CHAIRPERSON CONNELL: All right. Did that answer your question, Ms. Porini?

ACTING COMMISSIONER PORINI: It does.

CHAIRPERSON CONNELL: Mr. Thayer, are there any speakers who want to address this issue?

EXECUTIVE OFFICER THAYER: I do not believe. Let me look around the room, but we have no slips. No, there is no one who wishes to address.

CHAIRPERSON CONNELL: And, Cindy, is there anyone in Culver City?

MS. ARONBERG: No, Madam Controller.

CHAIRPERSON CONNELL: Then I think that we should take a motion. Does anyone want to move the staff filed recommendation here?

ACTING COMMISSIONER PORINI: I would move approval of staff's recommendation.
COMMISSIONER BUSTAMANTE: Second.

CHAIRPERSON CONNELL: It's been moved and approved, and Cindy will be voting for me, since I'm not physically in California. And that will be a unanimous vote, right, Cindy?

MS. ARONBERG: Yes.

(Laughter.)

CHAIRPERSON CONNELL: I love the way I can detach myself from the vote. All right. So we have dealt with that vote. Is that the conclusion of the regular calendar, Mr. Thayer, or are there other speakers who want to address the Commission during the public comment period?

EXECUTIVE OFFICER THAYER: We have no public speakers here.

CHAIRPERSON CONNELL: Are there any comments by Commissioners?

COMMISSIONER BUSTAMANTE: No.

ACTING COMMISSIONER PORINI: No.

MR. RUMP: There appear to be none in Culver City as well.

CHAIRPERSON CONNELL: Fine. Thank you. Then that concludes the Commission meeting and the meeting is now adjourned. Thank you all.

(Thereupon the meeting of the State Lands Commission was concluded at 10:20 a.m. on August 14, 2002.)
CERTIFICATE OF SHORTHAND REPORTER

I, MICHAEL J. MAC IVER, a Shorthand Reporter, do hereby certify that I am a disinterested person herein; that I reported the foregoing State Lands Commission proceedings in shorthand writing; that I thereafter caused my shorthand writing to be transcribed into typewriting.

I further certify that I am not of counsel or attorney for any of the parties to said State Lands Commission proceedings, or in any way interested in the outcome of said State Lands Commission proceedings.

IN WITNESS WHEREOF, I have hereunto set my hand this 17th day of September 2002.

Michael J. Mac Iver
Shorthand Reporter