BOARD MEETING

STATE OF CALIFORNIA

LANDS COMMISSION

STATE CAPITOL

ROOM 447

SACRAMENTO, CALIFORNIA

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9:36 A.M.

JAMES F. PETERS, CSR, RPR
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PETERS SHORTHAND REPORTING CORPORATION (916) 362-2345
APPEARANCES

BOARD MEMBERS

Mr. John Garamendi, Lieutenant Governor, Chairperson

Mr. John Chiang, State Controller, represented by Ms. Marcy Jo Mandel

Mr. Michael Genest, Director of Finance, represented by Mr. Tom Sheehy

STAFF

Mr. Curtis Fossum, Chief Counsel

Ms. Kimberly Lunetta, Executive Assistant

Ms. Jessica Rader, Staff Counsel

Mr. Greg Scott, Assistant Chief, Mineral Resources Management Division

ATTORNEY GENERAL'S OFFICE

Mr. Alan Hager, Deputy Attorney General

Mr. Joe Rusconi, Deputy Attorney General

ALSO PRESENT

Mr. Doug Anthony, Santa Barbara County

Mr. Cliff Berg, Santa Barbara County

Mr. Ron Cottingham, Peace Officers Research Association of California (PORAC)

Ms. Linda Krop, Environmental Defense Center

Mr. Steve Rusch, Plains Exploration & Production Company

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VI. INFORMATIONAL CALENDAR - ITEMS 1, 2, 3, 4. THE FOLLOWING ITEMS ARE INFORMATIONAL ONLY. ITEM 1 INVOLVES A PUBLIC HEARING; ITEMS 2-4 WILL BE DISCUSSED AND ACTED UPON IN A CLOSED SESSION.

1. PLAINS EXPLORATION & PRODUCTION COMPANY (PXP) (APPLICANT): Discussion of application submitted by PXP for two leases to explore for and produce oil and gas in the Tranquillon Ridge formation located beneath State submerged lands offshore of Vandenberg Air Force Base that would be developed from the existing Platform Irene in federal Outer Continental Shelf (OCS) waters. 3

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PETERS SHORTHAND REPORTING CORPORATION (916) 362-2345
CHAIRPERSON GARAMENDI: Good morning. I'm Lieutenant Governor John Garamendi. This is a hearing of the State Lands Commission. The purpose of the hearing is for information concerning the PXP proposal to lease state lands off the coast of Santa Barbara for the purpose of oil extraction.

This is the first hearing on this issue. We will have a subsequent hearing, presently scheduled for January 29th, to take up the issue once again, perhaps for a vote. That remains to be seen.

Joining me today are Marcy Jo Mandel, representing the State Controller, John Chiang. He is in good health and back in California and will soon be sitting. And, Marcy, you'll just have to get out of that chair for the 29th hearing.

(Laughter.)

CHAIRPERSON GARAMENDI: And Tom Sheehy, who represents the Department of Finance and the Governor's office.

For those of you in the audience who don't know this - and I suspect that's none of you, but I'll say it anyway - the State Lands Commission administers properties owned by the State as well as its mineral interests. And today we are dealing with State property, that is, the
offshore area and the mineral interests therein.

The first order of business before us today is
the adoption of minutes from the Commission's last
meeting. I think the members of the Commission have that.

Who has a motion?

ACTING COMMISSIONER SHEEHY: Mr. Chairman, I
would move approval of those minutes.

ACTING COMMISSIONER MANDEL: Second.

Without objection, those minutes are approved.

The Executive Officer, Paul Thayer, is not with
us today, and so we will not have an Executive Officer's
report. We'll wait until the next meeting for that.

There is no consent calendar today. In fact,
there is no regular calendar today since the purpose of
the meeting is for information only.

I suspect that most of you who are here in the
audience are familiar with our normal process of, if you
want to speak, you better sign up. There's sign-up forms,
I believe, at the side table. If you -- are they over
there?

Well, they're at the back, they're outside. So
if you want to speak, then you better get one of these
forms, fill it in. Please, please, print your name
legibly. I have great trouble reading my own writing. I
don't want to have trouble reading yours.
CHAIRPERSON GARAMENDI: So if you'll do that, we will then, at the appropriate moment, take you up.

Our Chief Counsel, Curtis Fossum, is here and he will present us with some background information and get this hearing under way.

Curtis, have at it.

CHIEF COUNSEL FOSSUM: Good morning, Chairman Garamendi, Commissioner Mandel and Commissioner Sheehy.

Well, there are four items on the informational calendar. Items 2, 3 and 4 really are there for notice only and will be discussed in closed session.

At the request of the Controller, staff has scheduled this special meeting for the purpose of providing an opportunity for the Commission and the public to receive information regarding the application by Plains Exploration and Production Company, or PXP, to lease approximately 10,000 acres of State-owned submerged lands in Santa Barbara County for oil production.

The Commission's Mineral Research Division Assistant Chief Greg Scott will initially provide a PowerPoint presentation discussing the project and status of the lease negotiations.

Either during or following staff's presentation, we encourage the Commissioners to ask questions of staff.
Following staff's presentation will be a presentation by Steve Rusch of PXP and another opportunity for the Commission to ask questions. Following PXP's presentation, Linda Krop from EDC, the Environmental Defense Council, who's also representing "Get Oil Out!" or GOO. And the Citizens' Planning Association of Santa Barbara will also make a presentation and answer questions. We also have for you today from Santa Barbara County, Doug Anthony from the County's Office of Planning and Development. The county, of course, certified the EIR for this project.

There are also several members from the public who have indicated a desire to speak on this item. Depending on the number of speakers, the Chair may desire to limit the Statements to the traditional three minutes. With that, I think we're ready to proceed with Item No. 1.

CHAIRPERSON GARAMENDI: Go for it, Curtis.

CHIEF COUNSEL FOSSUM: Greg Scott, the Assistant Chief of the Mineral Division, will be handling the PowerPoint.

(Thereupon an overhead presentation was Presented as follows.)

MINERAL RESOURCES MANAGEMENT DIVISION ASSISTANT

PETERS SHORTHAND REPORTING CORPORATION   (916) 362-2345
CHIEF SCOTT: Good morning, Mr. Chair and Commissioners.

I'm Greg Scott, Assistant Division Chief of the Commission's Mineral Resources Management Division. I'll be giving an informational presentation this morning on the proposed Tranquillon Ridge Field Lease and Development Project, also known as the T-Ridge Project.

The complete project application was submitted to the State Lands Commission and Santa Barbara County by Plains Exploration and Production Company, also known as PXP, in April of 2005.

The Commission's staff has reviewed the project application with regard to its applicability to the State's leasing statutes, the soundness of its technical design, the extent of the safety and environmental effects, and the economic value which the project could provide the State if the project were to be implemented. Santa Barbara County was the lead agency under CEQA and has prepared and certified an Environmental Impact Report for the project.

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MINERAL RESOURCES MANAGEMENT DIVISION ASSISTANT

CHIEF SCOTT: PXP has applied for two offshore leases covering the Tranquillon Ridge Field, which is located in state waters directly off shore from Vandenberg Air Force Base, shown here on this slide.
PXP plans to use their existing offshore Platform Irene, shown here in federal waters. It's located in federal waters and is presently used to develop and produce oil from the Point Pedernales Oil Field located directly northwest of and adjacent to the Tranquillon Ridge Oil Field.

The oil and gas that would be produced from Tranquillon Ridge would be measured separately on the platform, and then combined or commingled with oil from Point Pedernales and transported together through an existing offshore pipeline to a processing facility located in the city of Lompoc. Here the oil would be processed to pipeline quality and shipped to refineries through the All-American pipeline.

Also shown on this slide towards the bottom are three other offshore platforms operated by PXP, which produce oil from the federal Point Arguello unit.

MINERAL RESOURCES MANAGEMENT DIVISION ASSISTANT

CHIEF SCOTT: This slide is similar to the previous one, but includes inset photos of the Lompoc Oil Processing Facility and of Platform Irene, the main facilities that would be shared for developing the T-Ridge Oil Field, and also continued development at the Point Pedernales Field.

PXP has applied from the federal government's
Mineral Management Services, or the MMS, for a right of use and easement permit that would allow PXP the use of the drilling and operating facilities on Platform Irene to develop the State's resources.

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MINERAL RESOURCES MANAGEMENT DIVISION ASSISTANT

CHIEF SCOTT: The two lease areas that PXP has applied for are shown on this slide, right here. The two leases are approximately 5,000 acres each in size. The western edge of the leased area is the boundary between the federal and State properties.

PXP has proposed preliminary drilling targets for its T-Ridge wells, shown here in the red dots. These are the bottom hole locations of the wells, with the surface locations all located on the Platform Irene.

I'd like to point out one well that was drilled very near the proposed lease area in 1992 and within the T-Ridge structure. This well here. It's known as Well A-28.

This well is still producing oil and gas. And it is important in that it has shown that a continuous reservoir exists involving both the State and federal properties. And I will discuss a little later in the presentation that particular point with regard to the issue of drainage.
MINERAL RESOURCES MANAGEMENT DIVISION ASSISTANT

CHIEF SCOTT: T-Ridge Development Project was originally proposed by Nuevo Energy Company in 1999, the predecessor operator prior to PXP. Santa Barbara County was the lead agency for reviewing that project pursuant to CEQA. And in 2002, the county approved the onshore portion of the project but denied the offshore portion. There were jurisdictional and inspection issues involving the offshore pipeline.

Soon after that, PXP purchased Nuevo's offshore assets and then submitted its own T-Ridge Development project in 2004. The project was deemed complete by State Lands Commission staff in April of 2005.

The project, which was originally proposed, was a 30-year project, but later modified and scaled back as the result of an agreement between PXP and the environmental coalition, consisting of, among others, the Environmental Defense Center, Get Oil Out!, and the Citizens' Planning Association of Santa Barbara.

The modified project was reduced from 30 years to approximately 14 years, terminating on or before December 31st, 2022.

It is this modified project that the Commission staff evaluated for technical adequacy and economic...
benefit; and it was this modified project that the EIR was
prepared and certified by the Santa Barbara County
Planning Commission and approved by its Board of
Supervisors on October 7th, 2008.

MINERAL RESOURCES MANAGEMENT DIVISION ASSISTANT

CHIEF SCOTT: This slide shows some of the project
details. At its peak, oil production is estimated to
reach approximately 30,000 barrels of oil per day and 7
1/2 million cubic feet of gas per day.

The estimated recovery during the 14-year period
is 90 million barrels of oil, which would be developed
from 17 wells. All 17 wells are expected to be drilled
during the first five to six years of the project. The
short project life, however, will also result in a reduced
ultimate oil recovery from the field.

MINERAL RESOURCES MANAGEMENT DIVISION ASSISTANT

CHIEF SCOTT: Platform Irene has one drilling rig, that
will share its duties between drilling the wells in
T-Ridge as well as performing the ongoing well work needs
of the federal Point Pedernales Field operation.

All T-Ridge wells will be drilled directionally.
PXP will be using "extended reach" drilling technology to
reach its target locations within the State's property.
Even though the vertical depth of the wells will be between 3,000 and 5,000 feet, this drawing shows the extreme angles which the drilling borers must achieve to be able to reach portions of the field approximately five to six miles away.

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CHIEF SCOTT: This is a larger view of the aerial photo of the Lompoc Oil and Gas processing facility which I've shown on a previous slide. This is a large facility that would be used for the full period of T-Ridge production.

As a part of the PXP agreement with the environmental coalition discussed earlier, the operation of this facility is to terminate by the end of the proposed lease on December 31st, 2022, which coincides with the end of T-Ridge oil production.

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CHIEF SCOTT: This slide describes the authority which the State Lands Commission has to lease the subject lands for oil and gas development. The California Coastal Sanctuary Act of 1994 re-created the California Coastal Sanctuary, first adopted in 1992, and made all unleased tide and submerged lands off limits to oil and gas leasing and development, with certain limited exceptions.
One exception to the Act. Public Resources Code 6244 allows leasing by the State Lands Commission if oil or gas from the State-owned tide and submerged lands are being drained by producing wells on adjacent federal lands and that leasing is in the best interests of the State.

In the case of T-Ridge, gas is being drained by production from federal Well A-28 and both oil and gas by operations of the federal Point Pedernales Project.

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MINERAL RESOURCES MANAGEMENT DIVISION ASSISTANT CHIEF SCOTT: Two independent third-party studies were performed to determine the occurrence and existence of drainage of state resources from Tranquillon Ridge.

The reports concluded that the production of nearby well -- federal Well A-28 has been and continues to be a cause of drainage of state resources, including a loss of reservoir energy due to the withdrawal of millions of barrels of water from the reservoir.

In addition, production from the Point Pedernales wells have also caused a loss of oil resources from Tranquillon Ridge by approximately three million barrels of oil annually.

I need to point out that on this slide we show a drainage of approximately 27 million cubic feet of gas per year. As you look at that material, there's an error on
it. It says it's per day. I just wanted to point that
correction out.

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MINERAL RESOURCES MANAGEMENT DIVISION ASSISTANT

CHIEF SCOTT: The estimated oil production rates from the
development project are shown in this slide. As I stated
earlier, the peak rate of approximately 30,000 barrels per
day is expected to occur by the third year of development.
And we estimate production will then decline to a daily
rate of approximately 5,000 barrels per day at the end of
the project period at year-end 2022.

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MINERAL RESOURCES MANAGEMENT DIVISION ASSISTANT

CHIEF SCOTT: The potential benefits to the State are
several. There are significant economic benefits.
Royalty revenues to the State can reach or exceed $1
billion depending on various factors, such as oil price,
fuel performance, and royalty rate.

This project will also reduce the amount of
drainage occurring from the federal operations and will
enable the State to protect and recover its own resources.

In addition, and if feasible, the State lease
terms will incorporate the same public benefits, which are
provided for in the previously mentioned agreement between
PXP and the environmental coalition.
These benefits include: Specific end dates for the operation of the Tranquillon Ridge Field and other federal offshore oil production operated by PXP; full greenhouse gas reductions or offsets, such as the Carbon Neutral Project; dedication of approximately 3,900 acres of land in Santa Barbara County owned by PXP to nonprofit organizations; and, finally, agreement by PXP to shut down and abandon onshore oil and gas processing facilities at Lompoc and Gaviota.

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MINERAL RESOURCES MANAGEMENT DIVISION ASSISTANT CHIEF SCOTT: The State has been involved in negotiations with PXP involving proposed lease terms. The proposed terms that have been resolved are shown here:

The development area will contain two separate leases, each containing approximately 5,000 acres. And the annual rental fee will be assessed on a per-acre basis.

The lease will contain an initial drilling term, during which the minimum number of wells must be drilled. The sliding scale royalty rate for oil has been agreed to. The royalty rate increases as oil price increases.

And the lease term, which ends production at the
end of December 2022.

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MINERAL RESOURCES MANAGEMENT DIVISION ASSISTANT

CHIEF SCOTT: Some remaining terms are shown here and have yet to be resolved, but are expected to be completed soon. These include:

- Reviewing the and understanding the conditions within the just contained right-of-use and easement agreement between PXP and MMS.
- We've also examined the feasibility and means of incorporating provisions contained within the PXP and EDC agreement as lease terms.
- We've not yet established the royalty rate for gas, nor how the drilling muds and cutting from T-Ridge should be disposed.
- Some other remaining terms include how to establish a market basis for pricing T-Ridge oil;
- consideration of offsetting a possible severance tax on T-Ridge oil against royalty rate; setting lease management fees; and, lastly, establishing an appropriate basis for bonding.

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MINERAL RESOURCES MANAGEMENT DIVISION ASSISTANT

CHIEF SCOTT: In addition to the State Lands Commission, several other governmental jurisdictions and agencies have
been involved in the review and permitting process.
As previously mentioned, Santa Barbara County has completed the CEQA work.
If the Commission approves the new leases, approval by the Coastal Commission will be required, as they must review the project for consistency with the California Coastal Act.
And then the MMS must review and approve PXP's revised development plan and also execute a right-of-use and easement agreement with PXP to allow them to drill from Platform Irene into State waters.
The State, the MMS, and PXP will then execute two memorandums of agreement that address the inspection and drilling and production operations as well as the measurement and allocation of oil production from State and federal wells.

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MINERAL RESOURCES MANAGEMENT DIVISION ASSISTANT CHIEF SCOTT: This is my last slide.
The remaining governmental timing is shown here.
The State Lands Commission is scheduled to consider the leasing and development project on January 29th, later this month.
If the Commission issues the leases and approves the project, the Coastal Commission may act as soon as
early February on its consistency determination.

After that, the MMS could then approve the revised development plan and initial RUE permits.

And with all approvals in place, PXP expects that it could begin drilling operations as soon as May of this year.

That completes my presentation. I as well as other staff from State Lands are available to respond to comments.

Thank you.

CHAIRPERSON GARAMENDI: Thank you very much.

Very complete and thorough.

There are undoubtedly questions.

Panel.

ACTING COMMISSIONER SHEEHY: Thank you, Mr. Chairman.

Mr. Scott, the additional approvals that will be necessary after and if the State Lands Commission approves this lease agreement, do those all have to happen linearly? Is there anything to stop the California Coastal Commission from doing the review that it's going to need to do ultimately anyway? Does everything have to be linear? Or some of these things, can they go on simultaneously in order to shorten the time necessary for this lease to be approved?
MINERAL RESOURCES MANAGEMENT DIVISION ASSISTANT

CHIEF SCOTT: Well, the process is sequential. We have to have a lease in place first. Once that occurs -- now, the Coastal Commission has concurrently been reviewing the project. However, they must make their final consistency review and decision after the State Lands has issued its lease.

The MMS cannot approve the project itself or approve the RUE unless the State Lands Commission also has a lease.

So it's essential that the lease is the first course of business in the process.

ACTING COMMISSIONER SHEEHY: But I'm generally accurate; in other words, there doesn't have to be a de novo analysis here by the Coastal Commission or MMS I mean. The proposal, such as it is, is a public proposal. The components of it are well known. It's not as though the Coastal Commission or the federal MMS would have to sort of start from scratch in reviewing this view. Is that an accurate assessment?

MINERAL RESOURCES MANAGEMENT DIVISION ASSISTANT

CHIEF SCOTT: That's correct. They have been reviewing the project since its inception.

ACTING COMMISSIONER SHEEHY: Thank you, Mr. Scott.
CHAIRPERSON GARAMENDI: My understanding is that the MMS has been extensively -- that the Coastal Commission has been extensively involved in discussions with MMS about this project ongoing; is that correct?

MINERAL RESOURCES MANAGEMENT DIVISION ASSISTANT CHIEF SCOTT: Yes, they have.

CHAIRPERSON GARAMENDI: But there are still areas of uncertainty as to an agreement and the view of MMS with regard to this project?

MINERAL RESOURCES MANAGEMENT DIVISION ASSISTANT CHIEF SCOTT: The MMS has -- we have had ongoing discussions with the MMS. The MMS has cooperated with us and with PXP in trying to move this project forward. We have worked with the MMS in the past in an attempt to establish a unit agreement with them. They have not -- we have not been able to come to terms with the unit agreement. Therefore, the MMS has decided -- MMS has decided that its course of action should be through another process, which is this right of use and easement, which they are working with PXP. PXP has submitted its application recently to the MMS. And they have informed us that they are processing that application to allow PXP to use the platform.

So they are working cooperatively on this. We don't believe there are any major issues at this time.
However, we still will need to see the content of the RUE agreement and the fact that it may have terms that somehow cause issues with the State Lands Commission as far as any lease terms.

CHAIRPERSON GARAMENDI: Thank you.

Other questions?

CHIEF COUNSEL FOSSUM: Mr. Chairman, there's one more thing that the staff needs to mention before we go on to the next speaker. And that's, that currently PXP has an outstanding balance of more than a quarter of a million dollars in unpaid invoices from the Commission. One invoice is from last July. And the total more than 90 days past due is approximately $175,000.

ACTING COMMISSIONER SHEEHY: It looks like they're emulating the State of California, Mr. Fossum.

(Laughter.)

CHAIRPERSON GARAMENDI: Well, I am sure that if they want this project, they will immediately come forward with at least that portion that is past due.

CHIEF COUNSEL FOSSUM: We would hope.

CHAIRPERSON GARAMENDI: Now you are assured.

(Laughter.)

CHAIRPERSON GARAMENDI: There will be no further discussion about that or this thing will cease.

ACTING COMMISSIONER SHEEHY: On this point, you
know, it's no secret that the State of California and the General Fund is in very, very, very serious condition. In fact, it's really a fiscal emergency we're in. So the fact that Plains Exploration is in arrears on these payments causes great concern to me. And my attempt at levity aside, I'm very concerned about that, Mr. Fossum. And I would like to be kept abreast and know when they become completely current in those payments.

CHIEF COUNSEL FOSSUM: We'll let each of the Commissioners know when they do make the payments.

CHAIRPERSON GARAMENDI: Thank you.

I assume you're not going to leave the room. So if you'll standby, I'm sure there's going to be more questions.

MINERAL RESOURCES MANAGEMENT DIVISION ASSISTANT CHIEF SCOTT: I'll be available for additional questions.

CHAIRPERSON GARAMENDI: Thank you so much.

Our next presenter is --

CHIEF COUNSEL FOSSUM: Steve Rusch from the PXP.

CHAIRPERSON GARAMENDI: Thank you, counsel.

Go ahead, Steve.

(Thereupon an overhead presentation was Presented as follows.)

MR. RUSCH: Good morning, Mr. Chair and Commissioners, and Happy New Year. My name's Steve Rusch.
I'm Vice President of Environmental Health Safety and Government Affairs for Plains Exploration Production Company, better known as PXP.

Thank you for providing us this opportunity to speak to you today about the T-Ridge or Tranquillon Ridge Project. And thank, Greg, and your staff for your presentation. And really you're all diligent throughout this long journey, and we look forward to the upcoming hearing on the 29th.

2009 presents some unique and difficult challenges for California, to say the least. And PXP believes that the Tranquillon Ridge Project you are being -- proceeding with today is unique and a creative opportunity for the State, one whose tremendous benefits and overwhelming environmental support exemplify the ingenuity for which California's so well known, the ingenuity that will ultimately carry us through these difficult times.

Who would have ever thought imaginable that an offshore oil and gas lease proposal would secure the support of environmental activists, such as Get Oil Out! or GOO. First time in its 39-year history. And, ladies and gentlemen, that's what many of us here in this room have been working so hard to accomplish these past four years.
Staff did a very thorough job reviewing many of
the T-Ridge benefits and project details, so I'll try not
to repeat them and make this a fairly brief presentation.
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MR. RUSCH: So what I thought I'd do is just go
over some pertinent points on the background; talk briefly
about the coalition support, which Ms. Krop will go into
more detail, and also the benefits; and spend the last
couple slides talking about the economics of the project,
both near term and long term.
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MR. RUSCH: Briefly, what are the key features of
our proposed project? Some of which -- or most of which
Greg's gone over.

No new infrastructure is required. It already
exists. It's already operating. There's an existing
platform, existing pipelines, and onshore treating
facilities.

We agreed to, as Greg mentioned, the project end
date of December 31st, 2022, which means that the original
life of those facilities -- existing facilities
infrastructure won't be extended.

Production from that platform will cease in less
than 14 years now, assuming a lease is approved the next
couple months.
As I'll describe in more detail in a minute, the State stands to benefit economically in the billions of dollars. And that revenue stream, because we're using existing infrastructure, can commence essentially immediately or, as Greg mentioned, I think as early as May.

There's overwhelming and unanimous environmental support, first time ever. The project EIR was not litigated. They said it couldn't be done, but PXP and the environmental coalition, normally fierce opponents, worked for over a year, culminating in a partnership which found common ground and solutions.

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MR. RUSCH: We'll skip this slide. It's the locations you've already seen before.

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MR. RUSCH: Some of the support and benefit comments I wanted to mention.

Again, we have agreed to cease production at the end of December of 2022.

All greenhouse gas emissions -- we have made a commitment to offset all greenhouse gas emissions from this project, even though AB 32 isn't yet implemented.

And part of that --

CHAIRPERSON GARAMENDI: A little more explanation
on that. How do you intend to do that?

MR. RUSCH: It's in two parts. And we're in the
process, and staff has the greenhouse gas language that
we're proposing for the lease. And counsel in the AG's
office is working on that right now as we speak. But
there's really two parts.

The first part is a third-party independent
audit, which will be conducted on all of our existing
Tranquillon Ridge -- or existing by Point Pedernales
facilities, which would include things like increase fuel
emission inspections, looking at the boat traffic, looking
for separation facilities, all this -- you know, all
existing operations that we're doing to see what we might
be able to do to reduce those actual existing greenhouse
gas emissions in the future.

And then the balance, every year we would be
tracking actual greenhouse gas emissions from the project.
And then the balance would be offset by going through the
climate trust or some other appropriately approved group
to offset the balance of those emissions at $10 a ton.
So those are kind of the two parts. And that
would be over the life of the project

CHAIRPERSON GARAMENDI: So it would be a unit for
unit offset?

MR. RUSCH: Right.
CHAIRPERSON GARAMENDI: Thank you.

MR. RUSCH: Uh-huh.

In addition, we had -- Linda and I had quite a bit of discussion about indirect emissions. And what we agreed to -- PXP agreed to donate an additional one and a half million dollars to the Santa Barbara County Air Pollution Control District to fund -- they have a bus transit technology program. So we agreed to donate one and a half million dollars to add additional funding to that program for local Santa Barbara County emissions reductions. Of course, it not only reduces greenhouse gas emissions, but also air toxics, NOx, SOx, and all the other associated pollutants. And that would be a local benefit in addition to statewide benefit from a greenhouse gas reduction standpoint.

And as already mentioned, and as Linda will go into more detail, we have the unprecedented support of the environmental community.

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MR. RUSCH: And just a lot of words on the map here. But, you know, there's over two dozen environmental groups that actually actively support the project. They just haven't gone neutral, not commenting on it, they're actually supporting it, in addition to elected officials, public safety groups, and also business groups. And as I
mentioned, Linda will go into that in more detail.

Mr. Rusch: Economic benefits to the State.

We're obviously, as Commissioner Sheehy mentioned, in dire straits with the State, as we all know. And this project is materializing during this period and could contribute financially to -- although it can't solve the problem, is a revenue generating project that would help.

It's supported by a broad spectrum of environmental groups and, therefore, the environment doesn't have to be sacrificed. We don't have to reduce environmental regulations or create special benefits to make this project happen. It could happen within the structure that's already been set forth in the EIR and the county permit and future State Coastal Commission, MMS.

As I mentioned, big numbers, 2 to $5 billion, depending on the price of oil. The two is the lower end. And I'll show the graph in a minute here. That's at $50 oil. Five billion would be at the $100 barrel oil, which we haven't seen that for at least two months or three months. But that's the range that we'll be seeing over the 14-year life of the project.

In addition to that, there's other things of value that were brought to the table, including a value of land conveyance, lease rentals, the donation that they
talk about, and, of course, the county benefits by the ad
valorem taxes.

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ACTING COMMISSIONER SHEEHY: Excuse me. Mr.
Chairman, may I ask him a question about that?

CHAIRPERSON GARAMENDI: Of course.

ACTING COMMISSIONER SHEEHY: Thank you, Mr.
Chairman.

Mr. Rusch, could you elaborate on the ad valorem
taxes? That's a fairly significant number. I'd like you
to talk about how that's assessed and where it goes.

MR. RUSCH: Sure.

By virtue of Tranquillon Ridge being in state
waters, obviously because we're asking for a lease, it's
within the -- that asset lies within the purview of the
county's ability to assess ad valorem taxes. It's an
asset, it's a property that then becomes part of their ad
valorem tax basis. So the value of those reserves become
the basis for assessing the ad valorem tax; and over the
14 years, that amounts to that $313 million figure that
you see there. Of course that varies depending on oil
price.

ACTING COMMISSIONER SHEEHY: Okay. So if I'm a
resident and I live in the city of Santa Barbara and I own
property, I pay property taxes, that ad valorem tax. That
money gets split between the local school districts, any
special districts, and the city of Santa Barbara, right?

MR. RUSCH: Right.

ACTING COMMISSIONER SHEEHY: So this 313 million
is being -- if this lease were put into place and was
approved, there would be an ad valorem tax that would
be -- and I'm assuming that's 313 million over the life of
the project?

MR. RUSCH: Correct.

ACTING COMMISSIONER SHEEHY: Okay. Then,
therefore, that money, would it accrue just then to the
County and the schools or is there any portion of it that
would go to any of the incorporated municipalities within
the county or any of the special districts or -- I don't
mean to put you on the spot. I know you're not the
property -- Santa Barbara County property tax expert here.
But if you do know that, it would be great. And if you
don't, perhaps we could hear from another witness later.

MR. RUSCH: We'll hear from the county a little
bit later. But real briefly, it goes to the County of
Santa Barbara, the unincorporated portion of Santa Barbara
County basically. And that goes -- but it does go to
sheriff, fire, schools, you know, the broad spectrum that
are funded under that ad valorem tax.

CHAIRPERSON GARAMENDI: Marcy Jo.
ACTING COMMISSIONER MANDEL: Thank you.

Steve, you're talking about the possessory interest real property tax on the leasehold interest that would get the regular Santa Barbara County property tax bill just like someone gets on their house beyond the value attributable to these leasehold interests. So that's the regular county tax that would get distributed however the regular Santa Barbara county tax gets distributed, right?

MR. RUSCH: Um-hmm.

ACTING COMMISSIONER MANDEL: And then presumably there would also be more throughput on the All-American pipeline from the additional oil and --

MR. RUSCH: Well, we're actually -- no, this oil actually goes back to Santa Maria refinery. It doesn't go over to Bakersfield.

ACTING COMMISSIONER MANDEL: Okay. But that's all owned by someone else?

MR. RUSCH: Um-hmm.

ACTING COMMISSIONER MANDEL: Okay. So it says the regular property tax?

ACTING COMMISSIONER SHEEHY: Regular property tax --

MR. RUSCH: It's an ad valorem tax in Kern County, county assessor; also Ventura County; L.A. County,
all assessors --

ACTING COMMISSIONER SHEEHY: I'm just trying to establish whether or not that would help the State, vis-a-vis our Prop 98 guarantee. It sounds like it would, because the more property taxes that are collected, the less General Fund money being put in to meet the 98 guarantee. So it's a benefit to the schools too.

I just wasn't sure if there was some special provision about how this oil was taxed. It was just -- so it's just regular ad valorem tax?

MR. RUSCH: That's my understanding.

ACTING COMMISSIONER SHEEHY: Okay.

MR. RUSCH: We may be able to speak more to that.

CHAIRPERSON GARAMENDI: And 313 is that $100 a barrel?

MR. RUSCH: Yes.

CHAIRPERSON GARAMENDI: Currently it would be something less than a hundred. It could be --

ACTING COMMISSIONER SHEEHY: That's a hundred --

you say that's a hundred-dollar barrel?

CHAIRPERSON GARAMENDI: Yes, 313 is a hundred dollars a barrel.

MR. RUSCH: And I believe the county can speak -- they ran a couple different sensitivities.

CHAIRPERSON GARAMENDI: We'll come back -- when
the county's here, we'll ask the county for further
information on this question.

Thank you for -- please continue on.

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MR. RUSCH: So as I mentioned, this talks a
little bit more about the cash flows in the near-term
fiscal years. And I've taken fiscal years -- as the State
describes the fiscal year '08-'09, PXP has agreed to
advance - and this would be upon receiving all approvals
and clearance, this is an appeal period - a hundred
million dollars of royalties to the State of California.

In fiscal year '09-'10 -- so that hundred
million, you know, assuming if we started -- that
clearances were made. And then we'd write a check for a
hundred million dollars to the State, prepaying those
royalties in May.

Fiscal year '09-'10, we would be paying at the
State's proposed royalty rate. And then beginning in '10
'11 -- 2010 and '11, we would recoup that prepayment by
one of two ways - which we're still working with staff and
the Commission to decide whether they take it - by a 50
percent reduction in royalty until that prepayment is
recouped or by reducing the overall state royalty formula
by 15 percent over the entire term of the project, 14
years.
In addition, starting in 2010-2011, since we will have drilled maybe six wells by then, we would have production and a proven -- what we call proven reserves around each of those wells. So once we get production, we can project how much oil over the life of the project we're going to produce. So now we have an asset in place, we can project what the State royalties are, and the State could go to a financial institution and seek to -- seek what we call a volumetric production payment, or basically an advance of the royalties secured with that production. But it has to be current production. So what we said is then about every two years, and it would probably be three of these as you drill out the project to do these securitizations if the State wanted to bring money forward. Now, there's a price to do that, of course, because the financial institutions are going to want to take a 20 percent cut or whatever.

CHAIRPERSON GARAMENDI: They call that borrowing.

MR. RUSCH: Yes, exactly.

CHAIRPERSON GARAMENDI: We're familiar with that.

(Laughter.)

MR. RUSCH: But that is an option, and we do have experience with it and be willing to help the State through that process should they so choose.
MR. RUSCH: So that takes care of kind of the near term plus potentially the longer term with the securitizations.

CHAIRPERSON GARAMENDI: Tom, do we have any idea what that securitization might mean in the near term, for example, in '10-'11, if there was a securitization?

ACTING COMMISSIONER SHEEHY: Well, I can only -- we haven't done an independent analysis of this. And I think that the production figures that I've seen from PXP, and that I've asked the State Lands Commission staff to sign off on, look reasonable, they're conservative. My understanding is is that with the volumetric production payment process you have to have the wells up and producing so that the financiers know what's available.

From looking at your numbers, Mr. Rusch, it appears to me that at $50 oil, which present time seems more likely, by the end of the '10-'11 year, which we would call budget year plus one, with your hundred million dollar prepayment, we could be looking as much as a quarter of a billion dollars in benefit to the State General Fund if this project were to go forward.

CHAIRPERSON GARAMENDI: That's a hundred million for the advance plus the securitization?

ACTING COMMISSIONER SHEEHY: No, that's -- Mr. Lieutenant Governor, that's a hundred million advance that
we would get at the end of '08-'09, at the very beginning
of '9-'10, depending upon how things were dragged out.
And then the $50 oil, that assumes an additional 59
million in royalty payments in '9-'10 and another hundred
million dollar in royalty revenue in '10-'11, based upon
production figures that seem rather conservative. And, in
fact, I think the State Lands Commission staff told me
they thought that maybe you weren't quite aggressive
enough on some of those production figures. But that's a
$50 dollar oil -- of course, we don't know what the price
of oil will be, but that's the amount of money we think
might be available through the end of '10-'11 without any
sort of securitization.

CHAIRPERSON GARAMENDI: Thank you.
Let's continue on.

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MR. RUSCH: I just wanted to put this slide up to
show the impact of the price of oil. And then on the --
really the cash flow to the State and the cash flow to
PXP, and you can see at $50 oil the State take is about
$1.84 billion at $50 oil; there's 712 million to federal
and local cash flows, and the balance -- that 1.135
billion would be PXP's take. And that, of course, just
escalates with escalating price. And you can see where we
came up with the two to five billion dollar numbers just
the first column and third column.

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MR. RUSCH: So, in summary, I said to start is what we believe we've crafted here is a unique and creative project. The first ever to receive support by basically the entire environmental coalition, both local and state. And I think you'll hear from some of those folks today, Sierra Club included.

End date for oil production from an offshore platform and for onshore oil field at Lompoc, carbon neutral, in the best interests of the State. We believe it is due to the economic benefits and the existing infrastructures used, immediate cash flow, minimal environmental impacts. They've all been mitigated through the original project.

All the air emissions and everything else has been mitigated. T-Ridge production will end within the anticipated life of the existing Point Ped Project. That's my comment about not extending the life of existing facilities. And if you look at, you know, the number of platforms out in the channel, that's a pretty significant statement. Because if you looked at 22 offshore platforms, some of those are 40, 50 years old. So here we are ending production on a platform that was, you know, installed in the late eighties.
MR. RUSCH: And then the domestic energy policy development -- well, let me move back. CEQA and Coastal consistency findings show that this project is consistent with the Coastal Act. And I think Greg had gone through kind of the findings that are needed to be consistent with the PRC. And no new impacts. And T-Ridge production will end -- repeating myself. And then kind of -- good domestic energy policy. You know, it's an overall reduction in greenhouse gas emissions. You know, in-state production directly offsets importation through, you know, flag vessels in the ports of L.A. and the Bay Area, because the state imports what, 68 -- or 65, 68 percent of crude oil. So every marginal crude produced domestically offsets import crude and, therefore, greenhouse gas emissions that go with it. It uses available infrastructure. We should be using infrastructure that we already have. And it really is in our minds and those in the environmental coalition a win-win really for the environment, state, and the industry. And those conclude my comments.

CHAIRPERSON GARAMENDI: Thank you very much. And a very good presentation. I also want to commend you and PXP for the
creative nature of your proposals and your willingness to
work not only with the environmental community but with
the staff.

I assume the check is going to be delivered very
soon?

MR. RUSCH: The check is in the mail. I'll take
you through the numbers. But I mean I don't think we're
outstanding that kind of money but --

CHAIRPERSON GARAMENDI: Well, don't let it
linger. It's not in your interest.

(Laughter.)

CHAIRPERSON GARAMENDI: There's an issue -- I've
raised this issue several times. And it comes down to the
energy policy that you've identified here at the very end
of your presentation. The energy policy of the State of
California is to move vigorously and immediately to reduce
greenhouse gas emissions. The consumption of petroleum
products for the production of energy, transportation, and
other similar uses does create greenhouse gas emissions.

AB 32 and related legislation has very clearly
established California's policy and national leadership.

I remember my days back at the Department of the
Interior when there still existed a program at the federal
level of the royalties from the federal leasing or oil
production -- oil and gas production, that those revenues
would -- at least a good portion of those revenues would
flow into a program called the Land and Water Conservation
Programs. In recent years that's been significantly
diminished and all but eliminated. It seems to me that it
would be very useful for the State of California to use
these oil revenues for the implementation and advancement
of AB 32 goals, ranging from research to subsidies to
reduce emissions from fixed sources, such as diesel
engines in the central valley for agriculture, or perhaps
even port and transportation of all kinds. And also you
can certainly use the revenues to advance the wind turbine
programs, solar programs, geothermal programs, bioenergy
programs and the like.

I think we have a very unique opportunity here --
very unique opportunity to use these revenues to achieve a
time to achieve a preeminent state policy, and to more quickly reduce our
greenhouse gas emissions. This is not necessarily a PXP
problem. But I can assure you that if I am to vote for
this, this will be done or I will be a "no" vote.

So if it's in PXP's interest and the State's
interest to have this revenue and to have this program,
then it is in the interests of everybody concerned to
initiate legislation that would establish a fund for the
purposes that I've just described.

Now we can continue on.
ACTING COMMISSIONER SHEEHY: Mr. Chairman, I'd like to just comment on that.

CHAIRPERSON GARAMENDI: Sure.

ACTING COMMISSIONER SHEEHY: Department of Finance certainly agrees with the comments just made by the Lieutenant Governor as far as the greenhouse gas emission reductions and renewable energies. I just think it's important to point out that the State of California has, in fact, had a very aggressive alternative energy and alternative fuel development program that's been going on for decades. In fact, it started back in the 1970s after the first major oil embargo.

In the '07-'08 fiscal --

CHAIRPERSON GARAMENDI: And I authored the legislation, at that time, for the subsidies.

ACTING COMMISSIONER SHEEHY: Thank you, Lieutenant Governor.

In the '07-'08 fiscal year, in fact, we spent over a half a billion dollars in state revenues on alternative energy. These are revenues that came from the Pure Electricity Program run by the California Energy Commission. These come from additional surcharges that the PUC collects.

We're spending several hundreds of millions of dollars in a renewable resources trust fund for these
types of alternative energy development, sustainable transmission, biofuels. The list goes on and on.

In fact, I'm advised by staff at the PUC and the Energy Commission that at some of these funds, they're actually developing rather large balances because more money is currently coming in under the existing surcharge structure than we actually have the ability to expend in the way of research and demonstration projects.

So while the Department of Finance certainly agrees that the continued research and development of alternative energy, anything we can do, is a very important public policy goal, we also understand that there's tremendous state investment that's taking place currently through the programs that the Energy Commission has been ongoing for decades, as well as the Public Utilities Commission.

And one thing Finance would not support is diverting hundreds of millions of dollars of potential General Fund revenues that we need right now to mitigate cuts to the aged, blind, disabled, university fees and all the other areas to put into a program where we couldn't spend the money for a year. So we think these are dollars, if it was approved by the State Lands Commission, that would need to be put to use right away and not just build up large balances in various funds. And I just
thought that was important to put on the record.

CHAIRPERSON GARAMENDI: Department of Finance
knows my view. Deal with it as you will.
Thank you very much.
Let's move on to our next witness --

CHIEF COUNSEL FOSSUM: The next witness --

CHAIRPERSON GARAMENDI: -- which will be EDC.

CHIEF COUNSEL FOSSUM: -- will be EDC Chief
Counsel Linda Krop.

(Thereupon an overhead presentation was
Presented as follows.)

MS. KROP: Thank you and good morning. I
appreciate the invitation to make a presentation.
Thank you, Chairman Garamendi, members of the
Commission. My name is Linda Krop. I'm the Chief Counsel
of the Environmental Defense Center. And we were the lead
environmental negotiators with PXP regarding this
proposal.

And I wanted to set the stage first for those of
you who aren't as familiar with the EDC or the
organizations that we worked with, primarily in Santa
Barbara County.

EDC has been around for 30 years. We are a
public interest environmental law firm and we represent
other organizations on various environmental issues.
Offshore oil has been one of our focuses over the full 30 years of our existence. We've been lead litigators in challenges to both federal and state offshore leasing. We helped draft the California Coastal Sanctuary Act in 1994. And took this very seriously when we were approached by PXP.

We officially represent two groups in this -- during this negotiation period:

Get Oil Out!, which was formed as a result of the 1969 oil spill, that's been around for 40 years now. Its entire mission is to protect the California coast from offshore oil-gas development impacts.

And Citizens' Planning Association of Santa Barbara County, which has been around even longer, since the early sixties. And, again, offshore oil has been the focus of their mission for their entire existence.

We also coordinated with several other groups including local chapters of the Sierra Club and Audubon and Surfrider, et cetera. A wide variety of groups were participants in an initial meeting with PXP back in May of 2007.

So there's broad environmental participation in this issue. No environmental opposition whatsoever. As you'll see in my slide show, we have over 20 groups throughout the State that support this proposal. The
reason being that this proposal takes advantage of a
unique opportunity, that we'll probably never see again,
to protect our coast from the impacts of offshore oil and
gas development, in that it will phase out existing
development.

All of the groups that support this deal have
been working really hard to support various bans, a
moratorium on new development. We also realize we have a
lot of existing development offshore California. What
this proposal does is for the first time in our nation's
history is actually phase out existing oil development
that causes current impacts and risks to our coast.

MS. KROP: With that background, I just wanted to
orient the Commission once again to the federal platform
here, Platform Irene in federal waters, the pipeline that
extends to the onshore oil and gas plant in Santa Barbara
County.

MS. KROP: And as your staff mentioned, there was
a prior proposal to drill from an existing platform,
Platform Irene, into a new State lease. EDC and our
clients vigorously opposed that proposal because it would
have -- even though it would not -- it would not have
required any new construction or new facilities, it would
have extended the life of those facilities. And as I mentioned, we're trying to protect the coast from not only new development, but also existing development. And due to various concerns, the county did deny that project in 2002.

MS. KROP: Then PXP came along, submitted their application. And according to the Draft Environmental Impact Report, their proposal also would have extended the life of the existing facilities at the platform and the onshore processing facility.

MS. KROP: We submitted comments on the Draft EIR. And our comments were all focused on the impacts associated with the extended life of these existing facilities. There really were no other impacts from the proposal. Based on our comments, PXP approached us and all of the other groups in Santa Barbara County that work on offshore oil issues and said that they acknowledge our concerns, wanted to address them, and said, "What if we agree not to extend the life of these existing facilities?"

MS. KROP: Well, that brought us to the table.
We spent about a year negotiating an agreement that not only would shut down existing operations at that platform and processing facility, but also bring in the other PXP operations in Santa Barbara County. And that's what's really remarkable about this agreement.

PXP did not have to include an end date for other facilities. They're not tied to Tranquillon Ridge whatsoever. And yet to address the concerns of the community and provide this environmental benefit, they agreed to also shut down operations from three other platforms offshore in Santa Barbara County and the Gaviota processing site.

We also secured the carbon neutrality agreement. PXP agreed to convey their land holdings in Santa Barbara County, which include the Lompoc oil and gas plant and also hundreds of acres of onshore oil and gas production which will also be shut down as part of the agreement.

MS. KROP: So this is really an historic agreement. It's never been done before, that existing operations will be shut down with an assured termination date, including four platforms, existing onshore oil wells, two onshore support and processing facilities, that otherwise could operate indefinitely. There are no termination dates in state or federal leases, as you know,
formally. We're not aware of any that exist anywhere in
the country. Without this agreement, these facilities
that are currently operating could operate another 20, 30,
40 years. We don't know. The platforms that we have off
our coast now we were told would have been removed back in
the eighties or nineties. They're still out there. With
new technology, with the price of oil fluctuating and
rising generally from its initial price, there is no end
in sight for this production without this agreement.

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MS. KROP: And so here I want to point out the
other benefits, not just Platform Irene. But these three
platforms here, shut down production will occur in 2017.
And the Gaviota onshore processing site here will be shut
down in 2017.

Now, these platforms -- these four platforms are
really key to protecting the coast. If you look, there
are some existing federal leases around here that could be
slant drilled from these platforms. The oil and gas could
be processed on shore. There are also some doughnut holes
in here, some surrounding unleased areas, that the federal
government is looking at for new leasing now that the
moratorium has expired. If you hear reference to
potential for new leasing in federal waters in the western
Santa Barbara channel, that's what they're talking about.
And they're talking about it because we have existing infrastructure.

So for the environmental groups to be able to phase out this existing infrastructure not only phases out existing operations but helps protect this entire area here.

MS. KROP: In addition, as you've heard, the agreement will result in carbon neutrality, plus an additional donation to Santa Barbara County will provide almost 4,000 acres for permanent public conservation purposes. We've been working with the Trust for Public Lands. They also have an agreement with PXP to ensure timely conveyance and clean up of these areas.

There's about 3,700 acres up by the Lompoc Oil and Gas Plant that are immediately adjacent to the State's existing Burton Mesa Ecological Reserve that is managed by the Department of Fish and Game. This is an incredible opportunity to almost double the size of that reserve.

So our intention is that the Department of Fish and Game would manage those lands. And those include the Lompoc Oil and Gas Plant, the onshore wells, and additional acreage. On the Gaviota coast up to 200 acres would be conveyed. And our hope and intention is that those would be transferred both to the Department of Fish
and Game as well as State Parks. And TPL has been in discussions with both of those agencies.

MS. KROP: So here you can see the existing Burton Mesa Reserve and the additional acreage and then down here in Gaviota some additional land that's obviously a very valuable location.

MS. KROP: Finally, the Tranquillon Ridge project is consistent with the California Coastal Sanctuary Act, which, as I mentioned, we have a role in drafting. We feel very strongly that there should be no amendments to the State's law regarding new leasing. Drainage is occurring from existing facilities. No new facilities will be constructed. We believe that the project is in the best interests of the State because it will enhance protection for the California coast, reducing the risks of oil spills in the long term and other impacts from offshore oil and gas development.

MS. KROP: The support for this is very broad across the environmental community. There is no opposition whatsoever. We have 25 groups on board. Basically, every organization you can imagine in the county is on board. They are ecstatic about this
possibility of protecting our coast.

And then we also have some statewide organizations - Sierra Club, League of Women Voters of California, the global Surfrider Foundation, the Ocean Conservancy, Pacific Coast Federation of Fishermen's Associations and The Otter Project.

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MS. KROP: And I'm available for any questions.

ACTING COMMISSIONER SHEEHY: Thank you, Ms. Krop.

You went over this rather quickly. I'd like to understand your view on this a little bit better.

With respect to the other rigs that are not directly -- they're only going to use Platform Irene to slant drill into the Tranquillon Ridge area. But there's these three other rigs that are currently being operated by PXP, is that accurate?

MS. KROP: That's correct.

ACTING COMMISSIONER SHEEHY: So, therefore, if this project doesn't go forward and your agreement doesn't go into place, what's going to happen to Irene and those three other rigs? I mean, do they just continue on with this? Does a federal lease allow them to continue indefinitely; there's no end in sight to that oil drilling?

MS. KROP: That's true. And that's the -- that
is the critical focus of this agreement, is that without
this agreement, those four platforms and the onshore
support facilities can operate indefinitely, not just for
producing the leases they're currently producing, but they
can even produce surrounding areas. And so without this
agreement, there would be no end date, those platforms
could be out there indefinitely.

ACTING COMMISSIONER SHEEHY: So any reason to
believe that those surrounding areas would contain the
type of reserves that we know -- that we believe to exist
in Tranquillon Ridge?

MS. KROP: Yes. In fact, several undeveloped
federal leases adjoin the Point Arguello project and the
Point Pedernales project. There has been some exploration
already on those leases. And the oil is, you know, decent
quality. There's actually been plans to slant drill --
like the Rocky Point unit already.

ACTING COMMISSIONER SHEEHY: I see. Thank you.

Also, I believe it was Mr. Rusch that had
mentioned in his presentation that we've gone through
the -- PXP rather got through the CEQA process and the
various other administrative processes necessary with a
local government down there in Santa Barbara County and
was able to achieve all this without any litigation. I
find that really hard to believe.
Can you -- since you sort of -- as I understand it, Ms. Krop, you sort of led the environmental coalition on this issue. And it seems -- in fact, it seems so unbelievable, maybe we should recruit you to work with the Republicans and Democrats up here in the Legislature to get them to agree.

(Laughter.)

ACTING COMMISSIONER SHEEHY: But how is it that this could come together without any litigation? I find that very difficult to comprehend.

MS. KROP: I appreciate the question. And I probably don't have all the answers. But from the environmental perspective, which is where you would expect a challenge to an oil project, we worked very diligently for a year to make sure that everything we were negotiating would not only provide a benefit but would also be enforceable.

And we worked not only with our client groups, but we worked with all of the organizations that had historically participated or monitored or fought oil development issues in our county and even around the State. And we addressed everybody's questions. And we were able to actually add some aspects to our agreement that we had not even thought of, because we went out and talked with other interested organizations and they came...
in with, you know, their requests.

But I think the fundamental thing is that we went beyond just Tranquillon Ridge, that we, you know, collectively came up with a very comprehensive agreement that addressed everybody's concerns.

ACTING COMMISSIONER SHEEHY: Mr. Chairman, I have one more question for Ms. Krop.

CHAIRPERSON GARAMENDI: Of course.

ACTING COMMISSIONER SHEEHY: Thank you, Mr. Chairman.

On the enforcement issue, I've heard some suggest that there are loopholes in this agreement that could be exploited. I'm just wondering, since you're an attorney and since you were one of the lead negotiators on this, if you could from your perspective, the environmental community's perspective, talk a little bit about what assurances we have that if we were to support this project, that the environmental benefits that you have described would actually take place, including -- and especially, Ms. Krop, if you could address the shutdown issue, which I think is very important to members of this Commission.

MS. KROP: There are several layers of enforceability in this deal. First of all, there's an agreement directly between PXP and the environmental...
parties. The environmental parties can enforce the end
date by bringing a court action for what's called specific
performance, having the court compel PXP to stop
operating. In the agreement, PXP is also required to
actually quitclaim the Tranquillon Ridge leases back to
the State at the end of 2022. That's enforceable by the
environmental parties in court.

We also enforce the end dates by removing the
onshore infrastructure. And Trust for Public Lands and
the environmental parties have agreements with PXP to
require the abandonment, cleanup and removal of the
onshore facilities. So that's another layer of
protection.

The agencies that have to approve this project
can also include their own conditions. And the County of
Santa Barbara included a condition in its final
development plan securing the end date for the Tranquillon
Ridge project and the Lompoc Oil and Gas Plant. So that
is enforceable also by the county. The Greenhouse Gas
Emission Program's also enforceable by the county via a
condition.

The State Lands Commission can include conditions
in its lease agreement with PXP so that you have your own
direct enforcement and you would, in fact, encourage and
welcome that.
The Coastal Commission will also be able to impose conditions on its approval. We've been working real closely with the Coastal Commission staff. And so they will also include the end date, the greenhouse gas emissions in their approvals as well as what we've heard from their staff.

ACTING COMMISSIONER SHEEHY: Thank you.
CHAIRPERSON GARAMENDI: Let's pick up that issue and carry it a little further here. It's a major concern that's been expressed by staff.

Mr. Fossum and Mr. Rusconi, if you could speak to the questions that Tom has raised.

CHIEF COUNSEL FOSSUM: Well, we have -- Mr. Chairman, we have looked very carefully at these issues. And while the agreements that PXP and the environmental coalition have entered into do provide for an agreement to do these things, as Ms. Krop mentioned, they would have to go to court to enforce certain elements of it. And one of the questions certainly has to do with the enforceability against MMS. While PXP may be willing to actually cease production of their offshore facilities, they are currently in a contract with MMS to produce from those fields, and it may be difficult for them to walk away from that obligation.

There were issues for us as far as
interference --

CHAIRPERSON GARAMENDI: Before you leave the MMS issue.

So PXP has a contract with MMS to produce oil?

CHIEF COUNSEL FOSSUM: Yes.

CHAIRPERSON GARAMENDI: And there's no end date on that contract?

CHIEF COUNSEL FOSSUM: That's correct. Most oil production is done by continuous production.

CHAIRPERSON GARAMENDI: Absent an acknowledgement of this agreement or an agreement by MMS, could they -- what action could they take to continue production or to continue the existence of the four platforms?

CHIEF COUNSEL FOSSUM: Well, we're not certain if they would try and take over the leases themselves or take over the production themselves or whether they would look for another operator to possibly continue production. That is an issue that could be raised. Even if they agreed today -- even if MMS agreed to shut down on those dates, there's nothing that guarantees that that would actually take place, because Congress obviously or another -- or the federal government could step in and under certain conditions they may find it necessary in the national interests to continue to produce those fields.

So there could be promises made.
One of the things that we did determine is that even if MMS did agree and contracted with us that they would shut them down, we couldn't enforce that against the federal government, because there are a couple of cases that say you cannot obtain specific performance against the United States. You can seek damages. We would have to prove actual damages of some kind, even if MMS agreed to do this.

CHAIRPERSON GARAMENDI: Now, you haven't spoken to the onshore facilities. Would you please do so. And what relationship -- Ms. Krop asserted that the elimination -- that the onshore facilities would be eliminated. Is there any reason to believe that they could not be eliminated if one or another party decided not to eliminate them?

CHIEF COUNSEL FOSSUM: As I understand it, PXP does own the Lompoc oil and gas processing facility. And part of what they've agreed to apparently is that they would shut that down at the end date. That would presumably require some type of action, if the federal government wanted to continue to use that facility, for them to step in and do something about it. Whether that would --

CHAIRPERSON GARAMENDI: Eminent domain or some other mechanism --
CHIEF COUNSEL FOSSUM: That certainly would be one option I would expect that they could take.

CHAIRPERSON GARAMENDI: Now, presumably if they don't do that, then there's no way to process the oil on land. I suppose that you could always take the oil and put it in a barge and take it off to some other facility somewhere.

CHIEF COUNSEL FOSSUM: Yeah -- I mean obviously the agreement that they have entered into has an agreement by the parties who are involved to try to cease production by an end date. But the crystal ball is pretty foggy this far in advance of those activities. The price of oil just the last few years gives us pause, seeing the ups and downs there. So whether or not other things could come about that would require -- I mean, even the State Lands Commission, frankly, if it gets an agreement now, 20 years from now times could change. It's been 40 years since the State Lands Commission's entered into an oil and gas offshore lease of this nature. And times are changing right now, it appears.

CHAIRPERSON GARAMENDI: A subsequent Commission could renegotiate the deal.

CHIEF COUNSEL FOSSUM: And what are the State's interests at that time?

CHAIRPERSON GARAMENDI: Anything to add from the
Attorney General's office?

DEPUTY ATTORNEY GENERAL RUSCONI: I'm going to ask Deputy Attorney General Alan Hager to answer that. He's been involved in negotiations.

DEPUTY ATTORNEY GENERAL HAGER: The problem, or if you could -- you know, the EDC has been asking PXP to see what PXP can do unilaterally.

CHAIRPERSON GARAMENDI: Alan, let's try to get up close and personal to that mic.

DEPUTY ATTORNEY GENERAL HAGER: EDC has asked PXP to see what PXP can do unilaterally. And a lot of what PXP can do is dependent upon what is very likely to happen, which is that the federal leases that PXP is currently operating at both Point Ped and Point Arguello are going to reach their economic life before the end of the Tranquillon Ridge unit. So therefore, if they reach the end of their economic life, there would be no reason why -- the leases should then be able to be quitclaimed by PXP and there would be no need for the onshore processing facility.

Now, to say that -- well, can we absolutely guarantee that that will happen? No, because you don't know what is going to happen. But you're looking at economic probabilities. I mean -- and this is even with, you know, a hundred dollar a barrel oil, not with oil what
it is now. But, yes -- but to say that is there a
possibility, if some of the federal leases were still
economic, would there be no more oil operations there?
You can't say categorically, no, there won't.

CHAIRPERSON GARAMENDI: Tom.

ACTING COMMISSIONER SHEEHY: Thank you,
Lieutenant Governor.

For the -- Is that Mr. Hager?

DEPUTY ATTORNEY GENERAL HAGER: Yes.

ACTING COMMISSIONER SHEEHY: Yeah, thank you, Mr.
Hager.

You mentioned possible federal eminent domain, or
perhaps Mr. Rusconi did. Has the federal government ever
exercised eminent domain on an oil processing facility?

DEPUTY ATTORNEY GENERAL HAGER: To my knowledge,
no. Again, is it a possibility? Yes. Has it ever
happened? I don't think it ever has.

ACTING COMMISSIONER SHEEHY: All right. I just
found that -- I didn't mean it to be a real eyebrow
raiser.

DEPUTY ATTORNEY GENERAL HAGER: I mean it's
something that could happen. I mean it's something that,
you know, ought to be taken into account, that, you know,
the Feds have that authority. But would they -- have they
done it, no.
CHAIRPERSON GARAMENDI: One of the key elements here in the support of this project by the environmental community, and quite possibly by this Commission, is the termination of the operation and the removal of the onshore facilities.

How can the State Lands Commission in its lease further that goal? Are there ways we can write this lease to make it more likely that -- rather than less likely that the operations will terminate?

DEPUTY ATTORNEY GENERAL HAGER: I think the thing that you can do that has the greatest strength is what you've already done. The lease says that it will -- production operations will terminate December 31st, 2022. That means they cannot produce any longer and they will be out of there.

If everything -- the other federal projects are at the end of their economic life, there is no more life to T-Ridge, and there would be no more need for either the Platform Irene or the Lompoc gas.

CHAIRPERSON GARAMENDI: And the other three platforms similarly?

DEPUTY ATTORNEY GENERAL HAGER: As I say, if those projects reach their economic life, there certainly would be no need to --

CHAIRPERSON GARAMENDI: So in the structure -- in
the language of the lease, we would write it in such a way
as to provide the strongest possible guarantees?

DEPUTY ATTORNEY GENERAL HAGER: I mean, the
problem would be, as I say, can you direct them to -- the
federal government or anybody else who would have any
authority to tear down platforms on the OCS?

CHAIRPERSON GARAMENDI: One problem is it's two
votes could change all of this.

DEPUTY ATTORNEY GENERAL HAGER: Yes.

CHIEF COUNSEL FOSSUM: Mr. Chairman, one of the
things the Commission --

CHAIRPERSON GARAMENDI: Excuse me. I said that.

But that has not changed the agreement that the
environmental community has. So they would still have the
opportunity to take action on this item.

CHIEF COUNSEL FOSSUM: And I was going to add
that the Commission does have direct authority over the
pipelines leading from these four platforms to the
mainland. And so, in fact, what will be scheduled at the
next meeting later in this month is that the pipeline
leading from Irene would be placed on the same agenda to
have a similar termination date with the leasehold itself.
The pipeline leading from the Point Arguello platforms
actually has a termination date, I believe, in a few years
from now, well short of its proposed termination. And so

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the Commission will, at that time, have the ability to
either extend that lease or not.

CHAIRPERSON GARAMENDI: Very good.

Ms. Krop, would you like to join in with this
discussion?

MS. KROP: Yes, please.

Two quick responses. First of all, having
secured the end dates that we did from the Environmental
Impact Report and other, you know, agency-developed data,
it's our belief that -- in terms of the federal
production, that there would be no risk of MMS pursuing
eminent domain, because again they only have jurisdiction
over the federal waters. So if there's stranding in state
waters, which would be more likely, MMS can't do anything
about it. So we don't believe that an eminent domain
action by MMS is a likely scenario.

Second of all, that's why we have all the layers.
It wouldn't just be a change on the State Lands Commission
that would be required. All of the other agencies that
have end dates, including the County of Santa Barbara, the
Coastal Commission, who also have to agree; environmental
parties, Trust for Public Lands, you know, would have to
waive their agreements that they've been negotiating. So
that's why we built in so many layers to protect this
agreement.
CHAIRPERSON GARAMENDI: Thank you.

The discussion thus far has been that the production would end. What becomes of the platforms themselves?

MS. KROP: The platforms themselves are under the jurisdiction of MMS.

Platform Irene is owned by PXP and they are liable for decommissioning. And they will apply for removal of Platform Irene. Ultimately, it would be up to MMS.

The three Point Arguello platforms, the liability for decommissioning rests with Chevron, I believe. And you can ask PXP for clarification. And so, again, they will have to apply at that point. Once production ceases, they will apply for an abandonment plan to MMS, and it will be up to MMS. But no production will be allowed following the end date regardless of whether or not an alternative use is allowed with the platform.

CHAIRPERSON GARAMENDI: Well, there's a much larger and longer discussion about platforms and what ultimately happens with them. But we'll let that go unless there's additional questions here.

I thank you for the information. I assume that when we come back on the 29th, we'll have another discussion specific to the lease itself --
CHIEF COUNSEL FOSSUM: Yes.

CHAIRPERSON GARAMENDI: -- as to termination

issues. Okay?

CHIEF COUNSEL FOSSUM: Yes.

CHAIRPERSON GARAMENDI: Good.

Further questions of Ms. Krop?

MS. KROP: Paul Mason from the Sierra Club was here to speak.

CHAIRPERSON GARAMENDI: He would certainly have an opportunity to speak.

MS. KROP: Thank you.

ACTING COMMISSIONER SHEEHY: Quick question on that, Mr. Chairman.

Ms. Krop, I saw on the list of support - an impressive list - that there were several Sierra Club organizations. They look like local chapters.

Has the State chapter -- the Statewide chapter taken a position on this? And if so, what is that?

MS. KROP: Yes. Paul Mason, who is the Deputy Director of Sierra Club California was here. He had a Board of Forestry hearing as well, so I guess he had to leave. But Sierra Club California has endorsed, the local chapter has endorsed, and the local group. So all the Sierra Clubs that are -- in fact, they have all endorsed.

ACTING COMMISSIONER SHEEHY: Thank you.
CHAIRPERSON GARAMENDI: Thank you very much. And we note the other organizations are now formally in the record.

I think it would be useful, at this point, to hear from the County of Santa Barbara.

Doug Anthony.

MR. BERG: Hi, Mr. Chairman, members of the Commission. Cliff Berg speaking on behalf of the Santa Barbara County Board of Supervisors. I just want to say, for the record, that the Board of Supervisors has voted to support this project and has approved the permit.

And I have with me here Mr. Doug Anthony from our Oil and Gas Division, who has a more lengthy presentation.

Thank you.

CHAIRPERSON GARAMENDI: Cliff, could you start over. I missed everything you said.

Start out with who you're representing.

MR. BERG: Thank you.

Cliff Berg on behalf of the Santa Barbara County Board of Supervisors. I represent Santa Barbara County. I'm here to indicate that the county indeed is in support of the project and has voted to approve the permit.

I have with me Mr. Doug Anthony from our Oil and Gas Division, who has a more lengthy presentation for you.

So thank you, and we do support the project.
CHAIRPERSON GARAMENDI: Mr. Anthony.

MR. ANTHONY: Mr. Chair and members of the Commission. Thanks for giving us the opportunity to speak today to you.

Primary message is, as Cliff Berg said, the county has approved this project, and certainly urges your Commission to do the same. It is a very unusual project. It's been a very interesting and intriguing process from the time we received the permit application. This was a project that came forward to the decision makers with full support from environmental groups. And oddly its opposition was from another oil company who had some desire to go and develop this same resource from an onshore site. But it would be located on Vandenberg Air Force Base. And unfortunately for that company, they were unable to get any green light from the Air Force to move forward with that project. So we never deemed the application complete.

They were the appellants, which caused the Planning Commission's decision in favor of this project to go forward to our Board of Supervisors, along with a couple others. Another oil company did challenge this project, just to let you know, because they wanted access to the processing facility on shore. This was an onshore producer. And after an agreement and a settlement with...
claims, they withdrew their appeal. And so we did deal
with the appeal, from a private citizen as well
challenging the EIR's efficiency. However, that appellant
did not show up at the hearing to testify.

As noted, there has been no litigation. The
statute of limitations for the Environmental Impact Report
has run and terminated. And so we're happy to bring
forward something to you that at least has issues resolved
as far as the EIR.

We've got our project team here if you do have
questions. And I know you did have a question about the
property tax. I did not bring my chart with me. What I
can tell you is that all that very rough estimate amount
that -- our assessor's office has yet to go through and do
any actual evaluation of what property tax would be. But
using that figure, the county's general fund would receive
about 23.6 percent of that 313 million, if that were the
figure, over the life of the project.

Its fire department would receive an additional
14.4 percent.

And then you are right in your assumptions,
Commissioner Sheehy, that the rest of it goes to special
districts, et cetera. I'll be sure to make that
information available to you prior to the 29th.
ACTING COMMISSIONER SHEEHY: I'm sorry, Mr. Anthony. You said the rest of it, which should be about 60 percent, goes to special districts. That doesn't --

MR. ANTHONY: In the schools' special districts that --

ACTING COMMISSIONER SHEEHY: -- and the full -- take the rest of that, would they not -- would it be like an itty-bitty sliver?

MR. ANTHONY: That's correct.

ACTING COMMISSIONER SHEEHY: Would it be possible, Mr. Anthony, when we reconvene in Santa Barbara later this month to have a more specific breakout of that and confirm what the ad valorem would likely be under the different oil scenarios, $50 oil, $75? I think it would be helpful for us to have that information.

MR. ANTHONY: We'd be happy to. We have that information available.

CHAIRPERSON GARAMENDI: Marcy Jo.

ACTING COMMISSIONER MANDEL: Yes, if you could have that information, it would be great. As you may know, the Controller was, for ten years, a Board of Equalization member and he's very familiar with sort of property tax and how it works. And if we had an update -- if we updated numbers, it would be useful in terms of how you're figuring 313 million or what the other numbers
might be, and how the Prop 13 and the price of oil and the oil reserves might affect it. He might have -- I don't know if he'll have questions about that, but it's something he might have questions about because of his experience and background.

MR. ANTHONY: Very well. I will make sure on the 29th that we have the right people from our assessor's office available as well in case questions come up.

ACTING COMMISSIONER MANDEL: Okay. Thank you.

CHAIRPERSON GARAMENDI: Excuse us. We were --

MR. ANTHONY: That's quite all right.

CHAIRPERSON GARAMENDI: -- intensely discussing the issue.

There's been discussion by some that the County of Santa Barbara and San Luis Obispo should receive a portion of the royalty beyond the ad valorem tax issue. Are you aware of any of that or is there any such discussion or proposal underway?

MR. ANTHONY: My understanding is as far as current law, that we stand to receive as much as one percent of the royalty received by the State. That's because of the park districts. And I believe that's section -- I don't know if --

CHAIRPERSON GARAMENDI: Mr. Berg, would you like to comment on this?
MR. ANTHONY: And that's been a longstanding --

CHAIRPERSON GARAMENDI: Go ahead.

MR. BERG: Thank you. Having worked for the county on that issue for about ten years, the county just successfully sponsored legislation, SB 1187, by Senator Maddy, which increased the county, city, local government impacted share from the 1 percent to 20 percent for any new production. That bill did however sunset. The county has continued maintaining an active interest in extending the sunset date on that legislation or entertaining other legislative proposals to increase or restore that provision of the law, believing that it'd make good public policy sense. And therefore, the county does retain an interest in trying to work with the Legislature and any other interested parties to restore that or similar legislation.

CHAIRPERSON GARAMENDI: You're going to use legislation to do that?

MR. BERG: Not yet this year. But we are contemplating that as part of our legislative program. We did sponsor a bill that Senator Maldonado carried. We did sponsor budget language last year -- or two years ago, maybe three years ago on that subject. So we are actively interested and continue to pursue some kind of legislation in that area or this language.
CHAIRPERSON GARAMENDI: But perhaps the
Department of Finance would like to comment on this.

ACTING COMMISSIONER SHEEHY: Mr. Berg, when the
County Board of Supervisors voted to approve the EIR to
support this project, did they make their support
contingent upon the enactment of that legislation?

MR. BERG: Not as far as I'm aware, no.

ACTING COMMISSIONER SHEEHY: All right.

Thank you very much. I appreciate that.

MR. ANTHONY: I will add to that that they still
do receive the revenue that you saw -- the estimated
revenue of the property tax and even that amount is very
valuable to the county particularly in these economic
times.

CHAIRPERSON GARAMENDI: Well, we used to fight
over money.

(Laughter.)

MR. ANTHONY: I would also like to extend our
sincere appreciation to your staff, State Lands Commission
staff. As a responsible agency, they worked with us from
the get-go on the preparation of the EIR. And they were
very helpful, and it's been a pleasure working with them.

CHAIRPERSON GARAMENDI: Any other questions of
Mr. Anthony?

We thank you for your presentations.
The next person asking to -- I think Mr. Mason has not returned.

Mr. Cottingham.

MR. COTTINGHAM: Good morning, Lieutenant Governor and Commissioners. And thank you for hearing us today.

I represent PORAC, the Peace Officers Research Association of California. I'm the President. We are the largest statewide law enforcement organization, actually in the nation.

Also as a member, we have Santa Barbara Deputy Sheriff's Association, which this project was brought to our attention by them. This is very important to them because, as you mentioned, sometimes it is about the money.

It's very rare for public safety organizations to come together and support projects like this. However, we are in a very unique situation in California. As everybody has said, we're in a budget crisis, a financial crisis, and this would bring money to the State; money I don't think that the State can afford to pass up.

We have seen already in the State Legislature that the -- and the budget recommendations of the Governor's office and conference calls with the Governor's office, that public safety has been cut.
We sponsored an initiative earlier this year to try to solidify dollars for public safety from the State government, and that failed. And as that failed, the cuts continue. Some are ten percent. Some go up to 34 percent. The rural grants with small Sheriffs' departments were completely cut out.

So we see this as a public safety issue, that revenue that comes in can help public safety. Some of the programs that are cut are the programs that we call safe teams that would monitor 290 registrants and sexually violent predators. I think this is something that is of a real public safety interest and we try to protect the citizens of California.

In addition, there would be money that would go to local government that would also support the public safety programs in that area. If the State can't help out, then more of the revenues from the local governments who's going to have to go in and support these.

And we're already seeing throughout the State where local government is cutting law enforcement, positions are being held vacant, programs are being cut, narcotics programs are being cut out -- narcotics enforcement, special enforcement teams, investigative task forces are being cut out, multi-jurisdictional task forces. And these, again, are all detrimental to good
public safety in California.

So succinctly, we see this as a public safety issue. This is a source of new revenue to California. And I think it's a vital source of revenue to California. So representing PORAC, we would urge your support for this project.

CHAIRPERSON GARAMENDI: Questions?

Mr. Cottingham, thank you very much.

I have no other requests for people to speak.

And unless there's questions from the Commission, we will terminate the public hearing.

I want to thank all the participants. And for those of you that are interested, this project is being -- we'll take this up again on the 29th in Santa Barbara at the next meeting of the State Lands Commission.

Thank you, all, very much.

To the staff, we need to publicly acknowledge the extraordinary amount of work done by the State Lands Commission staff and all of its very elements, from legal to the oil and port section.

So thank you, all, very much. If you will clear the room, we do have a private meeting. And we'll take that up immediately as soon as the room is cleared.

Thank you very much.

(Thereupon the State Lands Commission...
meeting adjourned at 11:12 a.m.)
CERTIFICATE OF REPORTER

I, JAMES F. PETERS, a Certified Shorthand Reporter of the State of California, and Registered Professional Reporter, do hereby certify:

That I am a disinterested person herein; that the foregoing California State Lands Commission meeting was reported in shorthand by me, James F. Peters, a Certified Shorthand Reporter of the State of California, and thereafter transcribed into typewriting.

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

IN WITNESS WHEREOF, I have hereunto set my hand this 13th day of January, 2009.

JAMES F. PETERS, CSR, RPR
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