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REPORT TO THE GOVERNOR AND LEGISLATURE

ON

RECOMMENDATIONS OF THE CALIFORNIA COASTAL COMMISSION

PURSUANT TO SECTION 30404 OF THE PUBLIC RESOURCES CODE

APRIL, 1984

CALIFORNIA STATE LANDS COMMISSION

KENNETH CORY, STATE CONTROLLER (CHAIRMAN)

LEO. T. McCARTHY, LIEUTENANT GOVERNOR (MEMBER)

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EXECUTIVE OFFICER

REPORT TO THE GOVERNOR AND LEGISLATURE

Pursuant to Section 30404 of the Public Resources Code on Recommendations of the California Coastal Commission

SUMMARY

Renewed leasing of offshore oil and gas resources on State lands is at a standstill. Even though the State has invested $1.6 million in the process and the environmental documents have been found by the California courts to be full and complete, the program is now stalled by a new series of questions. They include the responsibilities of the Coastal Commission and the policies of the Coastal Act. But the fundamental question is really whether or not State oil and gas resources are going to be developed and if so under what conditions. If the program goes forward, it stands to bring in over $3 billion in non-tax revenue over the next two decades.

The Coastal Commission has, three times, voted on a Lands Commission proposal for leasing 40,000 acres of tide and submerged lands between Pt. Conception and Pt. Arguello in Santa Barbara County. Each time the proposal has been before the Coastal Commission its staff has recommended approval. The first time the Coastal Commission unanimously voted against the staff recommendation. At the second

hearing, the Commission approved it. It was returned by a court order a third time for Coastal Commission hearing. At the third hearing, without a change in the proposal, it was turned down.

Formal Coastal Commission comments have been limited to the environmental review process conducted by the Lands Commission. All recommendations made by the Coastal Commission through that process were adopted by the Lands Commission verbatim. The State Lands Commission has not received any other recommendations from the Coastal Commission which would either provide guidance in designing a viable State oil and gas leasing program consistent with the Coastal Commission's view of the Coastal Act or explain its rejection, acceptance, and then rejection of the program. This is so in spite of Section 30404 of the Public Resources Code which requires the Coastal Commission to submit such recommendations to the Lands Commission and several other state agencies if it feels that the functions of such agencies are not carrying out the requirements of the Coastal Act.

While Public Resources Code §30404 requires the Coastal Commission to conduct this periodic review, there is no statutory time requirement for them to transmit comments.

Responding agencies, however, have six months to report to the Governor and Legislature if suggestions are not adopted. Consequently, the State Lands Commission is preparing this response based on the Coastal Commission's October 26, 1983 rejection of the State Lands Commission's leasing program.

BACKGROUND

Since 1979, the Commission with the support of the Governor and Legislature has sought to lease prospective State offshore lands for the production of oil and gas. Over $1.6 million has been invested by the State in the lease proposal for geophysical and geotechnical surveys, biological studies and a detailed Environmental Impact Report.

Meanwhile federal offshore leased tracts are being developed. Many of them immediately adjoin unleased State parcels. Exhibit "A" shows the location of federal exploratory wells to date in the area. Production from these abutting federal parcels is expected by 1987. The probability for drainage of State lands by federal production is very high. Royalties from State leasing will be far more beneficial economically than revenue sharing for drainage under federal leases. Environmental impacts could

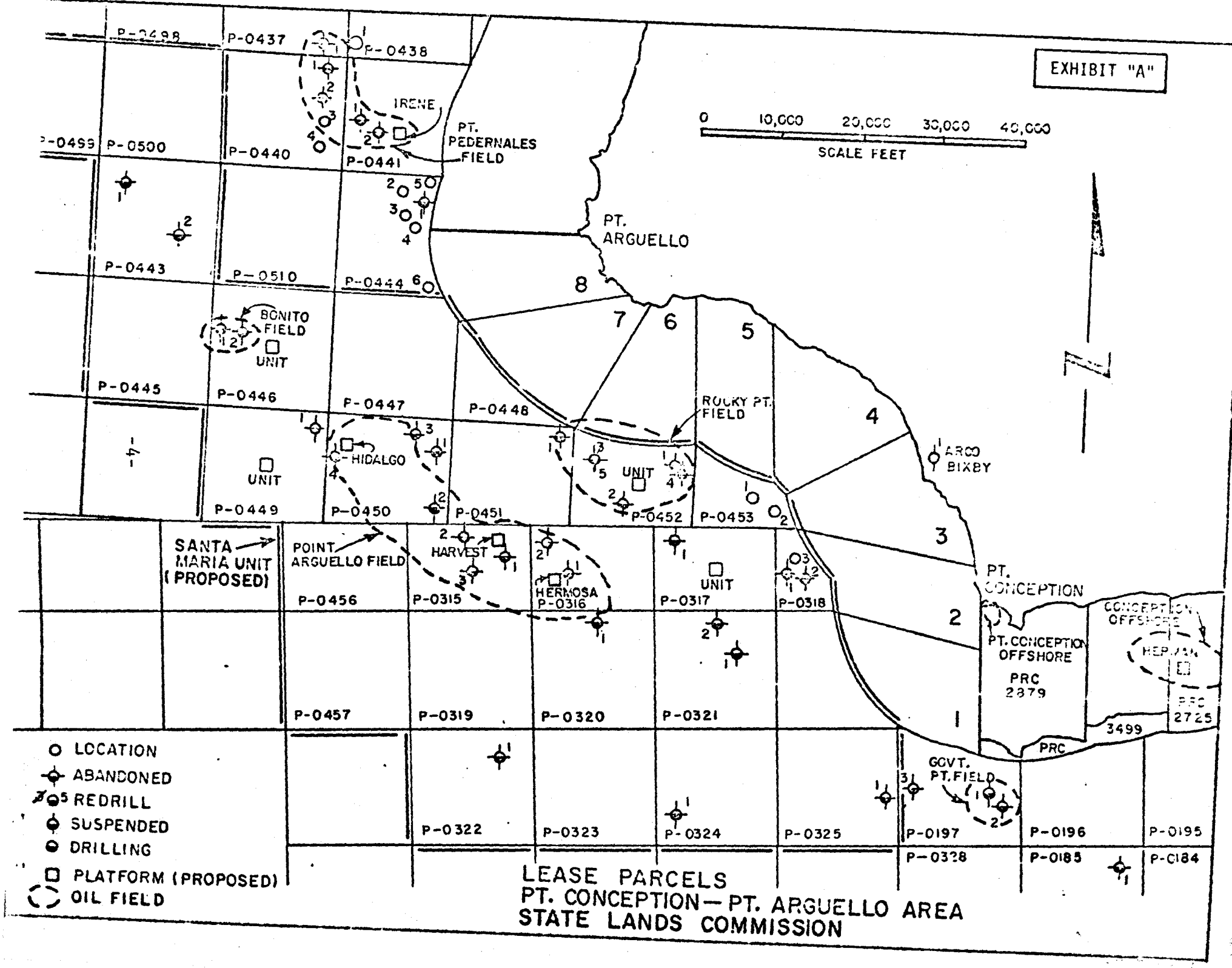


EXHIBIT "A"
0 10,000 20,000 30,000 40,000
SCALE FEET
P-0498
P-0437
P-0438
IRENE
PT. PEDERNALES FIELD
P-0499
P-0500
P-0440
P-0441
PT. ARGUELLO
P-0443
P-0510
P-0444
BONITO FIELD
UNIT
P-0445
P-0446
P-0447
P-0448
ROCKY PT. FIELD
HIDALGO
UNIT
ARCO BIXBY
P-0449
P-0450
P-0451
P-0452
P-0453
SANTA MARIA UNIT (PROPOSED)
POINT ARGUELLO FIELD
HARVEST
HERMOSA P-0316
UNIT
PT. CONCEPTION
P-0456
P-0315
P-0317
P-0318
PT. CONCEPTION OFFSHORE
CONCEPTION OFFSHORE
HERMAN
PRC 2879
PRC 2725
3499
P-0457
P-0319
P-0320
P-0321
PRC
GOVT. PT. FIELD
P-0322
P-0323
P-0324
P-0325
P-0197
P-0196
P-0195
P-0328
P-0185
P-0184
LOCATION
ABANDONED
REDRILL
SUSPENDED
DRILLING
PLATFORM (PROPOSED)
OIL FIELD
LEASE PARCELS
PT. CONCEPTION — PT. ARGUELLO AREA
STATE LANDS COMMISSION

be substantially reduced by concurrent development of state and federal leases.

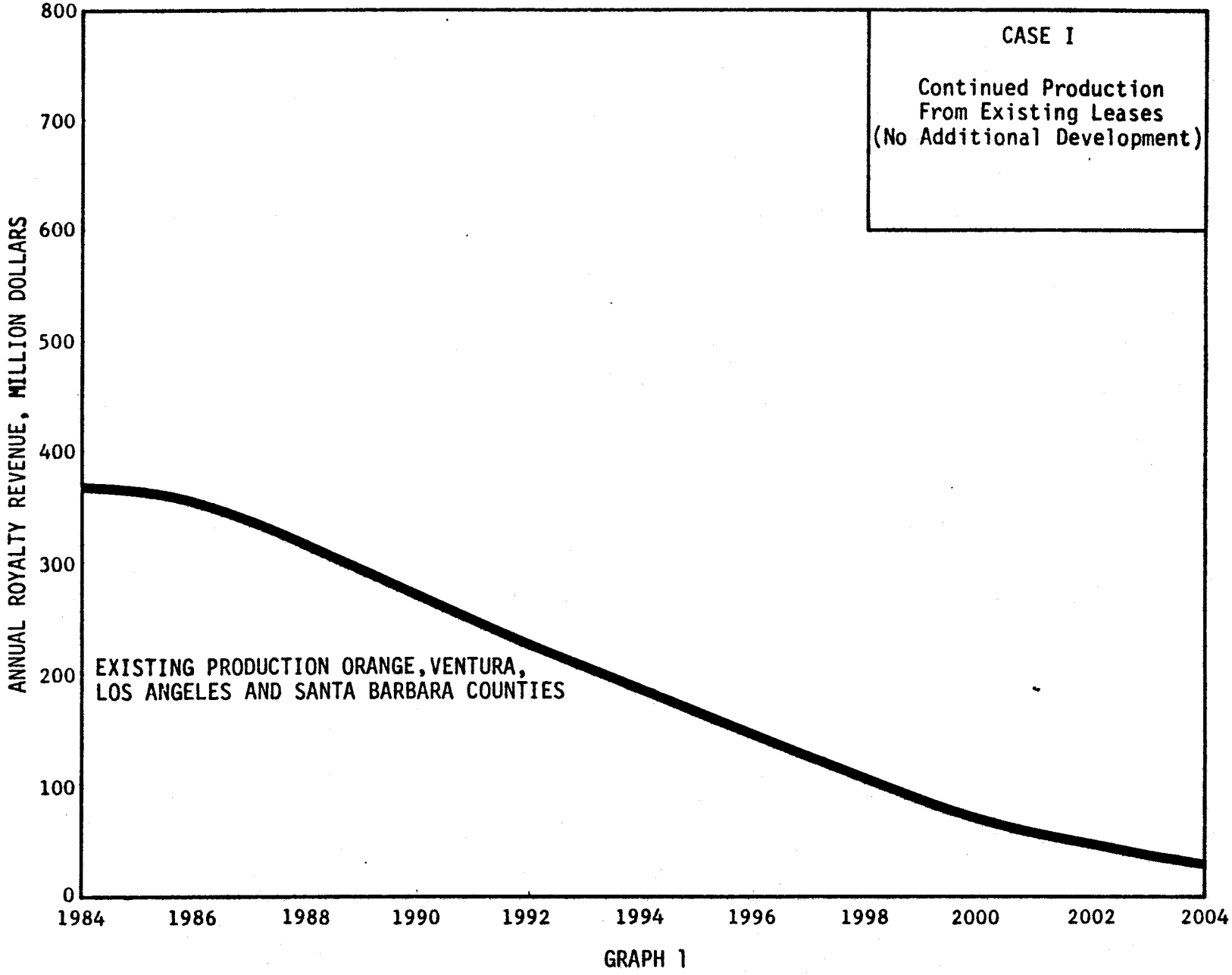
Without additional statutory consideration the offshore oil and gas leasing program cannot be effective for the foreseeable future. Absent new direction from the Governor and Legislature the Lands Commission may not be able to carry out its program to stabilize falling State oil revenues.

The following report relates the history of the State oil leasing program to date and defines as best we can the concerns which can be gleaned from the transcripts of three Coastal Commission hearings.

DISCUSSION

Oil and gas exploration and production has been a part of the California coastal zone since 1896. In this time, over 3.0 billion in non-tax dollars has been generated from state lands without a single significant adverse occurrence. No new offshore State oil and gas leases have been issued since 1968. This has been based in part on the significant well blowout that occurred on a federal lease off Santa Barbara in 1969. At that time the Lands Commission suspended new leasing. Nevertheless production continues from existing State leases and some new

TWENTY YEAR FORECAST-ROYALTY REVENUE



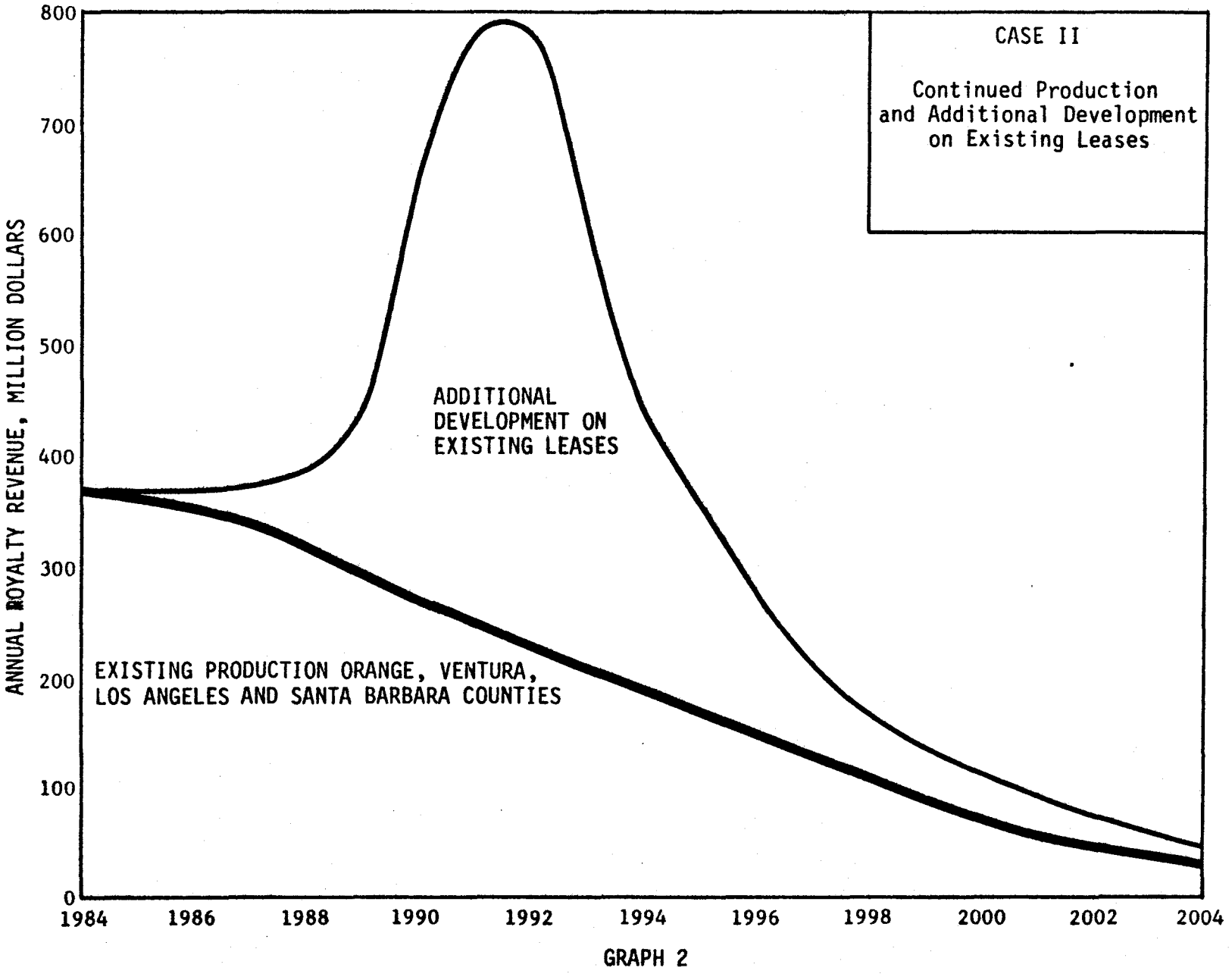
GRAPH 1

development on those leases is now occurring. While current oil and gas income is about $370 million per year, by the year 2000 this will have dropped to $60 million. Graph 1 shows what is expected in the way of revenues over the next 2+ decades from State oil development now in effect.

Revenues will continue to decline (absent a major escalation of oil prices) unless new leasing and development takes place. The oil reservoirs in California's existing oil development are getting old. They are nearing the stage when continued production is no longer justified. Thus, a major non-tax revenue source is slowly but surely evaporating.

Recent discoveries have encouraged additional drilling on existing leases. Graph 2 shows the effect of a program to develop these potential resources in state waters in previously unknown or unsuspected oil and gas horizons. Development of new production on these current leases will require various approvals after evaluation of environmental impacts. Consequently, new production from these leases is in no way assured. Other policy issues may have to be addressed by the Governor and Legislature before production goes forward.

TWENTY YEAR FORECAST-ROYALTY REVENUE

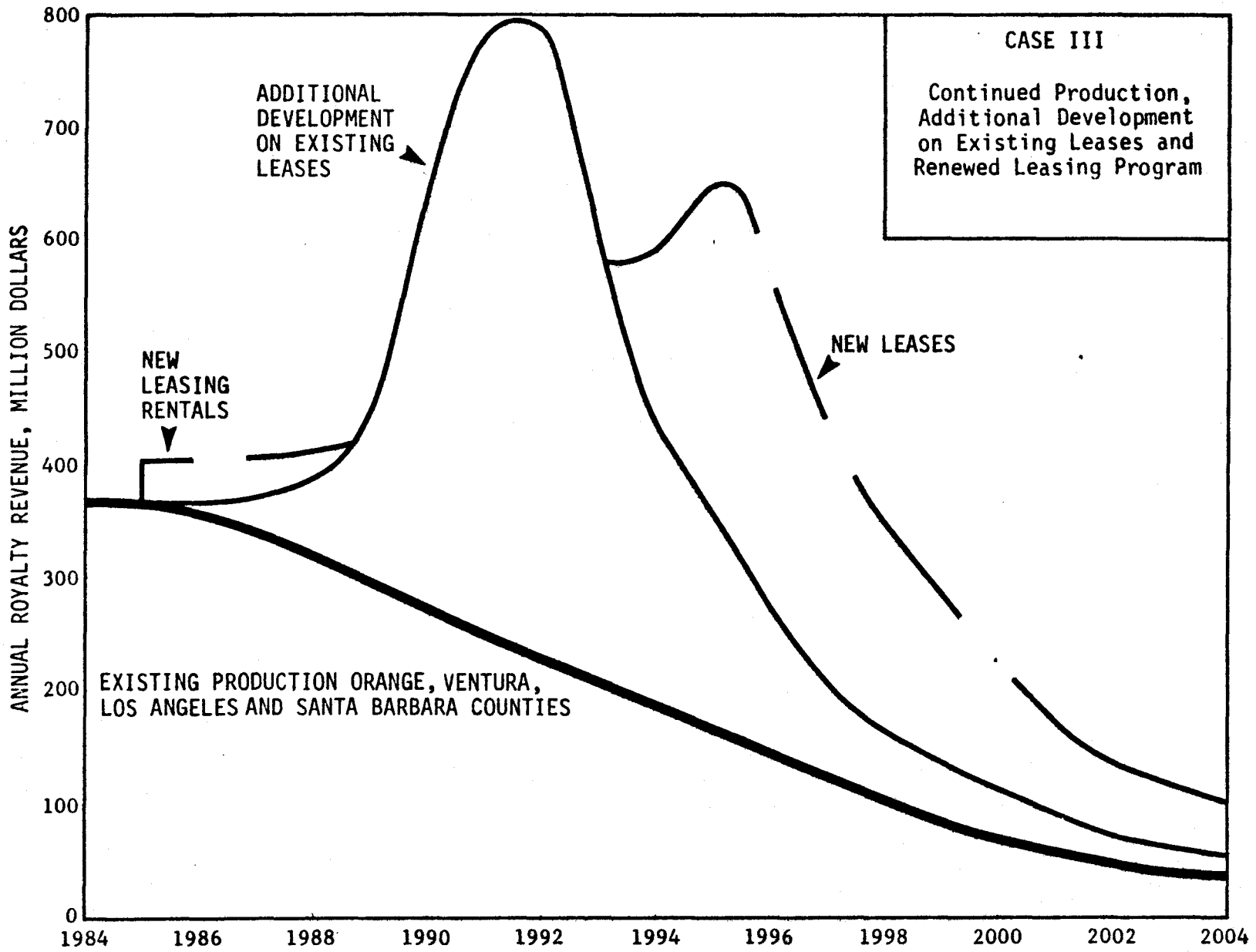


GRAPH 2

Starting in 1979, the State Lands Commission moved to counteract this decline from wells then in production by investigating a new leasing program. The Commission has determined that new leases will not become oil and gas producers for 6-8 years following a sale. Exploratory drilling must establish that oil and gas resources actually exist in economically recoverable amounts on the leased lands. Then production and development plans must be prepared, EIR's completed and certified, and platforms and pipelines designed, construction approved, and installed. Wells must then be drilled from the platform to commence the production phase. Significant income could not be expected until 1993 from leases let today. By that time, revenue from today's active leases will have declined 40%. Graph 3 shows the impact on State revenues if the 40,000 acres proposed for sale off Pt. Conception were to be brought into production by then.

During 1979, the Lands Commission reviewed available geologic data and made a preliminary evaluation and assessment of the resource potential of unleased lands not within statutorially established oil and gas sanctuaries. By November 1979, 40,000 acres of potential hydrocarbon bearing structures had been identified in the Pt. Conception/Pt. Arguello area as first in priority for renewed leasing.

TWENTY YEAR FORECAST-ROYALTY REVENUE



GRAPH 3

Preliminary information indicated there was sufficient data to support further work in the area. As a result, in March, 1980, the Governor requested, and the Legislature granted an augmentation of $530,000 to the Lands Commission 1980-81 budget to begin the surveys and data collection, program evaluation and environmental work. Funds were subsequently provided in the 1981-82 and 82-83 budgets to continue this work.

In October, 1980, a Notice of Preparation was sent out in compliance with the California Environmental Quality Act advising interested parties of the proposed Environmental Impact Report. The Lands Commission requested recommendations from all interested parties on issues which needed to be addressed.

Public hearings were held by staff of the Lands Commission on April 30 and May 15, 1982 in Santa Barbara to receive comments on the draft EIR. On May 25, 1982, copies of the draft EIR and transcripts of the two hearings were sent to all members of the Coastal Commission. A special public hearing was held on June 7, 1982 in Sacramento at the specific request of the Coastal Commission to permit them to make a public statement on the draft program EIR. Then on

August 9, 1982 representatives of the Coastal Commission, Attorney General, Office of Planning and Research, and State Lands met again to review the proposed responses to Coastal Commission draft EIR comments. The Coastal Commission's comments were accepted verbatim.

Throughout this period the Coastal Commission could have submitted recommendations to the Lands Commission as contemplated in Section 30404. It chose rather to confine its comments to the EIR preparation process. Its staff advised the State Lands staff that the Coastal Commission review would not include the format of a "Coastal Commission Permit." The State Lands Commission believed that no permit was required from the Coastal Commission. This was based on Sections 30401 and 30404 of the Public Resources Code as well as correspondence with the Coastal Commission staff.

On September 23, 1982 the Lands Commission certified the final EIR on the proposed sale package. At the conclusion of that meeting, the Chief Counsel for the California Coastal Commission notified the Chief Counsel for the State Lands Commission that in his opinion, a California Coastal Commission permit was required for the State Lands Commission Program.

While the Lands Commission took exception to this new position by the Coastal Commission, the staffs of the two agencies were in frequent communication thereafter. Both Commissions reserved their respective positions while moving ahead with the process. To assist the Coastal Commission in its review, the Lands Commission agreed to send the lease program package to the Coastal Commission when it was adopted.

After two days of hearings, on December 23, 1982 the Lands Commission approved the lease program. A lease package was sent to the Coastal Commission on January 24, 1983 for its review. An initial hearing was not held until April 15, 1983 by the Coastal Commission. Further consideration of the lease program was scheduled for the Coastal Commission's May 25, 1983 regular meeting in Santa Barbara. At that meeting, after 2-1/2 hours of hearing, the California Coastal Commission voted 12-0 not to support their staff's position, which had endorsed the State Lands Commission's leasing program.

Although the Coastal Commission failed to support the lease program, no specific recommendations were received by the Lands Commission pursuant to Public Resources Code Section 30404. From comments of Coastal Commissioners at

the May meeting we can infer that a major concern was last minute changes made in the package. Staff of the Lands and Coastal Commissions had been working to the eleventh hour to develop program refinements that would meet the needs of both agencies. As a result agreements were noted by marginal and interlineated language in the material the Coastal Commissioners had on hand May 25, 1983.

Comments of two Coastal Commissioners at the May 25, 1983 meeting may, however, be enlightening about the attitude of the Commission toward oil and gas development in State waters. One said, "...we should at no time approve anything within the three-mile zone." Another opined that considering the fishing industry there is, "...no way in the world that they (SLC) are going to be able to make it through a permit process under the Coastal Act." This raises serious questions about California Coastal Commission policy in contrast with a gubernatorially requested and legislatively funded program as well as the California Coastal Commission's interpretation of the Coastal Act.

Nevertheless, efforts were made from late June through mid-August 1983 to meet the implied concerns of the Coastal Commission without imposing conditions which would make leasing technically unsound or economically unviable.

A group, under the Chairmanship of the Secretary of Environmental Affairs and made up of one Land Commissioner and two Coastal Commissioners, together with staff from each agency and the Attorney General, worked on amended lease terms and conditions. As a result, the lease package was revised to provide:

- a 15 fathom/1/2 mile area of prohibited oil and gas exploration, production and development on the ocean bottom.

- adoption and continual updating of a sensitive biological area map.

- a halibut trawling ground area in which exploration by other than anchored drilling vessels is required during the period from October 1 to March 31..

- an interagency agreement between the two Commissions to reflect understandings reached in the group discussions.

This amended lease package was approved by the Lands Commission on August 12, 1983. It was formally

transmitted to the Coastal Commission for its review on August 15. While the formal package had not been in the hands of the Coastal Commission before August 15, the Coastal Commission's staff had been at all the discussions in June and July and were fully cognizant of the revised program. The Coastal Commission staff report could have been prepared and sent out by August 8. Nevertheless, it was not mailed until August 18, less than a week before the Coastal Commission's August 23 meeting.

The Coastal Commission then considered the Lands Commission lease package at its August 23, 1983 meeting in Marina del Rey. Concern was expressed by some Commissioners and speakers that the Coastal Commission staff report had either not reached them or arrived so late they had little time to review it. After listening to testimony and offering a change or two to the interagency agreement, the Coastal Commission approved the lease package 6-4.

A permit was tendered the Lands Commission by the Coastal Commission. The Attorney General's office and Counsel for the Lands Commission felt that signing the permit might be construed as an admission that it did in fact need such a permit. Thus the permit was returned unsigned with a letter indicating the Lands Commission found

the revisions adopted by the Coastal Commission acceptable.

Following the approval action, the Coastal Commission was sued by several parties to set aside the approval on grounds that the Coastal Commission had not provided public notice. On September 23, 1983, Santa Barbara Superior Court Judge Patrick McMahon ruled in favor of the plaintiffs and orally directed the Coastal Commission to set aside its approval of the lease package and hold another hearing. This additional hearing was set for the Commissions' October 26, 1983 meeting, again in Santa Barbara. Judge McMahon's written order was released after 5:30 p.m. on October 25 and, for the first time, in addition to directing a new hearing, the order restrained the Lands Commission from opening bids until it had obtained a Coastal permit.

The requirement of Judge McMahon for a coastal permit was unexpected by the Lands Commission and the office of the Attorney General. To the best of the Lands Commission's and Attorney General's office knowledge the permit question was never an issue in the initial litigation. A legal question now arose as to whether by appearing and participating in the October 26 Coastal Commission meeting the Lands Commission was consenting to

such jurisdiction. On the advice of the Attorney General's office, the Lands Commission directed staff not to participate in the Coastal Commission meeting other than to read a prepared statement indicating that the Lands Commission was postponing the program until the legal questions were resolved.

The Attorney General's representative to the Coastal Commission recommended during the meeting that it postpone its hearing to a later time. After some discussion, the Coastal Commission chose to proceed with its hearing on the oil and gas leasing program of the Lands Commission. The result was a 10-1-1 vote to turn down the same package they had approved on August 23. Since then the Lands Commission has received no comments or recommendations from the Coastal Commission.

The Coastal Commission must adopt findings for any action taken by it but there is no time limit specified in Section 30315.1 of the Public Resources Code by which such findings have to be made. No findings have been sent to the Lands Commission for any of the three Coastal Commission actions. No recommendations have been received in the six months since the Coastal Commission's last rejection of the program.

Since no recommendations have been received, the State Lands Commission is using this report to respond to the basic lack of California Coastal Commission support for the State Lands Commission leasing program, as well as to seek legislative policy review on the question of State oil and gas resources development.

In the absence of formal comments, we have through participation in the hearings and a review of the records, and continual communication with Coastal Commission staff attempted to determine what the fundamental concerns of the Coastal Commissioners are. There seem to be three groups of concern among the Commissioners. One group appears to oppose any leasing in state waters at Pt. Conception. This can be seen from the remarks quoted earlier. This group might support a revenue sharing agreement with the federal government and development of State lands by slant drilling from OCS platforms. Another group apparently wants to limit leasing to areas deeper than the 30 fathom (180 foot) depth contour, to require Santa Barbara County be a party to the Interagency Agreement, to have all the biological studies done before leasing and to have some phasing of the lease sales. A last group appears to lean favorably toward the leasing program but has some concerns over the initial short review time for the August staff report and the Lands

Commissions choice not to participate at the October hearing.

COMMENT

This report will try to address each of the concerns we have identified.

No Leasing, Revenue Sharing Agreement with U.S. and Slant Drilling.

This apparent recommendation has not been accepted.

These issues were dealt with both in the Draft Environmental Impact Report and the finalizing Addendum to it. The State Lands Commission has been extremely leery of recommending that the Governor enter into the revenue-sharing agreement that has been offered by the federal government. A recent federal district court decision has proven the wisdom of this caution. Up to now the U.S. has offered only to share royalties from actual drainage of state lands. Actual

drainage is difficult to establish and amounts are susceptible to considerable difference of opinion. It is foolhardy to enter into such an agreement until the State land has at least been explored. To do as the federal government proposes is like buying a parcel of property sight unseen.

Slant drilling from OCS lands was discussed in the staff report to the Lands Commission. Deep producing zones can indeed be reached from offshore, a rule of thumb being that you can reach in about the same distance as the resource is deep (e.g., you can slant drill into a formation 6,000 feet deep that's 6,000 feet from the platform). Greater angles are possible only under the best of conditions and at considerable additional cost and environmental as well as safety risk.

Some production might also be possible from upland sites. Even if this is possible an area over a mile in width is still unreachable. Within areas of reach, shallow formations cannot be developed in this manner.

Where pools are pressure connected some oil might migrate to wells bottomed in the reachable zone. However, the potential to fully produce these nearer shore areas can be damaged significantly. It may be impossible to come back later and efficiently produce the oil reservoirs.

A third concern is monetary. The State lease practice is to offer leases on a net profit share basis. These are expected to result in considerably higher revenue returns to the State from hydrocarbon resources development. Even where royalty leases are offered, the State royalty rates are considerably higher than those used by the federal government.

30 Fathom Prohibition Area

We have not accepted this suggestion.

Fisherman and some public interest groups proposed that no exploration or production be allowed shoreward of the 30 fathom bathymetric contour. No factual or

scientific basis was given for this proposal. Until exploration is undertaken we can only guess how much resource potential becomes unavailable under this proposal. But, assuming slant drilling from a platform located at the 30 fathom line to reach as much of the excluded area as possible, significant portions of the leasable tracts are unreachable. Using the best information available to us at this time we estimate that 55-70% of the potentially recoverable resources are eliminated. We doubt that sufficient industry interest would remain under these conditions to warrant proceeding with a lease sale.

Santa Barbara County a party to the Interagency Agreement.

This suggestion has been rejected.

The Interagency Agreement signed by the Coastal Commission and the Lands Commission is a document governing the relationship between these two State agencies under state

law. It is intended to define how the two will interact in functioning under their individual operating authorities. As such, local government really has no role in the agreement. Nevertheless, the agreement provides explicitly that the parties will work with other governmental agencies, "...such as Santa Barbara County," in the planning process. It also provides for Advisory Committees on appropriate subjects. Committee members are to be scientists selected by the Lands Commission, Coastal Commission and the County of Santa Barbara. Further, the agreement also requires consultation with public and private entities "...such as: Santa Barbara County and City ...." These provisions should provide ample input and coordination for Santa Barbara County. This achieves the apparent goal sought by some Coastal Commissioners.

Studies to be Done in Advance of Leasing.

This proposal is not accepted.

Some Coastal Commissioners suggested that many of the studies proposed in the Special Operating Requirements portion of the proposed leases should be done before the leases are offered for sale. One of the problems with this approach is funds for these studies. Funding for the studies is to come from the successful bidders once the leases are awarded. An estimated $83 million in studies and environmental safeguards is required of the lessees after the lease sale. The second disadvantage of this approach is that studies cannot be as intense or targeted as well before development proposals are submitted. The result would be lower quality environmental reviews.

All of these provisions are required in the implementation of the CEQA review process. Consequently, after award of leases the lessees must prepare exploration plans and do specific Environmental Impact Reports. Completion of adequate reports will require the information to be obtained from the proposed studies. Given that exploration proceeds, after a discovery is made a plan of

development must be prepared and another round of EIR's done. During all this process and prior to the consideration of physical activities such as drilling, the studies are to be made and the information referenced in the environmental documents. This meets the expressed concerns.

Phased Sale of Lease Tracts

We have rejected this apparent recommendation.

Serial sale of the eight tracts was suggested during the Coastal Commission hearings. One proposal was to lease (for example) Tract 1 and use the rental money ($10 million per year the first three years) for carrying out the studies. This it was said would limit the adverse impacts while at the same time providing a source of funds for the studies.

Phased leasing of the tracts was discussed in the staff report for the Lands Commission

meeting of December 22, 1982 (Calendar Item 1, Exhibit B, page 36). At that time the Lands Commission considered; leasing all eight tracts at one time, leasing sequentially, and leasing sequentially only to offset federal drainage.

Consolidated leasing was chosen as the preferred leasing alternative. Leasing of all tracts at the same time is consistent with the State's policy of encouraging consolidation of facilities and operations. Sequential leasing does not provide information in a timely enough fashion to permit planning to minimize duplication (such as pipelines to shore or shared platforms). Further, the independent oil companies advised the Lands Commission that if fewer than eight tracts were offered for sale their ability to compete successfully would be drastically diminished.

CONCLUSION

California State offshore oil production now stands at a crossroad. In one direction lies a path of ever

declining revenues and phaseout of existing leases. However, the decline of oil and gas revenues may have to be offset by increased funds from other state sources so that the programs supported from tideland oil income are not adversely affected. Exhibit "B" shows the present and future statutory distribution of revenues.

The other path is additional production from new sources on existing leases or from new leasing activity or both. To be feasible, new sources of oil and gas must be subject to efficient and economic recovery. Unnecessary and inefficient constraints must be reduced or eliminated. This can be done successfully. The Coastal Commission has, according to their own records, approved, or approved with acceptable conditions, about 95% of oil and gas permit applications submitted to it. To date, however, the approved projects have largely involved exploration of present leases, drilling from platforms already in place, or pipelines and facilities related to federal oil and gas development beyond the State jurisdiction and not new State lease areas.

Over 100 years of successful, safe oil and gas production in State waters indicates that it can be an

acceptable activity compatible with other traditional coastal uses. The extent to which this activity is constrained will dictate whether further development is practical.

The fundamental issue of future oil and gas development in state waters under the State Lands Commission is not a quarrel between the Lands Commission and the Coastal Commission over whether or not a permit is required in order for leases to be sold in the Pt. Conception/Pt. Arguello area. The true issue is whether California's declining oil and gas production is to be augmented by further development.

California has strong and reasonable laws to protect the environment. The State Lands Commision, as do all state and local agencies, operates under CEQA, which provides an orderly and factual process for protection of the environment. In preparing its leasing program the State Lands Commission met with hundreds of representatives of public interest groups, environmental protection organizations, oil companies, local governments, and other State and federal agencies. The result was a fine-tuned oil and gas leasing program designed to produce new State revenues while providing the most extensive environmental

protections ever included in such a program. The EIR has been challenged in court by various public and private entities. However, the court in its review described it as an exhaustive process conducted in good faith with the result supported by substantial evidence.

The State Lands Commission has historically had exclusive jurisdiction in the leasing, exploration and production of oil and gas from State-owned lands. The Lands Commission has supervised oil operations and produced a reliable source of State revenue safely and without adverse environmental consequences. Should this traditional role be changed, the Governor and Legislature must expect continually declining revenue from this source.

If leasing is to proceed, what conditions are to be imposed? As stated earlier, conditions such as the proposed limitation of activities to areas beyond the 30 fathom contour will so reduce the area available for production that a lease is uneconomic for development. To illustrate, for the Pt. Conception tracts a 30-fathom limitation allows production facilities on the seafloor in at best 50% of the potentially leasable area. For perspective, we should look at existing locations of the platforms or production islands now in place off Southern

California. Of the 30 such installations 20 lie inside the 30-fathom line. In fact, 14 are placed in water less than 20 fathoms deep, 9 inside 10 fathoms.

This issue is important enough that the Governor and Legislature may have to provide policy and program decisions regarding the extent to which oil and gas activities are to be undertaken in the unleased State tide and submerged lands.

RECOMMENDATION

We recommend a finding that leasing of state tide and submerged lands between Pt. Conception and Pt. Arguello is consistent with the Coastal Act and in the public interest, and that the State Lands Commission be directed and authorized to proceed with the lease sale without any other State agency or local governmental entity approval.

It is further recommended that this finding be based on the conditions of the proposed lease sale package adopted by the State Lands Commission on August 12, 1983. These conditions in general are:

- Special Operating Requirements 1 through 15 (Exhibit C of the proposed leases) which provide for:

1. Subsea Completions to be given same weight in preparation of a development plan as are fixed platforms.

2. Transportation of Hydrocarbons to shore to be by pipelines, onshore transport by pipeline when one is available, and no marine terminal in the leased area.

3. Potential Geohazards. Drilling operations or production facilities shall not be placed in geologically unstable areas.

4. Lease Area Mapping and Mandatory Biological Surveys to be done on site specific areas as defined. Oil and gas exploratory wells, production and development activities are prohibited on the ocean bottom inshore of the 15 fathom bathymetric contour or within 1/2 mile of the shore, whichever is further from the high tide line.

5. Fisheries and Multiple Use Coordination including a fisheries training program for lessees personnel, required vertical lifting of drillship anchors, use of established vessel corridors, and prohibited use of anchored drilling vessels in the halibut trawling grounds between October 1 and March 31.

6. Suspension of Operations and Evacuation of and Shelter for Personnel (Department of Defense requirement).

7. Assumption of Risk and Hold Harmless (Department of Defense requirement).

8. Labor Requirement (Statutory requirement).

9. Drilling Muds and Cuttings not to be discharged into the ocean. This prohibition is to remain in effect until the State is satisfied by the results of appropriate studies that discharges may safely be made.

10. Oil Spill Response Capability of specified criteria to be in place and operational before any drilling activities are conducted on the leased lands. Initial oil spill response is with equipment on the drilling vessel or dedicated oil spill control vessel and deployment must begin within 15 minutes of an occurrence. Second and third stage responses must be on site within 2 and 4 hours respectively. In addition, lessees must fund semi-annual oil spill response training for the State Interagency Oil Spill Committee.

11. Special Studies to be conducted for a full year biological inventory and on the effect of oil, oil dispersants and a combination of oil and dispersants on marine biota.

12. Ocean Floor Obstructions are to be mapped to provide notice for fishermen and others concerned with bottom debris.

13. Sea Otters to be studied to determine the effects of oil and gas exploration and production on them, and studies are to be made of measures to mitigate the adverse effects of oil and gas exploration and production on the sea otter population. Critical operations during exploratory drilling are to be curtailed between December 1 and April 1 when the State Lands Commission determines that the risk from such operations is sufficient to damage the sea otter or gray whale population.

14. All Season Ocean Current and Meteorologic Studies to be funded by lessees on a continuing basis. Instrumentation is to be provided to measure wave, wind, current and temperature conditions.

15. Scientific Advisory Committees to be established by the State to advise in the development of the scope of studies and review reports required by lease conditions.

Our recommendation is based on several factors. First, drainage of state resources by federal lessees can be prevented. If leasing is delayed for too long, drainage is likely to occur. Adjoining federal lessees are moving ahead with their development plans for parcels adjacent to tracts 2 through 8.

Secondly, support facilities for State lands can be coordinated with federal tracts for better planning and reduced adverse environmental impacts.

Third, ultimate recovery of state resources can be maximized using best oil field practices which prevents waste (non-recoverability) of state resources.

Fourth, declining revenues from existing state leases can be augmented. All current state leases are 20-40 years old. Revenues are being reduced as these old leases reach their economic limit. Without renewed leasing income from oil and gas will decline 40% in the next 20 years. At best, 6 to 8 years will elapse between award of leases and any significant production of oil and gas.

It is estimated that, at a minimum, the Pt. Conception/Pt. Arguello area contains 150 million barrels of oil with a revenue potential to the State of $1.5 billion over the life of the field. These resources should be explored and developed before the resources are drained by federal lessees and the reservoirs damaged through lack of good oil field engineering.

EXHIBIT "B"

DISTRIBUTION OF OIL AND GAS REVENUES
FROM STATE TIDE AND SUBMERGED LANDS

	($ MILLION)		
FUND	84-85 §6217	84-85 Gov. Budget	85-86 and Following
General Fund (Commission Budget)	12.0	12.0	12.0
California Water Fund	25.0	25.0	25.0
Central Valley Water Project Construction Fund	5.0	5.0	5.0
Capital Outlay Fund for Public Higher Education (Amount needed to bring fund balance to $125 million)	125.0	95.4	125.0
State School Building Lease Purchase Fund	200.0	100.0	---
General Fund - Special	8.+	137.6	198.+
TOTAL	375.0	375.0	365.0
SOURCE			
Long Beach Tidelands	(290.0)	(290.0)	(285.0)
State-wide Leases	(85.0)	(85.0)	(80.0)