CALENDAR ITEM

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GENERAL LEASE
INDUSTRIAL USE

APPLICANT: Western LNG Terminal Associates
700 South Flower Street, Suite 3300
Los Angeles, California 90017

AREA, TYPE LAND AND LOCATION:
Approximately 260 acres of coastal tide and submerged land east of Point Conception, Santa Barbara County.

LAND USE: Marine terminal for the import of liquified natural gas (LNG).

TERMS OF PROPOSED LEASE:

Initial period: 30 years from January 1, 1979.

Renewal option: Two successive periods of 10 years and 9 years respectively.

Public liability insurance: Combined single limit coverage of $50,000,000.

Consideration: Volumetric rental accrues according to the following schedule:

(a) $0.015 per barrel of LNG until the minimum annual rental is equaled; thereafter

(b) $0.001 (1 mil) per barrel for the next 25,000,000 barrels; and thereafter

(c) $0.003 (3 mils) per barrel for the next 25,000,000 barrels; and thereafter

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(d) $0.005 (5 mils) per barrel for each additional barrel passing over the State's land in that same lease year, until the total number of equivalent barrels on which rental has been paid for that lease year reaches 95 million barrels; and thereafter

(e) $0.002 (2 mils per barrel for any additional volume passing over the State's land in that same lease year.

(f) Minimum annual rental will be determined at a later date. (See Other Pertinent Information).

The State reserves the right to fix a different rental on each fifth anniversary of the lease.

Special: Rental Impound - Provides that rentals in excess of the minimum annual rental shall be paid into a special deposit account in the State Treasury pending the outcome of pending litigation challenging the Commission's volumetric rental regulations. Should the regulations be declared invalid, the impounded rentals shall be refunded and a new reasonable rental will be determined by the Commission.

BASIS FOR CONSIDERATION:

Volumetric rental pursuant to 2 Cal. Adm. Code 2005.

PREREQUISITE TERMS, FEES AND EXPENSES:

Applicant is owner of upland.

Filing fee has been received.

STATUTORY AND OTHER REFERENCES:

A. P.R.C.: Div. 6, Parts 1 & 2; Div. 20.

B. Cal. Adm. Code: Title 2, Div. 3.

C. Liquified Natural Gas Act of 1977 (Chapter 10, P.U.C. Section 5551, et. seq.)

OTHER PERTINENT INFORMATION:

1. The Commission has received an application from Western LNG Terminal Associates (a general partnership composed of subsidaries of Pacific Lighting Corporation and Pacific Gas and Electric Company) to construct and operate a marine terminal (trestle) on State lands east of Point Conception in Santa Barbara County. The terminal will be used to import LNG from Indonesia and South Alaska in accordance with the Liquified Natural Gas Act of 1977 (P.U.C. Section 5551 et seq.). Section 5595 of the Act provides in part that if a lease of State land is required to construct and operate a terminal, the State Lands Commission shall issue such lease.

   In accordance with said Section 5595 staff has prepared a standard general form lease and has established the annual rental for the leased lands pursuant to authority in Section 6503 of the P.R.C. The form of said lease is on file in the principal Office of the Commission.

2. In order to accommodate the applicant's design, review and construction schedule, staff is recommending that the Commission approve the subject lease description (260± acres) with the provision that at least 90 days prior to actual construction, the applicant will submit a revised lease description of the actual area to be utilized (not less than 40 acres nor more than 100 acres). Staff is also recommending that the Executive Officer or his designee be authorized to substitute the revised description for the description now shown on Exhibit "A" attached.

3. The minimum annual rent for the subject lease reflects the applicant's anticipated 3 - 4-year construction schedule. When operational, the minimum annual rental wil be set in accordance with the procedure set forth in Section 3(c) of the proposed lease. In no event will the minimum annual rental be less than $140,000. The lease also provides that the lessee may pay minimum annual rental in excess of $100,000 in 3 equal payments with the first 3 quarters' volumetric rent.

4. Negotiation of the proposed lease demonstrated that there exists potential for conflict between the rules and regulations of the Public Utilities Commission governing design, construction and operation of the terminal and regasification facilities under the Act and the Commission's standard lease covenants. In order to forestall any conflicts and possible cessation of operations under the lease, staff is working with the California P.U.C. to draft a memorandum of understanding between the P.U.C. and State Lands Commission regarding operational requirements for Western's terminal. Staff will bring the proposed document to the Commission at a subsequent meeting.

5. Western has advised staff that upon receipt of all required authorizations, Western will pursue project financing from conventional sources. Typical of such financing requirements will be the creation of a security interest in Western's operations, including the lease proposed herein. Upon obtaining the necessary financing for this project, Western will seek Commission consent to the creation of a security interest in the subject lease.

6. Section 5595(d) of the Public Utilities Code exempts the State Lands Commission from the requirements of CEQA in issuing the lease proposed herein. However, an EIR was prepared by the P.U.C. in accordance with CEQA and certified on July 31, 1978. In certifying the final EIR and issuing its interim order granting Western a conditional permit to construct and operate an LNG terminal at the subject site, the P.U.C made many findings and conclusions including:

a. That a draft EIR was prepared in compliance with the requirements of CEQA and the State EIR Guidelines.

b. That the Final EIR is adequate and meets the requirements of CEQA and the State EIR Guidelines.

c. The project will have significant environmental impacts.

d. The construction and operation of the proposed facility will not produce an unreasonable burden on the natural resources, aesthetics of the area in which the proposed facilities are to be located, air and water quality in the vicinity, parks, recreational, archaelogical sites or community values.

e. The overall level of environmental impacts associated with this project are moderate in comparison with other energy related projects of similar value.

f. Mitigation, where feasible, has or will be incorporated into the project design to eliminate or reduce the significant environmental impacts of the project.

g. The benefits of the project outweigh its adverse environmental impacts.

Based on the substantial record of environmental impact analysis for this project, staff has concluded that adequate provisions have been made to protect (or mitigate the effects upon) the significant environmental characteristics identified pursuant to Section 6370.1, of the P.R.C.

7. The Commission's coastal regulations have been superseded by the liquified Natural Gas Act of 1977 insofar as it relates to the siting of LNG terminal facilities.

APPROVALS OBTAINED:

Conditional approval by the CPUC issued July 31, 1978. No other State or local approvals required.

FURTHER APPROVALS REQUIRED:

Department of Energy, United States Army Corps of Engineers, United States Coast Guard.

EXHIBITS: A. Land Description. B. Location Map.

IT IS RECOMMENDED THAT THE COMMISSION:

1. FIND THAT THE COMMISSION IS EXEMPT FROM THE REQUIREMENTS OF CEQA IN ISSUING THIS LEASE PURSUANT TO SECTION 5595(d) OF THE PUBLIC UTILITIES CODE.

2. FIND THAT ADEQUATE PROVISIONS HAVE BEEN MADE FOR THE PERMANENT PROTECTION OF THE SIGNIFICANT ENVIRONMENTAL CHARACTERISTICS IDENTIFIED PURSUANT TO SECTION 6370.1, OF THE P.R.C.

3. AUTHORIZE ISSUANCE TO WESTERN LNG TERMINAL ASSOCIATES OF A 30-YEAR GENERAL LEASE - INDUSTRIAL USE FROM JANUARY 1, 1979; WITH LESSEE'S OPTION TO RENEW SUCH LEASE FOR 2 SUCCESSIVE PERIODS OF 10 YEARS AND 9 YEARS EACH. IN CONSIDERATION OF VOLUMETRIC RENTAL TO BE PAID AS FOLLOWS:

   A. $0.015 PER BARREL OF LNG UNTIL THE MINIMUM ANNUAL RENTAL IS EQUALED; THEREAFTER

   B. $0.001 (1 MIL) PER BARREL FOR THE NEXT 25,000,000 BARRELS; AND THEREAFTER $0.003 (3 MILS) FOR THE NEXT 25,000,000 BARRELS; AND THEREAFTER $0.005 (5 MILS) PER BARREL FOR EACH ADDITIONAL BARREL PASSING OVER THE STATE'S LAND IN THAT SAME LEASE YEAR, UNTIL THE TOTAL NUMBER OF BARRELS ON WHICH RENTAL HAS BEEN PAID FOR THAT LEASE YEAR REACHES 95 MILLION BARRELS; AND THEREAFTER $0.002 (2 MILS) PER BARREL FOR ANY ADDITIONAL VOLUME PASSING OVER THE STATE'S LAND IN THAT SAME LEASE YEAR.

   C. THE MINIMUM ANNUAL RENTAL SHALL BE DETERMINED IN THE MANNER SET FORTH IN THE LEASE (SECTION 3(c)) ON FILE IN THE PRINCIPAL OFFICE OF THE COMMISSION AND BY REFERENCE MADE A PART HEREOF; THE STATE RESERVES THE RIGHT TO FIX A DIFFERENT RENTAL ON EACH FIFTH ANNIVERSARY OF THE LEASE; THE PROVISION OF PUBLIC LIABILITY INSURANCE IN AMOUNTS OF COMBINED SINGLE LIMIT COVERAGE OF $50,000,000; FOR THE CONSTRUCTION AND OPERATION OF A MARINE TERMINAL USED FOR THE IMPORTATION OF LIQUIFIED NATURAL GAS (LNG) ON THE LAND DESCRIBED ON EXHIBIT "A" ATTACHED AND BY REFERENCE MADE A PART HEREOF.

4. PROVIDE IN THE LEASE FOR PAYMENT OF RENTALS IN EXCESS OF THE MINIMUM ANNUAL RENTAL INTO A SPECIAL DEPOSIT ACCOUNT IN THE STATE TREASURY, PENDING FINAL DISPOSITION OF CURRENT LITIGATION CONCERNING THE VALIDITY OF THE COMMISSION'S RENTAL REGULATIONS; SAID IMPOUNDED RENTALS TO BE REFUNDED AND A NEW REASONABLE RENTAL DETERMINED BY THE COMMISSION SHOULD THE COMMISSION'S VOLUMETRIC RENTAL REGULATIONS BE INVALIDATED.

5. AUTHORIZE THE EXECUTIVE OFFICER OR HIS DESIGNEE TO REPLACE THE LAND DESCRIPTION ATTACHED HERETO WITH A NEW LAND DESCRIPTION AS PROVIDED IN SECTION 2, PARAGRAPH 5 OF THE LEASE.

EXHIBIT "A"

LAND DESCRIPTION

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A parcel of tide and submerged land in the Pacific Ocean, lying southerly of the Rancho Nuestra Senora del Refugio and approximately 2 miles east of Point Conception, in Santa Barbara County, State of California, more particularly described as follows:

COMMENCING at Station 456 of the mean high tide line as said line is delineated on the State of California, State Lands Commission Map, "Survey of the Mean High Tide Line, December 1957", filed in Book 41, Miscellaneous Maps, at page 43, in the Office of the County Recorder, Santa Barbara County; said station having California Coordinate System, Zone 5 coordinates of X = 1,273,645 and Y = 355,978; thence along said mean high tide line N 79° 55' 03" E 63.05 feet to the POINT OF BEGINNING; thence from said point of beginning and leaving the mean high tide line the following nine courses:

1.	N 12° 00' 00" E	50.00 feet;
2.	N 79° 00' 00" E	1,001.03 feet;
3.	South	1,729.48 feet;
4.	East	1,500.11 feet;
5.	South	2,500.18 feet;
6.	West	1,500.11 feet;
7.	South	1,100.08 feet;
8.	West	2,074.85 feet;
9.	N 12° 00' 00" E	5,203.52 feet to the point of beginning.

EXCEPTING THEREFROM any portion lying landward of the ordinary high water mark.

The basis of bearings for this description is the California Coordinate System, Zone 5.

All distances described herein are ground distances; corresponding grid distances may be obtained by multiplying the ground distances by the factor 0.9999355.

END OF DESCRIPTION

Prepared _____ Checked _____

Reviewed _____ Date 10/25/78

LICENSED LAND SURVEYOR DAVID SCHWARTZ # L.S. 4017 STATE OF CALIFORNIA

(Rev. 10/26/78)

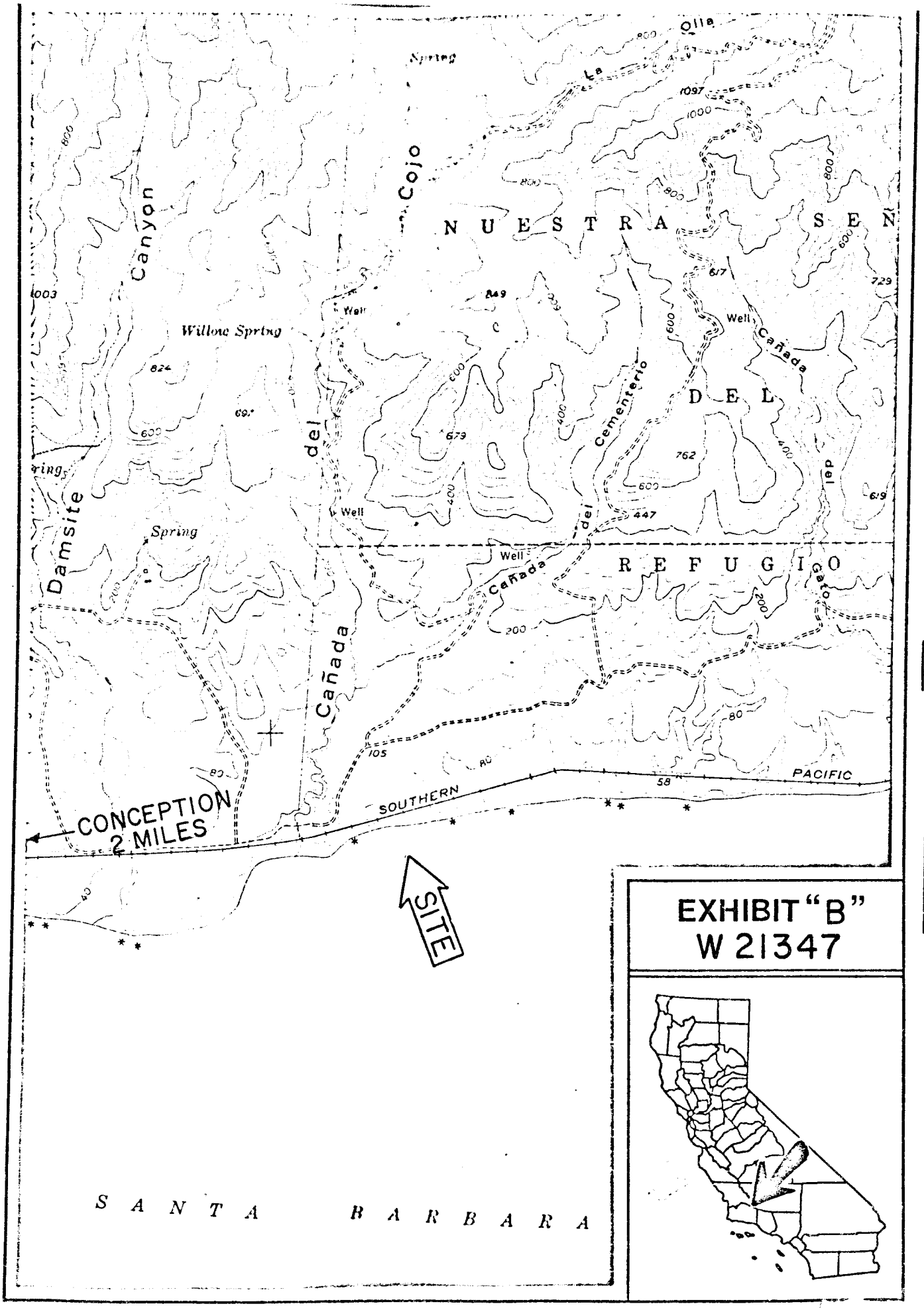
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EXHIBIT "B"
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