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MEETING
STATE LANDS COMMISSION
STATE OF CALIFORNIA

STATE CAPITOL
ROOM 444
SACRAMENTO, CALIFORNIA

FRIDAY, AUGUST 12, 1983
11:00 A.M.

ORIGINAL

Cathleen Slocum, C.S.R.
License No. 2822

MEMBERS PRESENT

- 1
- 2 Leo T. McCarthy, Lt. Governor, Acting Chairperson
- 3 John Jarvis, representing Kenneth Cory, Controller
- 4 Nancy Erdman, representing Michael Franchetti, Director
- 5 of Finance

MEMBERS ABSENT

6
7
8 NONE

STAFF PRESENT

- 9
- 10
- 11 Claire Dedrick, Executive Officer
- 12 James Trout, Assistant Executive Officer
- 13 Robert Hight
- 14 Dwight Sanders
- 15 Jane Smith, Secretary
- 16

ALSO PRESENT

- 17
- 18 N. Gregory Taylor, Deputy Attorney General
- 19 Richard Frank, Deputy Attorney General
- 20
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I N D E X

	<u>Page</u>
1	
2	
3	
4	
5	
6	
7	
8	
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11	
12	
13	
14	
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22	
23	
24	
25	
Proceedings	1
Approval of amended lease conditions, special operating requirements, accounting procedures and other provisions, sale of oil and gas leases in eight tracts between Point Conception and Point Arguello, Santa Barbara County	1
Opening statement by Chairperson McCarthy	1
Discussion of major issues - Mr. Trout	5
<u>Public Testimony:</u>	
Earl Stout, Manager, Alaska Pacific Exploration Division of Exxon Company, U.S.A.	9
Discussion and comments	17
Diane Guzman, Director, Resource Management, Santa Barbara County	19
Discussion and comments	23
Maida West, California Council for Environmental and Economic Balance	32
Discussion and comments	35
Ruthann Corwin, Oceanic Society and Coalition, Environmental Coalition on the Outer Continental Shelf	36
Rachel Saunders, Friends of the Sea Otter	71
Martha Davis, Wildlife Coordinator, Greenpeace	76
Discussion and comments	79
Alan Hur, Director of Fisheries Protection Institute, California Federation of Fishermen Associations	81
Win Swint, President, California Abalone Association	100
Mr. Michael Cox	108

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Discussion and comments

Commission action

Adjournment

Certificate of Reporter

123

128

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PROCEEDINGS

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2
3 ACTING CHAIRPERSON McCARTHY: I'd like to apologize
4 to everyone who has waited patiently for this meeting to begin
5 at 10:00 a.m. Now having reached the hour of 10:00 I am,
6 "I would like to begin the meeting.

7 I wanted first to make sure that anyone in the
8 audience who was interested had a couple of documents in
9 front of them. One was the calendar summary document which
10 has the item before us on the approval of the amended lease
11 conditions regarding the lease sale between Arguello and
12 Conception. Second was the item entitled, "Proposed
13 Amendment to Special Operating Requirement 5(d) Version
14 1." The first one is about 30 pages. This one is four
15 pages. You will need both of those to follow the
16 discussion that's about to commence. You may need other
17 things to follow the discussion that's about to commence,
18 too. You'll need to start with those.

19 We gave those out at shortly after 10:00 and I
20 hope that a number of you have had an opportunity to read
21 those so that you can participate with us in this discussion.

22 Nancy Ordway on my right is representing the
23 Director of Finance Franchetti, and John Jervis on my left
24 is representing our missing chair, Controller Ken Cory.

25 EXECUTIVE OFFICER DEDRICK: Mr. Chairman, in case

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1 we have run short of copies, we just brought in another 30.
 2 ACTING CHAIRPERSON McCARTHY: All right. We just
 3 brought in another 30 copies I'm informed in case anybody
 4 is missing those.

5 A brief recap. I think most people remember the
 6 history that the State Lands Commission took action December
 7 23rd on proposed lease sale and set of conditions. The
 8 Coastal Commission met on May 25th and didn't accept the
 9 lease sale in that condition or really didn't come to an
 10 ultimate vote on it, I believe. They wanted the discussions
 11 that were leading to proposed written in annotations to
 12 that lease sale at that May 25th meeting to be clarified.
 13 So they didn't want to proceed to vote on the issue. Since
 14 that time the two commissions made contact and I think as
 15 all or most of you know two Coastal Commissioners, Chairman
 16 Mel Nutter and Commissioner McMurray for the Coastal Commission
 17 along with Mr. Tobin who has been the prime staff person
 18 responsible for this subject area, and from the State Lands
 19 Commission, myself, as designated by the members of this
 20 Commission and Mr. Jim Trout. We had three meetings.
 21 Those meetings lasted about nine hours. They ranged over
 22 a number of subjects. They led to the proposed changes
 23 in the lease sale conditions that are in this packet:

24 I tried to disseminate this to people to involve
 25 people in that discussion. We certainly don't for a moment.

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1 suggest to you that any part of this should not be challenged
2 in any appropriate way by any interest that may be sitting
3 in this audience today. We'll get to that in a minute and
4 I'm going to ask the staff to take us through that.

5 The second document that I referred to is newer.
6 That's the result of discussions this week. I should mention
7 that Nancy Ordway representing Director Franchetti asked
8 us to pass out a brief statement that was a summary of the
9 discussions that occurred during those three meetings that
10 took nine hours. You should have that also. That's a briefer,
11 about eight-page piece here. We're providing you all kinds
12 of materials this morning.

13 Now, getting back to the other Proposed Amendments
14 to Special Operating Requirement 5(d), I want to explain
15 to you where this came from. This developed this week.

16 The first two amendments were essentially from
17 oil industry representatives. They're asking that those
18 amendments be put into any lease sale agreement and the
19 considerations behind the jackup rigs issue we will get
20 into at that point. The second -- well, we didn't even,
21 1 and 2 is numbered. 3 is not numbered. It was put in
22 a separate page. They came from environmental organizations.
23 They are also proposed as amendments to the lease sale and
24 they deal with the scope of the studies that are going to
25 be conducted on marine life. We'll get to those at the

1 appropriate time.

2 Now I'd like to turn your attention to the larger
3 packet because I'm going to ask Claire Dedrick, our CEO,
4 to begin to take us through that with the aid of other staff
5 point by point. I'll mention in passing that what is listed
6 as Exhibit 2 is a technical amendment that will be explained
7 to you. That was not a part of the nine hours of discussions
8 that the representatives described to you had on this. When
9 we got into Exhibit 3, listed at the bottom as C-1, that
10 represents the beginning of the recommendation for the
11 public's consideration and for possible action by this
12 Commission that came out of those hearings. I'm going to
13 ask Claire Dedrick to join us at this point.

14 EXECUTIVE OFFICER DEDRICK: Mr. Chairman, the
15 two packages you have clearly described. At the July meeting
16 of the State Lands Commission, we presented to you for
17 permission to distribute the proposed amendments that were
18 the outgrowth of your negotiations. At that time we set
19 a meeting for today in order to give the Coastal Commission
20 ten days to review a final document and you asked us to
21 get back to you with the results of public comment which
22 were due in Monday and Tuesday of this week.

23 The thick part, the calendar item itself, describes
24 those comments and makes some recommendations sometimes
25 and other times we don't make any recommendations on what

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1 the public wanted. We got comments from nine individuals
2 or organizations including environmentalists, governmental
3 bodies, and the oil industry.

4 You've summarized the most important of those
5 proposed amendments in the four-page document, and I think
6 that the actual content of the proposal that is now before
7 you reflects accurately the input of the public and there
8 are, as you noted, some areas where the staff has made no
9 recommendations but we have presented to you the arguments
10 on both sides.

11 Jim Trout, since he was the guy that did all the
12 work on this, I think I would like to ask Jim to just go
13 through the major issues.

14 ACTING CHAIRPERSON MCCARTHY: Mr. Trout.

15 MR. TROUT: Probably the first portion of the
16 calendar item is the pages numbered C on Exhibit 3 which
17 are the Special Operating Requirements to the lease. The
18 changes in strikeout and underlining are the changes from
19 the original Special Operating Requirements adopted by the
20 Commission on December 23rd. So you can see what the final
21 change would look like from the original document. We've
22 made changes in the transportation of hydrocarbons,
23 particularly making it clear that there will be a requirement
24 for the use of an onshore pipeline if such is built or that
25 there have to be a significant solid demonstration that

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1 the use of an onshore pipeline cannot be done, that it is
2 infeasible. It is also made clear that, at the request
3 of the Coastal Commission, that no marine terminal is
4 authorized under these leases within the lease area.
5 There's also a requirement regarding the use of barges in
6 case of marine terminal at some other location does turn
7 out to be required.

8 In Special Operating Requirement 4, it has been
9 amended to include the mapping of significant biologic areas.
10 Again, this was part of the original Coastal Commission
11 staff recommendation in May. It has been adopted; it has
12 been proposed for adoption by the Commission and that map
13 is shown on Exhibit 5 on page 40 of the calendar item. It
14 shows an area where it is recommended that a prohibition
15 of all activities on the ocean floor be made and that that
16 would be from the shoreline out to the 15 fathom or one-
17 half mile limit, whichever is further from shore. That
18 map would also show the sensitive biologic areas which at
19 the present time on the map are halibut trawling areas and
20 the rocky bottom areas which are defined as those areas
21 of bedrock which protrude above the sea floor. Other
22 significant or sensitive biologic areas in the agreement
23 are the kelp beds if there are any outside of the prohibited
24 area and rubble or cobble areas.

25 There are some minor changes made at the request

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1 of Fish and Game and public interest groups and the industry
2 in some of the other areas.

3 I think that the next significant change is in
4 Special Operating Requirement 10 where the use of two vessels
5 on-site is made possible rather than a one-vessel and a shore-
6 based equivalent of the Coast Guard's strike force. The
7 amount of money involved in carrying out the oil spill
8 endeavor has not been reduced.

9 Then lastly, a section has been added at the end,
10 Special Operating Requirement Number 15, establishing
11 Scientific Advisory Committees to assist the State in the
12 development of both the scope of studies required in these
13 requirements, under these requirements, and in the review
14 of reports generated pursuant to the requirements and the
15 Commission has agreed to fund those Scientific Advisory
16 Committees.

17 The other thing that is new in this package then,
18 as I mentioned, is Exhibit 5, the sensitive biologic areas,
19 and Exhibit 6, a draft interagency agreement which we believe,
20 staff believes, reflects the understanding arrived at by
21 the representatives of the Coastal Commission and your
22 Commission as you referred to, Mr. Chairman.

23 Lastly, several people commented that they needed
24 a time schedule or would like to see a time schedule of
25 the biologic and other studies required in the Special.

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1 Operating Requirements. That is Exhibit 7 and is shown
2 on the last three pages. We have a bar chart and then we
3 have a discussion of who the lead agency would be and some
4 other numeric outline. This is all based on a zero point
5 of the award of any lease sale.

6 I think that probably covers it, Mr. Chairman.

7 ACTING CHAIRPERSON McCARTHY: All right. Thank
8 you, Mr. Trout.

9 Do you have anything more to add at this point?

10 EXECUTIVE OFFICER DEDRICK: No.

11 ACTING CHAIRPERSON McCARTHY: Any questions by
12 either member of the Commission?

13 COMMISSIONER JERVIS: No.

14 ACTING CHAIRPERSON McCARTHY: We're prepared to
15 take testimony from anybody in the audience. We have so
16 far the following people have indicated they wish to testify.
17 Let me read off all these names and then others who may
18 wish to testify can so indicate.

19 Mr. Earl Stout, Miss Diane Guzman, and Naida West.
20 Those are the only three we have indicated so far. All
21 right. Thank you.

22 Dr. Corwin, Rachel Saunders, Martha Davis. All
23 right.

24 I'd like to first in the order in which they were
25 handed to me ask Mr. Earl Stout, the Manager of the Alaska

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Pacific Division Exploration of the Exxon Company.

MR. STOUT: Thank you, Mr. Chairman.

ACTING CHAIRPERSON McCARTHY: Yes, sir.

MR. STOUT: My name is Earl Stout. As Manager of the Alaska Pacific Exploration Division of Exxon Company, U.S.A., I am directly responsible for Exxon's decisions concerning oil and gas exploration operations on California submerged lands and the OCS offshore California.

Today I would like to comment on those lease terms and operating requirements for the proposed sale that we consider to be the most troublesome. My remarks will supplement previous written comments submitted by letter to the staff on July 15 and August 5 of this year. Oil and gas exploration is an inherently risky business. Exxon and other companies in the oil and gas exploration and production industry readily undertake these risks because we are in the risk-taking business and are accustomed to evaluating the situations. Although I have had extensive experience in evaluating potential prospects and proposed lease terms, both within the United States and abroad, the terms and Special Operating conditions proposed for the Point Conception, Point Arguello lease sale are in my opinion unprecedented in the degree of risk that the lessees are required to assume. Simply stated, there are no satisfactory means to determine when, if ever, the lessees will be able to satisfy all of

1 the government restrictions required to operate these leases
2 or to analyze the cost that might be incurred to satisfy
3 the conditions.

4 Although in the past several months Exxon and
5 I think other petroleum companies and organizations have
6 had numerous conferences with your staff as to how to
7 alleviate some of the troublesome terms of the proposed
8 sale, none of our concerns were addressed in this latest
9 revision of the lease provisions. A serious question arises
10 as to whether or not these terms create more risk and
11 uncertainty than our shareholders can be reasonably expected
12 to bear. In our opinion the full proposals that I would
13 like to discuss today are most objectionable because we
14 think that they go far beyond what is necessary or what
15 is reasonable to protect the environment and the other
16 competing uses of the lease area. These terms create a
17 substantial risk we think that the lessees will never be
18 able to drill these leases or produce any of the resources
19 that they might discover if, in fact, exploratory drilling
20 is allowed to take place.

21 Exxon has not made a final decision as to whether
22 or not to participate in this sale. However, if we decide
23 to not come to the sale, our decision will not be based
24 on the geologic risk involved but rather on the risk that
25 we see related to the lease provisions and the Special

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1 Operating Conditions contained in the proposal before the
2 Commission.

3 Now I would like to turn specifically to the
4 four provisions that I would like to discuss today. We
5 take a strong exception to the Special Operating Requirement
6 4 by which the State after taking our money may completely
7 nullify the rights to explore and produce the leases. This
8 provision specifies that before any drilling or the placement
9 of any structures including pipeline on the lease area,
10 the lessee must fund site-specific biological and marine
11 mammal surveys to be conducted by the State. Where adverse
12 effects of special biological resources cannot be mitigated
13 to the satisfaction of the State, the State may prohibit
14 development. This prohibition will not be based or cannot
15 be the basis for a claim by the lessee.

16 Let's take a little closer look at this requirement
17 if we could. The term "special biological resource" is
18 not defined. The term "adverse effect" is not defined.
19 Mitigation measures are described only as those required
20 to satisfy the State. Without definitions and without some
21 objective standard, there is no way to quantify the lessee's
22 risk. There is not even an express provision for a hearing
23 to give the lessees a chance to voice their views about
24 these matters. Conceivably, a lessee could invest hundreds
25 of millions of dollars in exploration and development and

1 then be prohibited by the State from going forward with
2 production without any compensation due from the State.
3 These concerns should also be shared by the Commission because
4 they might preclude or at least severely curtail any net
5 profit revenues that the State might otherwise receive from
6 the leases.

7 Exxon also strongly objects to the Special
8 Operating Requirement 1 which provides that the State
9 may require the use of subsea completions rather than fixed
10 production platforms. The factors to be considered in making
11 such determinations are broadly stated and provide the lessees
12 no real means in which to evaluate what type decisions the
13 State will make when these questions arise. Exxon objects
14 to this what we think is an unnecessary requirement because
15 subsea completion are so substantially more expensive than
16 fixed platforms and they might render uneconomic almost
17 any potential prospects in the sale area to the detriment
18 of all concerned, the lessee's shareholder and also to the
19 State.

20 Let me elaborate on that particular point. The
21 subsea completion systems are basically designed for use
22 in deep water areas that are beyond the limits of platform
23 type developments. This is an extremely expensive technology
24 that is not appropriate for use in the shallow waters such
25 as those in the sale area. In shallow waters, the high cost

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of subsea development systems would discourage, if not preclude, development of many discoveries and would force early abandonment of other reservoirs, thereby reducing again the income to the lessee and also to the State.

Thirdly, Exxon objects to the arbitrary well spacing specifications that were determined prior to drilling and analyzing data from the reservoir characteristics of any producible loans that might underlie the eight parcels in the lease area. The proposed spacing requirements apparently reflect an erroneous assumption that closer spacing will necessarily lead to higher recovery of petroleum resources. Arbitrary decisions about particular well spacing patterns without specific evidence that more wells will best serve conservation purposes and will be economically justified by increased hydrocarbon recovery, reflect inflexible decision-making contrary to the interest of all parties. Drilling and operating additional unnecessary wells will increase the cost for the lessee and lower the return to the State to the net profits payment. The arbitrary and inflexible spacing requirements in paragraph 3 of Exhibit B should be deleted. If they were deleted, the Commission would retain its discretion to make a case-by-case decision based on conservation principles and information that they would have in hand about the reservoirs to be regulated.

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1 The fourth matter that I would like to discuss
2 is the six months' exploratory drilling restriction for
3 areas identified as halibut trawling ground. Exxon objects
4 to this requirement because no total ban of exploratory
5 drilling activity is necessary. Exploratory drilling
6 vessels occupy only very limited areas. Commercial fishing
7 has been and may continue to be conducted successfully on
8 leases where only small portions of those leases are
9 occupied by drilling vessels. Considering the fact that
10 it would take about 90 days to drill and test an exploratory
11 well in the sale area, in order to complete and test a well
12 in the specified drilling season, the actual period during
13 which drilling must be started is rather limited. For
14 drilling to be completed by October 1, prudence dictates
15 that operations be commenced no later than the third month
16 of the sanctioned drilling period. Problems caused by this
17 curtailed drilling period will be aggravated by difficulties
18 in ensuring that suitable drilling vessels are available
19 on location at the times for which they were scheduled.

20 Wells that cannot be completed within the authorized
21 period would have to be suspended and reentered at significantly
22 greater cost. The effect of the limited drilling season
23 may be to force the lessee to pay substantial standby time
24 to ensure rig availability during the early part of the
25 drilling season. These costs, again, will be borne by both

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the lessee and the State. Again, we think the imposition of these costs is unnecessary because a ban on drilling cannot in our judgment be justified.

I will also note that Exxon is extremely concerned about the implication of the six month exploratory drilling ban and how it might affect the placement of permanent facilities in the area in the event of a commercial discovery is made.

Let me mention one final concern about the proposed lease terms and operating requirements. If such provisions are adopted, we believe that the operating experience on the leases will force the lessee, whomever they might be, to ask for modification of these unworkable requirements. We would suggest, however, that any such post-sale modification of the lease condition could open the door to challenges as to the lease title. For this reason and others mentioned earlier, we strongly suggest that the Commission carefully evaluate and perhaps revise the proposed lease terms and the operating requirements prior to the term of the sale.

In summary, Exxon recognizes that there clearly are competing uses for state coastal waters and submerged lands. The oil and gas industry and other parties make legitimate uses of these areas. For instance, the fishing and the petroleum industry are both important to the State.

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1 and to the nation. They provide employment and revenue
2 for the State in addition to providing a very vital service.
3 In order that these and other groups co-exist, there must
4 be a balancing between the uses of the offshore areas that
5 is fair to all parties. In our opinion the proposed lease
6 terms and operating requirements for this lease sale
7 clearly reflect that equitable balancing has not been
8 achieved. The four provisions that I discussed today are
9 the ones that we think are totally unacceptable. Our
10 comments on other objectionable, albeit less objectionable
11 provisions, have already been submitted by written comments.

12 Our fundamental objections to the requirements
13 that I've discussed today are addressed and have addressed
14 in written comment is that the provisions are either
15 unreasonable or unnecessary or they're without objective
16 criteria. They substantially increase the risk that the
17 lessee will not be permitted to explore and develop the
18 leases. If permitted to proceed, they would be allowed
19 to proceed only in a manner that might not yield a meaningful
20 economic return either to the lessee or to the State of
21 California.

22 If the Commission cannot develop a reasonable
23 balance between competing interests and reflect that balance
24 in the lease terms and conditions that provide some
25 certainty about what operations could be permitted, when

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1 they will be permitted and at what cost, then Exxon will
2 undoubtedly need to reevaluate whether or not we can afford
3 to divert our financial and human resources to this sale
4 area.

5 Those are the prepared comments that I have. I
6 want to thank you for the opportunity for allowing me to
7 present them and urge you to give careful consideration
8 to our concerns.

9 ACTING CHAIRPERSON McCARTHY: Thank you, Mr. Stout.

10 I would like to ask the staff to comment on one
11 thing Mr. Stout said, and none of the other commissioners
12 had questions. Mr. Stout said there wasn't any process
13 for a hearing to object to whatever experience they had
14 that might be important to take public notice of. Could
15 you comment on that?

16 EXECUTIVE OFFICER DEDRICK: Yes. That is incorrect.
17 To make any development decision, that is to say, to get
18 a permit or anything like that, that decision is made by
19 the body sitting here. That requires public action on a
20 public agenda with hearing, and it has always been the
21 tradition of the State Lands Commission to hear anyone who
22 wishes to speak. That is as far as the State Lands
23 Commission goes. Any EIR, any decision to explore, all
24 of those things are public decisions at which the companies
25 have every right and are expected to be involved. The same

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1 is true of the other regulatory decisions, the other
2 decisions by regulatory agencies such as the local air
3 district, the local water district, the local government
4 and the Coastal Commission. All of those decisions are
5 made in an open hearing process.

6 7 ACTING CHAIRPERSON MCCARTHY: Mr. Stout, are you
7 satisfied with that response? Do you have some additional
8 concerns?

9 MR. STOUT: The way the terms now read, Mrs. Dedrick,
10 is the fact that the State Lands Commission can cancel the
11 lease. There is no mention in the text --

12 EXECUTIVE OFFICER DEDRICK: Mr. Stout, let me
13 have one of the attorneys reply to that. We cannot
14 unilaterally cancel the lease.

15 MR. HIGHT: In order for the Commission to take
16 any action, it has to have a public hearing and at that
17 point you would have an opportunity to be heard. It would
18 not be unilateral in the sense that you wouldn't have an
19 opportunity to be heard.

20 MR. STOUT: Okay. That's not the way we had read
21 it.

22 EXECUTIVE OFFICER DEDRICK: It really is how the
23 system works.

24 MR. STOUT: I'm sorry.

25 EXECUTIVE OFFICER DEDRICK: It really is how the

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1 system works.

2 MR. STOUT: I would prefer it to be a little more
3 emphatic in the way that --

4 EXECUTIVE OFFICER DEDRICK: It's by statute, Mr.
5 Stout. There is no way this Commission could take that
6 kind of action unilaterally without a public hearing.

7 ACTING CHAIRPERSON MCCARTHY: I think if there's
8 some clarification that needs to be made on that, to cite
9 the existing statutes which would require that public
10 hearing process, we should do that and give that information
11 to Mr. Stout.

12 EXECUTIVE OFFICER DEDRICK: We'll be glad to do
13 that, Mr. Stout.

14 MR. STOUT: Thank you.

15 ACTING CHAIRPERSON MCCARTHY: Do either of the
16 commissioners have a question at this point of Mr. Stout?

17 COMMISSIONER ORDWAY: No, thank you.

18 ACTING CHAIRPERSON MCCARTHY: Thank you very much,
19 Mr. Stout.

20 Diane Guzman, Director of Resource Management,
21 Santa Barbara County, who was born into this world to deal
22 with the subject of offshore oil leases.

23 EXECUTIVE OFFICER DEDRICK: And appropriately
24 follows Exxon.

25 MS. GUZMAN: I even agreed with some of the things

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1 that Exxon said.

2 Yes, Mr. Chairman, Members of the State Lands
3 Commission, I am Diane Guzman. I am here representing
4 Santa Barbara County Board of Supervisors. I have brought
5 with me ten copies for the record of the letter that I am
6 going to summarize.

7 ACTING CHAIRPERSON McCARTHY: Staff, hand those
8 to the commissioners.

9 EXECUTIVE OFFICER DEDRICK: Certainly.

10 MS. GUZMAN: In the interest of time and also
11 to emphasize certain points, I will not read the entire
12 letter. I will instead just summarize certain points.

13 ACTING CHAIRPERSON McCARTHY: Go ahead, please.

14 MS. GUZMAN: First of all, I want to say that
15 we are very encouraged with the progress being made on this
16 lease sale and I'm very happy to see several of the changes
17 that have been made. We are objecting to the short notice
18 regarding your decision hearing today and instead felt that
19 it should have been a 60-day notice and a hearing in Santa
20 Barbara. We'd like to summarize our position before the
21 court and the California Coastal Commission.

22 First, we think that the lease sale itself should
23 be delayed for several reasons. One, because of the current
24 glut and low price of crude oil. Secondly, because of the
25 substantial decline in the amount of monies recently bid

1 for several federal lease sales. Third, because of the
2 inability of this sensitive environment to accommodate
3 additional development at this time. We already have
4 intensive leased areas and developing areas in close proximity.
5 We also feel that a drilling prohibition should be completed
6 before the lease sale takes place. We also feel that a
7 panel of agency representatives should define the scope
8 and methodology of the regional studies and evaluate their
9 results. We also feel the drilling prohibition map which
10 will identify areas that are too sensitive to drill appear
11 relatively insensitive to drilling and development.

12 Next, we feel that the insensitive areas would
13 then be available for platform construction pipeline and
14 support facilities. We note that the staff in their analysis
15 and in the changed conditions has taken several steps to
16 reach such goal. Our letter was written prior to the more
17 detailed letter today and it does not include all of the
18 more recent changes. I would, however, like to point out
19 a few differences that we still have.

20 First, the County has not been included in the
21 designation of the sensitive areas. We feel that the County
22 should play a major role in determining the sensitive areas
23 as well as the areas which would be precluded from drilling.

24 Next, we are concerned with the scale of these
25 biological surveys. The changed stipulation indicates site

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1 specific surveys. We feel that the surveys should be
2 regional, biological, cultural and geohazard surveys. I
3 feel at this point we differ still on the scope, the timing,
4 and the kind of parties that will review the sensitive area
5 or drilling prohibition maps.

6 The next point of difference is in how the maps
7 will be used. The approach outlined here is that the maps
8 would be used after the lease sale rather than before. We
9 feel quite strongly that it's important to determine these
10 prohibition areas prior to leasing. Otherwise, your
11 commission will find itself in a position of having to deny
12 exploration and potential development on areas after they
13 have been leased. In fact, I believe that was the point
14 also made by the gentleman from Exxon Corporation.

15 In conclusion, the County of Santa Barbara would
16 like to be a planning partner with the State Lands Commission
17 and the Coastal Commission on this lease sale and that we
18 feel the determination of the sensitive areas and the
19 prohibition areas should be made prior to the lease rather
20 than after the lease.

21 I thank you for the opportunity to comment and
22 I would be available for questions.

23 ACTING CHAIRPERSON McCARTHY: I would like our
24 staff to comment on how Santa Barbara County would
25 participate in the ongoing development of the studies to

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1 identify sensitive areas.

2 EXECUTIVE OFFICER DEDRICK: Yes, Mr. Chairman.
3 That is part of the interagency agreement. Jim, perhaps
4 you could highlight the portion of the agreement that brings
5 Santa Barbara County into the entire process.

6 MR. TROUT: As soon as I find it.

7 ACTING CHAIRPERSON McCARTHY: Have you read that
8 agreement, Miss Guzman?

9 MS. GUZMAN: Yes, I have.

10 I believe there is mention that the County would
11 be included in the selection of the Scientific Review Panel
12 or would nominate people for the Scientific Review Panel.

13 ACTING CHAIRPERSON McCARTHY: Why don't we find
14 the language.

15 EXECUTIVE OFFICER DEDRICK: I think if we can
16 take the language itself --

17 ACTING CHAIRPERSON McCARTHY: Page 43.

18 MR. TROUT: Unfortunately I've got a version that
19 was produced before the girls got a chance to put the page
20 numbers on. I think, starting on page 42, Mr. Chairman,
21 comprehensive planning and mapping, purpose and objectives.
22 It starts out with an agreement between your commission
23 and the Coastal Commission should this be adopted that you
24 pledge to work with other governmental bodies such as the
25 County of Santa Barbara in the comprehensive planning

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1 process which we'll use to cover a number of things
2 including the direction and guidance of the various studies,
3 the reasonable consolidation support facility, areas of
4 unitization and pooling, what additional information is
5 necessary to assist in getting out to the public the
6 information that is received, to assist in determining again
7 in advance, in other words, to make these decisions, to
8 help in making the decision to resolve the location of
9 platforms, pipelines and facilities and to resolve conflicts
10 regarding seismic survey activities and the timing of
11 exploration. Second, the Commission would pledge to set up
12 advisory committees in which portions of the various members
13 of the committees would be taken from lists supplied by
14 the Coastal Commission and the County of Santa Barbara. We
15 think that the spirit of cooperation that exists would make
16 this possible under the terms of this interagency agreement.

17 ACTING CHAIRPERSON MCCARTHY: Do you have any
18 comment on the language that's in there? Is that any
19 different than you already understood before you made your
20 statement? It was our intent to try to involve the County
21 which is the County's right in a significant way in a number
22 of decisions.

23 MS. GUZMAN: I did not have this language, nor
24 did our Board of Supervisors have that language when they
25 approved the statement which I submitted to you today. I

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1 believe that this is certainly moving in the appropriate
2 direction. I don't think I'm at a point to, say, conclude
3 whether we feel it's a full enough sole for the County to
4 play.

5 ACTING CHAIRPERSON MCCARTHY: Second question.

6 I would ask you, Miss Guzman, during the nine hours of
7 hearings, there were three, nine hours at the three meetings
8 that we had. The third meeting almost totally involved
9 discussions with marine biologists from the Fish and Game
10 Department. It is rather clear that there really have been
11 sparse studies off this coastal area or, for that matter,
12 any area of the coast. The only significant study that
13 was done was the Chamber study commissioned by the State
14 Lands Commission, as you know. The comments I've heard
15 about that study generally are positive. It was a
16 professionally done study and that it covered well what
17 it was intended to cover.

18 The thing that came out of that discussion with
19 the marine biologists there who obviously are dedicated
20 to the ecosystems and the marine habitat and life, was that
21 except in the rocky outcropping areas and rubble areas that
22 might be fairly stable and have an aspect of permanence,
23 it was difficult to identify the life systems of the marine
24 life that lived out there because most of them were sand
25 associated. They were sand habitats and the tidal action.

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1 kept moving the formation of the sand a great deal. In
2 light of that discussion to us, I was trying to understand
3 how you felt about just how much you could identify in a
4 permanent sense so that you could come to a definition of
5 sensitive areas. Could you expand on that and tell us what
6 you had in mind?

7 MS. GUZMAN: Well, I believe that our position
8 is that there needs to be more study. We have, in discussions
9 with experts in the field, been led to believe that there
10 are perhaps new and rare species out there that were really
11 unknown before.

12 ACTING CHAIRPERSON McCARTHY: By whom?

13 MS. GUZMAN: We have had Dr. Corwin who is also
14 here today provide information to us. I at the moment don't
15 have the names of the other people. We have had a number
16 of experts in talking to the County relative to offshore
17 development in marine biology, but I could provide a list
18 of those names to your commission.

19 ACTING CHAIRPERSON McCARTHY: All right. I know
20 you're aware that part of the conditions in this proposal
21 of course would commission the first thorough, far-reaching
22 studies of the offshore habitat that have ever been conducted
23 beyond the Chamber's eight-day study. Those are ongoing
24 studies. They will reveal different kinds of information
25 as we go along. I personally think that's launching something

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1 that's rather very significant. A number of these studies
2 could last several years in order to give us, let's say,
3 virtually all of the information there is offshore in this
4 area on marine life.

5 Are you suggesting that we try to -- Let me ask
6 you. What is the expanse of information that's appropriate
7 for us to gather on this before we attempt to identify any
8 sensitive area?

9 MS. GUZMAN: Well, first of all, I am not an expert
10 in marine biology. The County's position is that there
11 needs to be more, and that is not defined, study prior to
12 the time of leasing so that there's a clear picture or as
13 clear as possible picture to the companies that are
14 considering leases in this area of the areas where clearly
15 there should be a prohibition. I am aware that extensive
16 studies could take many, many years. I don't believe it
17 is the position of the County at this time -- I know the
18 matter has not been approved by the Board -- to ask for
19 a multiple-year delay on the part of your commission in
20 this lease sale. But rather that there is adequate
21 evaluation prior to leasing to determine areas that should
22 clearly be prohibited. So I don't believe I can give you
23 a specific time frame. I think it's rather a question of
24 something that perhaps a number of experts along the line
25 of the committees that your staff has suggested be set up,

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1 that committees of experts make a determination what's an
2 appropriate amount and then based upon that kind of advice,
3 we then proceed with the lease sale,

4 ACTING CHAIRPERSON McCARTHY: The point I was
5 trying to get at in my question was not whether or not we
6 agreed of their significance gathering the information.
7 I clearly agree --

8 MS. GUZMAN: I agree, too.

9 ACTING CHAIRPERSON McCARTHY: -- that we must
10 have a good deal of information to identify the sensitive
11 areas. The point is that this is the first time we've ever
12 seriously launched an effort and funded an effort and
13 involved hopefully the best scientists in these areas to
14 help us go about the studies we're going to pursue and,
15 in effect, define the studies we're going to pursue. The
16 first time we've undertaken that. My only point was we
17 all appreciate there's an endless kind of information we
18 can gather up about those systems out there. What point
19 is it reasonable to say: Well, we now have a good chunk
20 of information on which we can make some sensible judgment
21 sensitive to state law that says we have to protect those
22 marine systems and also responding to that part of public
23 opinion that says we should proceed with the drilling for
24 what revenue benefits there are. I appreciate they're two
25 somewhat clashing public values at stake here. Not the

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1 only two. So what is reasonable in terms of the amount
2 of study and the period for study after which we take some
3 action to define sensitive areas? That's what I'm trying
4 to get at.

5 MS. GUZMAN: Well, I think in trying to --

6 ACTING CHAIRPERSON MCCARTHY: I appreciate the
7 point of view that says you can't study this enough and
8 besides that we don't want any oil drilling anyway. So
9 I fully appreciate that and I'm not in any sense saying
10 that that's not a correct point of view for many to hold.
11 There's a clash of fundamental viewpoints here. We'll try
12 to figure out what is the sensitive and rational thing to
13 do in terms of the kind of studies that are undertaken,
14 the dates by which we gather information and before we make
15 some kinds, there's a sequence of judgment to be made here,
16 isn't there, before any action could ever be taken finally?
17 That's what I'm trying to get at.

18 MS. GUZMAN: I think that's really what I'm
19 speaking to is the sequence and we would like to see, Santa
20 Barbara County would like to see, further work prior to
21 leasing, particularly in the determination of the sensitive
22 areas and the prohibition areas rather than having that
23 take place after the leasing.

24 ACTING CHAIRPERSON MCCARTHY: Have your folks
25 at Santa Barbara had an opportunity to look at the -- I

1 don't know why I always have trouble with the name of this
2 company -- Geocubic --

3 MR. TROUT: Both Geocubic and McClellan.

4 ACTING CHAIRPERSON McCARTHY: McClellan. Have
5 your folks had an opportunity to look at those studies that
6 were taken in the last few months?

7 MS. GUZMAN: No, I don't believe we have.

8 EXECUTIVE OFFICER DEDRICK: I don't believe
9 they have. As you know, Governor, those are both proprietary
10 and we signed a confidentiality agreement with the Coastal
11 Commission for them to take a look at the data.

12 ACTING CHAIRPERSON McCARTHY: But the County has
13 not had an opportunity?

14 EXECUTIVE OFFICER DEDRICK: The County has not.

15 ACTING CHAIRPERSON McCARTHY: Can't we find out
16 if we can get permission to do that because I think it's
17 important that the County look at whatever data exists?

18 EXECUTIVE OFFICER DEDRICK: Certainly.

19 MS. GUZMAN: We routinely sign confidentiality
20 agreements.

21 EXECUTIVE OFFICER DEDRICK: That's not a problem.
22 If the County wants to see the data, Diane knows where I
23 live.

24 ACTING CHAIRPERSON McCARTHY: Any questions by
25 other commissioners?

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1 EXECUTIVE OFFICER DEDRICK: I have one problem
2 I'd like Mr. --

3 MR. HIGHT: For the record, Mr. Chairman, we'd
4 like to clear up some small area of debate. It's the position
5 of the staff that Section 6873.2 is not applicable to this
6 stage of the proceedings.

7 ACTING CHAIRPERSON McCARTHY: Use the microphone
8 on that, if you're trying to get something on the record.

9 MR. HIGHT: It is the position of the staff that
10 6873.2 of the Public Resources Code is not applicable to this
11 stage of the proceedings and that that provision has already
12 been complied with.

13 EXECUTIVE OFFICER DEDRICK: We're referring to
14 the reference in the second paragraph.

15 ACTING CHAIRPERSON McCARTHY: All the lawyers
16 in the room understand what that's about?

17 MS. GUZMAN: There is one other point that I should
18 make. The position that has been submitted to you was
19 approved by our Board of Supervisors on a four-to-one vote.
20 There was one abstension. It was Supervisor Holmdahl.

21 ACTING CHAIRPERSON McCARTHY: Thank you, Miss
22 Guzman.

23 EXECUTIVE OFFICER DEDRICK: Mr. Chairman.

24 ACTING CHAIRPERSON McCARTHY: Miss Dedrick.

25 EXECUTIVE OFFICER DEDRICK: Could we give the

1 court reporter a short break just for a few minutes?

2 ACTING CHAIRPERSON McCARTHY: Does the court
3 reporter want a short break yet? All right. We'll give
4 the court reporter 90 seconds.

5 [Thereupon a recess was taken.]

6 ACTING CHAIRPERSON McCARTHY: Naida West,
7 California Council for Environmental and Economic Balance.

8 MS. WEST: Thank you, Governor, members of the
9 Commission. Naida West for the California Council for
10 Environmental and Economic Balance.

11 From the beginning of this lease process CEEB
12 has been supportive of the concept of the State's sale in
13 this particular area at this particular time. Our position
14 is based partly on the apparent existence of significant
15 resources and partly on the realization that it takes a
16 considerable length of time before oil and gas leases are
17 fully operational. CEEB has been supportive of the sale
18 because of employment opportunities, positive economic
19 spinoffs, and the need for state revenue. Additionally,
20 CEEB supports carefully thought-out and mandatory environmental
21 safeguards. We are pleased with the cooperative efforts
22 of the state agencies facilitating this new lease program.
23 However, we have several concerns which come under the general
24 heading that in its understandable effort to protect
25 special biological areas, the State might unnecessarily

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1 restrict its opportunity to achieve its economic goals in
2 this lease. Specifically, the drilling limitation in
3 special biological areas could mean almost any zone in the
4 lease area. For example, I've heard testimony in previous
5 EIR hearings that the entire lease area contains large number
6 of species and great specie diversification. On page C-
7 5 such areas are listed as examples where drilling may be
8 prohibited.

9 Secondly, although apparently an open-ended number
10 of studies are required within the lease area and the oil
11 industry is required to pay for them, the Scientific Review
12 Committee as proposed does not specifically include a
13 representative of the oil industry. It would seem prudent
14 to revise the language to ensure that oil industry concerns
15 are included in the review and hopefully the planning of
16 such studies.

17 Thirdly, the process of studying the biological
18 significance of areas appears to be unlimited as proposed
19 and here I think you've already made my statement. As most
20 of you are aware, questions never cease to emerge in areas
21 of scientific interest. Further studies can always be
22 conceived to augment and further validate previous studies.
23 While this process is desirable from an academic standpoint,
24 there should be limitations on it in the present context.

25 I see an attempt in the document to provide

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1 limitations, that is, a \$25,000 per year limitation
 2 mentioned. Although the dollar per year limit is a good
 3 beginning, more controls may be necessary when one considers
 4 the number of years that such studies may be in process.
 5 While those studies are under way, presumably no exploratory
 6 activity would be possible.

7 It would appear desirable that the first activity
 8 of the Scientific Review Committee as amended to include
 9 members of industry, the first activity should be to
 10 establish guidelines which seriously exempt the issue of
 11 how much and what kind of research is enough to give this
 12 Commission sufficient information upon which to act.
 13 Perhaps this doesn't have to come from the Scientific Review
 14 Committee. It may be that some other agency and perhaps
 15 this commission could establish such guidelines.

16 Finally, with regard to the lease area Advisory
 17 Committee, care should be taken not to encourage an
 18 adversarial process in which lease activities are delayed
 19 during a new hearing process. One way to limit this sort
 20 of occurrence might be to involve the industry or CEEB or
 21 some other sort of industry organization in the committee's
 22 composition.

23 In conclusion, CEEB believes that it is possible
 24 from an environmental standpoint to proceed with the lease
 25 program at this time and with the suggested changes it might

1 be possible to conduct an economically successful program.

2 Thank you for this opportunity to comment.

3 ACTING CHAIRPERSON McCARTHY: Thank you very much.

4 Are there any questions that you have, Commissioner
5 Jervis?

6 COMMISSIONER JERVIS: No.

7 ACTING CHAIRPERSON McCARTHY: Did we develop that
8 information I asked for some days ago on this issue of
9 studies, the nature of the studies and so on?

10 EXECUTIVE OFFICER DEDRICK: Yes. It's in the
11 backup package.

12 MR. TROUT: The last three pages --

13 EXECUTIVE OFFICER DEDRICK: The last three pages
14 of your package.

15 ACTING CHAIRPERSON McCARTHY: That's the thick
16 package?

17 EXECUTIVE OFFICER DEDRICK: Yes, sir, the thick
18 package.

19 ACTING CHAIRPERSON McCARTHY: I would ask any
20 members of the audience who have questions about the studies
21 from any point of view to take a look at Exhibit 7A at some
22 point during the afternoon. They may want to comment on
23 it.

24 Dr. Ruthann Corwin.

25 DR. CORWIN: I'm giving you copies of the material

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1 that we submitted on the eighth. These are not changed,
2 but I may refer to the attachments to them. So I wanted
3 you to have them.

4 ACTING CHAIRPERSON McCARTHY: Okay. Thanks.

5 DR. CORWIN: I'm Dr. Ruthann Corwin and I am
6 representing the Oceanic Society and also the OCS, the
7 Coalition, Environmental Coalition on the Outer Continental
8 Shelf.

9 I want to thank you very much for your time and
10 for the staff work and a number of the changes that were
11 put into this lease language, particularly regarding the
12 marine terminal, the insistence on pipeline transportation,
13 the establishment of the crew boat access route, the
14 Scientific Advisory Committee, language regarding discharge
15 of drilling muds and so forth which we believe will aid
16 in the consolidation of offshore operations in Santa Barbara
17 County and thus lessen impacts and hopefully act as precedent
18 to be considered by the Mineral Management Service in their
19 operating requirements. I also want to thank you for the
20 language on the amendments regarding the gray whale and
21 the marine mammals, taking them out of the Operating
22 Requirement Number 11. I hope that you will consider putting
23 that language directly into the lease language today.

24 As you know, the OCS Coalition wishes to restate
25 and stress its opposition to any sale of State leases in

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1 the Point Conception, Point Arguello area, and our
2 opposition is due to the need for a buffer zone from the
3 massive industrial development on the adjacent federal OCS
4 and the unique nature of this stretch of coast. You may
5 be aware that Fish and Game originally in consideration
6 of the federal sales asked for a 12-mile buffer zone around
7 the Point Conception, Point Arguello area because of the
8 sensitive nature of the resources and the fact that there
9 was going to be such extensive federal development in the
10 area. It is our feeling that under the Coastal Act and
11 the Environmental Quality Act policies, this area deserves
12 protection for many reasons, including its pristine nature,
13 its unique role as California's only biogeographic transition
14 zone and the only one on the West Coast of the United States,
15 its rich fisheries, the most productive kelp bed in the
16 state, the last intertidal abalone population in Southern
17 California and a critical abalone spawning area, its
18 location as a staging area for well migrations, its support
19 of marine mammals and seabird populations, the rare and
20 new invertebrate species, and I will have some comments
21 on that, and the potential for sea otter habitat. We feel
22 it's still the case that alternatives to satisfy the purposes
23 of the sale have not been fully explored, including the
24 cooperative revenue sharing agreements with adjacent federal
25 lessees -- and we have never seen a full explanation and

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1 discussion from State Lands Commission of what the efforts
2 have been and what the result of those efforts were --
3 comprehensive planning, selective tract offerings -- and
4 this means offering less than the full eight tracts -- and
5 maximum consolidation potentials using directional drilling
6 as an alternative before the sale, before the lease. As
7 another alternative, California's continuing improvement
8 in energy conservation and the whole issue in question that
9 was raised by some of the earlier speakers of the need for
10 oil, and also the question which I'm sure the fishery industry
11 representatives will also speak to regarding alternative
12 state revenues from renewable resources such as improved
13 fishery management plans and also the exploitation of
14 pharmaceutical, agricultural, food industry and other
15 chemical products and the biochemical knowledge that comes
16 from the unique and diverse living resources. Since none
17 of you individuals were present when I gave a presentation
18 last year on this, I will only mention briefly that a lot
19 of these new organisms that are being discovered have a
20 long chain biochemical as polymers which we cannot yet
21 synthesize in the biochemistry industry and which are of
22 great interest to the biogenetic companies for acting as
23 examples of the kind of molecules that we can build new
24 chemicals from, and these are chemicals for healing diseases
25 and new food products and so forth. This is an industry

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