SPECIAL MEETING

STATE LANDS COMMISSION

STATE OF CALIFORNIA

ORIGINAL

STATE CAPITOL

ROOM 444

SACRAMENTO, CALIFORNIA

WEDNESDAY, MAY 27, 1987

10:00 A.M.

Nadine J. Parks
Shorthand Reporter

1 MEMBERS PRESENT

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3 Leo T. McCarthy, Lieutenant Governor, Chairman

4 Gray Davis, State Controller, Commissioner

5 Nancy Ordway, representing Jesse R. Huff, Director
of Finance, Commissioner

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9 STAFF PRESENT

10 Claire Dedrick, Executive Officer
J. F. Trout, Assistant Executive Officer

11 R. C. Hight, Chief Counsel
Dan Stevens, Deputy Attorney General

12 Lorna Burks, Executive Secretary

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P R O C E E D I N G S

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CHAIRMAN MC CARTHY: The State Lands Commission meeting will begin. The matter before us is the ARCO application at Coal Oil Point.

Do you have any opening staff comments you want to make before I call on Assemblyman O'Connell?

EXECUTIVE OFFICER DEDRICK: Yes, Mr. Chairman. As you know, the Commission held three hearings -- two in January on the 13th and the 28th, and one March 10th in Santa Barbara. Staff held a hearing on May 21st in Santa Barbara. And I would like to be sure that the public understands that the records of those hearings are incorporated in the record of the entire case.

Also, we have received from Santa Barbara County a tape of the hearing held on the 18th of May. And we have received a great deal of correspondence. All of those things are included in the record and all of those things have been considered by the Commission.

CHAIRMAN MC CARTHY: All right. They're all part of the record.

EXECUTIVE OFFICER DEDRICK: In addition to that, after Assemblyman O'Connell's testimony, perhaps you would like to have Chief Counsel Robert Hight, who conducted the hearing on the 21st, report to you on that hearing, as that

1 was the genesis for at least one of the amendments to the
2 staff report.
3 CHAIRMAN MC CARTHY: Mr. Hight.
4 COMMISSIONER ORDWAY: I would just like to --
5 CHAIRMAN MC CARTHY: Commissioner Ordway.
6 COMMISSIONER ORDWAY: -- add: I have received
7 correspondence and I'm not sure if you have. And what I'd
8 like to do is give to staff anything that has not been
9 included in the record already. I would very much like it
10 to be included in the record.
11 CHAIRMAN MC CARTHY: Thank you.
12 EXECUTIVE OFFICER DEDRICK: Thank you,
13 Commissioner.
14 CHAIRMAN MC CARTHY: Mr. Hight?
15 MR. HIGHT: Mr. Chairman, on the 21st of May,
16 staff held a hearing in Santa Barbara and had 19 speakers.
17 They were basically broken into three components: the
18 University, pro, and against. New evidence that was
19 brought to bear from that hearing is as follows:
20 The University stated unequivocally that the
21 proposed project could cause damage to the hardbottom
22 area and to their potential marine research.
23 In addition, they emphasized the point that the
24 Coal Oil Point Reserve had not been mentioned in the
25 past and an oil spill in the vicinity could enter that

1 reserve.

2 In addition, they indicated the types of

3 research that they were doing and the benefits that that

4 research had -- specifically, it benefits drug research

5 and other kinds of environmental research. They, in

6 addition, asked for a comprehensive study.

7 The public testified. And just summarizing a

8 few of the witnesses, Mr. Finney, a member of the Isla

9 Vista Association, thought that -- supported the staff's

10 position, but felt that there wasn't enough concern with

11 gases.

12 The Sierra Club supported the staff's position.

13 We had several speakers who opposed the staff's position

14 and felt that if hearings had been held in other parts of

15 the State other than Santa Barbara, we would have received

16 different comments.

17 The full transcript of that hearing will be -- is

18 a part of this record.

19 CHAIRMAN MC CARTHY: All right. Thank you.

20 I'd like to call upon Assemblyman Jack O'Connell. You're

21 very welcome, Mr. O'Connell, who represents this area

22 with distinction in the State Assembly. Welcome,

23 Mr. O'Connell.

24 ASSEMBLYMAN O'CONNELL: Thank you very much.

25 Lieutenant Governor. It's a pleasure to be here. Thank

1 you for accommodating my schedule to be down in the Ways
2 and Means Committee to work with Miss Ordway's staff today
3 on our budget.
4 I want to say just briefly that the State Lands
5 Commission has undergone a very thorough, a very thoughtful
6 review process of the ARCO project. I know it's been a
7 long and tedious task. I know you have conducted three
8 very extensive, well-attended public hearings in
9 Santa Barbara. I certainly appreciate it. The community
10 appreciates your efforts. I know that each of the
11 Commissioners has attended the meetings, and the
12 conclusions, which I believe have been presented to you
13 for your final conclusions today, are -- I believe
14 very well founded and very well thought out.
15 I appear before you today to express my sincere
16 appreciation of the process that you have undergone and
17 my strong support for that staff recommendation to deny
18 a permit to ARCO at this time.
19 As I stated previously in my testimony earlier
20 this year, approval of the ARCO project as initially
21 proposed would have significant irreversible impacts on that
22 area. While the State Lands Commission has jurisdiction
23 only over the first three miles from shore, it must
24 certainly acknowledge the reality of the entire oil and
25 gas development picture in the Santa Barbara Channel and

make its decision, I believe, in that overall context.

As noted in your staff report, this project represents the introduction of a major industrial use adjacent to a densely populated residential area, the Isla Vista area, and a major educational research institution, the University of California at Santa Barbara.

Furthermore, the installation of the platforms will severely impact commercial fishing in the area, a preexisting long term and important use of that area in our community.

An oil spill in such close proximity to shore would have devastating environmental impacts on marine resources and on our coastline, resulting in major economic impacts to UCSB, commercial fishing, and to the important tourist industry in our area.

These impacts, while related to all the platforms, are most pronounced at Platform Heron. I therefore want to expressly reiterate my opposition to the approval of that one particular platform.

I am encouraged by the staff's recommendation for a comprehensive study of the overall effects of oil and gas development off California's coast. To date, government has really only considered oil and gas development on a piecemeal basis. And this new approach, which I fully support, is long overdue. I also want to emphasize the

1 importance of involving local government and the community
2 in such a study.
3 The last few months have seen a significant
4 increase in cooperation between the Commission, the County
5 of Santa Barbara, and the University. I'm very pleased
6 that so many individuals from our community have made a
7 long trip this morning to be here today.
8 In addition to providing valuable information,
9 this study will also create another opportunity to
10 strengthen that working relationship between the Commission
11 and the community.
12 Thank you for your time and consideration and
13 for accommodating me this morning.
14 CHAIRMAN MC CARTHY: Thank you, Mr. Assemblyman.
15 ASSEMBLYMAN O'CONNELL: Thank you, Governor.
16 CHAIRMAN MC CARTHY: Any questions from
17 Commissioner Ordway, Commissioner Davis?
18 Thank you.
19 ASSEMBLYMAN O'CONNELL: Thank you very much.
20 CHAIRMAN MC CARTHY: I'd like to start off the
21 testimony of the proponents now. Mr. Ranger, would you
22 advise us of what order you would like to proceed?
23 MR. RANGER: Thank you, Governor McCarthy,
24 Controller Davis, Ms. Ordway. I do not plan on reading
25 this entire book. I have a prepared statement to make on

1 behalf of ARCO Oil and Gas Company, following which I
2 would like to introduce Mr. Ed Renwick, who will offer
3 additional comments on behalf of ARCO Oil and Gas Company's
4 application.
5 In addition, should members of the Commission,
6 during the course of my testimony, have particular
7 questions concerning some of the arguments we make -- be
8 they technical, environmental, or related to engineering --
9 we do have staff available to respond to some of the
10 specifics of such questions.
11 ARCO finds itself in an anomalous situation
12 today. We are called upon to present evidence at a hearing
13 where the outcome may have already been decided, if we
14 are to believe various newspaper accounts.
15 We are nevertheless proceeding on the assumption
16 that the Commissioners will proceed with open minds.
17 We argue first that you go beyond your
18 Commission's authority if you select the no-project
19 alternative. ARCO legal counsel will later explain our
20 legal position in this regard.
21 Second, we contend that in fact you should
22 approve ARCO's plan for development of the Coal Oil Point
23 project. It is a plan which will allow the people of the
24 State of California to obtain the substantial benefit of an
25 energy resource they own and have leased to ARCO, and is a

1 plan which provides for technically safe and environmentally
2 responsible development of that resource in a manner
3 appropriate to the sensitivity of the environment in which
4 that resource is found.
5 For your Commission to decide otherwise will be
6 poor stewardship of the interests of this State that you
7 are charged to administer.
8 ARCO has previously testified that the Coal Oil
9 Point project area is an area that has experienced a
10 history of oil and gas development -- onshore, nearshore,
11 and offshore -- for a period of more than 60 years,
12 including more than 20 years' operation of ARCO's Platform
13 Holly on Lease 3242.
14 Our discussion of history today focuses on the
15 origins of the Coal Oil Point project itself, a history
16 which involves the State Lands Commission as intimately
17 as it involves ARCO.
18 Through the late sixties and early seventies,
19 while production activities took place on the Coal Oil
20 Point leases, ARCO's evaluation of the additional
21 potential of the Coal Oil Point leases continued in
22 accordance with prudent industry practices and with both
23 encouragement and direction from the State Lands
24 Commission.
25 Negotiations between ARCO and State Lands

1 concerning the postmoratorium resumption of drilling on
2 leases 308 and 309 began in 1977. Exploratory drilling
3 commenced in 1982, following preparation of an EIR,
4 adoption of new State Lands Commission regulations, and
5 approvals from State Lands and the Coastal Commission.
6 In 1982, ARCO, Mobil, and Aminoil installed the
7 seep containment project on lease 3242,at a cost of $8
8 million,with the express purpose of providing emission
9 credits for both exploratory drilling and future
10 development in the Coal Oil Point area. This project was
11 approved by the State Lands Commission.
12 ARCO's well 309-8, drilled in 1982, established
13 substantial oil reserves in the Monterey formation. The
14 record of correspondence and reports from meetings from
15 that time forward involving ARCO, the State Lands
16 Commission, and others establishes a critical fact: From
17 the inception of such discussions, State Lands and ARCO
18 have proceeded on the assumption that the State Lands
19 Commission scope of review of the Coal Oil Point project
20 was to identify the most appropriate plan of development.
21 The scope of review did not include deciding whether the
22 Coal Oil Point Field should be developed.
23 In our written submittal, we have provided an
24 exhaustive history of our dialogue with your agency
25 concerning the Coal Oil Point project. Time permits only

highlights of this history, but these highlights and their implications are important for you to consider.

First, the preliminary development plan originally submitted for the project was the result of extensive discussion with your staff, and ARCO many times modified its plan because of such discussions.

Our plan for efficient production of the Coal Oil Point reserves required consensus among our engineers and those of your Extractive Division in Long Beach. In addition, ARCO had to meet the requirements of your staff that Coal Oil Point project facilities be designed to allow segregation of crude oil production by lease. In fact, ARCO funded a study directed by State Lands, which reviewed the merits of several alternatives to allow accurate allocation of lease royalty oil.

ARCO even submitted design information for an offshore crude oil processing alternative -- less desirable from the point of view of both economics and permitting -- at the express request of your staff, because it was the alternative seen as most appropriate for segregated crude oil processing.

When ARCO withdrew this original PDP for the Coal Oil Point project in March, 1985, we did so because your staff advised us that your Commission would deny our application if we did not expand it to include plans for

1 development of the western portion of the project area.
2 The Coal Oil Point Field under leases 308 and
3 309 had been the site of our discoveries and our primary
4 development objective. As the Commission is aware, it
5 remains so still.
6 Results from drilling our 208-102 Embarcadero
7 well in early 1985 were encouraging, but not definitive.
8 They were sufficient, however, for your staff to require
9 that we revise our project description to include
10 development of the Embarcadero field, where reserves
11 remain potential, but unconfirmed.
12 In fact, our management was advised at that
13 time that if ARCO did not withdraw its PDP and submit a
14 revised PDP as requested, your staff threatened not only
15 denial of ARCO's Coal Oil Point project application, but
16 denial of ARCO's pending request for drilling deferment
17 on leases 308 and 309.
18 These were the discovery leases on which ARCO
19 had then spent $2 million in support of predevelopment
20 environmental and technical review required by your
21 agency. Your staff also requested that ARCO commit to
22 resubmitting a revised PDP within 60 to 90 days. We
23 agreed to these requests and withdrew our PDP to revise it
24 for resubmittal. We were led to believe that prompt
25 determination of completeness and expedited supplemental

1 environmental review would follow.

2 Our critical look at the development of the Coal
3 Oil Point leases continued even after submittal of the
4 revised PDP in August, 1985, and your staff's determination
5 of its completeness in December of that year.

6 Rather than indicate that ARCO is unsure of its
7 purpose, as University testimony has suggested -- among
8 its other misrepresentations of fact about our project
9 during the course of these hearings -- our ongoing
10 evaluation of the development plan for these State leases
11 was a product of inquiry from ARCO's engineering, geological
12 and environmental staff, and response to State Lands'
13 staff, staffs of other agencies, the EIR contractor, the
14 University of California at Santa Barbara, and public
15 comment.

16 The Coal Oil Point project evolved toward its
17 present form much the same way as would a University
18 research program. This evolution has led to a project
19 which, with modifications previously submitted to the State
20 Lands Commission, mitigates the impacts predicted by the
21 EIR to the maximum extent feasible.

22 The staff report cites a number of alternatives
23 for the Coal Oil Point project. However, with the
24 exception of Alternatives 8 and 13, all are infeasible.

25 We have given detailed explanations for this

1 assertion in our written testimony and will not discuss
2 them at this time. However, I would like to speak about
3 two of the more popular alternatives and explain why they
4 are infeasible. The two I speak of are subsea completions
5 and slant or high-angle conventional drilling.
6 ARCO has previously studied and considered subsea
7 completion development of the Coal Oil Point field. For
8 the following reasons, we believe that subsea completions
9 are infeasible.
10 Total development with subsea completions would
11 significantly increase the risks of leaks due to the
12 numerous below-water components -- trees, manifolds,
13 template-valved piping, and pipelines. Air quality impacts
14 would be greater from the diesel-engine powered mobile
15 drilling rigs required to drill and complete the wells,
16 and to install and to maintain the subsea systems.
17 Subsea drilling and production operations are
18 inherently more hazardous than surface operations due to
19 their remote control nature. The risk and statistical
20 probability of accidents, damage, and failures will be
21 much greater for the type of multi-well development needed
22 for the Coal Oil Point project.
23 Risks to personnel safety, especially
24 considering the divers required, would be greater than for
25 a conventional platform development. Well workovers and

1 subsea equipment and maintenance would require a mobile
2 drill rig. Each time the rig moves in, sets up, and
3 runs a riser increases the likelihood of damaging the
4 subsea equipment or pipelines.
5 A subsea development of the scope required for the
6 Coil Oil Point project of 100 or more wells has never been
7 done and none are currently planned. Many technological
8 advancements in areas such as control systems, chokes,
9 templates, flowlines would be required. ARCO's design
10 philosophy for the Coil Oil Point project has been to only
11 use field-proven systems and methods, not first-time
12 technology.
13 Further, the high viscosity, low gravity, and
14 relatively low reservoir pressure of Monterey production
15 is not compatible with flowing several miles to onshore
16 facilities or a remote platform.
17 The cost of full subsea development and operation
18 would be substantially higher than conventional platform
19 development. Ultimate recoverable reserves would also be
20 less because of fewer wells, reduced recompletion
21 capacity, minimal secondary recovery options, and increased
22 downtime and operating costs.
23 It should be noted that in 1985, the University
24 of California at Santa Barbara commissioned Battelle
25 Petroleum Research to conduct an independent preliminary

1 assessment of development alternatives for the Coal Oil
2 Point project. I believe a copy of that study is contained
3 in this booklet.
4 Subsea development was one of the alternatives
5 studied, but it was not recommended due to higher risk,
6 spill and pollution hazard, and the formidable technical
7 advancements required.
8 Development of the leases from onshore or from
9 federal waters, in addition to other limitations, would
10 require the use of slant or high-angle conventional
11 drilling techniques. Drilling of every well with a hole
12 angle of at least 80 degrees and displacements of 10,000
13 feet or greater in only 4,000 feet of true vertical depth
14 is essentially impossible.
15 Several onshore facility installations and
16 pipeline systems would be needed to gather the production
17 to a central processing site. Development costs are
18 almost unquantifiable, but certainly extremely high, due
19 to attempting the world record drilling departures needed
20 for each well.
21 Ultimate recoverable reserves would be
22 substantially less than with conventional platform
23 development.
24 The previously referenced Battelle Petroleum
25 Research report also studied this alternative. It

1 concluded that onshore directional drilling would be an
2 extremely risky technical proposition. Attempting to
3 develop the leases from federal waters would present the
4 same problems,but would be even more difficult,because the
5 wells' kick-off point would be at least 400 feet deeper
6 than onshore.
7 The other alternatives discussed in the staff
8 report are also flawed, with the noted exceptions, which
9 should lead you to conclude, as we do, that our proposal
10 is the preferred alternative.
11 Turning to some of the impact areas addressed
12 in the staff report, beginning with that of visual impact
13 or aesthetics.
14 From the analysis of the issue of aesthetics
15 in the staff report, it is possible to conclude that the
16 history of the Coal Oil Point project has been one of
17 years of dialogue, engineering design, and environmental
18 review to enable you to reach the decision that offshore
19 production platforms are unattractive.
20 There are references to the fears expressed by
21 local residents that their property values would decline;
22 that communities would likely suffer significant adverse,
23 economic, and social effects, and that the University
24 may not be able to attract the quality of faculty and
25 students desired because of the deterioration of the scenic

1 quality of the area.

2 All of these assertions fail as convincing

3 arguments, because they are not supported by the facts.

4 There is no evidence presented to show that property

5 values will decline. And the experience of communities

6 along the South Coast with comparable views of platforms

7 shows no evidence that either property values or the

8 quality of life are affected by such views.

9 Thereis no reason to believe that property values

10 in Isla Vista will behave differently, especially since

11 most vistas along the Isla Vista coastline now contain

12 a view of ARCO's Platform Holly.

13 The Santa Barbara Channel has had a long history

14 of coastal and offshore oil and gas development, and

15 there is no evidence that the existence of platforms on

16 the channel horizon has had an adverse impact on the

17 desirability of the Santa Barbara South Coast to those

18 who live there,or to those who desire to live there, or

19 to come and enjoy its amenities.

20 The yearly number of people who choose to visit

21 this area continues to increase, and there is no reason

22 given to expect that this trend will be affected in any

23 way by the addition of the Coil Oil Point project

24 platforms. Claims of social or economic harm to coastal

25 communities from offshore development are simply without

1 merit.

2 There's no evidence that the University would
3 fail to attract the quality of faculty and students they
4 seek if Platform Heron was visible from the campus. The
5 merits of this argument are refuted by the University's
6 own experience. Platform Holly is now visible from coastal
7 portions of the campus. And inland, the campus is bounded
8 by industrial development in West Goleta and around the
9 Santa Barbara Airport.

10 The competitiveness and desirability of UCSB
11 to prospective students and faculty appear to grow each
12 year, a factor which must be due at least as much to the
13 quality of the academic experience the campus offers as
14 it is to its setting.

15 ARCO has responded to the concerns expressed
16 about aesthetic impacts, however, by agreeing with those
17 who judged offshore crude oil processing to be
18 inappropriate for the area of this project. ARCO went
19 further, and announced its intention to withdraw its
20 previous proposal to install platform complexes which
21 would have best served offshore processing. The platforms
22 now proposed are closer in size and scale to Platform
23 Holly.

24 A Commission decision to withhold approval of
25 ARCO's development plans with emphasis on visual and

1 aesthetic impacts, real or perceived, will have
2 implications beyond this project. Any platform set in
3 State waters will be within three miles from shore, and
4 its visual impact greater than if it were set in federal
5 waters.
6 Do you infer from your staff's analysis of the
7 question that it is desirable to deny approval -- were that
8 within your power -- for projects off the coasts of
9 settled areas like Isla Vista, but permissible to approve
10 platforms where they will be seen by fewer people?
11 Residents of sparsely populated coastal areas
12 may be troubled by the indication that visual impacts are
13 measured by head count. Those who hold State tidelands
14 leases issued by the State of California,and maintained
15 in compliance with the regulations of your Commission,
16 are profoundly troubled by the implication that their
17 rights to develop those leases are subject to so
18 capricious a decision.
19 Turning next to the issue of oil spills, the
20 staff report concludes that oil spills are, quote,
21 ". . .among the greatest environmental impacts from the
22 project," end quote.
23 The staff report admits that the impacts are
24 described, quote, ". . .without reference to likelihood,"
25 end quote. Likelihood of oil spill size and frequency is

critical to any discussion of oil spill impacts for two main reasons.

First, assuming the worst case for oil spills is analogous to assuming that every airplane in the sky will crash.

Second, oil is spilled every day in the Coal Oil Point project area from the thousands of natural oil seeps. The marine biota, tourism, and fishing all coexist with natural oil seepage. To simply state that oil spills would cause great damage or impacts is erroneous.

Specifically, the staff analysis states that a large oil spill would contaminate ocean water, beaches, and sediment -- as a minimum -- to injuring benthic habitat, adult marine organisms, eggs, and larvae, sea birds, harbor seals, and other marine mammals.

This broad statement is contradicted by the conclusions of serious investigations into broad impacts of oil spills. For example, the United Nations Environmental Programme states, quote, "No long-term damage to open-sea ecosystems has been detected," end quote.

Studies of oil impacts to harbor seals, sea lions, and other marine mammals during the 1969 Santa Barbara oil spill showed no long-term effects. This conclusion was based on studies performed by many

1 investigators, including University of California faculty.
2 The staff analysis states that several of the
3 at-risk bird and marine mammal species are classified as
4 rare, threatened, or endangered, yet the U.S. Fish and
5 Wildlife Service has formally stated that endangered
6 species in the affected area are not in jeopardy from the
7 Coal Oil Point project, including oil spills resulting
8 from the project.
9 The staff report states that UCSB research may
10 suffer irreparable injury as a result of an oil spill.
11 This statement ignores the fact that important UCSB
12 research is at present being carried on by the University
13 in an area world famous for natural oil seeps.
14 Estimates of natural oil seepage at Coal Oil
15 Point range from 50 to 70 barrels a day. The fact that
16 UCSB already conducts research in an area of chronic
17 crude oil input to the sea contradicts staff's comment
18 that the University may suffer irreparable damage.
19 The staff report concludes that the elimination
20 of Platform Heron would provide the fullest protection for
21 both onshore and offshore University research, including
22 laboratory research served by the seawater intake system.
23 This analysis fails to note that spilled oil rises to and
24 stays on the surface of the water. Oil spilled at Platform
25 Heron would not sink 35 to 45 feet to enter the intake

1 system.

2 In addition, it fails to note that seawater
3 currently entering the UCSB seawater system already contains
4 small amounts of soluble hydrocarbons, such as zylene and
5 tuolene. Documentation of these soluble hydrocarbons
6 is presented in a 1986 paper by Dr. Richard Zimmer-Faust
7 of the UCSB faculty. The source could be natural seeps
8 located several hundred yards away or the Goleta sewage
9 effluent line located a thousand yards away in 90 feet of
10 water.

11 The staff report describes potential impacts to
12 offshore research areas from an oil spill at Platform
13 Holly and Platform Haven, concluding that the Naples
14 Reef research area would be threatened by an oil spill from
15 either of these platforms.

16 Again, the staff analysis fails to note that
17 spilled oil rises to and stays on the surface of the water.
18 Oil spilled at Platforms Holly and Haven would not sink to
19 depths of 25 feet and greater to impact the Naples Reef.
20 If this were true, the Naples Reef would already be
21 impacted by the 50 to 70 barrels of natural seep oil
22 released each day from the immediate upcurrent area.

23 In discussing the proposed location for Platform
24 Heron, the staff report concludes, quote, "Heron poses a
25 threat to the hardbottom benthic habitat simply by its

1 presence," end quote.

2 This conclusion ignores the fact that Heron would
3 occupy a small area on the seafloor of 170 by 210 feet,
4 nor does it explain how the mere presence of a platform
5 threatens a benthic habitat.

6 This reasoning fails to consider that offshore
7 oil platforms act as artificial reefs and actually enrich
8 both surrounding water column biota and the benthic
9 biota.

10 Fish are attracted to a platform for the same
11 reasons they are attracted to a sunken ship or any natural
12 or man-made artificial reef.

13 Further, it overlooks the fact that existing
14 Platform Holly is already a location of key UCSB research.
15 Additional platforms would result perhaps in additional
16 research locations. At present, the site proposed for
17 Platform Heron is not a location of key UCSB research.

18 The report describes potential adverse impacts
19 to the benthic habitat as a result of the placement and
20 presence of offshore pipelines. This description is
21 incorrect. Pipeline placement impacts to hardbottom and
22 softbottom areas can be mitigated by using special
23 placement techniques. ARCO has already identified several
24 of these at a prior hearing and in discussions with your
25 staff. The placement of a pipeline on the ocean floor does

1 not in itself cause harm to a benthic habitat.

2 Turning to the issue of air quality, while

3 not specifically addressed in the staff report made

4 available to ARCO, air-quality issues raised by the

5 project remain of concern to the public and to other

6 agencies.

7 ARCO has committed to meet the criteria

8 established by law for the issuance of an Authority to

9 Construct, the main air-quality permit required for

10 construction of the Coal Oil Point project, and a Permit

11 to Operate the facilities that are constructed.

12 The first criterion is to minimize emissions

13 through implementation of best available control

14 technologies. ARCO also recognizes Santa Barbara County's

15 interim control strategies document and has implemented

16 those strategies as applicable; thus, the actual project

17 emission values will be significantly less than the emission

18 values stated in the environmental impact report.

19 The second criterion for an air permit is that

20 the national ambient air quality standards will not be

21 exceeded. An air quality impact analysis will be performed

22 during ATC, or authority to construct, review process, using

23 modeling methodology approved by the Environmental Protection

24 Agency. The entire area, which could potentially impacted

25 to an EPA significance level, will be analyzed.

Maximium monitored, basline pollutant values will be added to the maximum predicted project-caused concentrations. That composite pollutant value must not exceed the established air-quality standard for the particular pollutant. With the mitigated emission levels in the authority to construct application, this second criterion can be met.

The third criterion is the requirement to provide enough offsets for the project emissions to guarantee a net air-quality benefit. The southern portion of Santa Barbara County is presently designated a nonattainment area for ozone. ARCO will be required to offset both nitrogen oxides, or NO_x, and reactive hydrocarbons, referred to as RHC, because these are ozone precursors.

Under the Santa Barbara Air Pollution Control District's new source review rule, ARCO must offset Coal Oil Point project NO_x and RHC emissions by a ratio of at least 1.2 to 1. In other words, ARCO must remove 120 tons per year of existing emissions for every 100 tons per year our project emissions add.

The EIR identified potential sources of emission offsets for the Coal Oil Point project, including shutdown of the Ellwood Marine Terminal, removal of gas processing from ARCO's Ellwood facility, and the seep containment

1 project. ARCO has identified several other potential
2 sources in the Coal Oil Point application for an authority
3 to construct. The offset amounts identified exceed the
4 project emissions as required.
5 Again, offsets do not represent an equivalency,
6 but a genuine improvement of the existing air quality.
7 Permitting of the Coal Oil Point project must, by law,
8 result in a reduction of emissions and a positive effect
9 on air quality.
10 This evidence will support a finding by the
11 Commission that the project, as described by ARCO in its
12 application for an authority to construct from the
13 Santa Barbara County Air Pollution Control District, will
14 mitigate air quality impacts identified in the EIR to
15 insignificance during both construction and operations
16 phases.
17 With respect to the issues of noise and lighting,
18 the staff report points out that, quote, "Considerable
19 public concern has been expressed about the effects of
20 noise from the platforms," end quote.
21 What the report fails to point out, however, is
22 the commitments ARCO has made to the State Lands
23 Commission mitigate these impacts. For example, ARCO has
24 committed to install sound baffling on the shoreward sides
25 of the Platform Heron drilling floor, to drive only four out

1 12 proposed piles to set the jacket from the surface,
2 to comply with all relevant federal and state regulations,
3 to comply with all relevant Santa Barbara County
4 regulations, to schedule pile driving during daylight
5 hours, to comply with federal, state, and county
6 regulations which fully mitigate the platform noise
7 impacts identified in the EIR and the State Lands
8 Commission staff report.
9 ARCO will develop a comprehensive noise abatement
10 plan which incorporates the commitments already made and
11 which specifies the methods by which full mitigation is
12 achieved.
13 Concerns have also been raised by residents of
14 Isla Vista and the University during draft EIR hearings
15 about night lighting from the platforms and their effect
16 on the area. Although ARCO has made several commitments
17 in discussions with your staff which would mitigate the
18 effects of lighting, they were omitted from the report.
19 The Commission must consider the fact that we have
20 committed to, first, use design criteria based on lighting
21 levels recommended by the American Petroleum Institute
22 recommended practice and standards developed by the
23 Illumination Engineering Society, and to reduce direct
24 glare and lighting visible from shore by shielding all
25 perimeter lighting, minimizing -- and by minimizing the

1 use of continuous floodlighting on the north side of the
2 platform.
3 ARCO also recognized that platform flaring
4 could cause glare and effect on onshore residents. As a
5 result, ARCO has committed to flare gas only during
6 emergencies and has designed the processing facility
7 and production facility so as to minimize flaring. There
8 will be no routine flaring of gas.
9 Did you have a question?
10 The staff report suggests that further study may
11 reveal a more appropriate means for exploring resources
12 underlying the leases. This conclusion ignores the fact
13 that exhaustive study has already taken place over the
14 past four years.
15 All feasible methods for exploiting the resources
16 under the leases have been identified. And of these, ARCO
17 has proposed the most reasonable and the most environ-
18 mentally and technically sound. Further study will only
19 serve to increase the cost of the Coal Oil Point project
20 and delay the Coal Oil Point project unreasonably.
21 The staff report's invitation to ARCO to reapply
22 for the Coal Oil Point project serves no useful purpose.
23 ARCO has previously withdrawn and resubmitted the
24 application twice at the request of the State Lands
25 Commission and was faced with a delay as long as 18 months

1 until further action after such resubmittals, only to be
2 faced now with the staff report's last-minute proposal
3 to adopt the no-project alternative.
4 With regard to the list of items to be included
5 in a reapplication on page 23 of the staff report, ARCO
6 has already proposed each of these items as a modification
7 to its original development plan, with the possible
8 exception of onshore disposal of produced water, which
9 your staff have never requsted.
10 However, the onshore disposal plant could also
11 be developed as a part of the project conditions for the
12 project now before the Commission.
13 The staff report recommends a comprehensive
14 study of the overall effects of all proposed oil and gas
15 development in both federal and state waters off the
16 California coast. It is not clear from the staff report
17 how study of the environmental impacts of oil and gas
18 development along the entire coast is relevant to the
19 decision before the Commission today on ARCO's application
20 for development of the Coal Oil Point project leases,
21 especially when the project EIR has studied impacts from
22 lease and regional development in detail.
23 We also argue that it is particularly onerous
24 that ARCO's project should be held hostage to such a study
25 since the staff report proposes studying the study for six

1 months before the Commission decides whether such a study
2 will even be conducted.
3 ARCO suggests that the Commission deal with such
4 a study on its own merits, independent of the ARCO
5 application, and not sanction delay of the Coal Oil Point
6 project for purposes of studying whether or not to conduct
7 such a comprehensive review.
8 Finally, with regard to the loss of the petroleum
9 resource, it may be literally correct that the resource
10 would not be lost by delaying development. However, the
11 people of California would lose the value of the present
12 income from the resource, and ARCO would be severely
13 damaged by the delay.
14 ARCO submits that denial of the Coal Oil Point
15 project based on the grounds set forth in the State Lands
16 Commission staff report would be tantamount to taking
17 ARCO's property without just compensation, regardless of
18 the staff report's attempt to characterize the taking as
19 merely a temporary suspension of operations or delay of
20 development.
21 For all of the above reasons, ARCO requests
22 the Commission to approve the ARCO Coal Oil Point project
23 with reasonable conditions,as proposed by ARCO, and allow
24 the development of the leases with appropriate environmental
25 safeguards, so that the resources of the tidelands area may

be developed concurrently with other public uses of the tidelands and without injury to them.

That concludes my statement. I'd like to turn to Mr. Ed Renwick, who will offer a few additional comments.

CHAIRMAN MC CARTHY: Mr. Renwick.

MR. RENWICK: I'm going to ask Mr. Ranger if he would trade places with me. I find sitting in this short chair, the length from my paper to my tired eyes doesn't match up with the glasses. It's a very nice, comfortable chair to sit in, though. It took me by surprise when I sat down in it, but --

(Laughter.)

EXECUTIVE OFFICER DEDRICK: That's a tall person's chair, Mr. Renwick.

MR. RENWICK: Yeah, that's right. Thank you.

My name is Edward Renwick. I'm an attorney with the law firm of Hannah and Morton in Los Angeles. I'm representing ARCO in this matter.

And I'm just going to very briefly state our legal position, so there isn't any doubt as to what it is.

That is -- it's really a very simple, straightforward proposition. The issue, of course, is whether the Commission has authority to -- to impose what amounts to an open-ended suspension of ARCO's right to develop. And

1 our answer to that legal issue that, no, the Commission
2 does not have that legal authority.
3 The reason is that that would amount to a
4 cancellation of the leases. The proposition -- the legal
5 proposition that an open-ended suspension of development
6 is a cancellation or tantamount to a cancellation was
7 spelled out fairly recently -- well, if you call 1975
8 recently -- was spelled out in the case of Union Oil
9 Company vs. Morton. It involved an offshore platform,
10 offshore California. And the 9th Circuit Court of
11 Appeals said that the denial of a right to erect an
12 offshore platform on the lease amounted to a cancellation.
13 That case is reported at 512 Fed. 2d, page 743.
14 And that is precisely the situation that is presented
15 here in the staff recommendation.
16 Now, obviously, implicit in what I just said
17 is the proposition that the State Lands Commission does
18 not have the power to cancel leases, assuming, of course,
19 that the lessee is complying with the terms and conditions
20 of the lease. And here there's no doubt that ARCO is
21 complying with all the terms and conditions of the lease,
22 trying indeed to proceed ahead diligently.
23 Now, let me change direction just a little bit
24 and say what the situation is if one assumes, for sake
25 of argument, that the Legislature had given this

1 Commission the power to cancel leases at its pleasure.
2 In that event, constitutionally, the State Lands
3 Commission would have to pay ARCO a just compensation
4 for either the total or partial taking, because it would
5 amount to a taking.
6 So for all of these foregoing reasons, we say
7 very simply this Commission lacks the power, the legal
8 power--the legal authorization perhaps is a better word--
9 to do what the staff report recommends.
10 Oh, let me just make sure that something is in
11 the record.
12 You have been given four copies of a fairly
13 extensive document entitled, "Coal Oil Point Project,
14 State Lands Commission Hearing Brief," May 27, 1987. It's
15 in a three-ring binder. I see there's four of them over
16 there on the side. I want to make sure that those are
17 entered as part of the record.
18 EXECUTIVE OFFICER DEDRICK: Yes, we'll enter
19 it.
20 MR. KENWICK: Thank you.
21 CHAIRMAN MC CARTHY: Does that conclude ARCO's
22 presentation?
23 MR. RANGER: Yes, sir. We'll answer any
24 questions.
25 CHAIRMAN MC CARTHY: Do either of the

1 Commissioners have questions of either of the two
2 gentlemen from whom we just heard?
3 COMMISSIONER ORDWAY: Not at this time.
4 CHAIRMAN MC CARTHY: Do our attorneys wish to
5 respond to any points made by Mr. Renwick on behalf of
6 ARCO?
7 MR. STEVENS: Only, Governor, that we believe
8 the record does support the findings which are proposed
9 by the staff; that there's an inherent condition in the
10 lease of ARCO that a proposed plan for development be
11 consistent with Commission's public trust responsibilities
12 and with public interest. And I believe that the Union
13 Oil Company case, which was discussed by Mr. Renwick, does
14 mention the permissibility of calling hault on a
15 temporary basis when it appears that there are
16 unmitigatable consequences and that further study and
17 technology may solve those things, inasmuch as the
18 proposed findings of the staff permit a reapplication
19 when such circumstances exist. And in light of a study
20 which has been proposed also in these recommendations, we
21 believe the Commission would be within its discretion to
22 make the findings set forth therein.
23 CHAIRMAN MC CARTHY: Thank you, Mr. Stevens.
24 MR. RENWICK: I trust that my -- Edward Renwick.
25 CHAIRMAN MC CARTHY: Mr. Renwick.

1 MR. RENWICK: I know Mr. Stevens to be a very
2 fine lawyer. He and I attended an institution of higher
3 learning up in the Bay Area a number of years ago, too
4 many years to recount unfortunately.
5 I don't want my silence to be considered,
6 however, as any form of agreement, because in this
7 instance, I think Mr. Stevens is wrong.
8 CHAIRMAN MC CARTHY: I think we might assume
9 that that's the case.
10 (Laughter.)
11 MR. STEVENS: We rarely disagree, but
12 occasionally that will happen.
13 CHAIRMAN MC CARTHY: Any questions by either
14 of the Commissioners?
15 Thank you very much.
16 Mr. Jack Sloan, the International vice-president
17 of the Boilermaker's Union. And then after that, we'll
18 ask Mr. Kevin Reidy, the president of Fabricated Products
19 Group, Kaiser Steel, to please address us.
20 Mr. Sloan, welcome.
21 MR. SLOAN: Good morning, Commissioners. Thank
22 you.
23 Honorable Commissioners, on behalf of the
24 thousands of dedicated boilermakers in the State of
25 California, I request your help in preserving an

1 endangered species, the California industrial worker.
2 Your approval of ARCO's application to develop Coal Oil
3 Point will create thousands of jobs for California
4 workers and lead to millions of dollars in economic
5 benefit to the State.
6 We will be observing your commitment to keeping
7 Californian's at work when you vote on the application for
8 this project.
9 The construction of a typical offshore rig can
10 provide up to 1300 jobs and a shot in the arm of more than
11 two million in California's economy. The world economic
12 situation is turning around and our government finally is
13 getting tough on foreign competitors subsidized by their
14 own governments.
15 So, it is very possible the work on ARCO's
16 Coal Point project will go to American contractors likely
17 to be in California. Our California workers are highly
18 skilled and will do a topnotch job because they live here
19 and share a concern about protecting the environment.
20 As you know, our country depends on a large
21 degree on foreign, Alaskan crude oil to satisfy its
22 energy needs. But reliance on foreign sources poses a
23 risk to our national security, and the available Alaskan
24 crude is running out.
25 Californians use one billion gallons of gasoline

1 each month. Last year, gasoline consumption was at an
2 all-time high of 12.2 billion gallons. We are lucky to
3 have a crude oil supply in our own back yard -- offshore
4 Santa Barbara -- to help meet our energy needs.
5 The development of offshore energy resources
6 is critical in substaining (sic) the California economy.
7 Without access to this resource, our economic development
8 will grind to a halt.
9 As a review of the Coal Oil Point proposal
10 indicates, the project is environmentally sound. We do
11 not understand or accept the Commission's staff
12 recommendation that the project be denied primarily
13 for aesthetic reasons. The sight of offshore oil
14 operations should reassure the people of California that
15 we have a secure supply of energy to power our State.
16 The International Brotherhood of Boilermakers
17 is a labor organization representing West Coast workers
18 engaged in resource and energy-related projects.
19 Headquartered in Kansas City, Kansas, the International
20 Brotherhood of Boilermakers has 110,000 members in the
21 United States; 16,000 of those members are on the West
22 Coast. They're experiencing high unemployment in
23 California, and estimate the unemployment rates range
24 from 20 percent to 40 percent at various West Coast locals.
25 We thank you for your consideration on our

1 concerns and we respectfully request you vote
2 affirmatively to issue the desired permit to ARCO.
3 CHAIRMAN MC CARTHY: Thank you, Mr. Sloan. Any
4 questions from either of the Commissioners?
5 Thank you very much. Kevin Reidy. Welcome,
6 Mr. Reidy.
7 MR. REIDY: Thank you. Good morning. My name
8 is Kevin Reidy, and I'm the president of Kaiser Steel's
9 Fabricated Products Group.
10 I come before you this morning representing
11 Kaiser Steel Corporation, its employees, and their
12 families. Honorable Commissioners, the men and women
13 who live and work throughout California are the big
14 loswers if ARCO's Coal Oil Point project is denied.
15 However, we all win if the project moves
16 forward. The Commission's approval of ARCO's pending
17 permit application will place the following Californians
18 in the win column: the millions of Californians who
19 depend on automobiles and buses for transportation, the
20 thousands of California workers in the energy field, the
21 State of California, which will receive approximately
22 $1 million in royalties every day when at peak performance --
23 peak production, excuse me, and the scores of communities
24 up and down the coast that will experience substantial
25 economic benefits as a result of the project.

1 And you will get credit for the win by having
2 taken a strong leadership position in support of a
3 properly planned, environmentally sound project that
4 benefits the entire State of California.
5 On the other hand, without this project,
6 thousands of California workers will be sitting it out on
7 the sidelines. The fact is that if the project
8 proceeds, many California contractors, including Kaiser
9 Steel, and their employees will have an opportunity to
10 participate in this work.
11 With respect to just one aspect of the project,
12 that being the fabrication and assembly of the required
13 offshore platforms, it is our plan to propose that the
14 work be done right here in California. We urge you to
15 support our California companies and their workers who will
16 see needed jobs and economic benefits evaporate if the
17 ARCO project is denied permitting.
18 Without this and other responsible energy
19 projects, California -- along with the rest of the
20 nation -- will be continually vulnerable to the disruption
21 in the supply of oil needed to produce gasoline and other
22 fuels. The need for refined products is increasing at a
23 time when domestic oil production is falling off. And,
24 of course, the result is our overreliance on imported oil,
25 primarily from the Persian Gulf, which then places us at

1 the mercy of the uncertain political situation in the
2 Middle East.
3 I certainly hope that the gas lines of the
4 1970s haven't been forgotten. The ARCO project will
5 help put us back on the right track by bringing about a
6 secure energy source.
7 Assessments of the Coal Oil Point project
8 underscore our position that the plan is not only a
9 substantial economic benefit to our State, but is also
10 environmentally sound. In fact, ARCO has already provided
11 an environmental plus in the Coal Oil Point area. For
12 years people have been complaining about the tar balls and
13 the stench of petroleum odors that show up in areas
14 around Santa Barbara.
15 Some of the folks think that the tar and the
16 odors are the result of offshore drilling, when in fact,
17 it has been proven that they are due to seepage from the
18 natural vents on the ocean floor.
19 The ARCO project has already helped the
20 environment by the installation of seep containment
21 structures performed by ARCO in anticipation of this Coal
22 Oil Point project. These structures built by Kaiser Steel,
23 and not sitting on the ocean floor, are reducing the
24 occurrences of tar balls and are gathering in approximately
25 nine tons of reactive hydrocarbons every day, thus

1 enhancing the quality of the environment in the Santa
2 Barbara area.
3 In conclusion, I request that you do not adopt
4 a wait-and-see attitude about energy development in State
5 waters. We need the ARCO project and we need it now.
6 Help make all Californians winners -- winners on the
7 economic, environmental, and energy fronts by approving
8 ARCO's permit application today.
9 Thank you very much.
10 CHAIRMAN MC CARTHY: Thank you, Mr. Reidy.
11 Any questions of Mr. Reidy?
12 Thank you, sir. Would our staff kindly notify
13 Senator Gary Hart that he can come up at his convenience.
14 EXECUTIVE OFFICER DEDRICK: I believe we have.
15 UNIDENTIFIED VOICE: He's on his way.
16 CHAIRMAN MC CARTHY: All right. Mr. Newell
17 Little, president of Little --
18 COMMISSIONER ORDWAY: Before Mr. Reidy leaves,
19 may I ask him one question?
20 CHAIRMAN MC CARTHY: Certainly.
21 COMMISSIONER ORDWAY: How many jobs are involved
22 in the fabrication of an oil platform?
23 MR. REIDY: With respect to the question about
24 the number of jobs that are involved in the fabrication
25 of a platform, it does depend on the size of the

structure, but for the jacket, decks, and piling for one structure for Coal Oil Point, the direct employment would be on the order of a thousand jobs, and the indirect employment would be a substantial multiple of that number.

COMMISSIONER ORDWAY: Thank you very much.

MR. REIDY: Thank you.

CHAIRMAN MC CARTHY: Mr. Little? The Little Oil Company.

MR. LITTLE: Thank you very much.

Mr. Chairman, members of the Commission, my name is Newell Little.

CHAIRMAN MC CARTHY: Mr. Little, we would appreciate -- there's a fairly long list of witnesses left-- so, if you could sort of follow the precedent set by the previous speakers, and try to --

MR. LITTLE: I will, Governor. I've got about seven minutes, if that's all right.

CHAIRMAN MC CARTHY: Fine.

MR. LITTLE: My name is Newell Little. I live in Lancaster, California. I'm the owner of Little Oil Company, a gasoline distributor in the Antelope Valley.

I've been in the gasoline business for 35 years, 25 of thos years in Lancaster. It's my own business. I have two sons and one daughter involved in the business with me. We employ over 50 employees for [illegible]

1 company.

2 We've been both a major oil company distributor
3 and an independent distributor during that time. We serve
4 farm and ranch accounts, small commercial businesses,
5 mom and pop service stations considered too small to
6 service by the major oil companies.

7 Atlantic Richfield Company has applied to the
8 State Lands Commission for a permit to develop the Coal
9 Oil Point project in Santa Barbara. Your Commission
10 staff has recommended denial.

11 I'm not here today to speak for or against the
12 recommendation, but to bring your attention, the
13 Commission, another factor that enters into the picture
14 with regard to the possibility -- responsibility this
15 Commission has to the small businessman throughout the
16 State of California in rendering their decision concerning
17 millions of gallons of oil lying off the coast of
18 California.

19 The Commission has been delegated authority to
20 administer State lands as trustee of the public trust.
21 Because ARCO's leases are subject to that public trust,
22 its right to develop its leases are subject to the
23 Commission's continuing duty to supervise these uses and
24 its right to modify or prohibit them from -- when they
25 threaten substantial interference with public trust

1 purposes.

2 The public trust is the interest held by the
3 State of California for the benefit of all its people.
4 It is an interest which burdens all of the State's
5 sovereign lands, including all tide and submerged lands.
6 Under the public trust doctrine, trust lands must be
7 used for the trust purposes.

8 Such purposes have traditionally been held to
9 include navigation, fisheries, and commerce. I'm here
10 today to emphasize the concerns I have about this public
11 trust as it relates to commerce.

12 California courts have held that offshore oil
13 exploration and development are also proper uses of the
14 public trust, contributing as they do to commerce.
15 However, the courts have also held that such exploration
16 and development may be abated if they are found to
17 interfere substantially with other public trust uses.

18 California has an active program to support and
19 advance small businesses. Governmental agencies on the
20 federal, state, and local levels are unanimous in the view
21 that small business contributes more jobs to the general
22 economy than any other form of commercial enterprise. It
23 is the interest of the small petroleum wholesaler that has
24 been addressed (sic) by the State Lands Commission when
25 acting upon the application of a major oil company to

1 explore State lands.

2 In ARCO's case, it presently has 22 ARCO
3 branded distributors in the State of California. This
4 number represents a reduction from approximately 95
5 wholesalers, which were doing business in the State of
6 California in the late seventies and early eighties.
7 ARCO's California branded distributors are selling only
8 approximately 160 million gallons of gasoline annually at
9 the present time, compared to ARCO's company sales of
10 approximately 2.8 billion gallons annually.

11 There are no State or federal laws presently
12 requiring ARCO or any other major oil company to share
13 any oil obtained by the exploration of leases from public
14 State lands with gasoline wholesalers doing business in
15 the State of California.

16 It is respectfully submitted that the Commission
17 require ARCO to submit with each application herinafter
18 that they file a plan to assure that at least 30 percent
19 of all oil extracted from State lands be reserved for sale
20 to California's petroleum wholesalers. This requirement
21 will assure that 30 percent of oil extracted from the
22 State trust land will promote the interests of
23 California's small gasoline wholesalers.

24 This 30 percent figure represents only one-half
25 of what the wholesale class of trade in the late seventies

1 and early eighties did, and we feel it is a fair and
2 modest allocation.
3 Mr. George Babikian, executive vice-president
4 of ARCO Petroleum Products Company, said in an interview
5 with National Petroleum News in May of 1987 -- and I
6 quote -- "We're oversold, and have been, so we could keep
7 that (throughput) volume going up, but there isn't any
8 sense because we don't have the gasoline to do it. Our
9 own stations in Los Angeles did 175,000 gallons a month
10 in December (sic). That's plenty of volume for us in
11 our stations as an average. We're very happy with that,"
12 close quotes.
13 ARCO's shortage of petroleum products results
14 in its continued favoritism to its direct operations over
15 the interest in promoting a viable gasoline wholesaler
16 class of trade in the State of California. Mr. Babikian
17 has demonstrated that ARCO has no interest -- and I repeat--
18 no interest in voluntarily making available petroleum
19 products to small gasoline wholesalers doing business in
20 California.
21 The small businessman and wholesaler must turn
22 to our elected leaders to provide some measure of
23 protection for our source of supply or face the
24 inevitability of being squeezed out of business like 2400
25 ARCO distributors have been nationally in the past years.

1 ARCO's record of termination of its wholesale
2 class of trade -- currently there are 42 distributors in
3 five western states, down from 2648 nationally --
4 demonstrates the absence of the State Lands Commission (sic)
5 requirement that ARCO dedicate 30 percent of all oil
6 exploration from trust lands, ARCO will continue to
7 promote its interest at the expense of the wholesale class
8 of trade, which is the small distributor operating to serve
9 the farmers, the ranchers, the mom and pop service
10 stations, who are traditionally served by the small
11 distributor within the State in their local area.
12 There's a real threat to the supply of product
13 for independent gasoline marketers on the West Coast,
14 because of a deal between Tosco refining and ARCO that is
15 currently in negotiation. Beginning this year, Tosco is
16 processing 50,000 barrels a day of ARCO Alaskan crude at
17 its 126 (sic) barrel a day refinery in Avon, California
18 in San Francisco (sic).
19 Since Tosco is by far the main supplier of
20 independent gasoline marketers on the West Coast, and
21 since the deal turns over 40 percent of the refinery to
22 ARCO, small independents have protested strongly, arguing
23 that the deal is clearly anticompetitive and violates
24 antitrust laws.
25 The Federal Trade Commission and the Attorney

1 Generals of California, Oregon, and Washington have had
2 talks with Tosco and ARCO, but nothing has been done
3 to stop the deal. And it isn't known whether or not
4 these agencies plan to interfere.
5 This raises very serious questions about how
6 dependable Tosco might be for supply in the -- as a supply
7 in the future. A senior vice-president of marketing for
8 Beacon Oil Company, a California independent, said in the
9 May, 1987 National Petroleum News, and I quote him:
10 "Tosco is on the verge of becoming extinct,
11 courtesy of ARCO, and they are a big supplier."
12 Small businessmen in the State of Nevada are
13 currently experiencing ARCO's threat to their livelihood,
14 and state legislators there have taken up initial steps
15 to enact a law protecting the independent gasoline dealers
16 by divorcing major oil companies from the operation of gas
17 stations.
18 But the Nevada State Assembly first had to issue
19 a contempt citation to ARCO -- the first time in its
20 history -- to force the oil company to produce records
21 the Assembly Subcommittee on Commerce felt they need in
22 order to provide -- to prove whether or not ARCO committed
23 antitrust (sic) and engaged in price fixing.
24 The protective legislation was enacted in
25 response to the Nevada Gasoline Retailers Association, who

1 contend oil companies have been buying gasoline stations
2 and selling their own gas at such cheaper prices in order
3 to force independent owners out of business and gain
4 monopolistic control over the gasoline market.
5 Nevada State Assembly Spaker Joe Dini said --
6 I quote -- "We think ARCO's market plan does say that they
7 want to run all the independents out of business."
8 On May 22nd, Democrat-controlled Nevada Assembly,
9 through its Commerce Committee (sic), passed a Bill of
10 Divorcement 33 to 7. And the measure is now in the
11 State Senate Commerce Committee awaiting their action.
12 There's a great deal more to this story, but
13 once again shows ARCO's typical disregard for the small
14 businessman, and why we seek the protection of the
15 California State Lands Commission in reserving 30 percent
16 of the extracted oil from the public trust lands as our
17 future source of supply.
18 We, the small wholesalers, must have a source
19 of supply in order to remain in business in California
20 in the future. And this Commission has the power, if not
21 the legal and moral obligation to the small businessman,
22 (sic) to take steps to assure that this supply isn't
23 gobbled up by ARCO, thereby forcing more small operations
24 out of business and further threatening California
25 commerce.

1 I thank you for allowing me to take this time
2 to present this to you. If there are any questions, I'll
3 be happy to answer them.
4 CHAIRMAN MC CARTHY: Thank you, Mr. Little.
5 Are there any questions from either of the Commissioners?
6 COMMISSIONER ORDWAY: I have one question.
7 MR. LITTLE: Yes, ma'am.
8 COMMISSIONER ORDWAY: Am I to take it then that
9 you are opposed to the ARCO project at this time?
10 MR. LITTLE: No, ma'am. I'm not opposed. I'm
11 not for it or against it. I feel that -- that this is up
12 to the Commission and the evidence that you already have.
13 I came here only on behalf of a lot of ARCO
14 distributors and other commission -- and jobbers throughout
15 the State of California trying to protect our rights as
16 small businessmen if you're going to grant this.
17 COMMISSIONER ORDWAY: Because if the staff
18 report is followed, there won't be any oil coming out.
19 MR. LITTLE: I understand that. Yes, ma'am.
20 COMMISSIONER ORDWAY: I was just a bit confused.
21 Thank you.
22 CHAIRMAN MC CARTHY: I think the witness is
23 suggesting that should the Commission on this occasion or
24 future occasions grant lease rights or pursuant to existing
25 lease rights, to somehow we -- I'm not sure we have the

1 legal power to do this. That would take a good, clear
2 answer from the Attorney General's Office. That would
3 take some form of action to increase the opportunity for
4 competition --
5 MR. LITTLE: Yes, sir.
6 CHAIRMAN MC CARTHY: -- as he has described.
7 MR. LITTLE: If I could just make one last
8 remark, Governor. During the energy crisis when we all
9 had problems, very serious problems, the State of
10 California had a State set-aside, which saved a lot of
11 small farmers and ranchers and commercial businesses that
12 were priority-type businesses around the country.
13 Example: If a farmer or a rancher had moved
14 his farm somewhere else, to get an allocation of gasoline
15 or diesel fuel during those days, it took an act of
16 Congress.
17 But through the State, you had a setup through the
18 State here that we could call and get that customer
19 product immediately. It was very helpful to a lot of
20 people. Thank you very much.
21 CHAIRMAN MC CARTHY: Thank you very much,
22 Mr. Little. I saw Senator Gary Hart come in a little while
23 ago. Senator Hart? Senator Hart, we were just going to
24 call on the opponents of the ARCO application who are
25 testifying. You are the first witness, and very welcome.

1 SENATOR HART: Thank you very much, Mr. Chairman.
2 I appreciate your willingness to accommodate my schedule
3 today.
4 I'd like to begin by first commending the
5 Commission and thanking the Commission on behalf of my
6 constituents for your willingness to not only hear
7 testimony and review the record here in Sacramento, but
8 to travel to Santa Barbara and to hear from people who
9 would be directly affected by this project. That's,
10 unfortunately, not very common. We've had recent
11 decisions by the Coastal Commission and other State
12 agencies that now no longer engage in these kinds of
13 public hearings in the communities that are affected.
14 And I would just like to go on the record to just
15 thank you and the other members of the Commission for
16 your willingness to take time out of your busy schedules
17 to hear testimony and hear from my constituents of Santa
18 Barbara County.
19 I appreciate the opportunity to express my
20 support, Mr. Chairman and members, for your staff's
21 recommendation to deny the Coal Oil Point development
22 project at this time and to proceed with an assessment
23 of the long-term costs and benefits of oil development off
24 the coast of California.
25 As your EIR points out, there are a number of

1 serious problems with the ARCO project. Air quality will
2 be adversely affected. The risk of oil spills will increase,
3 and the addition of up to three new platforms and support
4 facilities will dramatically increase the industrialization
5 of the coast of Santa Barbara County.
6 In addition, damage to marine habitat and
7 conflicts with marine research at UCSB make this project
8 highly undesirable. Permitting the ARCO project would
9 create a bad precedent at this time. Numerous other
10 leases along the Santa Barbara coast are presently held
11 by oil companies. The Federal Government plans a massive
12 expansion of oil development in the OCS which may require
13 further onshore support facilities.
14 Reviewing these projects on an individual basis
15 could allow the gradual erosion of the environmental
16 quality upon which much of Santa Barbara's economy is
17 based. For this reason, I applaud the conclusion of your
18 staff that oil development in this area should be
19 preceded by an assessment of the cumulative impacts of oil
20 production and the development of a comprehensive plan
21 to protect our coastal environment.
22 As the Chairman of the Senate Education
23 Committee, I'm well aware of the importance of oil
24 royalties to public education and other areas of State
25 Government. And you are faced with the difficult task of

1 balancing the State's need for oil revenues with your
2 responsibility to protect the environment.
3 I urge you to keep in mind that while increased
4 oil revenues would be useful now, they would be no less
5 useful in the future. In this sense, a delay in permitting
6 oil development does not cost the State any money; while
7 poorly planned oil development that damages the economic
8 foundation of our coastal economy, can be very expensive.
9 One final point that I'd like to make,
10 Mr. Chairman, one of the reasons cited to justify expanding
11 offshore oil development at this time is to reduce our
12 nation's dependence on foreign oil. This argument might
13 have some validity if we had a rational energy policy
14 at the Federal level, but we don't. The Reagan
15 Administration has been responsible for reducing the
16 Federal Government's commitment to energy conservation
17 and alternative energy development. At the same time,
18 they have pursued an aggressive expanded offshore oil
19 development.
20 This unnecessarily increases the demand for oil
21 and thus provides a convenient rationale for expanding
22 oil development in environmentally sensitive areas. I
23 believe that California should pursue a more thoughtful
24 approach. We should insist that expanded offshore oil
25 development be approved only in the context of an energy

1 policy which makes the best use of this limited natural
2 resource. Oil extraction at a high environmental and
3 economic cost to our coastal communities should not be
4 used to subsidize a wasteful and counterproductive energy
5 policy.
6 Thank you very much, Mr. Chairman.
7 CHAIRMAN MC CARTHY: Any questions from the
8 Commission members of Senator Hart?
9 Thank you very much.
10 Supervisor Bill Wallace, the Chairman of the
11 Board of Supervisors, Santa Clara County.
12 COMMISSIONER ORDWAY: Santa Barbara.
13 CHAIRMAN MC CARTHY: What did I say?
14 COMMISSIONER ORDWAY: Santa Clara.
15 CHAIRMAN MC CARTHY: I just moved you,
16 Supervisor Wallace.
17 MR. WALLACE: Running is tough enough in
18 Santa Barbara County.
19 Good morning. My name is Bill Wallace, and I am
20 Chairman of the Board of Santa Barbara County Board of
21 Supervisors.
22 And we have reviewed the calendar item and the
23 staff report. Our Board did take a unanimous position
24 yesterday in support of your staff's position. We have
25 submitted additional written material, and I won't go into

that today. And there's been a tremendous amount of written material and verbal going back and forth, and I, too, would echo Senator Hart and Assemblyman O'Connell's comments about your attendance in Santa Barbara County. It was very beneficial, I think, for the community.

It's difficult to go back and forth between Sacramento (sic) as you found out, and you did receive a tremendous amount of community input.

And we have submitted a lot of legal, environmental, technical, and aesthetic information, too. So, our statement today will be fairly short.

We do concur with the recommendation for a comprehensive State and Federal oil development study. And we do not object to the deferral of development of the entire ARCO project until the numerous significant problems identified in the EIR process can be abated or resolved.

We don't agree with ARCO's legal position, and we have submitted information to your staff and to the Commissioners also. And we feel that as administrators of the public trust lands, the State Lands Commission plays a crucial role in regulating the tidelands adjacent to Santa Barbara County and the coast of California.

We concur with the conclusions of the staff report that the UCSB-Coal Oil Point area is an asset to the

1 entire State. The tidelands in this area contain
2 significant benthic habitat, fisheries, and research
3 operations which must be protected. Oil and gas
4 development at a scale much smaller than the proposed
5 Coal Oil Point project is already present and has presented
6 occasional conflicts with other uses of the area.
7 The University of California has developed a
8 major campus at this location with extensive investments
9 in marine research programs.
10 In addition to research in the area, the scenic
11 quality of the campus environment is a major factor in
12 recruiting top faculty and students who are collectively
13 responsible for the outstanding academic reputation of the
14 Santa Barbara campus.
15 Sensitive environmental areas, including the
16 Coal Oil Point Reserve and Naples Reef, are also within
17 the proposed development areas and could be affected
18 significantly.
19 A competing use of the public trust lands is
20 commerce. The State has granted ARCO Oil and Gas
21 Company five leases in the area. The State would receive
22 revenue if these leases were to be developed. However,
23 development of these leases under today's technology
24 would post significant conflicts with other legitimate
25 uses of public trust lands, which is also your

1 responsibility, and we feel it is not appropriate at
2 this time.
3 In your visit to Santa Barbara County, you
4 heard overwhelming opposition, specifically to Platform
5 Heron -- and I believe Mr. Ranger commented about
6 Platform Holly is already there. It's a much, much
7 smaller platform and at a much bigger angle from the
8 very dense populated areas of the campus and Isla Vista.
9 It must be clear to you that alternatives to
10 platform development of leases 308 and 309 are really
11 essential. Not one group in Santa Barbara County has
12 supported the development of Platform Heron as you heard
13 again.
14 The groups now that are talking from industry
15 were not present in Santa Barbara County like they are
16 at most oil hearings, because of the immediate presence
17 of this immediate presence of this ARCO project to the
18 urban areas, which is a major tourist area of Santa Barbara
19 County. It was just too overwhelming for them to even
20 publicly support it. And at yesterday's hearing, even
21 the Chamber of Commerce refused to take a stand in
22 supporting this.
23 We've heard now about the need of jobs again
24 from the rest of the State. We were subjected to a great
25 deal of testimony from Humboldt County during the Exxon

1 hearings because of the needs for jobs, and they were
2 going to build the platforms in Humboldt County.
3 Well, as you all know, they're building them
4 in Korea. There are no commitments at this point. We've
5 done socio-economic studies to show where the workers are
6 coming from. And not a majority, but a good 30 percent
7 of the oil workers are being imported from other states
8 to work on these offshore platforms and develop these
9 plants.
10 And, when the jobs are done, they may stay and
11 they may inherit unemployment from the State of California.
12 It is not necessarily local jobs. In fact, most of them
13 are not coming from Santa Barbara County. And we're not
14 provincial, that jobs are jobs, and this nation also needs
15 jobs. But the argument that this will save California
16 and State of California workers is specious. It will
17 show up in our findings, and we will share these studies
18 with you.
19 Hopefully, the oil companies will become more
20 responsive when some of these studies become public.
21 Going back to Platform Heron, which is our major
22 problem, this is not just a platform, not just a visual
23 blight on a very dense populated area. It's a platform
24 less than two miles over water from a major university and
25 a community with 20,000 residents. And it's a significant

1 industrial, residential land-use conflict.

2 In addition, Heron poses serious public

3 safety problems for the UCSB campus and the Isla Vista

4 Community. Areas of the campus have actually been

5 evacuated on several occasions in the past due to upsets

6 with existing oil development in the Coal Tar Point area.

7 In addition to the significant air quality

8 impacts, which, again, will have to be dealt with

9 separately by the county, the industrial noises, flaring,

10 odors, night lighting, and major visual intrusion of the

11 platform offshore Isla Vista create an unacceptable

12 industrial-residential conflict that would never be

13 allowed by local government under CEQA rules, only

14 because we, again, are provincial and have to live with

15 the residents' complaints over the years on these kind

16 of conflicts.

17 This conflict would cause significant economic

18 injury to UCSB as demonstrated in their report to you. And

19 an oil spill, even as minor as the recent Seal Beach

20 spill, could wipe out major coastal-related research

21 programs at UCSB.

22 Mr. Ranger talks about water sinking into the

23 ocean (sic). I was just talking to a fellow studying

24 mussels on the shore. He spent a whole year in oyster --

25 or a mussel bed right on the coast. And one single oil

1 spill would have wiped out a whole year of his research.
2 There may also be inconsistencies and conflict
3 with the county's State-approved local coastal program.
4 And this, again, is the industrial-residential conflict.
5 These issues are all similar to those which led to the
6 formation of the historical State Oil and Gas Sanctuary
7 immediately east of Lease 309, which was originally
8 designated to prevent the major urban areas of Santa
9 Barbara County (sic).
10 Since those leases were sold and since that
11 lease was -- were given, the University of California and
12 Isla Vista have developed. And if that sanctuary were to
13 be considered today, it would have certainly been
14 expanded another mile on up the coast.
15 The State Lands Commission staff report
16 invites ARCO to reapply if specified programs can be --
17 problems can be resolved.
18 We feel it must be made to clear to ARCO that
19 the proposed Platform Heron is not an appropriate way to
20 develop lease 308 and 309. Please do not put ARCO and
21 Santa Barbara County and the State Lands Commission through
22 this process again. There should be no rush to develop
23 the heavy sour crude oil reserves immediately off an
24 urban area underlying these leases.
25 We must allow time for development of

1 appropriate technology to mitigate the major oil spill
2 in environmental habitat and industrial-residential
3 conflict problems identified in environmental review
4 processes.
5 Leases 308 and 309 should only be developed
6 in a less expensive way when that technology is available.
7 Santa Barbara County strongly supports the undertaking
8 of a cumulative study of the effects of Federal and State
9 oil and gas development in the area. We have wrestled
10 with the problems of comprehensive planning versus
11 project by project permit reviews, and find the staff
12 recommendations refreshing.
13 We wish to play an active role in the
14 development of the work program in the study itself. We
15 would hope that the joint review panel process, which was
16 used to promote interagency participation in this EIR,
17 and which should also include UCSB -- and as such, we do
18 not oppose deferral of the ARCO Coal Oil Point project
19 at this point to allow for a study of the cumulative
20 development and improved project mitigation. In conclusion,
21 we support the recommendation of your staff. We are
22 strongly opposed to any development of Leases 308 and 309
23 with conventional drilling and production platforms. We
24 welcome the cumulative Federal and State oil development
25 study and encourage the use of the joint review panel to

1 promote interagency participation.

2 We do not oppose deferral of the ARCO Coal Oil
3 Point project in its entirety at this time, and it would
4 be an appropriate action in the administration of the
5 public trust lands.

6 Thank you for this opportunity. And our staff
7 is here today for any technical questions that you might
8 have and that -- I guess my one final comment would be
9 to the people from elsewhere in the State who have suggested
10 that the Commission hold hearings elsewhere to see if
11 this should be developed. That really go to those
12 hearings (sic), I think, and explain the tremendous
13 impacts that are already occurring in Santa Barbara with
14 oil development. We're being asked to absorb far more than
15 our share, because the oil is there. We have major
16 pipelines traversing the length of the county. We're
17 approving major onshore facilities for Exxon, for ARCO --
18 not in this case, I guess, at this time. But the ARCO
19 facility's already there. -- for Union, for Chevron.
20 We're trying, and we're in the final stages of negotiations
21 to bring Exxon to the shore. We are trying to make
22 consolidations. We are struggling with ozone problems.
23 And Santa Barbara County sometimes feels like they're under
24 siege at this point from the oil industry. And we welcome
25 your help in this study that's going to go forward. And

1 we really pledge to help with that.

2 CHAIRMAN MC CARTHY: Thank you, sir.

3 Commissioner Ordway.

4 COMMISSIONER ORDWAY: Just one question. I don't

5 think it's very technical.

6 You support the study that is mentioned in the

7 staff report. Would the county also support sharing in

8 the costs of what may be a two-year-long study since it

9 will have such an impact on Santa Barbara County?

10 MR. WALLACE: We would have to look at some of

11 the AG monies that have come in the past, if they were to

12 continue coming.

13 As you probably know, Santa Barbara County is

14 at its Prop 4 limit and we're facing --

15 COMMISSIONER ORDWAY: AG funds are outside of

16 Prop 4.

17 MR. WALLACE: Right. And if those were to

18 continue coming, then we would have monies available to

19 look at things like that. And that's one of those

20 places where we've allocated those monies. We are looking

21 at a $5 million shortfall next week in our budget process

22 because of the Prop 4 limit. And we are strapped even

23 to do long-term studies of our own for oil consolidation

24 and gas consolidation.

25 We're finding difficulties finding money just to

1 do an EIR ON THAT. But if the AG monies are going to be
2 continually available, we would certainly be looking at
3 pledging monies for that.
4 COMMISSIONER ORDWAY: Thank you.
5 MR. WALLACE: I can't speak for the rest of the
6 Board.
7 COMMISSIONER ORDWAY: Having the Chair's
8 support usually helps.
9 MR. WALLACE: You never know in our county.
10 COMMISSIONER DAVIS: Bill, I wonder if you
11 could -- I share your notion which you made reference
12 to today and spoke to in greater detail in our hearings in
13 Santa Barbara, that the Commission ought to speak with
14 one voice on energy. I'm very interested in the
15 observation you made in Santa Barbara about the effects
16 of the Reagan Administration's rollback on mileage
17 standards of a mile and a half on new cars, in effect
18 negating efficiencies that would have been achieved if
19 that law had gone into effect.
20 I wonder if you have those statistics with you
21 that you could share with us as to the effect of that one
22 action.
23 MR. WALLACE: I can do some of it from memory.
24 I do have them in a notebook in the back. But that would
25 take a few minutes. But I think that I would echo

1 Senator Hart's comments about the real need for an energy
2 policy in this country. And to do simple, little things
3 like that without looking at the whole context, I think,
4 is very damaging and very damaging psychologically to us.
5 But that rollback of 1.5 or 2 miles standard
6 that the Reagan Administration did with a flip of the pen--
7 and I don't know how much effort went into that -- but
8 that eliminated over the next 30 years, it created a
9 demand for 1.9 million barrels of -- billion barrels of
10 oil, additional oil, which is over the entire production
11 of the Santa Barbara Channel. That simple act negated the
12 entire development of the Santa Barbara Channel if you
13 go to the 500,000 barrels a day, which it looks like we're
14 not going to make.
15 But that was something like 1.9 billion
16 barrels. The Santa Barbara Channel is equivalent to
17 1.75 billion barrels. Simply delaying the increased
18 efficiencies of appliances that the Reagan Administration
19 did several years ago created a demand for 1 billion
20 barrels of oil over the life of those appliances. That if
21 they had imposed that, those appliances over the life
22 of them would have used a billion barrels less of oil.
23 That alone is over two-thirds of the entire channel's
24 production.
25 So, I think we really do need to come to grips.