

STATE LANDS COMMISSION

TRANSCRIPTS

June 30, 1992

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MEETING  
STATE LANDS COMMISSION

ORIGINAL

1020 N STREET  
ROOM 102  
SACRAMENTO, CALIFORNIA

TUESDAY, JUNE 30, 1992  
10:22 A.M.

Nadine J. Parks  
Shorthand Reporter

MEMBERS PRESENT

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Leo T. McCarthy, Lieutenant Governor, Chairman  
Jay Ziegler for Gray Davis, State Controller  
Susanne Burton for Thomas W. Hayes, Director of Finance

Staff:

Charles Warren, Executive Officer  
James Trout, Assistant Executive Officer  
Bob Hight, Chief Counsel  
  
Paul Mount  
Lance Kiley

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P R O C E E D I N G S

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2  
3 CHAIRMAN MC CARTHY: Good morning, ladies and  
4 gentlemen. This is the meeting of the State Lands  
5 Commission.

6 The minutes of the last Commission meetings are  
7 approved without objection.

8 The following items are being removed from  
9 today's calendar, for those of you who may be here on  
10 these items: Consent Items 5, 20, and 31; and Regular  
11 Calendar Items 38, 39, and 40. Any other changes to the  
12 calendar for today?

13 EXECUTIVE OFFICER WARREN: None, Mr. Chairman.

14 CHAIRMAN MC CARTHY: All right. Without  
15 objection, the Consent Calendar Items are adopted as  
16 proposed.

17 Let's move on to the Regular Calendar. Mr.  
18 Charles Warren.

19 EXECUTIVE OFFICER WARREN: Thank you, Mr.  
20 Chairman. I'd like to call to the Commissioners'  
21 attention the fact that we have a number of requests  
22 to speak concerning subjects involved at Waldo Point.  
23 There is no item involving Waldo Point on today's  
24 calendar. But anticipating that the Commission may want  
25 to -- at the conclusion of today's calendar -- hear from

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1 one or more of such representatives, it's my  
 2 recommendation that those who signed up on the  
 3 attendance sheets caucus in the hall and select one of  
 4 their members to make a five-minute presentation to  
 5 the Commission at the conclusion of today's hearing.

6 CHAIRMAN MC CARTHY: Who is in the audience  
 7 on that issue?

8 UNIDENTIFIED SPEAKER IN AUDIENCE: I am here.  
 9 I'll be one of --

10 CHAIRMAN MC CARTHY: Let me ask one or  
 11 two questions.

12 UNIDENTIFIED SPEAKER: Yes, sir.

13 CHAIRMAN MC CARTHY: We will proceed through  
 14 the regular calendar. Commissioner Burton has indicated  
 15 she must leave at eleven o'clock to deal with the budget  
 16 crisis. I'm certainly willing to listen to a statement,  
 17 if you'd like to make one, later on. Are you --

18 COMMISSIONER ZIEGLER: Yes.

19 CHAIRMAN MC CARTHY: All right. So, would you  
 20 kindly --

21 UNIDENTIFIED SPEAKER: We came up here on a  
 22 chartered bus that is scheduled to go back. We all have  
 23 jobs and children.

24 CHAIRMAN MC CARTHY: I appreciate that.

25 UNIDENTIFIED SPEAKER: And if we have to sit

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1 here for the entire, I don't think -- that would be a  
2 rather cheap shot in the participatory --

3 CHAIRMAN MC CARTHY: Well, how about all the  
4 people that came on the other items and also left their  
5 jobs or their obligations to attend this one --

6 UNIDENTIFIED SPEAKER: (Interjecting) I  
7 understand that. But we really do want to know what  
8 happened today in your closed session concerning the  
9 draft settlement. I mean, that was our main reason to  
10 be here, because --

11 CHAIRMAN MC CARTHY: Okay. The Commission voted  
12 to support the settlement.

13 UNIDENTIFIED SPEAKER: That's really unfortunate.

14 CHAIRMAN MC CARTHY: At the end of this hearing,  
15 if one or two of those from your group would like to make  
16 a statement to the Commission, we'd be very pleased to  
17 receive that.

18 UNIDENTIFIED SPEAKER: What would be the point  
19 of making a statement if --

20 CHAIRMAN MC CARTHY: That's your decision.

21 UNIDENTIFIED SPEAKER: -- if you have already  
22 made the decision?

23 CHAIRMAN MC CARTHY: I understand. That's  
24 your decision. That's your decision if you want to make  
25 any public statement or not. All right. Let's move on

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1 with the calendar.

2 EXECUTIVE OFFICER WARREN: The first item  
3 on the regular calendar, Mr. Chairman --

4 UNIDENTIFIED SPEAKER: We'll have to disrupt  
5 this session for a while while we leave, since there  
6 really doesn't seem to be much point to staying and  
7 making a public statement on something that's already  
8 happened.

9 But I want to make sure that everyone in this  
10 room and in this audience knows that that draft settlement  
11 agreement is going to force us -- all of us -- out of our  
12 homes and destroy our houseboats in order to build a  
13 public State Park in a time of a budgetary crisis where  
14 you can't even pave the roads. No joking.

15 (Thereupon, there was an outcry from  
16 members of the audience, which outcry  
17 made the recording of further comments  
18 impossible.)

19 CHAIRMAN MC CARTHY: We'll open with the regular  
20 calendar, Mr. Warren.

21 EXECUTIVE OFFICER WARREN: The first item on  
22 the regular calendar, Mr. Chairman, is Item 41,  
23 the consideration of a proposed oil and gas lease for  
24 the City of Hermosa Beach. This will be -- the city  
25 has a difference of opinion with that expressed by the

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1 staff in its report to you.

2 The staff's report will be presented to you  
3 by Paul Mount, who is the Division Chief of our Mineral  
4 Resources Management Division.

5 Paul?

6 MR. MOUNT: Item 41 is to consider the proposed  
7 City of Hermosa Beach oil and gas lease for granted tide  
8 and submerged lands.

9 (Thereupon, the reporter requested  
10 Mr. Mount so speak up because of the  
11 noise emanating from outside the hearing  
12 room.)

13 CHAIRMAN MC CARTHY: Close that door, please.

14 MR. MOUNT: To consider proposed City of  
15 Hermosa Beach oil and gas lease for granted tide and  
16 submerged lands, Los Angeles County.

17 The City of Hermosa Beach is proposing to  
18 lease for an exploration and development of oil and gas  
19 in certain tide and submerged lands granted in trust to  
20 the City of Hermosa Beach in 1919.

21 Under Section 6872(a) of the Public Resources  
22 Code, the Commission must find that drainage is occurring  
23 in order to permit leasing of sanctuary lands. The staff  
24 has found that drainage is not currently occurring. And  
25 since these are sanctuary lands, the staff recommends

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1 denying the proposal of the City of Hermosa Beach to  
2 lease its granted tidelands for oil and gas exploration  
3 and development pursuant to PRC 6872(a) and PRC 6878.

4 CHAIRMAN MC CARTHY: Any other testimony?

5 EXECUTIVE OFFICER WARREN: Not from the staff  
6 at this time, Mr. Chairman. We may have to respond to  
7 presentations by the representatives from Hermosa  
8 Beach. And there's a Mr. Rick Ferrin, who is the City  
9 Manager of Hermosa Beach.

10 CHAIRMAN MC CARTHY: Mr. Ferrin.

11 MR. FERRIN: Good morning, Lieutenant Governor  
12 McCarthy, Mr. Ziegler, and Ms. Burton, and ladies and  
13 gentlemen.

14 I'm Rick Ferrin, City Manager of Hermosa Beach.  
15 I sincerely appreciate the opportunity to present this  
16 request for the Commission's permission to allow the  
17 City of Hermosa Beach's leasing of its title in submerged  
18 lands to the Macpherson Oil Company.

19 I am able to report significant progress in  
20 meeting and complying with the Commission's requirements  
21 and mandates since our last meeting in November of 1985.  
22 Let me first introduce several distinguished gentlemen  
23 who have accompanied me here today: Mr. Leonard Brock  
24 and Mr. Francis Barker are both petroleum engineers with  
25 superb credentials and are very, very highly esteemed in

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1 their field; Mr. David Gautschy of Macpherson Oil is  
2 the project manager; Mr. Donald Macpherson, Jr. and  
3 Mr. Donald Macpherson, Sr., his father, owners of the  
4 Macpherson Oil Company; and Mr. Gary Birch, ex-Mayor and  
5 Councilman of the City of Hermosa Beach.

6 What I present for your approval today is clearly  
7 a win/win proposal. In 1984, the voters of Hermosa  
8 Beach supported ballot Measure P, which would allow for  
9 oil drilling into the Hermosa Beach's tidelands and  
10 submerged lands to recover reserves of oil and gas.  
11 However, such an operation was to be performed only from  
12 an uplands site.

13 Three years later, the residents reaffirmed  
14 their will by soundly rejecting the entertainment of any  
15 future plan that envisioned offshore platform-mounted  
16 drilling and oil pumping in the coastal waters of the  
17 Santa Monica Bay.

18 I must emphasize at this point that this  
19 project does not incorporate any offshore drilling or  
20 pumping from a platform site, nor does it include the  
21 use of a single foot of pipeline placed in State waters.

22 The proposed recovery operation would be performed  
23 using a slant drilling technique from an uplands site  
24 at least 1600 feet from the coastline. This is an  
25 environmentally sustainable project that poses at the

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1 very worst a negligible environmental impact or threat.

2 Before you decide whether or not to approve  
3 our proposal, let's quickly review where we are in the  
4 process of complying with your directions. At the November,  
5 1985 meeting, the State Lands Commission established  
6 three criteria that had to be satisfied. The first was  
7 to determine that oil and gas existed in the proposed  
8 area to be drilled; second, was the project in the best  
9 interest of the State; and, finally, was there drainage  
10 from the Hermosa into Redondo as a result of the  
11 latter's well operations.

12 The drainage issue was thoroughly and, I might  
13 add, independently investigated by our consultant and  
14 the State Lands Commission' geologic and engineering  
15 staff. Both determined that drainage was in evidence.

16 On March 20th of 1986, Mr. Willard sent my  
17 predecessor, Kevin Northcraft, a letter verifying the  
18 staff finding that there was drainage. The day before,  
19 on March 19th, Claire Dedrick, Executive Officer of the  
20 State Lands Commission, wrote to the Hermosa Beach City  
21 Council that, quote:

22 "The drainage question has been  
23 reexamined in detail by our engineering  
24 and geological staff, who believe that  
25 drainage is taking place."

End quote.

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1 Hermosa Beach was tasked with the production  
2 of a sufficient EIR and a lease agreement, complete with  
3 pass-through rights. Though six years have transpired,  
4 the EIR and the lease documents required tremendous  
5 effort. And might I remind you that Hermosa Beach has  
6 a very small staff that is more than fully occupied;  
7 nevertheless, this extremely important issue occupied  
8 a front burner.

9 I have for your review a chronological list of  
10 the actions taken both by Hermosa Beach and the Macpherson  
11 Oil Company to comply with the Commission's requirements.  
12 It's six pages long. So, I can assure you that we have  
13 not been idle. In short, the City advertised and  
14 solicited bids for an oil and gas lease of the City's  
15 upland properties in June of 1986.

16 The tidelands lease will follow when final  
17 approval has been given by this Commission. Windward  
18 Associates, or Macpherson Oil, was the successful  
19 bidder, and the City immediately began the processing of  
20 an environmental impact report with an initial filing in  
21 1987.

22 Final comments were received from the Commission  
23 in March of 1990. Two months later, the EIR was adopted  
24 by the Hermosa Beach City Council, and negotiation of the  
25 terms of the tideland lease began in earnest. That lease

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1 was adopted by the City Council in January of this year.

2 In regard to CEQA, the City has prepared and  
3 certified an EIR, which is in compliance with the State  
4 guidelines. All comments submitted by the State Lands  
5 Commission staff have a response as required by State  
6 CEQA guidelines.

7 Prior to the City issuing construction permits,  
8 a conditional use permit, or a CUP, is required by local  
9 ordinance. The CUP is the City's method of imposing the  
10 EIR mitigation measures as required by the State. All  
11 mitigation measures, City requirements, other State and  
12 local agency requirements, and any requirements which may  
13 be imposed by this Commission must be met prior to the  
14 development, testing, or production of oil.

15 Therefore, any environmental concerns that the  
16 Commission may have regarding this project will be  
17 thoroughly mitigated. The City of Hermosa Beach and its  
18 residents want this project to happen. That's evidenced  
19 by the 1984 vote on ballot Measure P, and the thousands  
20 and thousands of hours and millions of dollars invested  
21 both by the City and Macpherson Oil thus far.

22 We've accepted your requirements and labored in  
23 good faith to comply with the criteria that the Commission  
24 has established prior to giving its approval for the City  
25 to lease the tidelands. The issue of the existence of

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1 drainage was settled over six years ago, and that  
2 drainage continues to this day.

3 We have complied with the requirements of CEQA,  
4 and have produced a sufficient EIR. In addition, our  
5 lease agreement is complete. All of these tasks have  
6 been accomplished in good faith, and we are confident  
7 in the Commission's -- as we were confident in the  
8 Commission's ultimate approval once its requirements were  
9 satisfied.

10 I truly believe we have earnestly and painstakingly  
11 executed your direction. It would not be out of  
12 line for the City of Hermosa Beach to expect you to  
13 execute your portion of this process in good faith as  
14 well.

15 We are proposing a project which will bring  
16 desperately needed revenue into Hermosa Beach, to say  
17 nothing of the State. California imports a million  
18 barrels of oil per day from ships that come from Alaska,  
19 South America, and Indonesia. Over a 20-year period, the  
20 Hermosa Beach field will potentially produce 30 million  
21 barrels of oil. That equates to 300 one-hundred thousand  
22 barrel tanker trips. There are a myriad of potential  
23 benefits, both direct and indirect, that can be  
24 attributed to this proposal, not the least of which are  
25 more jobs, more and better parks, better beach maintenance,

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1 the enhancement of our school district, and significant  
2 revenue to the State.

3 We are proposing a drilling and recovery  
4 method, which Charles Warren referred to in his  
5 November 28th, 1990 letter to Commissioner Davis as  
6 having, quote, "real potential for application to fields  
7 offshore in California, since it (1) eliminates offshore  
8 platforms, (2) there's no risk of production spillage,  
9 (3) there is no transportation by tankers, (4) known  
10 reservoirs can be effectively and economically  
11 developed, (5) it will increase domestic oil production,  
12 and (6) it will bring increased revenues to the State of  
13 California."

14 Ladies and gentlemen, what I bring today for you-  
15 for your approval is clearly a winner. If you let this  
16 one get away, the City of Hermosa Beach and the State of  
17 California will truly lose a great opportunity.

18 Thank you.

19 CHAIRMAN MC CARTHY: The central issue here, it  
20 seems to me, is the drainage question. Why don't you  
21 have some of the engineers and maybe Mr. Macpherson  
22 step forward, so we can ask some questions.

23 EXECUTIVE OFFICER WARREN: As the witnesses are  
24 stepping forward, the statement of the witness is  
25 substantially correct. I think I want to correct one

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1 thing, however. He said that these praconditions we  
2 established by the State Lands Commission. Those  
3 conditions were established by the Legislature. We're  
4 merely attempting to follow what the Legislature has  
5 provided by statute.

6 CHAIRMAN MC CARTHY: Can we get a couple of  
7 chairs here? Now, we're dealing with the 1955 -- is  
8 that the correct year -- statute that requires, among  
9 other things, --

10 MR. HIGHT: 1941.

11 CHAIRMAN MC CARTHY: 1941?

12 MR. HIGHT: It was added --

13 CHAIRMAN MC CARTHY: Let me -- the statute I'm  
14 asking about imposes the requirement that if such  
15 deposits are being drained by means of wells upon  
16 adjacent lands -- what year was that statute adopted?

17 MR. HIGHT: 1941.

18 CHAIRMAN MC CARTHY: All right. What evidence  
19 do you have to suggest that the staff's interpretation  
20 of whether drainage occurred or not? Because, as I  
21 understand it, the drilling that went on in Redondo  
22 Beach actually drained from Hermosa Beach in the meaning  
23 of the statute.

24 Would you give us in succinct terms, sir, narrow  
25 down the key reasons why our staff is wrong on the

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1 interpretation of that section of the statute?

2 MR. BROCK: I'm Leonard Brock. I'm a  
3 consultant for the City of Hermosa Beach. I believe,  
4 Governor, that the staff did agree that there was  
5 drainage from Hermosa Beach to Redondo Beach. There  
6 were several studies made by the State Lands Commission  
7 staff, by consultants for the State Lands, by consultants  
8 for the City of Hermosa Beach; and recently, a colleague  
9 of mine, Francis Barker, did a further study.

10 I think the disagreement between the State  
11 Lands staff and ourselves right now is whether there is  
12 current drainage, not whether there was drainage when  
13 the Redondo Beach wells were --

14 CHAIRMAN MC CARTHY: I think you state it right,  
15 sir. One of the three recommendations proposed by the  
16 staff to the Commission before us -- and I hope you've  
17 seen this -- is that we make a finding that the drainage  
18 of oil and gas is not occurring as a result of production  
19 from wells on adjacent lands.

20 MR. BROCK: Currently? You mean as of today?

21 CHAIRMAN MC CARTHY: Why don't you go ahead and  
22 make your statement, and then we'll let the staff  
23 respond to it.

24 MR. BROCK: Okay. The Redondo wells -- the  
25 Redondo Beach wells were abandoned last year. I believe

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1 that even though those wells on Redondo Beach are not  
2 currently producing, they did create pressure  
3 differentials, which result in the oil from Hermosa Beach  
4 currently being drained.

5 Also, to further our intention is the fact that,  
6 actually, on the drill site that's being proposed to be  
7 used to develop this offshore, there are two wells that  
8 are produceable. They are not currently producing  
9 because of some problems with the tank farms, in which  
10 there was some contamination. And it is necessary to  
11 have a tank farm reestablished so those wells can be  
12 produced.

13 When they are produced, they will further the  
14 drainage from the offshore area of Hermosa Beach into the  
15 wetlands. I believe that that should satisfy the statute.  
16 I think that the statute can be -- can be interpreted  
17 by the fact that oil is being drained from Hermosa  
18 Beach currently by the pressure sink of several hundred  
19 pounds that was established over a period of 20 to 30  
20 years when the Redondo Beach wells were producing.

21 I think that it's elementary in reservoir  
22 engineering that oil flows from a high-pressure area to  
23 a low-pressure area. And the fact that those areas were  
24 made by the wells that were producing on Redondo Beach;  
25 I think the fact that they are not currently producing

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1 is really not the question. The fact is there is oil  
2 being drained from Hermosa currently.

3 CHAIRMAN MC CARTHY: All right. Is there any  
4 other --

5 MR. BARKER: I agree.

6 CHAIRMAN MC CARTHY: Would you identify yourself,  
7 sir?

8 MR. BARKER: My name is Francis Barker. One of  
9 the fundamentals --

10 CHAIRMAN MC CARTHY: Mr. Barker, I'm sorry,  
11 what's your position?

12 MR. BARKER: I'm also a consultant for  
13 Macpherson Oil Company.

14 CHAIRMAN MC CARTHY: Thank you.

15 MR. BARKER: One of the fundamental  
16 considerations in reservoir engineering is that oil and  
17 fluids go from the high-pressure areas to the low-pressure  
18 areas. And it's been established on fluid level surveys,  
19 from which you can calculate pressures, that there's a  
20 pressure sink in Redondo where millions of barrels have  
21 been taken out, and the reservoir pressures on the  
22 Hermosa Beach side are approaching diversion pressures.  
23 And when you have that condition, oil flows across the  
24 line, and you don't really need wells producing oil on the  
25 Hermosa Beach side to cause continued flow across the line.

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1 CHAIRMAN MC CARTHY: All right. You, sir?

2 MR. MACPHERSON: My name is Don Macpherson, Jr.  
3 of Macpherson Oil Company. And I concur in everything  
4 these two gentlemen have stated.

5 This issue of drainage was an issue that was  
6 resolved in our minds six years ago. And we have  
7 proceeded with this project, spending monies and efforts  
8 in approving this project.

9 There was a contention from the Commission staff  
10 that drainage was questioned. And that was brought to  
11 our attention. And at that time, there were fluid levels  
12 taken from the wells producing in Redondo Beach and in  
13 Hermosa Beach

14 Those fluid levels were witnessed by both the  
15 State Lands Commission, the City of Hermosa Beach, and  
16 the Macpherson Oil Company. That data was incorporated  
17 within Mr. Brock's study of drainage, and his conclusion  
18 of drainage is continuing.

19 So, that's really all I have to say.

20 CHAIRMAN MC CARTHY: Thank you. Would the  
21 staff respond now to how they came to their decision on  
22 defining drainage and what the relationship is between  
23 when Redondo Beach interests stopped drilling and when  
24 drainage stopped, if it did, in your opinion?

25 MR. MOUNT: Commissioner, it is true that there

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1 has been drainage occurring.

2 CHAIRMAN MC CARTHY: Identify yourself, please.

3 MR. MOUNT: I'm Paul Mount from State Lands.

4 And in '86, we, in fact, did issue a report that  
5 drainage was occurring, and wells were on production at  
6 that time producing oil. And that oil was being drained  
7 from the Hermosa Beach side of this field.

8 Their wells have been shut in and abandoned;  
9 approximately a year and a half ago was the last  
10 production from the Redondo Beach side of that lease.

11 Oil is still migrating across the lease line.  
12 Fluids are still migrating across the lease line from  
13 Hermosa Beach to the Redondo Beach side. But there is  
14 not currently any production on the Redondo Beach side.  
15 There is the potential in adjacent lands uplands for two  
16 wells to be produced and put on production, although they  
17 are not currently producing. And it's possible that  
18 by placing those two wells on production, oil and water  
19 could migrate from the offshore lease to onshore leases.

20 CHAIRMAN MC CARTHY: Those two wells are under  
21 whose control?

22 MR. MOUNT: I believe they are under the City  
23 of Hermosa Beach. What oil company --

24 MR. BLOCK: Standard Oil Company. And the city  
25 gets a small fee, but does not control the wells. The

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1 wells are controlled by the Standard Oil Company.

2 CHAIRMAN MC CARTHY: So, you're saying, Mr. Mount,  
3 that if the Commission agrees with the staff  
4 interpretation of this provision of the 1955 law, that  
5 drainage must be immediately caused by active drilling,  
6 the way to overcome that -- that's if the Commission  
7 agrees with that interpretation -- the way to overcome  
8 that, one possible way to overcome that deficiency may  
9 be for these two wells in Hermosa Beach to be drilled?

10 MR. MOUNT: Placed on production.

11 CHAIRMAN MC CARTHY: Placed on production?  
12 All right. Do you have anything else to add?

13 MR. MOUNT: At the time the Commission  
14 originally considered this item, I think there's little  
15 doubt that there was drainage occurring, as defined in  
16 the statute.

17 CHAIRMAN MC CARTHY: Does the statute, as it has  
18 been interpreted, anywhere state that active production  
19 must be occurring to establish drainage?

20 MR. HIGHT: The statute is -- says nothing to  
21 that point, nor do any of the cases or articles that --  
22 well, there are no cases. None of the articles that  
23 have been written on the statute deal with that issue.

24 The words of the statute are that draining --  
25 that the lands must be being drained by means of wells

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1 upon adjacent lands. It doesn't say that they need to  
2 currently be in production.

3 CHAIRMAN MC CARTHY: I take it from Mr. Mount's  
4 statement that he and the other staff of the Commission that  
5 have looked at this are satisfied that the drilling and  
6 extraction that occurred from sites located in Redondo  
7 Beach did cause drainage from oil that Hermosa Beach  
8 now wants the opportunity to go after, and could legally  
9 if drainage was established.

10 MR. MOUNT: That's correct.

11 MR. HIGHT: Correct.

12 CHAIRMAN MC CARTHY: Any questions from  
13 Commissioners at this point? Any other comments you want  
14 to make on this drainage issue? Just a minute, sir.

15 Any other comments you want to make on this  
16 drainage issue, staff?

17 MR. MOUNT: No.

18 CHAIRMAN MC CARTHY: Mr. Ferrin, do you have  
19 something you want to add to this? Why don't you use the  
20 microphone, please?

21 MR. FERRIN: Lieutenant Governor McCarthy, I'm --  
22 I don't profess to be a petroleum engineer. I'm actually  
23 a data technical engineer, so I know something about  
24 drawdown. What's happened here and what I think we see  
25 is that there's a semantical problem here between the

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1 term "drainage" and that of "migration". The act of  
2 pumping oil in the field at Redondo Beach has created  
3 a very significant negative pressure. And it's because  
4 of the continued existence of that negative pressure,  
5 even though they are no longer intensifying or augmenting  
6 that negative pressure, it is the existence of that  
7 negative pressure -- which was a direct result of the  
8 pumping of oil in Redondo -- that is causing what we now  
9 have termed "drainage." We are now calling it  
10 "migration".

11 It is still the same thing. It is a percolation  
12 of oil from one area to another caused as a direct  
13 result from the pumping and the negative pressure that  
14 was produced.

15 CHAIRMAN MC CARTHY: All right. Any other  
16 questions on the drainage issue?

17 COMMISSIONER BURTON: I'd like to ask a few.  
18 I'm not a technical expert either. Although I understand  
19 drawdown. It's a different kind.

20 (Laughter.)

21 COMMISSIONER BURTON: And I think the people who  
22 are here are sufficiently knowledgeable, but they could  
23 put it in terms that a layperson could understand. My  
24 question is, is there a distinction between drainage now  
25 and drainage if production were going on that can be

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1       quantified? You know, we're saying there's some sort of  
2       drainage, but how is it different from the drainage that  
3       seems to be recognized in your understanding of the  
4       statute?

5               MR. MOUNT: The only difference between our  
6       interpretation and Hermosa Beach's is that the statute  
7       states by well. And since there are no wells, then,  
8       by statute, there may be drainage but there are no  
9       wells there to produce that oil and, therefore, sell it.

10              So, oil may be moving from Hermosa Beach to  
11       Redondo Beach and, in fact, it's being lost to the Redondo  
12       Beach side of the lease, but it's not being produced.  
13       Therefore, by the statute, it says, "drainage by wells."  
14       So, it may be being drained, but the second part of that,  
15       "by wells," does not exist today, except for possibly  
16       these two upland wells; that if they were put on  
17       production, could be considered drainage by wells.

18              COMMISSIONER BURTON: What sort of a lease does  
19       Redondo Beach have and why did they stop production?

20              MR. MOUNT: Well, that lease was before this  
21       statute became effective, so that they stopped production  
22       because the wells were uneconomic to produce, and they  
23       shut them in and have since abandoned them.

24              COMMISSIONER BURTON: So, they're basically  
25       capped, closed off?

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1 MR. MOUNT: That's correct.

2 COMMISSIONER BURTON: Never to be used again.

3 MR. MOUNT: That's correct.

4 COMMISSIONER BURTON: But the upland wells would  
5 not affect Redondo Beach's oil.

6 MR. MOUNT: No, but the statute does not say  
7 where the drainage has to be occurring. It just says  
8 only adjacent land.

9 CHAIRMAN MC CARTHY: The testimony from one of  
10 the proponents was that drilling in Redondo Beach has  
11 been occurring for 20 to 30 years. Is that what your  
12 research indicates --

13 MR. MOUNT: That's correct. They have been  
14 producing that long.

15 CHAIRMAN MC CARTHY: Would you tell the  
16 Commission how much -- how many barrels of oil, roughly,  
17 have been extracted by Redondo Beach?

18 MR. MOUNT: Approximately 7.7 million barrels  
19 of oil.

20 CHAIRMAN MC CARTHY: And do we have a rough  
21 approximation of how much of that extraction could have  
22 been the proximate cause of creating the pressure  
23 differentials that affect Hermosa Beach's opportunity  
24 now to drill for oil?

25 MR. MOUNT: Well, all of that extraction had an

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1 effect on the pressure. So, there is a pressure sink,  
2 based on the measurements, on the Redondo Beach side.  
3 That's causing the migration of oil, and water, and  
4 fluids across -- from Hermosa Beach to Redondo Beach.

5 It's very difficult to quantify how much oil  
6 that is. It's a significant number -- in the millions of  
7 barrels of oil -- that has probably migrated or drained  
8 across the lease line.

9 CHAIRMAN MC CARTHY: Okay. Any other comments?

10 COMMISSIONER ZIEGLER: Well, given the life  
11 of the Redondo Beach well and the closure dates on that  
12 side, I guess the question I have is why are we talking  
13 about this now for Hermosa Beach?

14 MR. MOUNT: Well, you understand, this process  
15 was started many years ago when, in fact, there was no  
16 doubt about drainage occurring and that oil being  
17 produced and Redondo Beach recovering that oil that came  
18 from Hermosa Beach. That's not the situation today.

19 CHAIRMAN MC CARTHY: Any other questions on the  
20 drainage issue?

21 Let's talk about environmental impacts. If the  
22 Commission were to decide that the applicant should be --  
23 should disagree with the staff's finding that drainage is  
24 not occurring as a result of production from wells on  
25 adjacent lands, and if the Commission were to find that

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1 it was occurring as a result of drainage on adjacent  
2 lands, the next issue is what environmental impacts are  
3 there that have been discerned in the research of this  
4 so far, and how would we address those issues?

5 EXECUTIVE OFFICER WARREN: The staff has  
6 examined the environmental impact report prepared on this  
7 project. Mr. Hight has looked at it carefully. The  
8 environmental impacts seem to be minimal as is the risk.  
9 I would prefer that he characterize his -- or summarize  
10 his findings. But that's my impression.

11 MR. HIGHT: Yes, Mr. Chairman. The Sierra Club  
12 and the Commission staff basically had the same  
13 objections. And they were, one, that the EIR did not  
14 adequately address the hazard footprint that the project  
15 could create in the event of a blowout or an explosion;  
16 that there was some noise and air pollution problems  
17 that we didn't feel were adequately addressed.

18 I think those could be adequately addressed in  
19 any permit that the Commission would -- that the city  
20 were to issue for this project as conditions of the  
21 project which would mitigate those concerns.

22 EXECUTIVE OFFICER WARREN: I would like to point  
23 out that those concerns have to do with the operations on  
24 the upland site -- the noise and the transportation  
25 effects there would be to the adjacent landowners.

1           CHAIRMAN MC CARTHY: May I ask one of the  
2 proponents to please respond? Incidentally, before I  
3 do that, I want to acknowledge the presence of  
4 Mr. Lee Bennett, who is the Staff Director for State  
5 Senator Bob Beverly's office. If you'd like to testify  
6 in a little while, Mr. Bennett, we'll be very happy to  
7 receive your testimony.

8           Would one of the proponents, if you're able to,  
9 please respond to the points just made about the Sierra  
10 Club -- was there another organization that --

11           MR. HIGHT: The Lands Commission, also.

12           CHAIRMAN MC CARTHY: All right.

13           MR. HIGHT: Staff.

14           CHAIRMAN MC CARTHY: And the Lands Commission  
15 staff has raised these two environmental questions, as  
16 I understood them. Have you had an opportunity to look  
17 at those objections and, if you have, do you have any  
18 comment on them?

19           COMMISSIONER ZIEGLER: Mr. Chairman, there's one  
20 additional issue I'd like the proponents to address,  
21 and that is some concern about the wastewater from the  
22 project being rather vastly underestimated, and what  
23 contingencies you might have in place on that issue as  
24 well.

25           MR. GAUTSCHY: My name is David Gautschy. I'm a

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1 consultant for Macpherson Oil Company. My position in  
2 this is the project manager for construction of the  
3 facilities. The two items that you just discussed -- the  
4 fire hazard has been discussed thoroughly with the fire  
5 chief just recently. And, as a mitigation measure,  
6 numerous things can be done with the tank farm to protect  
7 the local citizens, such as foam systems on the tanks,  
8 water deluge systems. There are numerous methods. And  
9 that's more of a detailed engineering thing that would  
10 happen in the construction of the tank farm that normally  
11 isn't handled at this kind of a level. In other words, we  
12 would comply with all the requirements of the State and  
13 also the City of Hermosa Beach requirements in fire  
14 protection.

15 There was some comment about the footprint of  
16 the hazard, and those could be determined based on  
17 prevailing winds and a report could be prepared for that,  
18 which I'm familiar with with another project in  
19 Huntington Beach, which we're just completing, which we  
20 did very similiar things with.

21 The other item that you were talking about, could  
22 you rephrase that for me, please?

23 EXECUTIVE OFFICER WARREN: The noise.

24 MR. GAUTSCHY: The noise situation. The general  
25 thing that's done today is to comply with -- Hermosa

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1 Beach does have an oil code, and in there it establishes  
2 the noise criteria that must be met. This can be done  
3 in sound blankets around the outside of the facility  
4 during drilling operation, with monitoring to make sure  
5 that we fall within the compliance. The same thing  
6 happened in Huntington Beach. There, we had a fulltime  
7 consultant for the first week that was there 24 hours  
8 a day monitoring the noise to make sure we stayed within  
9 the requirements.

10 Anything we found that went out of those were  
11 repaired immediately, and added additional blankets or  
12 changed the operation to pull us into compliance.

13 So, I feel very comfortable that we can do that  
14 on those concerns.

15 CHAIRMAN MC CARTHY: And you have no problem  
16 or your clients have no problem, should this Commission  
17 decide to find that drainage of oil and gas is occurring  
18 as a result from production from adjacent wells -- if we  
19 made it over that first hurdle, and I don't know what the  
20 opinion of our Commission is at this point. If we get  
21 past that to this issue, you think that we can resolve  
22 this by attaching conditions to the permit that would be  
23 involved? That was the staff recommendation here a moment  
24 ago.

25 MR. GAUTSCHY: I would -- whatever those

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1 conditions might be, if they were in the realm of things  
2 that I've seen that Hermosa Beach already establishes,  
3 I know that we can meet those requirements. What you may  
4 impose, I feel comfortable that we can do that as long  
5 as it's within the realm of something to be done.

6 CHAIRMAN MC CARTHY: Any questions on this  
7 aspect of the environmental concerns?

8 COMMISSIONER ZIEGLER: Yes. I have some concerns  
9 that I saw in the EIR with regard to wastewater estimates  
10 and how that discharge would be handled. Are there  
11 contingency plans if your estimates are wrong?

12 MR. GAUTSCHY: I'm not real familiar with those  
13 estimates. That's not in my end. Probably someone in  
14 the engineering field can give you more information on  
15 that than I could.

16 UNIDENTIFIED SPEAKER FROM AUDIENCE: The answer  
17 is, yes.

18 CHAIRMAN MC CARTHY: Mr. Macpherson, you want  
19 to add something? You're standing. Are you intending to  
20 come up, or what's your wish? Or are you just stretching?

21 MR. MACPHERSON: On your question of water  
22 disposal, the answer is, yes. Water disposal  
23 requirements will be made by -- if water volumes are in  
24 excess of estimates, then water disposal will be made  
25 by reinjecting the water into wells into the same zone that

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1 it was produced from. So, it would be, in essence,  
2 recycled back down into the same formation.

3 COMMISSIONER ZIEGLER: The economic feasibility  
4 of that, so that the project isn't affected -- in terms  
5 of your calculation on this, is that a cheap, conventional  
6 practice, or is that something that could make this  
7 project infeasible?

8 MR. MACPHERSON: No. That's really quite  
9 typical in oil and gas development, disposing of water  
10 by water disposal wells into the formation that it was  
11 produced from.

12 COMMISSIONER ZIEGLER: Okay.

13 CHAIRMAN MC CARTHY: Any other environmental  
14 considerations to raise that Commission staff wants to  
15 point to beyond what we've already discussed?

16 EXECUTIVE OFFICER WARREN: No, Mr. Chairman.

17 CHAIRMAN MC CARTHY: Mr. Bennett, would you like  
18 to make some remarks on behalf of Senator Beverly?

19 MR. BENNETT: Thank you very much, Mr. Chairman.  
20 My remarks will be very brief. This has already been  
21 covered in some detail.

22 The Senator had intended to walk over this  
23 morning himself to make a brief pitch in support of the  
24 city's request, but because of activities over at the  
25 Capitol, he's unable to do so. And he just asked me to

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1 walk -- to come over and let you know that he is in  
2 support of the city's position, and is asking the  
3 Commission to stand behind its 1988 finding of the  
4 existence of drainage.

5 This has been examined in great detail by the  
6 city's engineering department and others who have  
7 concluded that drainage does exist. This is an issue  
8 of a value in millions of dollars -- not only to the  
9 city, but to the State. And he would like you to give  
10 great consideration to the city's position.

11 Thank you very much.

12 CHAIRMAN MC CARTHY: All right. Thank you very  
13 much, Mr. Bennett.

14 Has our staff done any estimate of what the  
15 revenue implications of this are?

16 While I'm asking you to do that, could I ask  
17 Mr. Gene Mansfield to come up, please?

18 Mr. Mansfield's representing the California  
19 Independent Petroleum Association. Mr. Mansfield? Welcome.

20 MR. MANSEFIELD: Thank you, Mr. McCarthy,  
21 Commissioners. Thank you very much.

22 The California Independent Petroleum Association  
23 is an association of the Macpherson Oil Companies of the  
24 world -- small independents that still take oil out of the  
25 ground in very difficult circumstances, very costly. We

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1 think the drainage issue is not an issue at all. There  
2 is drainage. There has been drainage, and the  
3 interpretation of the code section is one of  
4 interpretation. We would urge that the Commission grant  
5 the proposal and allow Macpherson to take this resource  
6 to generate revenues for the State, the City of Hermosa  
7 Beach, and to create some jobs at this much needed time,  
8 and to keep the independent producers working in the  
9 State of California on oil production onshore, and to  
10 keep this vital resource coming and paying for the  
11 State of California. Thank you.

12 CHAIRMAN MC CARTHY: Thank you very much.  
13 Mr. Mansfield.

14 Any questions? Thank you very much.

15 MR. HIGHT: In answer to your question,  
16 Mr. Chairman, based upon the price of oil and an estimate  
17 by the city as to the number of barrels that would be  
18 produced, revenue could be anywhere from 60 to \$100 million,  
19 or could be lower, depending on the price of oil.

20 CHAIRMAN MC CARTHY: What part of that would  
21 come to the State of California?

22 MR. HIGHT: Currently, the State would get none.

23 CHAIRMAN MC CARTHY: How is it split?

24 MR. HIGHT: It would be spent by the city in  
25 their -- it would be divided basically into three

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1 increments. That portion of the oil that would come  
2 from underneath the tidelands would go into the city's  
3 tideland trust account. The portion that comes from the  
4 upland would be divided between city, school districts,  
5 and private entities.

6 CHAIRMAN MC CARTHY: Any further questions by  
7 the members of the Commission?

8 Mr. Warren, do you have any closing comments?

9 EXECUTIVE OFFICER WARREN: No, Mr. Chairman.

10 CHAIRMAN MC CARTHY: I'm satisfied that  
11 there is evidence that drainage of oil and gas did occur  
12 as a result of production from wells on adjacent lands.

13 The evidence is that Redondo Beach drilling  
14 occurred over 20 years and more; that considerable  
15 amount of oil was taken out of the ground. There seems  
16 to be no conflict between Commission staff and proponent's  
17 staff and Hermosa Beach staff.

18 The engineering analysis is that drainage did  
19 occur.

20 If the environmental issues can be satisfied  
21 by imposition of conditions, as suggested, then I'm  
22 inclined to amend the recommendations of the staff to  
23 find -- to change Item No. 2. How do the other two  
24 Commissioners feel about this?

25 COMMISSIONER BURTON: I'm with you on that. It

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1 seems to me it's hard for us to find that drainage is  
2 not occurring as a result of production, given the  
3 testimony that's been presented here. I understand  
4 the staff's position, but it also seems to me that, given  
5 the economics that have brought these representatives of  
6 the city and the oil company to continue with their  
7 project -- despite the fact that Redondo Beach has shut  
8 down -- leads me to also think that, at some point,  
9 Redondo Beach may rethink the economies may be there for  
10 them to reopen the wells as well.

11 And, given that, I think further recognizing  
12 how difficult it is to get through processes on public  
13 lands to be able to complete projects these days -- I mean,  
14 even a school, for Heaven's sake, takes three to five  
15 years to build. And to have a for-profit entity continuing  
16 with a project like this means to me that there are some  
17 economics that make sense there, which, in my mind, raises  
18 the question about the split of revenues on the lease,  
19 and perhaps a review of that -- maybe with an eye toward,  
20 in the longer term, having a more rational sharing of the  
21 proceeds.

22 But I think, given as far as this has come, that  
23 it's hard for us to find that drainage is not occurring  
24 at this point.

25 COMMISSIONER ZIEGLER: I'm open-minded with

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1 regard to this project. But I share Susanne's concern  
2 about the State bearing sort of none of the prospective  
3 gain and yet, in the back of my mind, I'm not completely  
4 convinced that there aren't some safety issues here that  
5 we've missed today, and that we will be bearing the  
6 environmental risks as the body that approves this thing.

7 I think I'm open-minded to the project, but I'm  
8 just not prepared to vote affirmatively today on it.

9 COMMISSIONER BURTON: I'd like to make a motion  
10 that we find that drainage is occurring as a result of  
11 production from the wells. And I'm also comfortable with  
12 the activity is exempt from the requirements as the staff  
13 has outlined here.

14 MR. HIGHT: If the No. 2 finding were to be  
15 that drainage is occurring, then we need to redo the  
16 remainder of the findings. And that would take us a  
17 few minutes. Perhaps we --

18 EXECUTIVE OFFICER WARREN: I gather that the  
19 sense of the Commission, the Commission is of the majority  
20 opinion to find the statutory conditions having been  
21 met; that is, that drainage is, in fact, occurring as a  
22 result of production, as Mr. Hight indicates, we will have  
23 to revise findings of fact. We would also have to  
24 negotiate a permit, which would have to come back to you.

25 For staff's purpose, in order to permit it to

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1 alter the findings and to negotiate the permit, your  
2 action by finding drainage is, in fact, occurring would  
3 instruct us to go back and revise the findings and, in  
4 the meantime, to negotiate the permit, including  
5 the conditions which we would then bring back to you  
6 at your next meeting.

7 CHAIRMAN MC CARTHY: All right. So, you're  
8 proposing that we not act on the findings today; that we  
9 put this over to the next meeting, rewrite the findings,  
10 and give you an opportunity to probably add another  
11 recommendation dealing with the permit conditions.

12 EXECUTIVE OFFICER WARREN: Yes.

13 COMMISSIONER BURTON: I think perhaps the finding  
14 we make today is that drainage is occurring, and that --

15 EXECUTIVE OFFICER WARREN: We'd appreciate that.

16 COMMISSIONER BURTON: -- the staff should follow  
17 up on that finding with the appropriate technical actions  
18 that need to be taken by the Board --

19 EXECUTIVE OFFICER WARREN: Yes.

20 COMMISSIONER BURTON: -- at a later meeting.

21 So, my motion would be to find there is drainage.

22 CHAIRMAN MC CARTHY: I endorse that approach.  
23 Thank you, Mr. Warren. My view of this is that we can  
24 create jobs. I'd love to have the State get a piece of  
25 this change short of violating the Penal Code.

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1 COMMISSIONER BURTON: It's not enough.

2 (Laughter.)

3 CHAIRMAN MC CARTHY: But create some jobs,  
4 and that we don't create environmental problems at the  
5 same time. We ought to move forward on this.

6 So, we unanimously endorse the motion, as just  
7 explained by Commissioner Burton; that's the action on this  
8 item. And we'll put this over to the next meeting for  
9 final action on all parts of the issue.

10 EXECUTIVE OFFICER WARREN: Yes. Thank you.

11 CHAIRMAN MC CARTHY: Thank you all very much.

12 All right. On to the next regular calendar  
13 item.

14 EXECUTIVE OFFICER WARREN: Item 42 and 43 will  
15 also be presented by Mr. Mount.

16 MR. MOUNT: Item 42, Mr. Chairman, approve  
17 amendment of State geothermal resources lease, PRC 6425,  
18 Lake and Mendocino Counties. The amendment will include  
19 a joint scientific research program with DOE and USGS  
20 continues a review and approval by staff, and all other  
21 terms and conditions of the lease remain in full force  
22 and effect.. There are no other comments, Mr. Chairman.

23 CHAIRMAN MC CARTHY: Any questions by members of  
24 the Commission? Anybody in the audience? If not, approved  
25 as recommended. Next?

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1 EXECUTIVE OFFICER WARREN: Item 43.

2 MR. MOUNT: The Commission is being asked to  
3 approve the agreements for the State sale -- for the  
4 sale of geothermal steam between Unocal, Thermal, NEC,  
5 and PG & E on State resource lease 4596, 4597, 6422, and  
6 6423, the Geysers Steam Field, Lake and Sonoma Counties.

7 The new steam sales agreement will result in  
8 more equitable prices for steam produced in State leases  
9 and put the steam sales price in line with other prices  
10 being paid for steam in the rest of the Geysers.

11 The approval of the agreement will be contingent  
12 upon Unocal continuing participation in the California  
13 Energy Commission's Technical Advisory Committee and  
14 Unocal submitting a five-year operating plan for review  
15 by the State Lands Commission.

16 It is also contingent on the Thermal and Unocal  
17 paying to the State its share of the \$13 million and  
18 \$5 million dollar field inventory writedown settlement,  
19 respectively, of the agreement.

20 CHAIRMAN MC CARTHY: Questions by members of the  
21 Commission? Anyone in the audience? All right. Approved  
22 as recommended. Next?

23 EXECUTIVE OFFICER WARREN: Item 44, Mr. Chairman  
24 and Commissioners, will be presented by Mr. Lance Kiley,  
25 who's Senior Attorney on the staff. It concerns a

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1 memorandum of understanding negotiated by the Resources  
2 Agency involving the State Lands Commission and other  
3 agencies addressing the problem of dredging on the Mad  
4 River.

5 Mr. Kiley?

6 MR. KILEY: Mr. Chairman, Commissioners, this  
7 item came about as a result of a concern by local  
8 government and the agencies in the Resources Agency about  
9 the continuing effects of gravel mining on the Eel River  
10 in Northern California up near Eureka. The concern was  
11 about the cumulative impacts of the continuous mining  
12 in an area that has been deprived of its sand supply by  
13 the drought over a period of many years, which resulted  
14 in degradation of the stream, resulting in severe fish  
15 impacts. And as a result of that concern, the Resources  
16 Agency negotiated this memorandum of agreement between the  
17 Resources Agencies involved and local government spelling  
18 out the rights and responsibilities. And the result of  
19 this would be that the gravel operators in the Mad River  
20 Basin would be allowed to operate for this summer and  
21 be assured that they comply for this particular year, and  
22 supply a study of the cumulative effects that's going on,  
23 which would be funded by the local operators.

24 CHAIRMAN MC CARTHY: Any questions? Approved as  
25 recommended.

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1 EXECUTIVE OFFICER WARREN: Item 45, Mr. Chairman  
2 and Commissioners, is to request authority for the  
3 Executive Officer to execute two agreements for fiscal  
4 year 92-93, depending upon the budget and other  
5 considerations that is. This does not instruct; it  
6 merely authorizes.

7 The second of the two items is a low priority  
8 matter, which will be pursued only if -- well, I'm not  
9 quite sure. I've said enough.

10 COMMISSIONER BURTON: I'll move approval of  
11 that.

12 CHAIRMAN MC CARTHY: All right. Approved  
13 unanimously. Is that it?

14 EXECUTIVE OFFICER WARREN: That's it,  
15 Mr. Chairman.

16 CHAIRMAN MC CARTHY: Thank you, ladies and  
17 gentlemen, very much. That concludes the Commission  
18 meeting.

19 (Thereupon, the meeting was adjourned  
20 at 11:25 a.m.)

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