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MEETING OF THE CALIFORNIA STATE LANDS COMMISSION

TRANSCRIPT OF PROCEEDINGS  
Friday, September 3, 1999  
10:00 a.m.

One World Way  
Board of Commissioners Meeting Room  
Department of Airports  
Administrative Building  
Los Angeles, California

REPORTED BY:  
Katherine Gale,  
CSR 9793  
Our File No. 1-58315

1 APPEARANCES:

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3 COMMISSION MEMBERS:

4 CRUZ M. BUSTAMANTE, Lieutenant Governor, Chair  
5 KATHLEEN CONNELL, State Controller, Member  
6 ANNETTE PORINI, Chief Deputy for Department of  
7 Finance

8 COMMISSION STAFF:

9 PAUL THAYER, Executive Officer  
10 JACK RUMP, Chief Counsel  
11 RICK LUDLOW, Senior Staff Counsel  
12 PAUL MOUNT, Chief, MRMD  
13 DWIGHT SANDERS, Chief, Environmental Planning and  
14 Management  
15 SHARON SHAW, Administrative Assistant II

16 ATTORNEY GENERAL'S OFFICE:

17 DENNIS EAGAN, Deputy Attorney General  
18 MATTHEW RODRIQUEZ, Deputy Attorney General

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1 PROCEEDINGS

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3 COMMISSIONER BUSTAMANTE: I'll call  
4 this meeting to order. All the representatives of  
5 the commission are present. My name is  
6 Cruz Bustamante, and I'm joined today by  
7 Controller Kathleen Connell and Annette Porini, Chief  
8 Deputy and Director of the Department of Finance.

9 For the benefit of those in the  
10 audience, the State Lands Commission was established  
11 to administer and sovereign tide and submerged lands  
12 of the state as well as the state's mineral  
13 interests. Today we will address proposals  
14 concerning the leasing and management of these public  
15 properties.

16 The first item of business will be the  
17 adoption of the minutes from the commission's last  
18 meeting.

19 Do we have a motion to approve the  
20 minutes?

21 COMMISSIONER CONNELL: Mr. Chair, I  
22 move that we approve the minutes.

23 COMMISSIONER PORINI: Second.

24 COMMISSIONER BUSTAMANTE: The record  
25 shows that there's been a unanimous acceptance of the

1 minutes. The minutes are approved unanimously.

2 The next order of business will be the  
3 adoption of the consent calendar. Paul, our  
4 executive officer, Paul Thayer, to indicate which  
5 items have been removed from the consent calendar.

6 MR. THAYER: Good morning, Mr. Chairman  
7 and commission. There's one item pulled by the  
8 applicant, C6. And in addition we have requests to  
9 speak on two other items: C65 which has to do with  
10 the borings off of the shell mounds off of  
11 Santa Barbara, and C75 which is a proposal by Benton  
12 to defer drilling and production obligations.

13 So in light of our rules on the consent  
14 calendar having to be -- have only items for which  
15 there's no opposition or no concern, I would  
16 recommend that those be taken off as well.

17 COMMISSIONER BUSTAMANTE: All right.  
18 C70 --

19 MR. THAYER: C75 --

20 COMMISSIONER BUSTAMANTE: C75. Okay.

21 MR. THAYER -- and C65.

22 COMMISSIONER BUSTAMANTE: All right.

23 MR. THAYER: And so I would recommend  
24 that you take up the calender --

25 COMMISSIONER BUSTAMANTE: Did they

1 indicate that that was opposition, or did they  
2 indicate that there was just --

3 MR. THAYER: They wanted to speak.

4 COMMISSIONER BUSTAMANTE: They wanted  
5 to speak.

6 MR. THAYER: They wanted to speak. And  
7 I think the only way to really handle that is go  
8 ahead and take it off.

9 COMMISSIONER BUSTAMANTE: That's fine.  
10 You want to do that? We need a motion.

11 COMMISSIONER CONNELL: I move the  
12 consent calendar with the exception of C6, C65, and  
13 C75. Is that correct?

14 MR. THAYER: That's correct.

15 COMMISSIONER PORINI: Second.

16 COMMISSIONER BUSTAMANTE: Let the  
17 record show that the -- the motion passes unanimously  
18 all those consent items.

19 Is there anyone in the audience who  
20 wishes to speak on any item that -- for any of those  
21 that are wanting to speak, please, if you haven't  
22 already filled out your cards, please make sure you  
23 fill out all the cards, indicate which item you would  
24 like to speak on, and pass it on to the press.

25 The next order of business is the

1 executive officer's report.

2 Mr. Thayer, may I have your report?

3 MR. THAYER: Certainly. I wanted to  
4 touch on a few items with the commission that were in  
5 previous meetings but for which we don't have  
6 particular items on today.

7 But first I want to introduce we have  
8 the usual staff lineup but in addition we have  
9 Matt Rodriquez here from the Attorney General's  
10 Office in the center.

11 Matt was recently promoted to take  
12 Rick Frank's place. He's a Senior Assistant Attorney  
13 General in charge of the land law section and is  
14 Dennis Eagan's boss, therefore. We have Dennis at  
15 most of our meetings.

16 And he has a lot of experience in  
17 dealing with issues that relate to the Lands  
18 Commission's work with the Coastal Commission for a  
19 number of years, and we know we've got a good guy  
20 here in Matt. I just wanted to make sure that you  
21 were aware.

22 COMMISSIONER BUSTAMANTE: Do we have  
23 any comments? Congratulations on your promotion.

24 MR. RODRIQUEZ: Thank you very much.

25 COMMISSIONER BUSTAMANTE:

1       Congratulations on being a good guy too.

2                       MR. RODRIQUEZ:   And that's what I  
3       really like.   And I also want to just add that I  
4       don't know that anybody can really be Dennis Eagan's  
5       boss.   I've been working with Dennis for 12 years,  
6       and it's been a wonderful working relationship, and I  
7       look forward to continue to work with him as he  
8       advises this commission.

9                       I did want to let the commissioners  
10      know that, as Paul indicated, I have been with the  
11      land law section in our office for 12 years, and  
12      during that time I've had the pleasure of  
13      representing this commission and working with your  
14      staff.   I look forward to continuing to do so.

15                      And I also want to let you know that I  
16      am aware of the history of our section and that our  
17      section was initiated to represent this commission  
18      and many of its works.

19                      I still consider that to be a priority  
20      mission of the land law section and wanted to assure  
21      you that anything you need from our office, we're  
22      there to give it to you, and so you should never  
23      hesitate to ask us for assistance as you're  
24      conducting your very serious business.   So with that  
25      I'll let you continue.

1 COMMISSIONER CONNELL: Thank you.

2 MR. THAYER: The next --

3 COMMISSIONER BUSTAMANTE: I'm sorry.

4 Go ahead.

5 MR. THAYER: The next item I wanted to  
6 talk about is that at our last commission meeting we  
7 had an extensive discussion on the abandonment of the  
8 Belmont platform/island.

9 This is not back before you today, but  
10 at that meeting the commission expressed its interest  
11 in getting additional information before proceeding  
12 on that.

13 And in response to that we're  
14 developing sort of a half day, two-thirds day  
15 conference at which we're going to invite a number of  
16 people that are interested in this issue from the  
17 public use sector, the professional expert sector,  
18 and the public agency sectors.

19 They're a lot of the same people, the  
20 same interests you've heard from at the Belmont  
21 hearing. And we would propose to hold that  
22 conference on the same day as the next commission  
23 hearing.

24 So if the commissioners care to come  
25 and listen to this additional information or send

1 their staff, we would recapitulate that briefly at  
2 the regular commission meeting, probably here and at  
3 Belmont. And you can call in a conference so that  
4 that information would be available to you and you  
5 could consider it when you're making your decision.

6 COMMISSIONER CONNELL: Would that be in  
7 Long Beach?

8 MR. THAYER: It will probably be --  
9 we're thinking about Ventura. It makes it a little  
10 bit closer to the Santa Barbara folks who are very  
11 interested in this and close to some of the experts.

12 COMMISSIONER CONNELL: So our meeting  
13 would be in Santa Barbara?

14 MR. THAYER: In Ventura.

15 So unless there's any objection, we'll  
16 go ahead and schedule that.

17 At that meeting we may very well -- we  
18 are planning to have a roll-out of our new marine  
19 facilities inspection program. As part of the most  
20 recent budget, we finally received enough money that  
21 we can inspect what we refer to as non-terminal  
22 marine facilities.

23 What this means is that it's the kinds  
24 of facilities that have the potential to leak oil  
25 into the water but which we haven't been inspecting

1 in the past.

2 We're going to have that program ready  
3 to go, and we think that that would be a nice  
4 adjunct.

5 I also wanted to mention that at our  
6 last meeting -- or update you on it -- at our last  
7 meeting we had the proposal from Eureka to lease  
8 public trust lands on the waterfront there, and the  
9 commission directed me to try and resolve that issue,  
10 the portions of the lease that were inconsistent with  
11 the public trust between meetings.

12 And I'm regretful to have to report  
13 that we were unable to do that. We drafted up a  
14 lease that would address all the concerns that the  
15 commissioners had to make sure the public trust was  
16 carried out and forwarded that to the city and  
17 indicated to them we would be willing to negotiate  
18 over some of the points. But they didn't want to  
19 proceed at that point and abandoned the project.

20 Somewhat coincidentally several weeks  
21 ago there was an adjacent site where a Wal-Mart was  
22 proposed, and some of the opponents described that  
23 were connected to that referendum in the city failed  
24 and, therefore, Wal-Mart, we understand, may be  
25 pulling out of their project up there.

1                   So a lot of the pressure for  
2 development along the waterfront there has lessened,  
3 and the city is reconsidering what they want to do  
4 with the parcel that was in front of you last time.

5                   The last -- or two more items. The  
6 commission will recall that back in April we had a  
7 press conference to announce the settlement on the  
8 Brother Jonathan litigation which resulted in  
9 200 points coming to the state.

10                   There's going to be an exhibit in the  
11 state capital later this month. It will open up and  
12 last through January. And we'll advise the  
13 commissioners and their offices when that occurs to  
14 see if you want to participate in that, but we  
15 thought you would want to know about that.

16                   COMMISSIONER CONNELL: Is that exhibit  
17 going to travel throughout the state?

18                   MR. THAYER: This particular one will  
19 not. However, we are working -- we've received  
20 inquiries from some other museums to see if we're  
21 willing to lend them coins and other artifacts from  
22 the Brother Jonathan.

23                   And of course this exhibit might end up  
24 becoming the method of doing that. But there is  
25 interest. There is widespread interest in these

1 artifacts, and we're certainly looking to facilitate  
2 and accommodate that.

3 COMMISSIONER BUSTAMANTE: Is there  
4 interest in using the 150th anniversary?

5 MR. THAYER: We have been in contact  
6 with that organization and haven't yet heard from  
7 them on that.

8 Then the final point I wanted to raise  
9 is the retrosection of the El Toro Marine Air Base.  
10 The issue here is since the base closure the  
11 commission has a very unique authority and distinct  
12 authority to accept transference of the police and  
13 fire and other municipal responsibilities from the  
14 federal government to the state and local governments  
15 that doesn't relate to any of our other functions.  
16 And that has now been proposed for El Toro.

17 However, there's a lot of controversy  
18 over the reuse at El Toro, and as a result of input  
19 from the opponents of that project and the advice  
20 from the Attorney General's Office, we have not  
21 brought that before the commission because CEQA had  
22 not yet been complied with.

23 Last week we received documentation  
24 from the county, and we received some preliminary  
25 review from our staff and that of the Attorney

1 General's Office, and we may be in a position where  
2 we can bring that back in November. Both the  
3 commissioners and staff have received a lot of  
4 inquiries about the status of that, and I wanted to  
5 make you aware of that.

6           There is a potential auxiliary issue  
7 dealing with toxics. And although the commission  
8 does not have direct jurisdiction over that, the  
9 commission may be interested in learning how that's  
10 resolved. And we may need to look into that a little  
11 bit further before we can bring that to the  
12 commission in order that we can be satisfied on that.

13           COMMISSIONER BUSTAMANTE: Is that  
14 because there is no state lands that are going to be  
15 affected by any toxic situation or -- what do you  
16 mean by jurisdiction over it?

17           MR. THAYER: The issue before us is not  
18 so much land use or ownership of the land but the  
19 transference of the police authority. And as such  
20 we're not involved in what is a fairly elaborate  
21 process which we researched for the other  
22 retrosection that's on today's calendar, George Air  
23 Force Base.

24           There's a process which involves the  
25 State Department of Toxic Substance Control and the

1 Regional Water Quality Control Board, and those  
2 entities are usually dealing on behalf of the state  
3 with the toxics issue.

4 But I'm aware that the commissioners do  
5 not want to be in a position where they're approving  
6 or facilitating a transfer where there remain  
7 outstanding issues. And so this is something that we  
8 need to take a look at.

9 COMMISSIONER CONNELL: I have a  
10 question in that regard, Mr. Chair.

11 This El Toro, did it ever have a live  
12 ammunition field? I remember we dealt with this in a  
13 San Diego property in my first term. I want to make  
14 sure that when we -- if we have any transfer of this  
15 property to us, albeit briefly, that we do not have  
16 any problem with live ammunition that has not yet  
17 exploded being available on the land damaging people.

18 I would want to make sure that they  
19 have swept that field and that any artillery range  
20 that existed has been swept clean.

21 They had a tragedy down in San Diego,  
22 as you recall, when they failed to do that when they  
23 transferred the San Diego naval base, and children  
24 were killed in the process. And we certainly want to  
25 make sure that that has been -- that safety has been

1 observed and that danger has been removed.

2 MR. THAYER: I understand. And we'll  
3 make sure we investigate that before we bring it back  
4 to the commission.

5 COMMISSIONER BUSTAMANTE: Are we aware  
6 that there in fact is problems of toxic -- well,  
7 toxic problems on the land?

8 MR. THAYER: We've received some  
9 letters which have made that allegation.

10 COMMISSIONER BUSTAMANTE: Letters not  
11 by any agency or by any scientific entity, but just  
12 generally --

13 MR. THAYER: That's correct. From  
14 citizens and from one council member down there.

15 COMMISSIONER BUSTAMANTE: Have we  
16 reviewed that information to find out if that's at  
17 all true?

18 MR. THAYER: We're in the process of  
19 doing that. We'll certainly complete that before we  
20 bring it back to the commission.

21 COMMISSIONER BUSTAMANTE: I know that  
22 our jurisdiction on this is very limited, but I have  
23 a problem in moving forward on something which we are  
24 allowing the military to -- because they can't  
25 transfer the land until this police situation has

1     been transported.

2                     It seems to me that the military has  
3     the obligation in assisting in the cleanup of that  
4     facility, and dumping a piece of property on the  
5     county just seems to me -- even if they want it, it  
6     seems to me to be a problem.

7                     COMMISSIONER CONNELL: Well, this is  
8     what I was referring to what occurred in San Diego.  
9     This is exactly what happened. There wasn't a  
10    complete cleanup of the property. In that case it  
11    was an artillery range which unfortunately detonated  
12    on these children. In this case it may be toxics.

13                    I am absolutely insistent that the  
14    federal government remove all toxics, whether they  
15    are toxics which are pollutants or whether they are  
16    toxics which may be undetonated artillery.

17                    We do not want to have any contact  
18    legally with this land. I would like to make sure  
19    that the Attorney General protects us in that regard.  
20    We do not want to have any momentary possession of  
21    this land in a situation in which the land has not  
22    been cleansed. Obviously we don't want the state to  
23    be the deep pocket here that can be associated with a  
24    problem that is later identified.

25                    COMMISSIONER BUSTAMANTE: Also, if

1 there's any -- if there's any legal way of  
2 segregating land that we could -- I know that there's  
3 some interest by the county because there is some  
4 potential revenue that could be received from the  
5 property. I know that they're interested in moving  
6 forward.

7                   If there's any way of segregating land  
8 so that those areas that are a problem could be  
9 somehow isolated appropriately without liability,  
10 without major problems, and clearly without jeopardy  
11 to the public, that might be an interesting proposal  
12 to at least give us some information on.

13                   MR. THAYER: So partial retrosection?  
14 Geographically a more limited --

15                   COMMISSIONER BUSTAMANTE: I think as  
16 long as the commission feels that we're not exposing  
17 the public even though we don't have specific  
18 jurisdiction over the toxic issues, this is clearly  
19 the step that they need to transfer the property.

20                   And we'd like to see a little bit more  
21 attention made to what they plan to do. In fact they  
22 may have a plan. We just may not know about it. I'm  
23 sure that's the case.

24                   MR. THAYER: Sure. We'll consider all  
25 these comments before bringing it back to the

1 commission.

2 COMMISSIONER BUSTAMANTE: Okay.

3 MR. THAYER: And that concludes the  
4 executive officer's report. If the commission would  
5 like, we could move to the two items -- since they're  
6 earliest in the calendar -- that were taken from the  
7 consent calendar.

8 We could make a staff presentation, but  
9 perhaps it would be best to listen to what the  
10 concerns are from the public that's causing to take  
11 the items off.

12 COMMISSIONER BUSTAMANTE: That will be  
13 fine. Why don't we go ahead and start with C65.

14 Let's see. How many people do I have  
15 here to speak? Only two people; is that correct?

16 MR. THAYER: That's all I have as well.

17 COMMISSIONER BUSTAMANTE: Okay. I  
18 have -- I'll read the names.

19 MR. THAYER: Susan Jordan.

20 COMMISSIONER BUSTAMANTE: Susan Gordon?

21 MR. THAYER: Jordan.

22 MS. JORDAN: Jordan.

23 COMMISSIONER BUSTAMANTE: Jordan and  
24 Linda Krop.

25 Susan.

1 MS. JORDAN: Good morning. My name is  
2 Susan Jordan, and I'm with the League for Coastal  
3 Protection. It's my first time at a State Lands  
4 Commission, so forgive me if I don't know of the  
5 nuances.

6 But in terms of the Chevron shell  
7 mounds, part of the concern here, I've watched this  
8 at the Coastal Commission for quite some time, and I  
9 think the general concern is that this issue has just  
10 been dragging on forever.

11 We're all very gratified that we're  
12 finally doing this -- doing these core samples  
13 because they need to be done, but what I want to urge  
14 is that the commission really stay on top of this  
15 issue and move it towards resolution.

16 It's more of a concern now than ever  
17 because of what's happening in terms of the federal  
18 offshore leases. We recently had 4 of the 40  
19 expired. We are moving towards expiration of the  
20 remaining 36.

21 But there's a great possibility that we  
22 won't prevail in that struggle and that there will be  
23 some development. If there is development, we have  
24 to be very clear at the state level as a signal to  
25 the federal level that we take care of our own house.

1                   And we can't set a precedent for  
2 allowing any kind of development where debris removal  
3 is not completed, which is where I'd like to take an  
4 issue with the staff report.

5                   The staff report gives an impression  
6 that debris removal has been completed both here in  
7 C65 and later in your staff report on the federal --  
8 on the state leases. Our position is that debris  
9 removal has not been completed.

10                  So we're glad that you're moving  
11 forward on this, and we would like to encourage you  
12 to look at it very closely. Thank you.

13                  COMMISSIONER CONNELL: Can I ask you a  
14 question, Susan?

15                  MS. JORDAN: Uh-huh.

16                  COMMISSIONER CONNELL: What would you  
17 ideally like us to do in regards with the shell  
18 mounds?

19                  We're obviously -- we're talking  
20 about -- I think the four names are Heidi and Holly  
21 and Hazel and Hilda or something like that; right?

22                  What would you ideally like us to do?

23                  MS. JORDAN: I think you're making the  
24 first step. I'm not from that area. I've been  
25 watching this more in a general position. So I'm not

1 right up on the exact details. EDC has been  
2 following this for years, and I really think they can  
3 give you a better direction. I think the core sample  
4 idea is necessary to understand what is there.

5 I think also there is -- while I don't  
6 like to promote trawling because it has its own  
7 issues, but I think that there has been an impact,  
8 and there was a promise made to the trawlers.

9 And they apparently need equipment to  
10 help them avoid impacts while this drags on and gets  
11 resolved, I think to stay on top of it and make sure  
12 that it gets resolved.

13 And this issue of it becoming habitat  
14 is another problem, okay, because if you leave  
15 something in the water and something manages to  
16 survive around it, it doesn't make it proper habitat.

17 You know, for us we look at this issue  
18 if this was a developer who was leasing state land  
19 and left their debris or garbage on the land, there  
20 would be no question that this would be removed.

21 What we're dealing with here is a  
22 marine environment where it's not visible, and I  
23 think that's part of the problem.

24 So I guess what we're hoping to do is  
25 figure out if this can be removed in a safe manner

1 and to have it removed and to set the precedent for  
2 any future development either at state or federal  
3 level for how these platforms and their abandonment  
4 will be handled.

5 COMMISSIONER CONNELL: Thank you.

6 MS. JORDAN: You're welcome.

7 COMMISSIONER CONNELL: Mr. Chair, may I  
8 ask does our staff have a response to that?

9 MR. THAYER: Certainly. We agree. We  
10 would like to bring this issue to a resolution than  
11 have it drag on too long. Basically the problem is  
12 there are a variety of interests there with different  
13 concerns.

14 Where we are at this point, though, in  
15 the process is that we and the Coastal Commission  
16 have asked Chevron to develop some additional  
17 information about shell mound removal or the habitat  
18 that exists now.

19 And the lease that's -- or permit  
20 that's in front of you today is actually to permit us  
21 as an organization to do these borings, but the  
22 borings would actually be done by Chevron.

23 The concern here is we would like to  
24 move things along in a rapid fashion the work program  
25 for developing additional information. A feasibility

1 study has not yet been completed, and our concern was  
2 that if we waited until November to bring this to the  
3 commission, we would have lost time that could have  
4 been used to start the boring and that kind of thing.  
5 So our approach is we would like to see some  
6 additional information developed before we bring it  
7 to this commission.

8           The commission -- just in the way of  
9 background on this, the commission acted back in 1994  
10 to approve removal of the four H platforms, the four  
11 that you named.

12           In its staff report, the mounds were  
13 acknowledged to exist but were not required to be  
14 removed. However, as Ms. Jordan points out or  
15 alludes to, the commission's action requires that all  
16 debris be removed.

17           And I think it was not contemplated at  
18 that time that the shell mounds would prevent  
19 trawling in the area. The conditions required  
20 eventually that a test trawl be done to make sure  
21 that all the debris was removed. The test trawls  
22 hung up on the mounds.

23           And it's based on that that Ms. Jordan  
24 and others believe that the mounds should be treated  
25 as debris, because they've had the same physical

1 effect as the other kinds of debris that were there.

2 I'm not as concerned about the  
3 particular name to it. The issue is how do we  
4 proceed from here.

5 Chevron has worked out a deal with the  
6 fishermen where they would like to provide global  
7 positioning and satellite navigational equipment  
8 which would allow the fishers to operate much more  
9 closely to the mounds than they can now.

10 Right now they're not sure where they  
11 are. They're under water. So they have to avoid a  
12 much larger area. If they had the satellite  
13 navigation gear, they could operate much more  
14 closely.

15 Chevron would like the commission to  
16 amend the previous conditions to allow them to do  
17 this in lieu of passing the trawl test.

18 It's in contemplation of that proposal  
19 coming to the commission that we're developing this  
20 additional information so that the commission will  
21 know not just about the GPS equipment but asking the  
22 commission about whether or not removing the shell  
23 mounds is something that the commission wants to  
24 pursue.

25 COMMISSIONER CONNELL: Have we removed

1 shell mounds elsewhere along the coast of the  
2 California?

3 MR. THAYER: I don't believe so.

4 COMMISSIONER CONNELL: Has it ever  
5 occurred anywhere else in the world that we have an  
6 experience?

7 MR. THAYER: I've talked with some of  
8 the federal people, MMS, about the Gulf of Mexico  
9 where there are, of course, a lot of platforms in  
10 development.

11 My understanding of the shell mounds,  
12 they have shell mounds there, but they're  
13 dramatically reduced in scope. They're 60 feet wide  
14 and 10 feet high, not consolidated.

15 What we're talking about here is a  
16 mound that's 30 or 40 feet high and 200 feet wide.  
17 So although I know of other shell mounds, I don't  
18 know of other mounds that are quite this big.

19 COMMISSIONER CONNELL: So we would have  
20 to pioneer an entire technique here.

21 MR. THAYER: Potentially. Potentially.

22 COMMISSIONER CONNELL: And what would  
23 be the negative environmental consequences if we got  
24 it wrong?

25 MR. THAYER: Well, I think the one that

1 most people talk about is what the impacts of the  
2 environment will be from removal. We don't know what  
3 the method is that could be used, whether you can  
4 break up these -- the shells have actually  
5 reconsolidated, so they're almost like concrete.

6           And so the question is whether you can  
7 get that out with anything short of explosives. I  
8 think this part of the feasibility study would be  
9 important to see what's the least damaging  
10 alternative for removal.

11           But if it turns out to be explosives,  
12 then we're looking at the impacts that come from that  
13 from turbidity, the immediate shock, and that kind of  
14 thing. But we don't know if that's the only way  
15 there is to remove it.

16           COMMISSIONER CONNELL: Will you be  
17 researching that?

18           MR. THAYER: Yes.

19           COMMISSIONER CONNELL: Between now and  
20 November?

21           MR. THAYER: Well, as part of the  
22 feasibility study. This shell mounds issue won't be  
23 back in November. This feasibility study won't be  
24 done for a while. We're hoping that the borings can  
25 start, but that's the only part of the overall study.

1 COMMISSIONER CONNELL: Thank you.

2 COMMISSIONER BUSTAMANTE: Anything  
3 else?

4 Linda Krop.

5 MS. KROP: Thank you and good morning.  
6 My name is Linda Krop. I'm the chief counsel with  
7 the Environmental Defense Center, and I represent the  
8 Environmental Coalition of Santa Barbara and the  
9 Pacific Coast Federation of Fishermen's Association  
10 on this issue.

11 I appreciate the dialogue that's gone  
12 on so far, so I can kind of abbreviate my comments  
13 and address Commissioner Connell's questions.

14 First and foremost what we want is  
15 permit enforcement. When this permit was issued by  
16 the State Lands Commission in 1994 the contemplation  
17 was that the site would be completely restored to its  
18 natural condition. That's what the negative  
19 declaration said, that all debris and all matter  
20 would be removed.

21 And this site was identified as a  
22 potential trawling site. As you know, trawling was  
23 very limited. This was identified as a trawling  
24 site, and one of the permit conditions specifically  
25 also stated that the site had to be free of

1 obstructions' for trawling.

2           The platforms were removed three years  
3 ago, and we've been trying for three years to get the  
4 site cleaned up. We've been working quite closely  
5 with the State Lands Commission staff in terms of  
6 trying to get the permit either enforced or set a  
7 deadline for Chevron to come in and apply for an  
8 amendment if they do want to leave the shell mounds  
9 in place.

10           And it's been three years later. We  
11 still don't have the permit enforced. We still don't  
12 have an amendment on the table. What we do have now  
13 is a process of negotiation informally going on  
14 between the staff and Chevron regarding a feasibility  
15 study. This negotiation has been going on itself for  
16 quite sometime.

17           As of now there still is no agreement  
18 regarding the feasibility study. There's no agreed  
19 scope of work, there's no agreed financing mechanism.  
20 So what we want at this point is really move the  
21 process forward.

22           Either require the removal, looking at  
23 the best way to do it, or tell Chevron to come in for  
24 an amendment and process it, do the environmental  
25 review, whatever you need normally when an applicant

1 comes in to change a condition on a permit.

2 We do support the core sampling permit.  
3 We think that's a very important piece of information  
4 that is necessary to evaluate the various  
5 alternatives. So we do support that.

6 It's clear from the permit in front of  
7 you, which is one permit, and the discussion that  
8 you've heard from your executive officer that this is  
9 going to take a while to get all the information, to  
10 look at the alternatives.

11 One of the key concerns has been  
12 protection for fishers in the meantime. And it's not  
13 just trawlers. It's other fishers that operate in  
14 the area as well.

15 And we have been talking to  
16 Robert Hide, the former executive officer, for the  
17 last three years on this issue, and he was quite  
18 supportive of the concept of providing some interim  
19 protection for the fishers in the area with GPS  
20 equipment. That hasn't happened.

21 Chevron has tried other methods of  
22 protection like buoys and radar, and that does not  
23 work. The buoys don't stay in place. They move  
24 around so they don't really tell the fishers the  
25 information that they need. The radar did not work

1 at all.

2 So they're stuck out there. There's no  
3 protection at all. At least four fishers we know  
4 have sustained significant gear damage, and it's been  
5 a real problem. They have claims in for  
6 compensation.

7 The last point I wanted to make is  
8 really two points of clarification.

9 COMMISSIONER CONNELL: Can I interrupt  
10 you just for a minute?

11 Timing seems to be an issue here, Paul.  
12 Why can't we make a more expeditious move here? Why  
13 is it taking so long?

14 MR. THAYER: I think the overall goal  
15 would be to try and come up with some sort of  
16 solution that everybody can agree with, and I don't  
17 think that's going to happen on this no matter what.  
18 But that is one of the reasons this is taking a  
19 while.

20 We were prepared to bring this to the  
21 commission actually back in June, the GPS proposal by  
22 Chevron to resolve this issue by giving GPS to the  
23 fishermen.

24 But in contact with the Coastal  
25 Commission staff, they wanted to act in a more

1 cooperative fashion with, I believe, both  
2 commissions.

3 And I think we agreed with them for  
4 benefit of having more information to us available at  
5 the time, because we felt that, you know, the  
6 Environmental Defense Center and others were  
7 interested in not just evaluating the GPS approach  
8 but looking at the shell mound removal approach.

9 The legal framework is that if we  
10 wanted to do the GPS approach, that would take the  
11 form of an amendment to the previous commission  
12 action.

13 We could bring that to the commission  
14 in November if you choose. But then you'd be acting  
15 without information about this alternative on the  
16 shell mound.

17 COMMISSIONER BUSTAMANTE: Chevron's  
18 offer was really to devise a GPS to finalize --

19 MR. THAYER: Yes. It wasn't meant to  
20 be --

21 COMMISSIONER BUSTAMANTE: -- not to --  
22 to provide that and then still look at the  
23 possibility of removing the shell mounds. It was to  
24 resolve it.

25 MR. THAYER: Their proposal was to

1 resolve it by providing GPS. And again, the initial  
2 commission's action would have left the shell mounds  
3 in place. If they got hung up in the nets --

4 COMMISSIONER BUSTAMANTE: The  
5 difference in the position by the folks that are  
6 represented by Ms. Krop is this is why we started  
7 doing this -- this sort of core sampling activity, in  
8 order to find out if in fact there is -- and this is  
9 also setting a major precedent.

10 Because this is not the only platform  
11 that we have with shell mounds; correct?

12 MR. THAYER: That's correct.

13 COMMISSIONER CONNELL: In fact, as we  
14 just learned from earlier dialogue, we appear to be  
15 pioneering new grounds here on the shell mounds.

16 COMMISSIONER BUSTAMANTE: It's also  
17 setting a precedent for the deconstruction of others  
18 and the disassembly of other platforms should they  
19 occur in the future.

20 MR. THAYER: I want to be careful about  
21 the pioneering part. They haven't really done  
22 anything within this scope in the United States. I  
23 think as part of this feasibility study it would be  
24 important to check in other places in the world.

25 COMMISSIONER CONNELL: That's what my

1 question was to you, Paul.

2 I'm very concerned that we not be  
3 creating adverse impacts by the removal of the shell  
4 mound. I mean, if something goes wrong in the middle  
5 of the removal that we have not anticipated and we  
6 are not prepared to mitigate the damage -- we may be  
7 causing more damage than we would have had we kept  
8 the shell mound in place. I am very concerned that  
9 we be aware of what the consequences are here.

10 MR. THAYER: That's exactly what the  
11 question is: Which is the best way to go. And I  
12 think that the Environmental Defense Center would  
13 invite the studies done to make sure that the right  
14 thing is done.

15 Now, I would be remiss if I didn't also  
16 point out that it's our view as the staff that the  
17 lease provisions, the contract we have with the oil  
18 industry for these platforms for these leases,  
19 provides that at the commission's option it can  
20 require the oil company to remove everything that's  
21 there including the shell mounds is our perspective.  
22 Now, the commission has not acted to do that at this  
23 point. It has not formulated what part of the mounds  
24 be removed. But --

25 COMMISSIONER BUSTAMANTE: The language

1 that's in the -- that -- well, first of all, shell  
2 mounds were never anticipated in the construction of  
3 the proposal; correct?

4 MR. THAYER: That's correct.

5 COMMISSIONER BUSTAMANTE: I think that  
6 in the development of the agreement, my guess is that  
7 they were referring to anything from manmade  
8 materials that had been placed on site, that no  
9 debris would be left of any kind, would be  
10 inappropriate.

11 And I think that this is -- although  
12 there is a generic statement in there which I think  
13 we should take very seriously, I don't think that  
14 anybody at the time that the agreement was developed  
15 really thought that there was going to be such a huge  
16 problem with the shell mounds.

17 So I think that it's appropriate for  
18 the commission to make sure that we study this and to  
19 make sure that the core sampling takes place, to make  
20 sure that we have more information before we start  
21 suggesting that we start removing, doing other kinds  
22 of things.

23 I don't know how -- I ask the staff --  
24 we don't know if it's not appropriate to still pursue  
25 the GPS activity and why we couldn't pursue that

1 despite --

2 MR. THAYER: As an interim measure?

3 COMMISSIONER BUSTAMANTE: Yeah.

4 MR. THAYER: We could do that.

5 Presently there are buoys out there,  
6 and as some of the -- as I think Linda or Ms. Jordan  
7 indicated, there's -- they've been unreliably in  
8 place, so they haven't provided much guidance to the  
9 fishermen --

10 COMMISSIONER BUSTAMANTE: What does  
11 that mean, "unreliably"?

12 MR. THAYER: Well --

13 COMMISSIONER CONNELL: They move.

14 MR. THAYER: They either move or the  
15 chain breaks.

16 It would seem to me that the  
17 Coast Guard is able to attach buoys that stay in  
18 place a little bit better. I don't know what the  
19 problem is, whether they're poorly designed or  
20 maintained. But that --

21 COMMISSIONER BUSTAMANTE: Maybe we  
22 should attach them to the shell mounds. They don't  
23 seem to be going anywhere.

24 MR. THAYER: Regretfully, no.

25 But if the commission would like, we

1 can certainly look into that, as to whether or not we  
2 want to require some kind --

3 COMMISSIONER BUSTAMANTE: Well, for  
4 instance, it's outrageous to think there's supposed  
5 to be buoys out there and they're being moved and  
6 they're not -- they're not staying in place.

7 So let me -- is there anybody in the  
8 commission who doesn't believe that we should make  
9 sure that --

10 COMMISSIONER CONNELL: Well, obviously  
11 you need to enforce what is a requirement.

12 COMMISSIONER BUSTAMANTE: And then, you  
13 know, I think that we should look at the  
14 possibility -- I'd like to see the staff come back  
15 with a recommendation at the next meeting as to  
16 whether or not pursuing the GPS activity isn't an  
17 appropriate next step.

18 MR. THAYER: Okay. We'll do that.

19 COMMISSIONER BUSTAMANTE: Or is the  
20 commission ready to deal with that now?

21 COMMISSIONER CONNELL: I think we ought  
22 to get the information that's required. I'd like to  
23 have a fuller presentation of this in November.

24 MR. THAYER: We'll do that.

25 COMMISSIONER BUSTAMANTE: All right.

1                   COMMISSIONER CONNELL: I didn't mean to  
2 interrupt you. You were continuing. Go ahead,  
3 Linda.

4                   MS. KROP: I will close.

5                   And I appreciate the commission's  
6 interest in the GPS as an interim measure. I would  
7 just like to remind the commission that Chevron is in  
8 violation of their current permit.

9                   Their current permit has a condition  
10 which requires them to successfully complete a trawl  
11 clearance test. They have not done that. So they  
12 are in violation of their current permit.

13                   It doesn't matter whether the shell  
14 mounds were anticipated. Debris and obstruction were  
15 anticipated. The permit requires that all  
16 obstructions be removed.

17                   The negative declaration requires that  
18 the site be restored to its natural condition. If  
19 you don't do that, that's where you're pioneering and  
20 setting a precedent that for all 20 platforms in our  
21 channel they're going to leave their junk. That's  
22 what we don't want.

23                   All we're asking for is enforce your  
24 existing permit. And if it takes a little bit of  
25 work to find out how to best do it, we're all in

1 favor of that.

2 And in terms of looking at the relative  
3 impacts of removal versus non-removal, keep in mind  
4 there's a difference between short-term impacts and  
5 long-term impacts.

6 There will be some impacts of removal,  
7 but they will be short-term compared to the long-term  
8 impacts of leaving this junk in place and setting a  
9 precedent.

10 So please remember that there is a  
11 permit condition that's been violated for the last  
12 three years and we're trying to get a remedy. And we  
13 look forward to working with your staff on this  
14 issue. And thank you very much for your interest.

15 COMMISSIONER BUSTAMANTE: Point well  
16 taken.

17 Staff, any other comment?

18 MR. THAYER: We would agree with the  
19 assessment that the permit requirements have not yet  
20 been met, and that's why we're working on this.

21 COMMISSIONER BUSTAMANTE: Okay.

22 COMMISSIONER CONNELL: Moving on.

23 COMMISSIONER PORINI: Do we need a  
24 motion?

25 COMMISSIONER CONNELL: Do we need any

1 action to direct you, Paul, to -- is this an action  
2 item or is this --

3 MR. THAYER: Yes. We would now need to  
4 vote on the boring permit itself which I believe the  
5 witnesses would not object to.

6 COMMISSIONER CONNELL: Well, I move the  
7 staff recommendation on boring.

8 COMMISSIONER PORINI: Second.

9 COMMISSIONER BUSTAMANTE: The  
10 recommendation has been moved unanimously by the  
11 commission. And also we anticipate that just the  
12 verbal direction to you to bring this back in the  
13 November meeting is sufficient.

14 MR. THAYER: That will be done.

15 COMMISSIONER BUSTAMANTE: All right.  
16 We have item No. 75. We have quite a group for item  
17 No. 75. I don't believe that these are in any kind  
18 of order except perhaps the way they were received,  
19 so we'll just go from top to bottom.

20 John Stahl.

21 COMMISSIONER CONNELL: Mr. Chair, while  
22 we're waiting for members to come up to speak with  
23 us, I would just like to urge everyone who does come  
24 up to try to recognize that this is probably -- at  
25 least in my view, and I think the colleagues and the

1 commission join me -- probably the most critical  
2 public policy issue that we have before this  
3 commission in the course of my term here on the  
4 board.

5 I think the need to deal with the oil  
6 and gas leases off the coast is not only timely, it  
7 is essential to the future of our coastline in  
8 California.

9 So I appreciate the fact that many of  
10 you have traveled as far as you have to address this  
11 today. I think this will probably be the signature  
12 work of this commission over the next four years,  
13 Mr. Chair.

14 COMMISSIONER BUSTAMANTE: Mr. Stahl  
15 then Mr. Rieber.

16 MR. RIEBER: Actually, my name is  
17 Frank Rieber. Good morning. Mr. Stahl, myself, and  
18 Mr. Harper are representing Benton Oil and Gas.

19 COMMISSIONER BUSTAMANTE: Do you want  
20 to all come up at the same time?

21 MR. RIEBER: It might be in a better  
22 interest to -- for us to refrain and hear what some  
23 of the other issues are, and that would enable us to  
24 then answer those issues.

25 COMMISSIONER CONNELL: You would rather

1 be in a response mode?

2 MR. RIEBER: Correct.

3 COMMISSIONER CONNELL: Fine.

4 COMMISSIONER BUSTAMANTE: Okay.

5 We have Linda Krop, Hannah Eckberg, and  
6 then Carla Frisk.

7 MS. FRISK: Good morning,  
8 Chairman Bustamante and commission. I'm Carla Frisk.  
9 Actually, I think we're going to do it slightly in  
10 reverse. It would be more practical for the  
11 commission.

12 Just before I begin, I'm representing  
13 Senator Jack O'Connell today, and I wanted to thank  
14 Commissioner Connell for your -- just your comments  
15 that you just made. I think this is going to be the  
16 signature work on this commission.

17 And while I didn't to speak on the  
18 prior issue with regards to the shell mounds,  
19 Senator O'Connell has been fairly extensively  
20 involved in this issue as well.

21 And I really want to -- I know you were  
22 unfortunately unable to be here at the meeting that  
23 we had. You had a plane to catch. Just a portion of  
24 our presentation -- I know you received the written  
25 materials, but we're very appreciative of your

1 questions and comments and have had a chance to --

2 COMMISSIONER CONNELL: By the way, I  
3 never made that plane nor did I make the subsequent  
4 plane or the plane after that. Four planes later we  
5 made it back to Sacramento.

6 MS. FRISK: Well, I'm really sorry now.

7 COMMISSIONER CONNELL: I'm really  
8 sorry. I would have been better off listening to  
9 your presentation than sitting in the airport that I  
10 was at.

11 MS. FRISK: Well, thank you anyway for  
12 your interest. We certainly appreciate that very  
13 much. And you know, our staff is always available to  
14 your staff or commission staff. We talk with Paul  
15 very regularly. You wonder why his phone bill's so  
16 high, you'll know.

17 Just a couple of comments on this  
18 particular item. Actually, a couple of questions.  
19 One of the questions that we had is with regards to  
20 this request for deferment.

21 When an oil company like Benton comes  
22 before you for deferment, what kind of reasons? Is  
23 there some kind of litmus test that they have to pass  
24 in order to get a recommendation or approval for such  
25 a deferment?

1                   And if this deferment is granted today,  
2 would Benton be eligible for further extensions?  
3 This leads right into the question that Mr. O'Connell  
4 has raised, you know, how do we have control over the  
5 longevity of this.

6                   MR. THAYER: Do you want me to respond  
7 to these questions?

8                   COMMISSIONER CONNELL: Yes, please.

9                   MR. THAYER: I would like Mr. Mount to  
10 backstop me on this. But I think the general  
11 criteria in this particular case, the owner is  
12 interested in continuing development here.

13                   They've built one test well which was  
14 unsuccessful. They found gas, but the sandstone was  
15 not permeable enough to be able to withdraw the gas  
16 that was available. It would stay in place, so to  
17 speak.

18                   And so they've asked for a deferral  
19 because they would like to do some additional work  
20 and figure where they're going to go from here in  
21 terms of figuring out how they can get the gas out.

22                   And of course the commission can grant  
23 additional deferrals. There's no limit as to how  
24 many they can grant.

25                   MR. MOUNT: That's correct.

1 MS. FRISK: Thank you very much.

2 COMMISSIONER CONNELL: Does that answer  
3 your question?

4 MS. FRISK: Yes.

5 And I guess I'll just leave you with a  
6 short story about a situation we have in  
7 Santa Barbara.

8 We had an old hotel in the downtown  
9 Santa Barbara. It housed a lot of elderly senior  
10 people. And we had a proposal come in to turn that  
11 hotel into a very fancy hotel, and it was approved by  
12 our city council.

13 And they demolished the hotel downtown,  
14 and now there is a giant hole in the middle of  
15 downtown Santa Barbara because it's just midway and  
16 it stopped.

17 And I think we would really be  
18 concerned about similar stories occurring like this  
19 or on any other leases.

20 Thank you very much.

21 COMMISSIONER BUSTAMANTE: Okay. Thank  
22 you, Carla.

23 Linda.

24 MS. KROP: Thank you. Again,  
25 Linda Krop representing the Environmental Defense

1 Center. And then Hannah Eckberg couldn't make it,  
2 but I do have a letter she wrote to present to the  
3 commission.

4 COMMISSIONER BUSTAMANTE: All right.

5 MS. KROP: A few years ago, the  
6 Environmental Defense Center represented a couple  
7 environmental groups that were concerned about this  
8 project.

9 We did ultimately settle with the  
10 applicant. We achieved some additional mitigation  
11 measures. That was back in 1996. The project was  
12 approved at that time by the county and the state  
13 agencies.

14 Since that time we have been concerned  
15 about the delays in the project. And as Ms. Frisk  
16 pointed out, we don't think it's appropriate to allow  
17 these leases and these permits to continue to  
18 perpetuate but at some point they should either be  
19 developed or quitclaimed back to the state, and we  
20 think this is one example.

21 Molino has had a permit for the three  
22 years. They have not undertaken any exploratory  
23 activity since November of 1998. They pretty much  
24 stalled their -- at least their perceptible  
25 activities.

1                   We don't know the reasons. I do have a  
2 news article I would like to pass out to the  
3 commission that talks about their financial woes.  
4 They're in about a 183 million dollars shortfall as  
5 of 1998.

6                   In situations like this, I think it's  
7 important for the commission to really carefully  
8 scrutinize why a lessee is not developing their  
9 lease, and if they don't have a valid reason, that  
10 lease should be quitclaimed.

11                   The staff report has some incorrect  
12 information about the status of the county's action  
13 on this and implies that your agency may be bound in  
14 this discretion to allow this county process to  
15 proceed before Benton or Molino can be required to  
16 continue their operations.

17                   That's not true. I talked with the  
18 county staff this morning, and actually there are a  
19 couple representatives in the audience that can  
20 address you.

21                   The staff report indicates that because  
22 of a separate permitting item regarding the Chevron  
23 Gaviota processing facility which could handle some  
24 of this gas -- some or all of the gas is in an  
25 abandonment review process.

1                   And this report makes it sound that  
2 because of that, the Molino project has been put on  
3 hold. That's not true. That process is totally  
4 separate, has nothing to do with the Molino project.  
5 Molino has its own abandonment review condition.  
6 It's referred to in your staff report as an R1  
7 condition.

8                   The R1 condition that's relevant,  
9 that's the condition in the county permits that says  
10 if production drops below a certain level, 3 percent  
11 of capacity, it triggers an abandonment review by the  
12 county to say basically are you closing up shop,  
13 should you be required to abandon your facilities and  
14 remove them.

15                   Molino has an abandonment review  
16 condition. And in April of this year it came into  
17 the county to amend that condition. And the county  
18 gave them a 24-month window to resume their  
19 activities from when they last undertook exploration,  
20 which was from November '98.

21                   So the county gave them 24 months from  
22 November '98 to November 2000 to resume some  
23 activity. Once they do, then the traditional R1  
24 kicks in that once they start producing, if it drops  
25 below a certain level, they are subject to

1 abandonment review. So really what the county did is  
2 they did give them some more time.

3 What we're here to ask you is to assert  
4 your own independent discretion on this. Look at how  
5 long Molino has had to develop this lease and whether  
6 or not it's reasonable to give them this requested  
7 deferral or whether to give them a shorter deferral  
8 given that they haven't done anything on the lease  
9 for almost at least a year.

10 That's our request is that you assert  
11 your independent jurisdiction and examine whether or  
12 not this deferral is appropriate and if so, for how  
13 long.

14 And I -- the letter from Hannah Eckberg  
15 is as executive director of Get Oil Out. The letter  
16 states -- it's very short, so if I may just read it  
17 into the record.

18 "Get Oil Out, a 30-year  
19 old watchdog organization, works  
20 to defend the Santa Barbara  
21 Channel and coastline from the  
22 dangers and pollution of the oil  
23 industry.

24 "I'm sorry I could not be  
25 here personally, but I would take  
26 this opportunity to thank  
27 Lieutenant Governor Bustamante  
28 for his word to protect the  
29 California coastline from any new  
30 oil development. Now is the time  
31 to demonstrate your dedication to  
32 our precious coastal environment.

"There's something this

1 commission can do to protect the  
2 Gaviota coast, more than is  
3 suggested in your staff report on  
4 the Molino project. The scenic  
5 area is under consideration for  
6 National Seashore status. The  
7 Molino project, if pursued, will  
8 scar this beautiful region.

9 "The County of  
10 Santa Barbara has issued the  
11 deadline of November 2000 for the  
12 Molino project to either move  
13 ahead with production or come  
14 under the R1 review process of  
15 abandonment. Should the project  
16 start before this date and dip  
17 below 3 percent of its maximum  
18 capacity, the review will still  
19 be activated.

20 "A plethora of reasons  
21 exist why the Molino project  
22 should not be allowed to  
23 continue. In light of the people  
24 of California and elected  
25 officials' overwhelming  
opposition to new oil  
development, Get Oil Out feels  
the State Lands Commission should  
request a quitclaim of these  
leases or move up the deadline to  
November '99.

"Recent exploration of the  
leases has shown insufficient  
resources, and the financial  
status of Benton Oil Company, the  
main financial sponsor of the  
project, is questionable.

"If they do go ahead with  
the project, will there be the  
finances available to cover an  
accident?

"As Chevron, Venoco,  
Unocal, and other Santa Barbara  
oil and gas operators have  
demonstrated, it is possible for  
the oil industry to operate  
without accidents. The people of  
our community are tired of living  
with this hazardous industry.

"Get Oil Out looks forward

1 to working with this commission  
2 to do everything possible to  
3 protect our coastal environment  
4 and the health and safety of the  
5 people of California.

6 "Sincerely, Hannah  
7 Eckberg, Executive Director of  
8 Get Oil Out."

9 Thank you.

10 COMMISSIONER BUSTAMANTE: Staff, isn't  
11 the deferral supposed to coincide exactly the same as  
12 the Santa Barbara County?

13 MR. THAYER: That's exactly the case.  
14 The applicant, the oil company, originally asked for  
15 a two-year deferral, but when we -- and there was  
16 some confusion about how long the county has extended  
17 their deferral for because of the -- of the typo in  
18 their report.

19 But when we learned that they had only  
20 granted up to about 14 more months, November of next  
21 year, our recommendation is that the commission only  
22 grant the same deferral, reduce it for a period of  
23 time that the county grant. That's our  
24 recommendation.

25 COMMISSIONER BUSTAMANTE: Does the  
26 commission have any thoughts at this point?

27 COMMISSIONER CONNELL: I would like to  
28 hear the rest of --

1 MR. RIEBER: Again, my name is  
2 Frank Rieber, and let me open by saying that --

3 COMMISSIONER BUSTAMANTE: If you all  
4 prefer to come up at the same time, you can. You  
5 don't have to stand back there in the shadows.

6 MR. RIEBER: We have no qualm there was  
7 a typo in the original letter which caused us as well  
8 to believe that the extension granted by the county  
9 would go for 24 months starting from November of '99  
10 when in fact on subsequent examination there was a  
11 typo.

12 And we're in agreement with the  
13 extension from the state that is proposed now  
14 coinciding with the county extension so that they  
15 would vote -- have the same time lines.

16 Now, with that, I really don't want to  
17 bore you with what we're trying to do here. But  
18 there have been some allegations made that I think  
19 possibly need some response.

20 COMMISSIONER BUSTAMANTE: Maybe you  
21 could bore us just a little.

22 MR. RIEBER: I would be happy, but I  
23 know that time is precious.

24 COMMISSIONER BUSTAMANTE: I'll give you  
25 extra time.

1 MR. RIEBER: Thank you.

2 We started this project some years ago,  
3 and exploration of oil and gas is an expensive  
4 process. By November of '98 we had drilled our  
5 Molino prospect into the Gaviota field, spending in  
6 excess of 10 million dollars.

7 And as was pointed out, we discovered  
8 some tidelands. We also discovered that we drilled  
9 off structure, and by that I mean that we did not  
10 drill at the top of the structure.

11 That leaves us with some choices here.  
12 Our choices are to evaluate stimulation of the  
13 current well bores so that the gas can feed into the  
14 well bore in an economic fashion. Right now there's  
15 not enough to come in. We can investigate some other  
16 stimulation, which we're doing.

17 We can also sidetrack out of that well  
18 bore to a more crestal position for a variety of  
19 geologic reasons: one, we might expect a higher  
20 amount of reserves; and, two, we might expect a  
21 better rock quality which would allow production  
22 without future extensive and expensive stimulation.  
23 We're working on that right now and expect to come up  
24 with a plan very soon.

25 COMMISSIONER BUSTAMANTE: What does

1 stimulation mean?

2 MR. RIEBER: It can take a variety of  
3 answers, but in this case it basically means going in  
4 and hydraulically breaking the reservoir rocks and  
5 providing flow channels.

6 You break them, you hydraulically  
7 expand them, and then you pump a more porous media in  
8 so that you have a larger area for the gas to flow  
9 in. If there's a larger area, more gas comes in, and  
10 the well, in a lot of cases, can become economic.

11 COMMISSIONER BUSTAMANTE: How much more  
12 damage to the surrounding areas does all this  
13 stimulus create?

14 MR. RIEBER: Absolutely none.  
15 Absolutely none. The equipment to do it is confined  
16 to the well site. It's all truck mounted. They come  
17 in, hook up to the well bore, and basically these  
18 materials are pumped via tubing all the way down.

19 And as you know, this is an offshore  
20 location drill from an onshore site. We did an  
21 extended reach to get there. So this equipment would  
22 be set up actually at the Gaviota site.

23 But the site of the work, if you will,  
24 is actually out under the ocean in the sandstone that  
25 we're trying to fracture. And you do it by pumping

1 these materials and applying this hydraulic pressure  
2 at the reservoir sand face which is some is 8,000  
3 feet below the surface. So there's no damage done.

4 COMMISSIONER CONNELL: What quality of  
5 oil are you taking out now?

6 MR. RIEBER: We're not -- we have not  
7 established any production on the site yet.

8 COMMISSIONER CONNELL: What are you  
9 imagining you're going to be able to get out?

10 MR. RIEBER: Gas.

11 COMMISSIONER CONNELL: Just gas?

12 MR. RIEBER: Not oil. At this point --

13 COMMISSIONER CONNELL: So how can you,  
14 if you're just getting gas out, make this profitable?

15 MR. RIEBER: Gas is very profitable.

16 COMMISSIONER CONNELL: What price are  
17 you assuming you're going to be able to sell this at?

18 MR. RIEBER: Our price index right now  
19 are looking a bit north of two dollars.

20 COMMISSIONER CONNELL: How much do you  
21 have to have in volume to make this a profitable  
22 venture?

23 MR. RIEBER: That's really a good  
24 question. We worked it. It depends -- we spent a  
25 lot of money on the first well that we drilled.

1 Again, we would have to on subsequent wells get our  
2 costs down, but then again we have really come a long  
3 ways on our learning curve in this first well, this  
4 extended reach well.

5 But we expect that we would have to  
6 have a reserve size perhaps north of 30 to 50 BCF.  
7 We just don't know at this point --

8 COMMISSIONER CONNELL: What other  
9 location in Southern California has been able to  
10 achieve that volume?

11 MR. RIEBER: In Southern California?  
12 I'm thinking the landslide project over in the  
13 San Joaquin Valley has been north of that. Certainly  
14 the Lost Hills project that they're working on right  
15 now is going to be way north of those numbers.

16 And everything -- the federal platforms  
17 offshore have also been north of those numbers not  
18 only in unassociated gas but also in the volumes that  
19 they recovered from associated gas.

20 COMMISSIONER CONNELL: I'm sorry. I  
21 don't mean to interrupt you. I'm just triggered by  
22 the economics.

23 MR. RIEBER: No, I'll be happy to  
24 answer your question.

25 COMMISSIONER CONNELL: You know, my

1 economics fascination burdens me everywhere.

2 COMMISSIONER BUSTAMANTE: Fire away.

3 MR. RIEBER: Economics are our -- we're  
4 not out here for fun. We're out here for profit and  
5 to be able to economically -- to economically bring  
6 these projects to fruition.

7 So it's something that we study all the  
8 time. That's why we work very hard on back looking  
9 at what we've done, so that we can improve our  
10 efforts and get our costs down.

11 And actually, that's a good segue into  
12 another comment that was made, and that's these R1  
13 hearings and the disposition of the Gaviota site.

14 One of the reasons that we have for  
15 asking for these deferments is to be able to work  
16 with the county on the disposition of the Chevron  
17 site so that we can utilize, if we can, not only some  
18 of the equipment that remains there but also some of  
19 the real estate that's there for future drilling and  
20 for future sites for our production equipment.

21 And it's -- we don't want the process  
22 to become circular where we can't wait for the county  
23 and Chevron to reach a disposition without our input,  
24 so we're going to be working very closely with the  
25 county in the very near future so that they have our

1 input on what we propose and suppose our needs will  
2 be.

3 And of course these are based on a  
4 scenario where we find what we think we might find.  
5 We will provide them with this information to go into  
6 the R1 hearings so that they can come out of them  
7 with a good plan for the disposition of the Chevron  
8 site that takes into account the needs of some of the  
9 processors in the area.

10 COMMISSIONER CONNELL: Is it  
11 appropriate to ask questions?

12 COMMISSIONER BUSTAMANTE: Sure. Ask  
13 away.

14 COMMISSIONER CONNELL: Is it  
15 Mr. Rieber? I'm sorry.

16 MR. RIEBER: It is Rieber, yes.

17 COMMISSIONER CONNELL: Mr. Rieber, can  
18 you go through with us -- I'd like to go through an  
19 understanding of what this litmus test is for  
20 deferment and the question of abandonment.

21 What level of production do you need to  
22 achieve in order to continue operation?

23 MR. RIEBER: Well, since we haven't  
24 started production, that's a difficult question. But  
25 we have always contemplated somewhere above 20 to 30

1 million cubic feet a day as a volume that we would  
2 like to achieve.

3           And of course if our explorations are  
4 right and we're wildly successful, we could be quite  
5 a bit above that. But there's some thresholds in  
6 terms of manpower and equipment that one would have  
7 to achieve before you ramped up from there.

8           And remember that we're looking at  
9 three offshore sites here. We've got the Gaviota  
10 field which is the structure we've just drilled. We  
11 also have the Caliente and Molino fields which would  
12 contribute in the future.

13           But we have to be able to develop these  
14 one at a time. It's a step function rather than  
15 moving ahead on all fronts. It's just too expensive.  
16 We've already spent in excess of 10 million dollars  
17 on this first well, and we're kind of back licking  
18 our wounds and determining how we can move ahead from  
19 here in an economic fashion.

20           COMMISSIONER CONNELL: Can you  
21 amortize -- are these wells independent corporations,  
22 or can you share the capital costs and amortize  
23 across the production revenues of all three wells?

24           MR. RIEBER: You get into oil and gas  
25 accounting now, I mean, there are some accounting

1 which is full accounting. There's others schools of  
2 thought where you have a sunk cost and you move  
3 ahead; with that being behind you, looking for new  
4 reserves. And if you're successful, you only count  
5 what you've spent ahead.

6 But my personal thoughts on that and  
7 not necessarily those of Benton is that you have to  
8 count every penny going in and have enough production  
9 to amortize that cost.

10 COMMISSIONER CONNELL: Can I ask my  
11 standard questions that are becoming my signature  
12 questions here?

13 COMMISSIONER BUSTAMANTE: Does staff  
14 have any input at this point?

15 MR. THAYER: No. If you'd like the  
16 staff's statements on these technical questions --

17 COMMISSIONER BUSTAMANTE: You should  
18 clearly jump in. I mean, the other members behind  
19 you as well as staff. You know, you should be a part  
20 of the discussion, what this is.

21 MR. THAYER: I think the particular  
22 part of the conversation we also particularly need to  
23 be involved in is, you know, there have been some  
24 allegations made that the company is not in good  
25 enough financial shape to go forward.

1                   COMMISSIONER CONNELL: Well, this is  
2 what my questions are directed at.

3                   MR. RIEBER: I'm happy to address that.

4                   COMMISSIONER BUSTAMANTE: Is that the  
5 only area?

6                   MR. THAYER: Yes.

7                   COMMISSIONER PORINI: I'd also like to  
8 hear from the county representatives.

9                   COMMISSIONER CONNELL: Is the County of  
10 Santa Barbara here?

11                   UNIDENTIFIED SPEAKER: Yes.

12                   COMMISSIONER CONNELL: Good.

13                   MR. RIEBER: Would you like me to  
14 address the questions of the company's financial  
15 stability?

16                   COMMISSIONER BUSTAMANTE: Would you  
17 like to hear the response to your question, or would  
18 you like to ask the questions first?

19                   COMMISSIONER CONNELL: No, I would like  
20 to hear his response first. I thought you were  
21 asking her of Santa Barbara.

22                   MR. RIEBER: When the allegation was  
23 made that we lost -- or that we were in the hole I  
24 think 183 million dollars at close of business 1998  
25 we in fact did suffer a loss as have most of the oil

1 and gas companies in 1998. That loss was in fact 198  
2 million dollars as a result of depressed oil and gas  
3 prices throughout the world.

4                   However, where we stand right now is  
5 with a substantial amount of cash in our bank. I  
6 don't think I really need to go into the number, but  
7 it's certainly substantial. Oil and gas prices have  
8 rebounded, and our operations in other parts of the  
9 world are quite profitable.

10                   So although we didn't do real well and  
11 we still had some losses in the first and second  
12 quarter, we're closing the gap as are other oil and  
13 gas companies, and we're expecting a profitable third  
14 quarter.

15                   I mean, it's the way the business has  
16 gone for years and years. It's cyclical. It  
17 depends -- I'm finding more and more we're stock  
18 market driven than we are product price driven in  
19 some cases.

20                   But the fact that we have weathered the  
21 storm of the losses in the last couple of years and  
22 still have a substantial amount of cash in the bank  
23 and the fact that we run our business such that our  
24 drilling operations and all of our other operations  
25 are substantially insured speaks to our financial

1       wherewithal to move ahead not only in Santa Barbara  
2       County but in all our other operations worldwide.

3                       Does that answer your question?  Is  
4       that sufficient?

5                       COMMISSIONER CONNELL:  Yes.  I have --  
6       these are not questions that are directed only at  
7       Benton Oil, they're questions that I have generically  
8       about this whole arena of the oil and gas leases in  
9       California.

10                      And my concerns really are defined in  
11       four areas.

12                      I'm concerned about the operational  
13       life of physical equipment which may not be as much  
14       of a concern in your particular operations.  But in  
15       some of our facilities and our leases, we are dealing  
16       with aging facilities where the equipment is beyond  
17       what we would assume one would have thought was their  
18       life expectancy.  So I'm concerned about the ability  
19       to maintain aging equipment and the expense that that  
20       represents to a company.

21                      Secondarily, I'm concerned about  
22       adequate personnel expertise to operate facilities  
23       and to respond to emergencies when they occur.

24                      What I have seen from my own analysis  
25       of these facilities, at the time that I initially

1 joined the commission in 1995, most of these  
2 facilities were run by large oil companies.

3 They have subsequently sold off their  
4 operations to smaller, less capitalized companies,  
5 certainly less capitalized than Chevron, you know, BP  
6 and Arco and others.

7 And therefore, some of the key  
8 insurance and management contracts have not continued  
9 forward. So I'm concerned about the level of  
10 expertise that a new company, a new operator brings  
11 to an equation.

12 The third concern that I have is the  
13 financial protection that exists and in a case of  
14 a -- of a -- an accident is there sufficient reserve  
15 to clean up the problem and to immediately deal with  
16 it whether that's represented in insurance, in bonds,  
17 in some capital reserve, in borrowing against the  
18 company's balance sheet, however that's handled.

19 And the fourth area that I'm concerned  
20 about is the state-of-the-art safety approaches that  
21 exist in every one of those facilities, to make sure  
22 that projects that are located on our state property  
23 are periodically retrofitted to make sure that they  
24 have state-of-the-art capacity to deal with current  
25 standards, not standards that existed when these

1 leases were originally negotiated, you know, many,  
2 many years ago.

3 Because the world has dramatically  
4 changed, and I would hope as we consider the  
5 continuation of these leases, should we choose to do  
6 so, that we would put these kinds of concerns before  
7 the board and get resolution of those issues.

8 I don't know if you are prepared or  
9 care to respond to any of those factors.

10 MR. RIEBER: I am probably prepared and  
11 qualified to respond to all of those.

12 I will do so as Frank Rieber rather  
13 than as Benton Oil and Gas. I will do so citing that  
14 I have 35 years of experience in the oil and gas  
15 business of which the last 22 prior to my two years  
16 here back in California -- I am a native -- but the  
17 last two years have been off the shore of the Gulf of  
18 Mexico. And I have extensive experience in those  
19 offshore operations both in state and federal waters.

20 So I can give you some insight into not  
21 only how I personally operate but how Benton Oil and  
22 Gas will operate if we happen to be offshore in any  
23 state waters, how we will operate on state lands, and  
24 how we would operate in federal waters.

25 That being said, I'm going to kind of

1 backtrack through your questions.

2 COMMISSIONER CONNELL: I'm sorry if I  
3 laid so many on you.

4 MR. RIEBER: That's okay. I think by  
5 backtracking, the way my mind works, I can get easy  
6 ones out of the way first. And your last question  
7 was that of financial responsibility in the event of  
8 some type of catastrophic failure or a failure of any  
9 type for that matter.

10 We, as Benton Oil and Gas, and most  
11 other -- at least Benton Oil and Gas and I would say  
12 most of the other operators, but I'm not willing to  
13 speak for them, carry insurance against these type of  
14 catastrophic failures.

15 We carry both blowout insurance, and we  
16 carry pollution insurance. The combined values of  
17 these can range from a low of 40 to 50 million  
18 dollars on up from there. In some cases the umbrella  
19 policies carry -- that go past those values.

20 I will tell you that I was involved  
21 after the fact on a large blowout and fire in the  
22 Gulf of Mexico three years ago which was very large  
23 by any stretch of the imagination, and the amount of  
24 money it took to drill the relief wells, salvage the  
25 platform, do all the work that it took to get it back

1 together including any type of pollution control was  
2 55 million dollars.

3 I tell you that so you can get an idea  
4 that the insurance is in line with the magnitude of  
5 the costs that it takes to put something like that to  
6 rest and do it under the supervision of the Coast  
7 Guard and other agencies which do have the right if  
8 you're not doing the right job to come in and take  
9 over your job for you.

10 COMMISSIONER BUSTAMANTE: Is that also  
11 a full restoration of the environment?

12 MR. RIEBER: Absolutely.

13 COMMISSIONER BUSTAMANTE: Loss of  
14 fisheries or loss of --

15 MR. RIEBER: In this case there was no  
16 environmental damage; however, the insurance for that  
17 portion of it was not tapped, if that's the right  
18 answer for that.

19 Now, to address aging equipment. I  
20 guess the best way to do that is to tell you that  
21 having worked for majors and also for the last  
22 15 years having been involved with three different  
23 independent oil companies all of which have worked  
24 offshore and all of which have kept the same high  
25 standards that the major companies have kept, nobody

1 wants to have a failure any more than the operator  
2 themselves.

3 We don't want to be in somebody's  
4 newspaper, and we don't want to have the expenses  
5 that go with failed equipment.

6 So in most companies there are  
7 aggressive programs for preventative maintenance  
8 where valves are looked at, where pipelines and flow  
9 lines are inspected using ultrasonic and radiographic  
10 techniques to find out if there's wear in them and  
11 the same with the vessels. There are paint programs,  
12 there are paint chipping programs.

13 All those are put in place to not only  
14 judge the condition of this, quote, unquote, "aging  
15 equipment" but also to keep it up and replace it  
16 before there's a failure.

17 COMMISSIONER BUSTAMANTE: I think the  
18 commissioner is referring perhaps to more than this  
19 one, but we had a very, very recent experience with  
20 aging equipment here in California along our coast.  
21 So --

22 COMMISSIONER CONNELL: We are  
23 sensitized in this issue.

24 COMMISSIONER BUSTAMANTE: And they were  
25 obligated as well to do all the reviews of valves and

1 everything else that we put down in the standards.  
2 And so we appreciate the words, we take you at your  
3 word, but you don't mind if we check.

4 MR. RIEBER: Of course not.

5 Now, let me speak for Benton Oil and  
6 Gas in this Molino project just so you will know that  
7 what we intend to put in would either be new or  
8 as-new equipment. I want to be on record with that  
9 as well.

10 But I would still speak for the  
11 industry. And I know there have been some problems  
12 to which you're referring, and I would tell you that  
13 I have the highest respect for that company's  
14 expertise, and I know that they're doing everything  
15 they can, and I also know that it's a lot better than  
16 it was.

17 COMMISSIONER CONNELL: Well, you know,  
18 I guess I'm not an engineer. I'm just wondering at  
19 some point, Paul -- I guess I would direct this to  
20 our staff and you as well, Jack -- I would be  
21 interested and I'm sure the other commissioners would  
22 be in knowing what the design line was at these  
23 facilities.

24 When they were originally designed  
25 there certainly must have been some expectancy as to

1    how long these facilities can safely operate without  
2    having -- I'm not talking about coming in and  
3    chipping paint and doing a paint-up job.

4                    I mean, we may need to make major  
5    structural replacements in these facilities.  And my  
6    concern is is that possible to do that physically  
7    without disrupting the environment to which these  
8    facilities are now placed.

9                    Secondarily, has anyone done that  
10   anywhere in the world, and has it been effective.  
11   And if it hasn't been done before, are we again  
12   pioneering kind of in a situation where we don't know  
13   what the negative consequences may be.

14                   Third, what are the costs.

15                   And, fourth, how would we know the  
16   timing when that is required.

17                   Because as we enter into looking at  
18   these leases, I think should we choose to extend any  
19   of them, these are the kinds of detail issues that I  
20   would need to be comfortable understanding that we  
21   have addressed.

22                   And I guess we should start gathering  
23   some of this information right now because I'm not at  
24   all confident -- and I appreciate your response, but  
25   I'm not at all confident that we have staff

1 knowledge, material yet available. At least that  
2 hasn't been shared with us as a commission. And that  
3 would be helpful for us to know.

4 MR. MOUNT: There is a calendar item  
5 that we're going to talk about in a few minutes  
6 addressing those very same issues.

7 MR. RIEBER: Okay. The last question  
8 that you asked was training of personnel, I believe.  
9 Actually the first question and then we went from  
10 there.

11 And I would say that the training of  
12 the personnel that are manning these facilities --  
13 and I'm going to refer at this point to Benton Oil  
14 and Gas -- would be of the highest quality.

15 Onshore they would be trained in the  
16 operation and experience, previous experience, in the  
17 operation of any facilities and well bores that we  
18 would be putting in.

19 I have no reason to believe it will be  
20 any different for any of the other operators here  
21 along the California coast. It's just too big a risk  
22 if you don't have these trained, experienced people.

23 And in many cases -- now I'll go back  
24 and cite my experiences in the Gulf of Mexico with  
25 independents and tell you that often, if not

1 100 percent of the time, our procurement ground for  
2 these people was the majors and the major operating  
3 companies where these operators had 20, 25 years of  
4 experience before we hired them and brought them to  
5 our project because we wanted that quality of people  
6 running our projects in the field where their  
7 hands-on experience makes a difference.

8 COMMISSIONER CONNELL: How would you  
9 suggest, Mr. Rieber, you bring several decades of  
10 experience to this field? How would you suggest that  
11 a commission stay on top of companies?

12 Because you know, I used to be an  
13 investment banker, and I think that the best advice  
14 for policing an industry often comes from members of  
15 the industry.

16 You don't want to be -- you don't want  
17 to have a black eye because somebody else along the  
18 coast is performing. You don't want the whole  
19 industry to have a black eye and have this board,  
20 therefore, react in a sweeping fashion against an  
21 entire industry.

22 How do you help us do our jobs  
23 effectively and police the industry aggressively  
24 enough?

25 MR. RIEBER: I would say that you might

1 consider doing it the same way that it's been done or  
2 in a like fashion to the way that it's done along the  
3 Texas and Louisiana gulf coast which has, I think, an  
4 exemplary track record of good operations in the Gulf  
5 of Mexico.

6           And my recommendation would be to you  
7 that you worked hand in hand with the Minerals  
8 Management Service and some of the policing methods  
9 that they have put in place to provide oversight in  
10 federal waters.

11           My experience has been mostly in the  
12 Gulf of Mexico, mostly in federal waters; however,  
13 I've had a lot of overlap into Texas and Louisiana  
14 state waters.

15           And with the companies that I have  
16 worked with in the past, we have always kept our  
17 state standards to the same level as federal  
18 standards so that we could never be accused of having  
19 dual standards.

20           COMMISSIONER CONNELL: In fact, Paul,  
21 we discussed that when I was in Santa Barbara  
22 recently, the fact that our -- I'm sure you're  
23 probably aware as well, Cruz.

24           I don't know if you've had a chance to  
25 visit any of these facilities yet, but our state

1 standards are not quite up to federal standards in  
2 some regards, and we need to discuss that at some  
3 point, because we should be managing our facilities  
4 at the same level of protection and enforcement that  
5 the federal government does.

6 COMMISSIONER BUSTAMANTE: Or higher.

7 COMMISSIONER CONNELL: Yes. I  
8 appreciate that. Thank you.

9 MR. THAYER: And we've looked into that  
10 very issue. As Paul Mount indicated, our next item  
11 will be a presentation that covers a lot of these  
12 issues.

13 COMMISSIONER CONNELL: Good. Thank  
14 you.

15 I didn't mean to extend the questions.

16 MR. RIEBER: No problem. I've done  
17 this before.

18 COMMISSIONER BUSTAMANTE: We have  
19 another question.

20 MR. RIEBER: If you have any other  
21 questions, I'd be happy to answer them.

22 COMMISSIONER PORINI: I'd just like you  
23 to back up for a minute.

24 You talked about the fact you were  
25 reassessing where you were going to go and what you

1 were going to do in terms of this well.

2 What's your best guess about timing  
3 given the time period that you have been granted by  
4 the county?

5 MR. RIEBER: We intend to meet the  
6 county and hopefully the state -- new state deadline  
7 should we vote it that way to provide action probably  
8 via some stimulation work or existing well bore so we  
9 can get a better handle on how these rocks, this  
10 reservoir is going to respond to stimulation efforts.

11 Because based on a cross-section of  
12 one, which is not a very good cross-section, we need  
13 to know the realities of how the Gaviota reservoir  
14 and that particular accumulation is going to perform  
15 before we can move ahead.

16 And to do so we're actively and  
17 actually have an interest from partners so we can  
18 bring in some capital so we don't have this same  
19 outlay again, and we're going to be working towards  
20 work on this well bore to establish production.

21 COMMISSIONER PORINI: So you're kind of  
22 at the beginning of that evaluation process now?

23 MR. RIEBER: We're a ways into the  
24 evaluation process.

25 COMMISSIONER PORINI: And you

1 anticipate it will be completed in November of 2000?

2 MR. RIEBER: Yes.

3 COMMISSIONER BUSTAMANTE: I think the  
4 only other comment -- and this is a personal one. I  
5 think that the comment that was made earlier by one  
6 of the other representatives indicated that unused  
7 leases, we have a general -- I have a general  
8 interest in trying to get those oil leases that are  
9 not being productive, they're not being used, to take  
10 them out of commission and to move them along.

11 You have a lease, you have a bona fide  
12 lease, you have a bona fide right, you've invested a  
13 lot of money. I think the point is that we should  
14 move this thing along quickly.

15 And if you're going to do it, you  
16 better do it quickly. Because at this point  
17 otherwise there are -- I, along with others, will  
18 look to try to figure out how to just move this thing  
19 off the table.

20 So just -- it's -- I don't know what  
21 you would call it except a friendly advice. Because  
22 after the -- this particular deferment I think it's  
23 going to be more difficult to continue getting  
24 additional time to take care of the business that you  
25 are doing.

1 MR. RIEBER: Your point's well taken.

2 COMMISSIONER BUSTAMANTE: The County of  
3 Santa Barbara. This poor woman is sitting here,  
4 standing here, wherever she went. There she is.

5 If you would like, you can wait here in  
6 case there's any questions or comments you would like  
7 to make after the Santa Barbara County  
8 representative.

9 Please state your name for the record.

10 MS. MEESTER: Excuse me. My name is  
11 Dianne Meester. I'm the manager of the Energy  
12 Division of Santa Barbara County. I'm not exactly  
13 sure what you wanted me to comment on, but maybe I  
14 can explain the situation that we faced in April when  
15 we were reviewing an amendment to the Molino  
16 development plan when this extension request came  
17 about.

18 The Santa Barbara planning commission  
19 reviewed an amendment at Molino's request to relocate  
20 a natural gas pipeline in conjunction with this  
21 project that had to do with some timing requirements.

22 So it's kind of a complex development  
23 plan that included quite a few phases, and certain  
24 things were to occur in certain phases. And it,  
25 after working through the initial development of the

1 project, just didn't make sense to do it quite the  
2 way we had structured it. So we are reviewing this  
3 relocation indication of the natural gas pipeline and  
4 the timing.

5 The original development permit was  
6 issued, I believe, in 1996. It was a development  
7 plan with a five-year time frame for development, so  
8 they're still within that time frame.

9 The original condition that required  
10 this review of abandonment options specified that  
11 abandonment issues would be reviewed if development  
12 activities ceased for 12 months.

13 Well, their development activities have  
14 begun. And if the commission didn't modify that  
15 language, then they would have been in a situation of  
16 doing the abandonment review.

17 Our planning commission did not feel  
18 that that was appropriate at this point in time given  
19 that Molino intended to continue their development  
20 activities.

21 And so they determined to extend the  
22 amount of time Molino would have to conduct their  
23 development activities by 24 months from the  
24 November '98 date.

25 COMMISSIONER CONNELL: Mr. Chair, I

1 have a question.

2 Dianne, this litmus test that we were  
3 talking about earlier, let's assume that they go on  
4 and they're developing.

5 What will you have to do and when? You  
6 wait now basically until November of 2000 before you  
7 do an evaluation of whether they've met the  
8 standards? Or is it an ongoing evaluation?

9 In other words, do they have a two-year  
10 period here that they've been granted, you know,  
11 freedom to develop and to try to produce at the level  
12 that they need to, or will you be evaluating them  
13 along the way, or do you just wait until the year  
14 2000 and come in and evaluate whether they've met the  
15 test?

16 MS. MEESTER: I think I understand your  
17 question.

18 Well, we monitor the projects within  
19 Santa Barbara County very carefully and closely,  
20 first of all. So we know what people are -- what the  
21 companies are doing in the field as they're going  
22 through their development activities. So we'll know  
23 whether or not Molino has obviously begun or  
24 reestablished their development activities.

25 In terms of whether we would do

1 anything actively in reviewing the abandonment issues  
2 prior to the November 2000 date, no, we would not.  
3 That would be the trigger date where we would say,  
4 okay, you haven't continued to develop and,  
5 therefore, we're going to put you into this other  
6 review process which we'll look at abandonment or  
7 continuation of activities or curtailment of  
8 activities.

9 COMMISSIONER CONNELL: So they  
10 basically have a holding period here where they're  
11 able to continue operation without -- unfettered  
12 basically without having involvement until  
13 November 2000?

14 MS. MEESTER: The issue here is that  
15 they're not operating. They're not continuing  
16 operations. They're continuing a holding pattern  
17 where they're determining and developing options and  
18 making a decision about what their next step should  
19 be. And they have under our permit up to November of  
20 2000 to decide.

21 COMMISSIONER CONNELL: When you permit  
22 a facility like this, do you go through any  
23 evaluation of the quality of the material they're  
24 using or their personnel expertise or maintenance  
25 issues? Are those standards that you impose?

1 MS. MEESTER: Yes. We have a pretty  
2 extensive set of conditions that we impose on most of  
3 the oil and gas developments that are related to  
4 option one production.

5 They include safety and maintenance  
6 requirements, training requirements, inspection  
7 requirements, any number of issues. Our permits are  
8 really quite extensive. So we do try to anticipate  
9 the issues that you were addressing earlier.

10 COMMISSIONER CONNELL: Thank you.

11 COMMISSIONER BUSTAMANTE: Any further  
12 comment by the commission or staff or members of  
13 Benton?

14 MR. RIEBER: I guess the only  
15 additional comment I might make is that the County of  
16 Santa Barbara's requirements for our materials and  
17 training as she just stated are as rigorous as I've  
18 seen in my career.

19 So I think that from the standpoint of  
20 what we've been talking about in training, longevity,  
21 equipment, that I am feeling as well pleased as I've  
22 ever felt, if that's the right way to say that.

23 COMMISSIONER BUSTAMANTE: Well, your  
24 agreement means basically to me that you believe that  
25 you have sufficient amount of time to be able to do

1 whatever you have to do.

2 MR. RIEBER: That's correct.

3 MS. MEESTER: Chair Bustamante, there's  
4 one issue that came up that I may ask to just  
5 clarify, the relationship of the Benton development  
6 to the abandonment review process that is underway  
7 for the Chevron facility.

8 I just want to clarify that we've  
9 communicated pretty clearly to the Benton folks --  
10 and I can't tell you exactly which ones because this  
11 is my staff -- that it would be helpful to us to know  
12 what their future plans are.

13 And so we've not asked them to defer  
14 expressing their future plans until the Chevron R1  
15 process is complete. We've actually asked for the  
16 opposite. So I think the staff recorders have been  
17 mistaken in that respect.

18 COMMISSIONER BUSTAMANTE: The only  
19 thing else I would add as a way of some amendment by  
20 staff is that it is my understanding that this item  
21 basically -- the only thing we're doing here is  
22 moving and deferring the time until November 14,  
23 2000.

24 Is that correct?

25 MR. RIEBER: That's correct.

1                   COMMISSIONER BUSTAMANTE:  What I'd like  
2 to do is I would like to have -- six months prior to  
3 that date I'd like to see -- whatever the meeting is  
4 that's closest to that time -- to get a progress  
5 report of what's going to take place so that we can  
6 begin to think about what we need to do rather than  
7 reacting six months later.

8                   MR. THAYER:  Certainly.  We'll make  
9 sure that's on the agenda.

10                   COMMISSIONER CONNELL:  Actually I would  
11 like to also direct the staff, I'd like to see a time  
12 line of these oil and gas leases along the coast.  I  
13 think it would be very helpful for us to understand  
14 what kind of pressures are going to exist at this  
15 commission level for consideration of these.

16                   And obviously they're grouped in  
17 different kinds of operation, styles, and volumes,  
18 et cetera.  They each have their own peculiar issues.  
19 But I would like to have a full presentation on the  
20 time line basis of when these matters are going to  
21 come before this commission.

22                   MR. THAYER:  We can certainly look at  
23 that.  A lot of that information is contained in the  
24 lease status report which we'll be discussing in a  
25 couple of these items.

1                   And it's sometimes very hard to  
2 forecast when this is going to come in. But we'll  
3 try and come up with something, to give you as much  
4 information as we can.

5                   COMMISSIONER CONNELL: Very well.  
6 Thank you.

7                   MR. THAYER: Thank you.

8                   COMMISSIONER CONNELL: Mr. Chair, is it  
9 appropriate for me to move the staff recommendation?

10                  COMMISSIONER BUSTAMANTE: It is.

11                  COMMISSIONER CONNELL: I do so.

12                  COMMISSIONER BUSTAMANTE: Is there a  
13 second?

14                  COMMISSIONER PORINI: Second.

15                  COMMISSIONER BUSTAMANTE: Let the  
16 record reflect that it's passed unanimously with the  
17 amendment that staff will come to us six months prior  
18 to the deadline with a progress report. Okay.

19                  And we're going on to item No. 78; is  
20 that correct?

21                  MR. THAYER: Yes.

22                  COMMISSIONER BUSTAMANTE: This is an  
23 informational report on offshore oil. Is staff  
24 making a presentation? Mr. Thayer, are you going to  
25 be presenting that?

1                   MR. THAYER:  No, sir.  Paul Mount will  
2  be responding.  This will contain a lot of  
3  information as to the discussions that appeared  
4  before the commission beginning April and focuses on  
5  a lot of the concerns that the controller expressed  
6  today in terms of aging facilities, independent  
7  operations --

8                   COMMISSIONER BUSTAMANTE:  Give your  
9  name for the record, please.

10                  MR. MOUNT:  Paul Mount, Chief of  
11  Mineral Resources Management Division.

12                  A couple of meetings ago  
13  Commissioner Connell asked a number of questions,  
14  also asked the same questions again today.  We were  
15  prepared to discuss it at the last meeting but ran  
16  out of time.  So we have some of that information  
17  available for you today.

18                  I want to point out I'm going to start  
19  out talking about regulations and how we compare with  
20  the MMS.

21                  I want to point out, No. 1, that our  
22  regulations were our 1980 regulations.  We're trying  
23  very hard to get regulations updated with a joint  
24  cooperative effort between us and the Division of Oil  
25  and Gas, and we've been working on that, and we're

1 trying to accelerate that.

2 I would also like to point out the fact  
3 that we work very closely with the MMS and go out and  
4 are working on joint inspections with them. We're  
5 intending to do a joint audit on one of the federal  
6 platforms very soon, so we are working very closely  
7 with them on this. And the county is well aware of  
8 their standards.

9 Let me point out some of the  
10 differences between the MMS federal regulations and  
11 our state regulations.

12 On drilling and well control we will go  
13 system safety. It's the same, both the state and the  
14 federal.

15 On structure regulation for platforms  
16 and pipelines, they review them every five years,  
17 American Petroleum Institute major modification of  
18 the platform is requested, then we review the  
19 structure of the platform and the pipelines.

20 On air pollution regs, they're pretty  
21 much the same except we don't normally enforce the  
22 air pollution regs. Those are done with the AQCS or  
23 AQMD or the air quality districts in the state. So  
24 as far as the air pollution regulations, those are --  
25 we make sure they're in force, but we don't have

1 primary enforcement on that.

2 Police power, cease and desist and  
3 fines, again, that lies within the Division of Oil  
4 and Gas. The State Lands Commission does not have  
5 the cease and desist authority, but the Division of  
6 Oil and Gas and Fish and Game have some of that  
7 authority that we can use if we needed it.

8 COMMISSIONER CONNELL: May I ask a  
9 question at this point?

10 Going back to the structural regulation  
11 for platforms and pipelines. I visited one of these  
12 platforms in the Santa Barbara Channel. And in the  
13 process of that visit I was informed by the operator  
14 of the oil platform that the federal regulations were  
15 more severe than state regulations in relationship to  
16 structural regulations.

17 What was he referring to? Because your  
18 chart would indicate that that's not true.

19 MR. MOUNT: We have worked with the MMS  
20 on developing those standards or structures, and  
21 platforms are now required to meet a 1,000-year event  
22 standard.

23 In other words, they're required to  
24 withstand a 1,000 year earthquake in the event of an  
25 earthquake, and the structural integrity of the

1 platform has to be maintained.

2                   We -- as the operators request  
3 modifications to platforms, we will require them to  
4 meet that 1,000 year standard. All of our platforms  
5 currently meet that standard except for one that  
6 meets a 500-year standard, and they're intending to  
7 upgrade that platform very soon to meet the  
8 1,000-year standard. So all of our platforms will  
9 meet the same standard as the MMS platform.

10                   I think he was referring to facilities  
11 and meeting current standards on facilities and on  
12 top sites. And in that respect we're going to be  
13 auditing all of our facilities and bringing them up  
14 to the current standards as the MMS has, and we can  
15 require that under existing regulations as well, and  
16 I'm going to be talking about that.

17                   COMMISSIONER CONNELL: Would it be fair  
18 to say that we're not currently up to all federal  
19 standards?

20                   MR. MOUNT: Not currently. But we will  
21 be soon.

22                   COMMISSIONER CONNELL: Soon being the  
23 next six months? The next year?

24                   MR. MOUNT: The problem is the audit  
25 program and the program that we've said established

1 is going to take us three or four years because  
2 they're very exhaustive, intensive.

3 And it's going to require some staff,  
4 and it's going require some money and additional  
5 staff to complete that. So we're trying to  
6 accelerate that as quickly as we can.

7 We've asked for a budget change  
8 proposal to accelerate that program. We're trying to  
9 get the money to do that. And we'd like to do that  
10 as quickly as possible.

11 COMMISSIONER BUSTAMANTE: Just to  
12 follow up on the controller's comment.

13 Platform Holly was shut down. Did we  
14 learn anything from that? Anything that may be  
15 particular to California? Anything that would  
16 require us to in fact exceed certain standards or to  
17 have certain emergency regulations that would allow  
18 us to move quicker or wire things together in a  
19 different way so that, as we have to deal with those  
20 kinds of issues, we're able to effectively deal with  
21 them?

22 MR. MOUNT: We have learned a lot from  
23 that -- platform Holly problems. We've audited the  
24 platform. We've learned about the nature of the  
25 platform and the age of the platform and the

1 stability of the platform and functionality of the  
2 equipment.

3           They've made a lot of the modifications  
4 based on our requirements. After the audit they  
5 spent a lot of money -- I don't know exactly how  
6 much -- millions of dollars modifying the platform.

7           We've also incorporated those things  
8 that we found in our new joint regulations that we're  
9 trying to move forward with as quickly as possible.  
10 We've strengthened our joint regulations so we're  
11 going forward with the Division of Oil and Gas.

12           In short they at least meet the MMS  
13 rate of standards. And so, yes, we have learned a  
14 lot. We're taking action to both strengthen our  
15 regulations, inspect all our facilities including  
16 some onshore facilities that have never been  
17 inspected before.

18           COMMISSIONER BUSTAMANTE: So this  
19 platform has met the federal standards? It would --  
20 can be configured exactly the way it is today?

21           MR. MOUNT: That's correct. It's not  
22 quite yet there. It takes some time to get some of  
23 these repairs completed. And what they're actually  
24 doing is replacing a lot of equipment, replacing  
25 valves, replacing compressors, replacing a lot of

1 things that we talked about that are aging. They are  
2 no longer aged, they're new.

3 COMMISSIONER BUSTAMANTE: So it's a  
4 matter of while we're reviewing other platforms  
5 because you believe at this point the standards are  
6 appropriate if we use federal standards to maintain  
7 these facilities in such a way that they're not going  
8 to be in jeopardy --

9 MR. MOUNT: With the exception of  
10 pipeline inspection standards we believe the MMS  
11 standards are sufficient and adequate, and we're  
12 going to continue to review that and apply best  
13 available technology in the future in looking at  
14 this. We're building the regs so that we have some  
15 discretion to increase the standards as we need to.

16 COMMISSIONER BUSTAMANTE: And the  
17 American Petroleum Institute standards are higher  
18 than federal standards?

19 MR. MOUNT: In most cases they're the  
20 same. There's a few exceptions, but in most cases  
21 they're the same.

22 COMMISSIONER CONNELL: Actually in some  
23 cases they're not as strong as the federal from my  
24 understanding.

25 MR. MOUNT: In some cases they're not

1 quite --

2 COMMISSIONER CONNELL: That's my  
3 understanding, Cruz. This is my concern. This is  
4 why I'm directing my questions here. Because when I  
5 visited the platform I was surprised to find out that  
6 we were not at federal standards. And in subsequent  
7 research I found out federal standards were higher  
8 than these American Petroleum Institute standards.

9 So I'm happy to hear we're moving up.  
10 I'm distressed that it's going to take us three or  
11 four years to do that. I think the more important  
12 issue might be why were we not at federal standards  
13 to begin with.

14 MR. MOUNT: Again, like I pointed out,  
15 we were dealing with 1980 regulations, and until  
16 recently we really haven't had any problems that  
17 focused us on this issue.

18 MR. THAYER: And I want to reemphasize  
19 one point that Paul's already made which is that  
20 these joint regulations which we've discussed with  
21 the commission back in April and the commission at  
22 that time was very anxious for us to proceed promptly  
23 with them, we've gone back and made some additional  
24 changes to them since that meeting. So it's not like  
25 we're just kicking around the same old regulations

1 and working up the gears.

2 Some of the lessons from Holly have  
3 informed us in terms of making some additional  
4 changes in those regulations so that we can bring our  
5 standards up to the federal standards.

6 MR. MOUNT: Many of these standards  
7 just recently changed. We had new air quality  
8 standards and regulations in 1998, a year ago. A  
9 year before that came the structural standards, the  
10 1,000-year earthquake priority standard.

11 So they're fairly recent, many of the  
12 new standards. And the MMS have brought their rates  
13 up to date, and we're in the process of doing that.  
14 They brought their regs up in 1997, '98. We're a  
15 little behind that because of the joint reg process  
16 that's taken us longer than we thought.

17 COMMISSIONER CONNELL: There are two  
18 issues here. There's -- the training requirements  
19 here assume that you train the person initially, but  
20 that does not deal with the fact that as you look at  
21 many of these oil platforms in California, there is a  
22 dwindling pool of people who know how to operate  
23 these facilities. They're retiring. They are moving  
24 out of state. They are not being picked up by the  
25 new operators of these facilities.

1                   How are we certain that we have  
2 adequate personnel coverage? I mean, a person is  
3 working a 24-hour shift five days a week. I'm not  
4 comfortable that that person is going to have the  
5 attention capacity to do what they need to do on a  
6 platform to avert a problem.

7                   MR. MOUNT: We're, number one,  
8 requiring training standards for all the operators,  
9 and they must be certified. Number two, we're  
10 requiring annual training requirements of the  
11 operators and the key personnel on the platform.

12                   And to answer your third question about  
13 the -- what we would call human error factor in  
14 operating platform facilities, we're going to look at  
15 that very seriously during our audit program in the  
16 next year and determine if there's something we need  
17 to do about establishing standards for both the hours  
18 worked out there and then the -- and standards for  
19 operations personnel for days off and that kind of  
20 thing.

21                   COMMISSIONER CONNELL: I raise that  
22 issue, Chair, because when I was out there I was  
23 really alarmed to find that there seems to be no  
24 backup. There is no bench for these personnel. And  
25 these facilities need to be operated at the

1 state-of-the-art level or we are going to have  
2 problems.

3           And should we have a problem, if we  
4 don't have an adequately trained person because the  
5 senior person is on vacation or on their day off,  
6 this becomes a serious hazard to the operation, the  
7 safe operation of that facility.

8           Now, we mandate, as you -- my  
9 colleagues may know on the board, limited hours for  
10 the operation of our prison facilities in California,  
11 number of hours on.

12           We operate -- since we audited them I  
13 speak to this in some detail. We are required by the  
14 federal government to audit the number of hours that  
15 people can work at our dams in California, for  
16 example, federal dams. We audit that program for the  
17 federal government.

18           We audit the number of hours people can  
19 work at pollution facilities in California for this  
20 exact reason, that you want to make sure that people  
21 are refreshed and that they are not overworked and  
22 that they don't miss what would otherwise be a red  
23 alarm if they were more attendant to what is going  
24 on.

25           So I would just suggest as you develop

1 your audit standards that you might want to look at  
2 some of these audit standards that exist for the  
3 federal government and similar high profile  
4 facilities where the operation is critical to safety.

5 MR. MOUNT: We are going to meet or  
6 exceed the federal standards on training requirements  
7 and personnel requirements out there. We have worked  
8 on this human error issue about human error causing  
9 many of the problems out there, lack of sleep or  
10 whatever.

11 So we are involved with that, and we're  
12 looking at maybe placing requirements on these  
13 companies to limit the hours they work and those type  
14 of things.

15 Again, here's some more comparisons.  
16 The one thing I mentioned on the frequency of  
17 testing, that's one thing where we're more stringent  
18 than the federal.

19 They only require annual testing of  
20 safety valves, pressure safety valves. And pipelines  
21 are biannual. We require monthly inspections on  
22 these types of equipment and annual inspections on  
23 pipelines.

24 We're negotiating with the MMS right  
25 now to bring up their standards to ours to -- because

1 that's the only one that they appear to be  
2 significantly weaker than we are.

3 The pending joint regulations, these  
4 are some of the things that they're trying to do for  
5 us, in other words, require -- adopt the H2S and --  
6 you're looking at the guy who is working -- his  
7 primary job is regulations.

8 COMMISSIONER CONNELL: Are you working  
9 24 hours a day, 6 days a week?

10 MR. MOUNT: We're overworking trying to  
11 get these joint regs going.

12 It includes new training requirements  
13 to meet or exceed the federal standards, incorporates  
14 the latest API standards, adds structural  
15 regulations, expands our pipeline regulations,  
16 requires higher certification for equipment and  
17 personnel, by the way, requires compliance with our  
18 quality rates and reporting valve releases which we  
19 did not do in the past. It requires facility  
20 engineering audits on a regular basis. And that's,  
21 again, what I'm needing money to do next. And that's  
22 it. That covers pretty much the joint regulations.

23 Now, there's some questions about  
24 financial status of the operators, and we've already  
25 talked a little bit about Benton. By the way, they

1 have about 180 billion barrels of oil reserves  
2 worldwide.

3                   These are our operators offshore. Our  
4 primary operators are Aera, who is the 23rd in size  
5 of all the oil companies in the United States.  
6 That's including Chevron, Exxon.

7                   Nuevo is another operator. They are 47  
8 in size of all the oil companies, majors and  
9 independents. There's a list here of their earnings.  
10 And you can see Aera, who is a substantial company,  
11 4 million -- 4 billion dollars in assets -- lost  
12 109 million last year. Nuevo lost 94 million last  
13 year. So Benton, 183 million.

14                   COMMISSIONER CONNELL: I suggest that  
15 more important than the earnings is the  
16 debt-to-equity ratio.

17                   MR. MOUNT: Debt-to-equity ratio looks  
18 fairly good. That's what we looked at very closely.

19                   Venoco, being a public company -- this  
20 information is not available to the public, but what  
21 is available are the following -- is the following  
22 information that we can show you.

23                   Their assets are 400 million dollars,  
24 their revenues in '99 were 65 million. Revenues for  
25 Holly were 17 million. They had a credit line of

1 200 million and 250 million in insurance to cover  
2 liabilities, as Benton was talking about; oil spill  
3 liabilities, those types of things.

4 And then they have a letter of credit  
5 to state lands for 7.6 million. And I've been  
6 informed they may go public soon with the stock  
7 offering.

8 Now, the next issue was the age of the  
9 facilities. And we talked a little about that in  
10 bringing up the standards. Just to give you an idea  
11 of our facilities that we have currently. These are  
12 the platforms when they were installed they had  
13 facility upgrades in these dates.

14 And you talked about earlier can we  
15 upgrade them, can we strengthen the platforms. Yes.  
16 The answer is yes. Yes, we can strengthen the  
17 platforms to meet better seismic standards. Yes, we  
18 can replace equipment. All of those things can be  
19 done, and in fact in Holly's case much of that is  
20 being done.

21 We have some other facilities that are  
22 mostly onshore stuff down here that we should be  
23 inspecting but we haven't inspected a whole lot in  
24 the past.

25 Next.

1                   COMMISSIONER CONNELL:  Go back there.  
2   I just want to look at those dates again.  See, these  
3   facilities were all solved -- many of them were  
4   solved we're talking about 30, 35 years in some of  
5   these cases.  And even more than that if you go back  
6   to the '40s.  I mean, we're talking about facilities  
7   that are 60 years old.  I'm talking about Huntington  
8   Beach.

9                   MR. MOUNT:  Huntington Beach is  
10  onshore.  Again, that's an onshore site, and the  
11  facilities have all been replaced since 1940.  So  
12  what was there in 1940 does not exist any longer.

13                   All the tank props have been totally  
14  replaced.  All the pipelines have been totally  
15  replaced.  The only thing that probably hasn't are  
16  the well bores that go down into the ground.  They've  
17  been repaired, I'm sure, but they last 50, 100 years  
18  sometimes.

19                   But the facilities associated with  
20  these operations have in most cases been totally  
21  replaced and revamped.  Many of those don't exist any  
22  longer.  They've been abandoned or they have been  
23  taken out with newer, more modern facilities.

24                   So platforms.  The only thing left on  
25  some of those platforms are the legs and the

1 structural portion that holds up the top sides, what  
2 we call the top sides.

3 And many of the platforms' structural  
4 has been improved. They put cross-members in that to  
5 improve the stability. They also grouted the legs  
6 and improved stability. So they've done things since  
7 these were installed to improve the stability of the  
8 platforms.

9 So what you saw there in 1965 or 1940  
10 probably, you know, most all cases does not exist  
11 there any longer.

12 Just to give you an idea, we've reduced  
13 the number of oil spills from our offshore facilities  
14 since 1978. This is the gallons spilled from state  
15 offshore oil facilities. We're down to a few gallons  
16 a year.

17 Next one.

18 This is oil spills since 1978. Spilled  
19 from state platform, 61 barrels; spilled from federal  
20 platforms, 809 barrels. A lot of that was Platform  
21 Irene (phonetic) Pipeline spill.

22 Ships, marine terminals, and other  
23 unknown spills that might have come onshore as well,  
24 90,000 barrels. The seeps are estimated to have  
25 spilled 292,000 barrels during that same period of

1 time.

2 We did audits in 1991 on all the  
3 facilities. Again, we were dealing with 1980  
4 regulations. Our current audits are now dealing  
5 with -- we're auditing to our joint regulation  
6 standard even though they aren't approved yet.

7 We are going to do extensive audits on  
8 all the facilities by April 2003, assuming we get the  
9 support to do that. We'll bring all the facilities  
10 up to the latest standards within four years. I'd  
11 like to accelerate that to three or two if we can.

12 COMMISSIONER CONNELL: What would  
13 prevent you from accelerating them?

14 MR. MOUNT: It's a matter of getting  
15 out there, auditing facilities, and trying to get the  
16 operators to bring it up. Even though we can require  
17 them today.

18 I think we need to police them and go  
19 out there and inspect what they've done, audit their  
20 facilities, which takes -- frankly they're very  
21 extensive audits.

22 It takes six months to go through  
23 everything: all the equipment, all the separation  
24 vessels, everything they have out there. It takes us  
25 to do a complete audit from the beginning to the end

1 about six months. It takes about four engineers to  
2 do that.

3 COMMISSIONER BUSTAMANTE: What effect  
4 does that have on the seeps?

5 MR. MOUNT: Pardon?

6 COMMISSIONER BUSTAMANTE: What effect  
7 does that have on the seeps?

8 MR. MOUNT: Seeps?

9 COMMISSIONER BUSTAMANTE: Go back one.

10 COMMISSIONER CONNELL: If you were to  
11 be doing more aggressive auditing, I think that --

12 COMMISSIONER BUSTAMANTE: None? Why  
13 don't we attack something that's a problem.

14 MR. MOUNT: Seeps are seeps from the  
15 ocean.

16 COMMISSIONER BUSTAMANTE: They're not  
17 coming as a result of the platforms or the drilling  
18 or anything that results from it?

19 MR. MOUNT: No.

20 COMMISSIONER BUSTAMANTE: Okay.

21 MR. MOUNT: Those are just natural  
22 seeps mostly in the Santa Barbara Channel.

23 COMMISSIONER PORINI: Do we  
24 automatically go in and do an audit any time we have  
25 a reportable release? What does a reportable release

1 trigger?

2 MR. MOUNT: We go out and inspect the  
3 cause of that. We don't audit. Audit again is like  
4 a six-month process. But when there is a release of  
5 some sort, that's investigated, and whatever problem  
6 was located is solved.

7 And if it's a facility design issue, we  
8 require them to redesign it. If it's a human error  
9 issue, we look at the operator qualifications or the  
10 time they've been working and to see if there's  
11 something we can do to prevent a human error problem.

12 Or if it's an equipment failure, we  
13 look at why we didn't catch that earlier, why that  
14 equipment wasn't located through our inspection and  
15 something done about it, and then of course repair it  
16 right there. So we do look at and investigate all  
17 these incidents.

18 COMMISSIONER CONNELL: When you do  
19 audit, and you're auditing to these joint standards  
20 even though we have not yet raised our standards to  
21 the joint level, what's the ability when you issue an  
22 audit finding to require that they bring their  
23 facility up to the joint standard?

24 MR. MOUNT: In our regulations they're  
25 required to meet those standards. If we say that the

1 API standard is such, then they're required to bring  
2 it up to that standard. Otherwise we would have to  
3 take action against that. But we've not really had  
4 that problem. They cooperate fairly well.

5 Here's our audit program, the way we've  
6 laid it out, assuming we get our budget change  
7 proposal. We of course started --

8 COMMISSIONER CONNELL: Of course you  
9 know you are lobbying the right source here. I see  
10 the Department of Finance is sitting here.

11 We wouldn't want to put any pressure on  
12 you.

13 COMMISSIONER PORINI: Absolutely not.

14 MR. MOUNT: Well, you know, frankly we  
15 really wanted to do this in-house. We would have  
16 like to have accelerated this as much as we can, but  
17 it really is exhausting. And to bring it up to the  
18 standard that you all want and we want, we really  
19 need to do this.

20 But this is our schedule. This  
21 includes a number of onshore facilities too; some  
22 that the counties -- in the case of Santa Barbara  
23 County looks very extensively at, and we work very  
24 closely with them and probably cut short the process.

25 And some other counties that are not as

1 much interested in onshore facilities, we would  
2 probably bring a full audit to bear on those  
3 facilities.

4 COMMISSIONER BUSTAMANTE: It sounds  
5 expensive.

6 MR. MOUNT: What was the full cost of  
7 that? Do you recall?

8 COMMISSIONER BUSTAMANTE: Or the  
9 approximate cost.

10 MR. MOUNT: I think it was about -- we  
11 wanted to hire about four people, and we're talking  
12 about \$100,000 per year each. So we're talking  
13 \$500,000 a year for the hiring. And then each  
14 company we were going to require to pay for a  
15 consultant to also work with us on it so it won't  
16 cost the state anything.

17 COMMISSIONER PORINI: Just one  
18 question, because I know when we evaluate your ECP  
19 you'll be asked the same thing.

20 You're adding additional people for the  
21 audits and yet you're still just doing two audits a  
22 year?

23 MR. MOUNT: Well, that's right, because  
24 it takes -- I believe it's three engineers six months  
25 to complete from the beginning to the end -- to

1 complete an audit.

2 Sometimes these audits also involve the  
3 onshore sites as well. So like I said, there's a lot  
4 of equipment out there and a lot of valves and a lot  
5 of things that have to be looked at. So --

6 COMMISSIONER CONNELL: If you look at  
7 your footnote, it says it takes you six months per  
8 audit, so that would enable you, though, to do two  
9 audits a year.

10 Don't you have any staff at this point  
11 that are able to do audits?

12 MR. MOUNT: We have staff, but we don't  
13 have staff that are, number one, qualified auditors  
14 and, number two, most of those staff are working on  
15 our inspection program.

16 There's a difference between an audit  
17 program and inspection program. An audit program  
18 will determine if the facilities are built property,  
19 if the design of the facilities is done right. If  
20 the stability of the facilities is correct and if  
21 they're too old, do they need to be replaced.

22 The inspection program only ensures  
23 that what you have there works. In other words, do  
24 the valves work, do the safety equipment work, does  
25 the shutdown equipment work, does the automatic

1 electrical engineering system work.

2 But the audit program would determine  
3 is it adequate, is that system adequate. So that  
4 requires a little more qualification and certified  
5 engineers to do that.

6 This is our budget change proposal. As  
7 you point out, most our facilities are over 30 years.  
8 Many of them do not currently employ the best  
9 available technology. We have deficiencies.

10 COMMISSIONER BUSTAMANTE: That last  
11 point there is really the Holly lessons that you were  
12 bringing up. A lot of this was generated as a result  
13 of your input this last spring what we learned from  
14 Holly.

15 COMMISSIONER CONNELL: I must tell you  
16 I appreciate your response, coming through with this  
17 audit. Because I think that as these facilities  
18 continue to age and particularly timing, as I said,  
19 since this commission is going to have to make some  
20 decisions over the next few years with regard to the  
21 continuation of lease activity, I want to have as  
22 much audit material in front of us as we can. I  
23 think it's -- I don't mean to put unfair pressure on  
24 the Department of Finance. I do think it's a dollar  
25 well spent.

1 MR. MOUNT: We've also learned  
2 something from Holly, and anytime a facility changes  
3 hands, anytime another company takes a facility, we  
4 want to audit. We think that's essential.

5 The next one.

6 We're going to do onshore facilities,  
7 again, that we've never done nor have we inspected  
8 until recently. And these are the things we'll be  
9 auditing for.

10 COMMISSIONER CONNELL: If you've never  
11 audited before, may I ask the question why not?

12 MR. MOUNT: They did an audit in 1991.  
13 It was not as extensive as this audit. And again,  
14 the age of the facilities kind of snuck up on us, but  
15 more importantly, again, you pointed out that many of  
16 our facilities had been taken over by independents.  
17 The majors did some of their own audits in the past.

18 And it's just they've gotten old on us.  
19 It's about time to do it. So we would have liked to  
20 have done it more frequently, but our regulations  
21 frankly didn't allow us to do that. Our new joint  
22 req has written that in. And again, this is the  
23 reason for our audit program.

24 That's all I have to present. I hope  
25 that answers most of your questions. I can supply

1 you with more information if you'd like.

2 COMMISSIONER CONNELL: What is the  
3 action required here on this item?

4 COMMISSIONER BUSTAMANTE: Just  
5 information.

6 COMMISSIONER CONNELL: We don't have to  
7 take an action before asking you to submit a BCP?

8 MR. THAYER: It's been done. It's in  
9 the resources.

10 COMMISSIONER BUSTAMANTE: It's in the  
11 resources.

12 UNIDENTIFIED SPEAKER: This hasn't been  
13 received by finance yet.

14 COMMISSIONER BUSTAMANTE: Not yet.

15 COMMISSIONER CONNELL: It has to go  
16 through the agency.

17 UNIDENTIFIED SPEAKER: I see.

18 COMMISSIONER BUSTAMANTE: On to item  
19 No. 80.

20 COMMISSIONER CONNELL: Did we have  
21 anyone who wanted to speak on it?

22 COMMISSIONER BUSTAMANTE: No. But we  
23 did have someone who wanted to speak on -- that's  
24 right.

25 Dianne Meester. You did want to speak

1 on this issue, didn't you?

2 MS. MEESTER: I meant to put it in for  
3 79, but I have one comment, so I'll take it.

4 COMMISSIONER BUSTAMANTE: Susan Jordan.

5 MS. JORDAN: I was going to speak on  
6 79.

7 COMMISSIONER BUSTAMANTE: Go ahead.

8 MR. THAYER: Oh, no. That's the next  
9 item.

10 COMMISSIONER BUSTAMANTE: Oh, I'm  
11 sorry.

12 MS. MEESTER: Chairman Bustamante and  
13 members of the commission, I just wanted to let you  
14 know that you're not the only agency who has been  
15 struggling with these issues.

16 As you probably know for a very similar  
17 reason Santa Barbara County has been attempting to  
18 address the issues that you're discussing today as  
19 well.

20 And we've, I think, established a very  
21 good relationship with your staff and working on the  
22 particular facility that brought this all to light,  
23 the platform Holly and Venoco's Ellwood onshore  
24 facility, and I just wanted to express appreciation.

25 One additional item that we're looking

1 into at the county level, and I didn't see any  
2 overhead presentation from your staff, change of  
3 ownership, operatorship requirements.

4 And that is something that we're  
5 pursuing at the county level through a state request  
6 that we have, and the MMS does have fairly extensive  
7 regulations for a change of ownership and  
8 operatorship --

9 COMMISSIONER BUSTAMANTE: You mentioned  
10 an audit, but you didn't mention --

11 MS. MEESTER: Right. They do more than  
12 just an audit, although an audit is certainly the  
13 right step or a step in the right direction.

14 MR. MOUNT: Yes. We do that routinely.  
15 There are requirements that are set when they do  
16 change ownership.

17 COMMISSIONER BUSTAMANTE: Through MMS?

18 MR. MOUNT: It's not exactly the same  
19 as MMS. We have different opinions. But I think  
20 we're probably a little stricter in some cases, and  
21 in others they're more strict.

22 But MMS has had the same problem we've  
23 had. They've had to deal with independent operators  
24 coming in and taking over federal platforms, which is  
25 an issue for the MMS.

1 MR. THAYER: I presume the issue you're  
2 talking about there has to do with the financial  
3 capabilities of the company, their training.

4 MS. MEESTER: Exactly.

5 COMMISSIONER CONNELL: So the same  
6 issues that I identified in those four kind of  
7 standard issues would prevail in this situation on  
8 the transfer of property?

9 MS. MEESTER: It's a good place to be  
10 able to assert some review.

11 COMMISSIONER CONNELL: Okay.

12 MR. MOUNT: Just to give you an idea,  
13 the there were well facilities which were recently  
14 going to be transferred to a certain company that I  
15 won't name, but the deal fell through after some  
16 scrutiny by the agency and other interested parties.

17 COMMISSIONER BUSTAMANTE: Thank you.

18 Item 79.

19 MR. THAYER: Item 79 is the lease  
20 status report. This is a continuation of the  
21 discussion we had at the last meeting. You'll recall  
22 that Secretary Nichols from the Resources Agency  
23 requested that the State Lands Commission and the  
24 Coastal Commission prepare a report on offshore oil  
25 leases both in state and federal waters.

1                   At the meeting which we represented  
2                   that report to you, the commissioners had some  
3                   additional questions, and there were additional  
4                   questions from Santa Barbara County,  
5                   Senator O'Connell, and the Environmental Defense  
6                   Center.

7                   We've prepared this additional report  
8                   to try and answer those questions and to provide some  
9                   more specificity about the status of our lease. We  
10                  hope it provides the answers that were requested.

11                  We've sent copies to the individuals  
12                  who requested that additional information. Most of  
13                  them we have spoken to earlier representatives of  
14                  those organizations.

15                  To reiterate, some of the particular  
16                  information and the conclusions that you can draw  
17                  from this report, by the way of background  
18                  information we've had 58 leases offshore California.

19                  Presently there are 5 leases with no  
20                  production. There's 17 with production of oil, there  
21                  are 20 where production has ended. There was once  
22                  production that has now ceased, and we've had 16  
23                  leases quitclaimed back to the state.

24                  The report shows that the individual  
25                  lease situations for the current leases vary greatly.

1 There are a couple conclusions you can draw. The  
2 first one is that the oil development and production  
3 in offshore California is the Sunset industry.

4 The clear majority of the leases -- 36  
5 out of 58 -- have either been quitclaimed or  
6 production has halted on them. In fact, if you look  
7 at the revenue production from our offshore leases,  
8 we at one time topped half a billion dollars 10 years  
9 ago, and of course this year we're down to  
10 probably -- I think Annette knows better than we do,  
11 but 10 or 15 million dollars. It shows that the  
12 direction in offshore in California is that this  
13 industry is going away.

14 The report also shows that a  
15 significant factor in eliminating leases where  
16 production is ended is the clearing of debris and  
17 restoring the lease sites. It says shell mound issue  
18 is somewhat smaller in most of the leases. We don't  
19 have as big an issue with shell mounds.

20 But when you look at the report you'll  
21 see that in most cases these leases that have ceased  
22 production have only very recently had the final  
23 debris taken off them and the wells properly  
24 abandoned.

25 The SWARS project which brought to the

1 commission a progress report or a final report last  
2 year involved the removal of debris and the subsea --  
3 the abandonment of subsea wells on a lot of leases in  
4 Santa Barbara County. Now that that process is  
5 pretty well done we're expecting quitclaims to come  
6 more quickly to the commission to eliminate these  
7 cases.

8           The oil industry does have very little  
9 interest at this point in developing -- starting  
10 development again on these presently non-producing  
11 leases, and so we would expect more of these  
12 quitclaims.

13           As you know, three of these quitclaims  
14 are on the calendar for today, and another one was  
15 received too late to put on the calendar. You'll  
16 probably be hearing it November. I think this kind  
17 of shows the direction that we're going at this  
18 point.

19           Whether it does remain interest for  
20 production, the production that will result will  
21 probably be much reduced over what might have  
22 occurred before.

23           But obviously before any production can  
24 occur there would have to be extensive environmental  
25 review and ultimately the commission's concurrence

1 before any new development could occur. And you  
2 know, that process is, of course, going to be as  
3 rigorous as the law and you would require.

4 So in conclusion, we have discussed  
5 some of these issues before. We discussed generally  
6 the status of our leases last meeting. We're hopeful  
7 that this report responds to any of the questions  
8 that you had and the others who commented at the last  
9 meeting, but that in general offshore oil production  
10 is declining and leases are being returned to the  
11 state. Some other direction from the commission is  
12 our intent at staff to continue to work to obtain  
13 quitclaims for the remaining non leases.

14 That concludes our presentation. Are  
15 there any questions?

16 COMMISSIONER BUSTAMANTE: I think  
17 that's clearly the direction that I would like to see  
18 staff go. But we have some -- I think the dynamic  
19 trio: Jordan, Krop, and Frisk.

20 MR. THAYER: While they're coming up,  
21 there was one error in Exhibit B -- actually three  
22 errors, but it's the same. It has to do with Benton,  
23 again, on pages 34, 35, and 36. There is a typo  
24 about when the Benton referral ended on the county  
25 level. And the correct year is 2000, not 2001.

1 MS. FRISK: Carla Frisk from  
2 Senator Jack O'Connell's office. And I'm sure all of  
3 you know that Senator O'Connell carried the  
4 legislation that created the California sanctuary.

5 And unfortunately in that legislation  
6 we of course were unable to lift existing leases.  
7 And so we want to thank this commission for taking an  
8 aggressive action to start picking up leases and  
9 making them covered by 82,444 that we will reduce to  
10 the smallest number possible the number of active  
11 leases or potentially active leases that we have,  
12 particularly in the Santa Barbara Channel but  
13 throughout the state lands on state waters.

14 So we're very pleased that later on in  
15 your agenda that you have three quitclaims that  
16 you've received, and I assume are up for approval by  
17 the commission.

18 And I'm pleased that that will be  
19 happening later today and that four additional  
20 quitclaims have been requested. And hopefully those  
21 will come in. I guess one of them already has. And  
22 soon we will be seeing a lot of this narrow down.

23 Basically what we have left of major  
24 concern are a few of these leases that are not being  
25 quitclaimed right now that something or other is

1 going on with them. And I had some questions about  
2 three of those. And I think that some of the others  
3 are going to have similar questions.

4 One of them is Venoco 208 and 129. The  
5 staff report indicated that those are going through  
6 abandonment. And the question is are those then  
7 going to be ready to be quitclaimed.

8 And I think there's several of them  
9 like that. Lease No. 2879 by Unocal, which I think  
10 is the closest from Gaviota. Conversations I had  
11 this morning with your staff indicated that one may  
12 be potentially out there.

13 And so then the question is now that  
14 they're abandoning existing wells and they're already  
15 introducing, what kind of due diligence do they have  
16 to perform, how much time do they have until they are  
17 going to have to either send a quitclaim in or do  
18 something.

19 There are some leases in Ventura and  
20 Orange County that are going through abandonment.

21 And then with regards to the time line  
22 issue that was brought up by Commissioner Connell, I  
23 think one of the first things that, according to this  
24 report, you'll be having to deal with is -- I hope  
25 I'm saying this right -- the POOL drilling deferments

1 which expired November of 1999.

2 And the question I have on that was  
3 what then happens to them and will there be an action  
4 before this commission on the November agenda. And  
5 do they already have permits to drill that they're  
6 just not acting on, or are they still way behind in  
7 the regulatory curve.

8 I think I'll just stop there and let  
9 the groups go in a little bit -- or the other  
10 speakers --

11 COMMISSIONER BUSTAMANTE: Staff, why  
12 don't you -- do you have response to these concerns?

13 MR. THAYER: It was hard to keep up  
14 with all of these.

15 COMMISSIONER BUSTAMANTE: Why don't you  
16 start with the abandonment issues 208 and 209?

17 MR. THAYER: Actually, Paul, do you  
18 want to respond to these?

19 MR. MOUNT: 208 and 209 Venoco has  
20 requested that they use these leases for future  
21 drilling opportunities. We just received a request  
22 recently, and so we'll get a good look at that.

23 But on 129 we did send them a letter  
24 requesting a quitclaim which they responded saying  
25 "We don't want to quitclaim." Now we're going to

1 have to get with Venoco and look at that and see what  
2 requirements they have to meet and whether they're  
3 willing to do that.

4 MS. FRISK: They're not giving up 208  
5 either; is that right?

6 MR. MOUNT: 208, they, again, have  
7 plans to drill. We didn't send a letter out on that  
8 yet, but Venoco does have plans for that lease. And  
9 they're supposed to be coming in to discuss that with  
10 the commissioners in the near future, but I don't  
11 have a date on that yet.

12 MR. THAYER: And actually our report  
13 does indicate that 208 -- it does say 208 is  
14 apparently -- that Venoco is preparing a development  
15 plan for the lease.

16 COMMISSIONER CONNELL: On 208.

17 COMMISSIONER BUSTAMANTE: And on 209?

18 MS. FRISK: It was 129.

19 COMMISSIONER BUSTAMANTE: I'm sorry.

20 129. Okay.

21 MR. MOUNT: That's the one we requested  
22 the quitclaim for, and they said they don't want to  
23 quitclaim.

24 MS. FRISK: And then the others were  
25 2879 which is the Unocal lease.

1                   MR. MOUNT: 2879 -- and they're  
2 currently abandoning four wells on there. Until  
3 they're abandoned, we would not request a quitclaim.  
4 We anticipate we would be requesting a quitclaim  
5 after those wells are abandoned, but I expect some  
6 discussion on that one because we believe there is  
7 oil in productive quantities on that lease.

8                   COMMISSIONER BUSTAMANTE: Which one?

9                   MR. THAYER: 2879.

10                  MS. FRISK: It's the one closest to  
11 Gaviota; right? Point Conception.

12                  And then the other ones were the  
13 Ventura and Orange County abandonment, the four  
14 leases that are down there.

15                  MR. THAYER: Belmont Island?

16                  MS. FRISK: Is that all?

17                  MR. THAYER: When they're properly  
18 abandoned we can anticipate they're coming back.

19                  MS. FRISK: You don't anticipate any  
20 further request?

21                  And then the other one was the POOL.

22                  MR. MOUNT: POOL. They have a drilling  
23 deferment until November of this year. We anticipate  
24 that they will be coming to the commission on the  
25 next calendar, at the commission meeting.

1                   We're not sure what their plans are.  
2   And we asked them to submit plans to us either  
3   requesting deferments or requesting development or a  
4   quitclaim. So we're meeting with POOL to find out  
5   what they want to do with those leases.

6                   MS. FRISK: They have no permits right  
7   now to drill; is that right?

8                   MR. MOUNT: They have no permits to  
9   drill.

10                  MR. THAYER: It would take action by  
11   this commission.

12                  COMMISSIONER BUSTAMANTE: And again,  
13   what's the lease number?

14                  MS. FRISK: Those are 7911 and 4000.  
15   Thank you very much.

16                  COMMISSIONER CONNELL: Thank you.

17                  MS. FRISK: And just a great report in  
18   general. Just all the information we had been  
19   asking -- or that Senator O'Connell had asked for was  
20   in there. We appreciate it.

21                  MS. JORDAN: Susan Jordan for the  
22   League for Coastal Protection. I've been working on  
23   this issue primarily in the terms of the 40 federal  
24   leases. And so I've been very focused on federal  
25   waters.

1                   But then of course it became apparent  
2 with the coastal commission report that maranet was  
3 requested. When we looked at the section on state  
4 waters, which was really kind of small and thin, we  
5 figured we needed to start to focus attention.

6                   So it was a concern that drew me here,  
7 and it's a concern I feel in many ways has been  
8 alleviated because I can see that the commission is  
9 taking a very aggressive stance and taking a very  
10 close look.

11                   Because there are disturbing trends  
12 that we're facing here in California. One of them is  
13 for producing facilities, they're aging facilities;  
14 they're old; they're outdated. Have they kept up the  
15 regulations? Are they complying? Yes, you tell them  
16 to. They know they have to. Are they? I'm not so  
17 convinced that they all are.

18                   You're also dealing with the other  
19 trend that you brought out, which is more -- the  
20 trend away from the bigger operators to the smaller  
21 operators that are less capitalized.

22                   So but I feel very relieved and I'm  
23 very grateful that you're moving this way. I would  
24 also like to get a copy of your slides because that  
25 was not in the information that we received on item

1 No. 78.

2 And I think, you know, when you look at  
3 Santa Barbara you get a degree of comfort because  
4 that's a county that's on top of it. But that is not  
5 the situation in other counties. Okay? And they  
6 don't shine that kind of light, and they don't track  
7 as closely as Santa Barbara does.

8 Santa Barbara is highly sensitive  
9 because of the oil spill there, and so they stay on  
10 top of it. But your work is not going to be quite as  
11 easy when you're dealing with other areas, I think.

12 Anyway, so I just wanted to say thank  
13 you.

14 MS. KROP: For the record, my name is  
15 Linda Krop. I'm the chief counsel with the  
16 Environmental Defense Center.

17 First of all, I would like to thank  
18 staff for preparing the report. It does include a  
19 lot of the information -- additional information that  
20 we had requested from the June hearing. So we  
21 appreciate that.

22 I have several questions about the  
23 status of some of the individual leases, and I think  
24 they were partially answered.

25 For the remaining leases where the

1 status is unresolved, they're partially in  
2 abandonment, I would request that perhaps status  
3 reports be agendized every quarter or for some  
4 appropriate interval to allow the public and the  
5 commissioners to know what's happening with those  
6 lease in terms of when requests for quitclaim go out  
7 or with the requests that are out what the responses  
8 are so that we can continue to track these leases.

9           And my only other comment then was that  
10 we are in support of the quitclaims that are on the  
11 agenda for today, and we are in support of the  
12 request for quitclaims that have been sent out by  
13 your staff.

14           I think this goes a long way for  
15 addressing the Chair's direction in June to get these  
16 outstanding leases resolved, at least by the end of  
17 the year to know which ones are, which ones are out,  
18 and for the ones that are out let's get the quitclaim  
19 process completed.

20           So we do appreciate the attention this  
21 commission is giving to this subject. Thank you.

22           COMMISSIONER BUSTAMANTE: Is the  
23 commission interested in having quarterly updates  
24 on --

25           COMMISSIONER CONNELL: Is that the

1 appropriate interval, or would that be too frequently  
2 that you wouldn't see enough movement?

3 MR. THAYER: How about if we look at  
4 that and I'll talk with Ms. Krop separately and see  
5 how we can work this out.

6 I'm thinking one way, especially if  
7 we're going to have some more quitclaims coming in,  
8 maybe we attach a standard form to that, that once  
9 that quitclaim comes in, of course, it will change  
10 the tallies, and as part of that it's worthwhile  
11 having a new tally.

12 COMMISSIONER CONNELL: Could some of  
13 this information be converted to our Web site? It  
14 would seem to me that those people who are interested  
15 in following this, you know, activists who can't come  
16 to our meetings might choose to be educated by having  
17 this information on the Web site.

18 MR. THAYER: We'll see if we can do  
19 that.

20 COMMISSIONER CONNELL: I don't know if  
21 that's a good idea.

22 COMMISSIONER BUSTAMANTE: It's a great  
23 idea. But I think that she wasn't just talking about  
24 the quitclaim issue.

25 COMMISSIONER CONNELL: No, I would like

1 to have a whole site that is devoted to this issue.

2 COMMISSIONER BUSTAMANTE: All of the  
3 abandonment -- the question from the controller is  
4 quarterly, do you think that that's too often or  
5 should it be twice a year or --

6 MR. THAYER: I guess what would matter  
7 is how quickly the status changes on these leases,  
8 whether they are new development proposals and this  
9 sort of thing. And so if the changes were not  
10 occurring very often, every six months may be  
11 sufficient.

12 COMMISSIONER PORINI: Could we just  
13 have a sheet that appears in our agenda every month  
14 that just lists all of the leases? And then if  
15 there's any change, we'll be able to pick up the  
16 change and you can give us a report at an appropriate  
17 time that way?

18 MR. THAYER: That might be a way to go,  
19 is anytime there's a change in any lease  
20 development -- proposal or something like that -- we  
21 will highlight that. We'll have a lease status.

22 COMMISSIONER CONNELL: Well, I'd like  
23 to go back to this idea.

24 COMMISSIONER BUSTAMANTE: I think it's  
25 intent of the commission to do just that.

1                   COMMISSIONER CONNELL:  Of how we handle  
2 public dissemination of this information.  You know,  
3 this is going to be a growing issue for many people  
4 along the coast and I think for many people in  
5 California whether they are fortunate enough to live  
6 along the coast or not.

7                   I would like to have the staff spend a  
8 little time thinking about how we might create a  
9 special Web site -- on our Web site a special section  
10 to be devoted to this whole issue so that the public  
11 is aware of the commission's commitment to this issue  
12 and the fact that we are staying on top of it and  
13 they can seek to have information available to them.

14                  COMMISSIONER BUSTAMANTE:  It will also  
15 be helpful to the businesses we're trying to do  
16 business with.

17                  COMMISSIONER CONNELL:  That's right.

18                  MR. THAYER:  I'm sure we'll be able to  
19 work something out in that regard.

20                  COMMISSIONER BUSTAMANTE:  
21 Dianne Meester.

22                  MS. MEESTER:  I'm sorry.  I really  
23 intended it for this item.

24                  COMMISSIONER BUSTAMANTE:  That would be  
25 on 78?  You wanted to speak on 78?  Okay.

1                   Is there anything else on 79?

2                   MS. MEESTER: No, I mean, I do want to  
3 speak on this item. I'm sorry.

4                   COMMISSIONER BUSTAMANTE: All right.

5                   MS. MEESTER: I just wanted to thank  
6 again the State Lands staff for putting together a  
7 very comprehensive report. I think it responded to  
8 all of the informational requests that we made by way  
9 of letter in June.

10                   And we also support the commission's  
11 approach to the existing leases to quitclaim those  
12 leases where the production has occurred in the past  
13 so that abandonment is completed where no production  
14 is occurring and development potential appears low.

15                   From the information in the report it  
16 does appear that there are 10 leases offshore  
17 Santa Barbara County that are not currently under  
18 production but have some development potential, and  
19 those include the POOL leases, the Venoco leases in  
20 the South Ellwood field, the Unocal leases which I  
21 believe are anticipated to be developed in  
22 conjunction with the Gato Canyon area the OCS, the  
23 Benton leases, and the Unocal Agapo (phonetic) lease.

24                   For these leases it would be helpful  
25 for us to have additional information on this

1 schedule of operations for exploration of production  
2 similar to the requirements that the MMS imposes.

3 And it would -- it's particularly, I  
4 think, important for us to obtain this type of  
5 information to round out the information that's  
6 presented in the draft CUBA (phonetic) Report.

7 That report only explicitly assumes  
8 development in the state tidelands of the Unocal Cobo  
9 (phonetic) Field and the South Ellwood fields based  
10 upon a determination of resources that can be  
11 economically developed. So I'm curious to know the  
12 true development potential and development and intent  
13 of the rest of those operators.

14 Thank you again for the report.

15 COMMISSIONER CONNELL: Thank you.  
16 Maybe when we put together the time line that I was  
17 asking for, this type of information can be  
18 incorporated.

19 Do you think that would be an  
20 appropriate place to do it?

21 MR. THAYER: Certainly.

22 COMMISSIONER CONNELL: And I assume  
23 that when we do get this information you would make  
24 it publicly available to all local agencies, not only  
25 Santa Barbara but other counties that may have

1 interest.

2 MR. THAYER: Certainly.

3 COMMISSIONER BUSTAMANTE: Were the  
4 slides put in our binders?

5 MR. THAYER: The slides that you saw  
6 were previous items that we were responding  
7 specifically to questions from the commission  
8 earlier. It wasn't part of this presentation, so  
9 that was meant to be an oral report right from the  
10 beginning. There was never any staff report on that.

11 COMMISSIONER BUSTAMANTE: Could you  
12 send me an extra copy?

13 MR. THAYER: Absolutely.

14 COMMISSIONER BUSTAMANTE: There's no  
15 action on this one?

16 MR. THAYER: No action.

17 COMMISSIONER BUSTAMANTE: Item No. 80,  
18 report on the marinas.

19 MR. THAYER: This is the final report.  
20 We did a survey of the marinas to look at the MTBE  
21 contamination. We've completed the field dock  
22 inspections on all of our marinas.

23 The general conclusion is that we found  
24 no evidence of fuel leakage from the actual  
25 facilities themselves.

1                   We have some pictures up there, I  
2 should note, but we found no evidence of tanks  
3 leaking or pipes leaking or pumps leaking. We found  
4 also in general that marina operators were fairly  
5 well trained in proper fueling procedures and were  
6 aware of spill containment measures.

7                   We did find that there were some  
8 losses, some contamination occurring during the  
9 actual fueling operation from two different causes.  
10 And one was -- actually we'll call it operator error  
11 particularly where there was self-service at these  
12 marinas where the boat owners themselves were doing  
13 the tanking.

14                   And the second problem had to do with  
15 an issue that I think the controller staff in  
16 particular focused on which was the design of the  
17 nozzle and that often the nozzles that are used are  
18 the same ones that are used in service stations but  
19 that they're sometimes incompatible with the design  
20 of the -- of the fueling system of the boats  
21 themselves.

22                   And so really it's the lower left-hand  
23 picture up here that's most critical. It's not --  
24 the other pictures would show the equipment. It's  
25 the people actually using the equipment where there's

1 a problem.

2                   And so we've been -- in order to  
3 address those issues we're in contact with and  
4 working with the State Water Resources Control Board  
5 who is in the process of working on regulations for  
6 marina fueling facilities. And in particular we're  
7 bringing to their attention the problem with those  
8 nozzles.

9                   In terms of boating education, we have  
10 been involved over the last few years actually  
11 cooperatively with a number of different agencies  
12 distributing literature.

13                   The staff accumulated some of this, but  
14 there's a whole variety of stuff, boating waterways,  
15 coastal commission, others. We helped distribute  
16 this through the Delta Protection Commission in the  
17 delta itself.

18                   There's a variety of key chains that  
19 talk about protecting waters from used oil. A  
20 variety of these things talk as well about proper  
21 refueling techniques and have good advice for the  
22 boater to prevent that problem.

23                   The recent national clean boating  
24 campaign the week of July 10 through 28 we  
25 concentrated on keeping our water clean, use careful

1 refueling practices. This was the poster that we put  
2 together. So we're focusing on that effort.

3 And finally we're looking at perhaps  
4 providing some decals or stickers, and we have  
5 examples of those pinned next to the pictures up  
6 there that we might provide to our marina operators  
7 that could be out there.

8 We kind of like the one at the top most  
9 because that really does show what we're trying to do  
10 is to keep the gasoline out of the water, as a  
11 reminder to --

12 COMMISSIONER CONNELL: What is this  
13 "Keep Our Water Clean"?

14 MR. THAYER: Well, "Keep Our Water  
15 Clean" is a slogan that was used during this national  
16 clean boating campaign week in which we participated  
17 in July.

18 So I guess in conclusion we think we  
19 started down the right path in previous years in  
20 dealing with some of the issues with respect to  
21 ensuring the carelessness and lack of knowledge by  
22 the boaters doesn't contribute to these problems.

23 But we're also very pleased that as a  
24 result of the efforts over the last few months we've  
25 been able to go out and confirm what we hoped to be

1 the case, is that the marinas themselves aren't --  
2 don't have equipment problems.

3 So that would conclude the staff's  
4 report --

5 COMMISSIONER BUSTAMANTE: Are you -- in  
6 a previous conversation you had indicated to me that  
7 the facilities themselves are in fairly good order,  
8 that the potential spillage would come from  
9 operators, whether it's self-serve operators or they  
10 are the operators, young kids, whatever, who are  
11 pouring the gasoline into the -- in the different  
12 boats.

13 MR. THAYER: That's right.

14 COMMISSIONER BUSTAMANTE: We talked at  
15 that point about finding any kind of technology for  
16 nozzles that would give us the greatest protection in  
17 doing that.

18 Do we have anything like that?

19 I mean, I know that there's no way to  
20 avoid it. I know it's going to be spilled. But is  
21 there anything mechanically that's available as a  
22 nozzle that would help even a little bit?

23 MR. THAYER: I don't think we know that  
24 that's the case now, but we are definitely working  
25 with the Water Resources Control Board to try to

1 develop those nozzles; see if they're available and  
2 to perhaps end up with regulations that they  
3 promulgate that would mandate their use.

4                   And so we're still -- we're not done  
5 with this issue. And we're going to continue to work  
6 on that aspect of it. But today I can't tell you  
7 that there's a nozzle available that would address  
8 that.

9                   COMMISSIONER BUSTAMANTE: Okay.

10                   Are you suggesting to the commission  
11 then to in fact create a campaign of some type? Is  
12 that what this is about?

13                   MR. THAYER: Yes, we are. And in  
14 effect it's a continuation of really what the  
15 commission has been doing for several years in terms  
16 of looking at our responsibility to serve the public  
17 trust which would involve trying to prevent public  
18 trust users from polluting the resource.

19                   So as I say, in the last couple of  
20 years we've been involved in these clean boating  
21 campaigns. And we think that as a result of this  
22 study, identifying this particular issue, that we can  
23 have some additional -- make some additional  
24 difference by furthering our effort and coming up  
25 with new stickers and that kind of thing.

1                   COMMISSIONER CONNELL:  May I suggest  
2   that everything we do in this regard we share with  
3   the schools in California?  It seems to me to be the  
4   right vehicle through which we might be able to  
5   educate -- if you educate a child, you educate a  
6   family in many cases, and this might be a way of  
7   reaching out to the public.

8                   MR. THAYER:  We'll see what we can do  
9   on that.  Of course the other opportunity there is  
10  the Web site, put information on that.

11                   COMMISSIONER BUSTAMANTE:  Do we require  
12  any kind of basic operator training for -- for people  
13  who are paid to pump fuel?

14                   MR. THAYER:  We have a general  
15  requirement that there be no pollution.  But let me  
16  ask -- is it Bob Lynch?

17                   MR. LYNCH:  Yes.

18                   Not to my knowledge.

19                   MR. THAYER:  No, not at this point, but  
20  I guess we'll look into that.

21                   COMMISSIONER BUSTAMANTE:  Is it  
22  possible that rather than making this huge training  
23  process, that there could at least be something that  
24  the -- that the owner of the marina or the people  
25  responsible for the pumping station at least just go

1 over with the -- with people who are in fact pumping  
2 fuel that they just are -- they're told about this  
3 program, they're told about the need to keep the  
4 water clean, and just to go through it with them? I  
5 mean, is there -- I mean, at least to bring it to the  
6 front of their thinking on this and --

7 MR. THAYER: When we were preparing  
8 this -- or working on this survey and doing this  
9 study we consulted with the MRA, the Marine  
10 Recreational Association, who consists generally of  
11 marina operators.

12 And I think if we can work through  
13 them, we might be able to come up with something that  
14 we're all agreeable to that would involve providing  
15 some material and they would help with the  
16 distribution, that kind of thing.

17 COMMISSIONER BUSTAMANTE: I would love  
18 to see a voluntary program, but if it -- if we need  
19 to go to a mandatory program, I guess we could always  
20 do that.

21 MR. THAYER: Let us try and work with  
22 this association first and see if we can achieve  
23 something.

24 COMMISSIONER BUSTAMANTE: The only  
25 other comment would be that I don't know who came up

1 with the graphics -- they're nice, but at least the  
2 commissioner might have a little bit of understanding  
3 of campaigns.

4           And if you're going to be putting these  
5 things up, sometimes the graphics, when you're  
6 looking at them at arm's length, are not the same as  
7 if you're looking at them 10 feet away or 15 feet  
8 away or even 30 feet away.

9           So I would just suggest that you find  
10 somebody who could give you some counsel as to the  
11 kind of graphics you're going to want in order to be  
12 able to get the results you want from a little bit --  
13 because up close that looks like the best one, but  
14 I'll bet you that it's not when you put it 10 feet  
15 away.

16           MR. THAYER: Okay. We'll do that.

17           COMMISSIONER PORINI: Do we have any  
18 requirement in our leases when we sign a lease with  
19 someone for one of the marine fueling stations that  
20 they have a training component?

21           MR. THAYER: I'm hearing that we don't.

22           COMMISSIONER PORINI: But having  
23 something in the lease would be short of the mandate  
24 that we would have to pay for, but it would put folks  
25 on notice that they would --

1 MR. THAYER: If it were in the -- we  
2 have various requirements in the lease that probably  
3 costs money to carry out. And there's no reason why  
4 we can't do something like that.

5 But I think maybe if we take the first  
6 step to see if we can work with existing marinas, and  
7 if that doesn't work, then we'll see what we need to  
8 put in the lease.

9 COMMISSIONER BUSTAMANTE: Okay.  
10 Anything else? Any other comments?

11 MR. THAYER: That concludes that item.

12 The last two items are in fact the --  
13 well, the next item, item 81, I understand that we're  
14 going to put that off until another day. And with  
15 that I would move on to the next two items which are  
16 the two quitclaim items. And I think Paul Mount is  
17 going to present those.

18 MR. MOUNT: As was stated earlier, we  
19 have received a request for quitclaim of three state  
20 leases. Those leases are offshore Santa Barbara  
21 County. They're indicated on this map.

22 One's an Exxon lease located here; this  
23 is Point Conception; over here Santa Barbara, down in  
24 this area; and two Texaco leases, 2725 and 2726, one  
25 of which had a platform that was abandoned years ago,

1 removed years ago, about 1986.

2 So all of the facilities, all of the  
3 pipelines that needed to be in all the subsea wells  
4 have been abandoned, and they're ready to be accepted  
5 for quitclaim back to the state.

6 In addition we've sent letters out on  
7 this lease 2206 requesting a quitclaim. We have  
8 received a request to quitclaim that lease, but it  
9 was too late to get on this calendar.

10 We've also sent a request for a  
11 quitclaim on this lease as well. We sent a total of  
12 five letters out for additional quitclaims. So  
13 you're to consider receiving and approving the  
14 quitclaim of these three leases right here  
15 (indicating).

16 COMMISSIONER CONNELL: Mr. Chair, if  
17 it's appropriate, I would move staff recommendation  
18 to accept the quitclaim.

19 COMMISSIONER PORINI: Second.

20 COMMISSIONER BUSTAMANTE: Is there  
21 anything that would prevent us from doing both items  
22 at the same time?

23 MR. THAYER: There's no reason why not.

24 COMMISSIONER CONNELL: Then I will move  
25 item 80 and 81.

1 COMMISSIONER PORINI: And I second.

2 COMMISSIONER BUSTAMANTE: 82 and 83.

3 COMMISSIONER CONNELL: 82 and 83? I  
4 stand corrected.

5 COMMISSIONER BUSTAMANTE: Let the  
6 record show both items have been passed unanimously.

7 We think it's a great direction anytime  
8 we can move these things off the table. If there's  
9 no production being done, why leave them out there.  
10 I appreciate the work of the staff to do this.

11 That concludes the regular calendar.  
12 There is a time for public comment. We have one  
13 request for public comment.

14 Ms. Krop, do you still want to --

15 MS. KROP: This will be brief.

16 COMMISSIONER CONNELL: I'm feeling that  
17 we should give you a pair of roller blades.

18 COMMISSIONER BUSTAMANTE: You're not  
19 going to have the other two with you this time?

20 MS. KROP: My backup. I'll do this one  
21 on my own.

22 COMMISSIONER BUSTAMANTE: All right.

23 MS. KROP: But I think they'll support  
24 me on it.

25 My public comment is about public

1 comment. We have taken a renewed interest in the  
2 State Lands Commission agendas of late, and we  
3 noticed that on the printed agenda there is no  
4 designation for a public comment period as most other  
5 agencies do. So we have talked to your staff about  
6 it.

7           What we would recommend is that you  
8 actually include it in writing on the agenda. There  
9 are a lot of people out there who don't know without  
10 seeing it in print that they would have an  
11 opportunity to address this commission.

12           We think it's really important that you  
13 make these hearings accessible for people to talk to  
14 you about issues that may not necessarily be on the  
15 agenda but are timely for your consideration. They  
16 may bring up issues that you would want to place on  
17 an agenda.

18           So we would recommend that actually  
19 list it in writing on your agenda. And normally most  
20 agencies put it on at the beginning of the agenda.

21           They indicate if there is going to be a  
22 time limit or some parameters but clearly stating  
23 that this is an opportunity to address the commission  
24 on items that are not normally on the agenda.

25           And we would greatly appreciate that.

1 Thank you.

2 COMMISSIONER BUSTAMANTE: Does staff  
3 have any comment?

4 MR. THAYER: I have spoken with  
5 Linda -- or Carla Frisk most recently. Yes, I think  
6 that's a good point. Legally we are required to  
7 afford that opportunity to the public.

8 There is no specific requirement that  
9 it be placed on the agenda. But Carla's point was,  
10 well, no one knows when to show up and make their  
11 comments. I think that's well taken.

12 COMMISSIONER CONNELL: Well, Annette  
13 and I sit together in 57 boards and commissions or  
14 close to that, and in the other boards that we do sit  
15 on they do have public comments. Generally, however,  
16 they're at the end of the session and not at the  
17 beginning.

18 MR. THAYER: That's an issue.

19 MS. KROP: If I might respond to that.

20 I think one experience we had back in  
21 June when it was at the end we actually lost part of  
22 the commission by then and the rest were, I think,  
23 hungry and ready to leave. So I realize --

24 COMMISSIONER BUSTAMANTE: It's always a  
25 danger.

1 COMMISSIONER CONNELL: It's a danger  
2 even now.

3 COMMISSIONER BUSTAMANTE: As you speak  
4 it's a danger.

5 MS. KROP: As a representative of a lot  
6 of environmental organizations we would request that  
7 it be at the beginning. That's what most local  
8 agencies do, and it seems to work quite well.

9 Thank you for your consideration.

10 MR. THAYER: Of course we would do  
11 whatever the commission would want to do.

12 COMMISSIONER BUSTAMANTE: I think the  
13 commission has consensus to put it at the end but to  
14 put it on the agenda.

15 MS. JORDAN: The only thing I was going  
16 to offer in terms of transmitting the information  
17 about what your activity is on these state leases and  
18 the oil, there is a very extensive list of people  
19 statewide that are working on this issue, and we can  
20 provide that to you so that you could send these  
21 notifications of changes to them so they could be  
22 kept up to date.

23 MR. THAYER: Sure. We'd love to see  
24 those.

25 COMMISSIONER BUSTAMANTE: Or we can put

1       them on our Web site and they can --

2                       MS. JORDAN:   Right.   Well, until you  
3       get that Web site.   It takes a little longer than you  
4       think.

5                       COMMISSIONER BUSTAMANTE:   I'm sure it  
6       would be next week.

7                       Is that it?

8                       MR. THAYER:   We'll have a closed  
9       session.

10                      COMMISSIONER BUSTAMANTE:   We'll have  
11       our closed session.   So the regular meeting is  
12       adjourned.

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1 STATE OF CALIFORNIA )  
2 COUNTY OF LOS ANGELES ) ss.

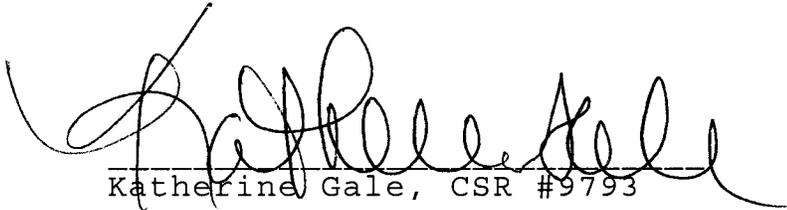
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I, Katherine Gale, CSR 9793, a Certified Shorthand Reporter in and for the State of California, do hereby certify:

That said proceedings was taken before me at the time and place named therein and was thereafter reduced to typewriting under my supervision; that this transcript is a true record of the proceedings and contains a full, true and correct report of the proceedings which took place at the time and place set forth in the caption hereto as shown by my original stenographic notes.

I further certify that I have no interest in the event of the action.

EXECUTED this 10th day of September, 1999.

  
Katherine Gale, CSR #9793