

BOARD MEETING
STATE OF CALIFORNIA
LANDS COMMISSION

STATE CAPITOL
ROOM 447
SACRAMENTO, CALIFORNIA

TUESDAY, JANUARY 6, 2009

9:36 A.M.

JAMES F. PETERS, CSR, RPR
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PETERS SHORTHAND REPORTING CORPORATION (916) 362-2345

APPEARANCES

BOARD MEMBERS

Mr. John Garamendi, Lieutenant Governor, Chairperson

Mr. John Chiang, State Controller, represented by
Ms. Marcy Jo Mandel

Mr. Michael Genest, Director of Finance, represented by
Mr. Tom Sheehy

STAFF

Mr. Curtis Fossum, Chief Counsel

Ms. Kimberly Lunetta, Executive Assistant

Ms. Jessica Rader, Staff Counsel

Mr. Greg Scott, Assistant Chief, Mineral Resources
Management Division

ATTORNEY GENERAL'S OFFICE

Mr. Alan Hager, Deputy Attorney General

Mr. Joe Rusconi, Deputy Attorney General

ALSO PRESENT

Mr. Doug Anthony, Santa Barbara County

Mr. Cliff Berg, Santa Barbara County

Mr. Ron Cottingham, Peace Officers Research Association of
California (PORAC)

Ms. Linda Krop, Environmental Defense Center

Mr. Steve Rusch, Plains Exploration & Production Company

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1 PROCEEDINGS

2 CHAIRPERSON GARAMENDI: Good morning. I'm
3 Lieutenant Governor John Garamendi. This is a hearing of
4 the State Lands Commission. The purpose of the hearing is
5 for information concerning the PXP proposal to lease state
6 lands off the coast of Santa Barbara for the purpose of
7 oil extraction.

8 This is the first hearing on this issue. We will
9 have a subsequent hearing, presently scheduled for January
10 29th, to take up the issue once again, perhaps for a vote.
11 That remains to be seen.

12 Joining me today are Marcy Jo Mandel,
13 representing the State Controller, John Chiang. He is in
14 good health and back in California and will soon be
15 sitting. And, Marcy, you'll just have to get out of that
16 chair for the 29th hearing.

17 (Laughter.)

18 CHAIRPERSON GARAMENDI: And Tom Sheehy, who
19 represents the Department of Finance and the Governor's
20 office.

21 For those of you in the audience who don't know
22 this - and I suspect that's none of you, but I'll say it
23 anyway - the State Lands Commission administers properties
24 owned by the State as well as its mineral interests. And
25 today we are dealing with State property, that is, the

1 offshore area and the mineral interests therein.

2 The first order of business before us today is
3 the adoption of minutes from the Commission's last
4 meeting. I think the members of the Commission have that.

5 Who has a motion?

6 ACTING COMMISSIONER SHEEHY: Mr. Chairman, I
7 would move approval of those minutes.

8 ACTING COMMISSIONER MANDEL: Second.

9 Without objection, those minutes are approved.

10 The Executive Officer, Paul Thayer, is not with
11 us today, and so we will not have an Executive Officer's
12 report. We'll wait until the next meeting for that.

13 There is no consent calendar today. In fact,
14 there is no regular calendar today since the purpose of
15 the meeting is for information only.

16 I suspect that most of you who are here in the
17 audience are familiar with our normal process of, if you
18 want to speak, you better sign up. There's sign-up forms,
19 I believe, at the side table. If you -- are they over
20 there?

21 Well, they're at the back, they're outside. So
22 if you want to speak, then you better get one of these
23 forms, fill it in. Please, please, print your name
24 legibly. I have great trouble reading my own writing. I
25 don't want to have trouble reading yours.

1 (Laughter.)

2 CHAIRPERSON GARAMENDI: So if you'll do that, we
3 will then, at the appropriate moment, take you up.

4 Our Chief Counsel, Curtis Fossum, is here and he
5 will present us with some background information and get
6 this hearing under way.

7 Curtis, have at it.

8 CHIEF COUNSEL FOSSUM: Good morning, Chairman
9 Garamendi, Commissioner Mandel and Commissioner Sheehy.

10 Well, there are four items on the informational
11 calendar. Items 2, 3 and 4 really are there for notice
12 only and will be discussed in closed session.

13 At the request of the Controller, staff has
14 scheduled this special meeting for the purpose of
15 providing an opportunity for the Commission and the public
16 to receive information regarding the application by Plains
17 Exploration and Production Company, or PXP, to lease
18 approximately 10,000 acres of State-owned submerged lands
19 in Santa Barbara County for oil production.

20 The Commission's Mineral Research Division
21 Assistant Chief Greg Scott will initially provide a
22 PowerPoint presentation discussing the project and status
23 of the lease negotiations.

24 Either during or following staff's presentation,
25 we encourage the Commissioners to ask questions of staff.

1 Following staff's presentation will be a
2 presentation by Steve Rusch of PXP and another opportunity
3 for the Commission to ask questions.

4 Following PXP's presentation, Linda Krop from
5 EDC, the Environmental Defense Council, who's also
6 representing "Get Oil Out!" or GOO. And the Citizens'
7 Planning Association of Santa Barbara will also make a
8 presentation and answer questions.

9 We also have for you today from Santa Barbara
10 County, Doug Anthony from the County's Office of Planning
11 and Development. The county, of course, certified the EIR
12 for this project.

13 There are also several members from the public
14 who have indicated a desire to speak on this item.
15 Depending on the number of speakers, the Chair may desire
16 to limit the Statements to the traditional three minutes.

17 With that, I think we're ready to proceed with
18 Item No. 1.

19 CHAIRPERSON GARAMENDI: Go for it, Curtis.

20 CHIEF COUNSEL FOSSUM: Greg Scott, the Assistant
21 Chief of the Mineral Division, will be handling the
22 PowerPoint.

23 (Thereupon an overhead presentation was
24 Presented as follows.)

25 MINERAL RESOURCES MANAGEMENT DIVISION ASSISTANT

1 CHIEF SCOTT: Good morning, Mr. Chair and Commissioners.
2 I'm Greg Scott, Assistant Division Chief of the
3 Commission's Mineral Resources Management Division. I'll
4 be giving an informational presentation this morning on
5 the proposed Tranquillon Ridge Field Lease and Development
6 Project, also known as the T-Ridge Project.

7 The complete project application was submitted to
8 the State Lands Commission and Santa Barbara County by
9 Plains Exploration and Production Company, also known as
10 PXP, in April of 2005.

11 The Commission's staff has reviewed the project
12 application with regard to its applicability to the
13 State's leasing statutes, the soundness of its technical
14 design, the extent of the safety and environmental
15 effects, and the economic value which the project could
16 provide the State if the project were to be implemented.

17 Santa Barbara County was the lead agency under
18 CEQA and has prepared and certified an Environmental
19 Impact Report for the project.

20 --o0o--

21 MINERAL RESOURCES MANAGEMENT DIVISION ASSISTANT
22 CHIEF SCOTT: PXP has applied for two offshore leases
23 covering the Tranquillon Ridge Field, which is located in
24 state waters directly off shore from Vandenberg Air Force
25 Base, shown here on this slide.

1 PXP plans to use their existing offshore Platform
2 Irene, shown here in federal waters. It's located in
3 federal waters and is presently used to develop and
4 produce oil from the Point Pedernales Oil Field located
5 directly northwest of and adjacent to the Tranquillon
6 Ridge Oil Field.

7 The oil and gas that would be produced from
8 Tranquillon Ridge would be measured separately on the
9 platform, and then combined or commingled with oil from
10 Point Pedernales and transported together through an
11 existing offshore pipeline to a processing facility
12 located in the city of Lompoc. Here the oil would be
13 processed to pipeline quality and shipped to refineries
14 through the All-American pipeline.

15 Also shown on this slide towards the bottom are
16 three other offshore platforms operated by PXP, which
17 produce oil from the federal Point Arguello unit.

18 --o0o--

19 MINERAL RESOURCES MANAGEMENT DIVISION ASSISTANT
20 CHIEF SCOTT: This slide is similar to the previous one,
21 but includes inset photos of the Lompoc Oil Processing
22 Facility and of Platform Irene, the main facilities that
23 would be shared for developing the T-Ridge Oil Field, and
24 also continued development at the Point Pedernales Field.

25 PXP has applied from the federal government's

1 Mineral Management Services, or the MMS, for a right of
2 use and easement permit that would allow PXP the use of
3 the drilling and operating facilities on Platform Irene to
4 develop the State's resources.

5 --o0o--

6 MINERAL RESOURCES MANAGEMENT DIVISION ASSISTANT
7 CHIEF SCOTT: The two lease areas that PXP has applied for
8 are shown on this slide, right here. The two leases are
9 approximately 5,000 acres each in size. The western edge
10 of the leased area is the boundary between the federal and
11 State properties.

12 PXP has proposed preliminary drilling targets for
13 its T-Ridge wells, shown here in the red dots. These are
14 the bottom hole locations of the wells, with the surface
15 locations all located on the Platform Irene.

16 I'd like to point out one well that was drilled
17 very near the proposed lease area in 1992 and within the
18 T-Ridge structure. This well here. It's known as Well
19 A-28.

20 This well is still producing oil and gas. And it
21 is important in that it has shown that a continuous
22 reservoir exists involving both the State and federal
23 properties. And I will discuss a little later in the
24 presentation that particular point with regard to the
25 issue of drainage.

1 --o0o--

2 MINERAL RESOURCES MANAGEMENT DIVISION ASSISTANT

3 CHIEF SCOTT: T-Ridge Development Project was originally
4 proposed by Nuevo Energy Company in 1999, the predecessor
5 operator prior to PXP. Santa Barbara County was the lead
6 agency for reviewing that project pursuant to CEQA. And
7 in 2002, the county approved the onshore portion of the
8 project but denied the offshore portion. There were
9 jurisdictional and inspection issues involving the
10 offshore pipeline.

11 Soon after that, PXP purchased Nuevo's offshore
12 assets and then submitted its own T-Ridge Development
13 project in 2004. The project was deemed complete by State
14 Lands Commission staff in April of 2005.

15 The project, which was originally proposed, was a
16 30-year project, but later modified and scaled back as the
17 result of an agreement between PXP and the environmental
18 coalition, consisting of, among others, the Environmental
19 Defense Center, Get Oil Out!, and the Citizens' Planning
20 Association of Santa Barbara.

21 The modified project was reduced from 30 years to
22 approximately 14 years, terminating on or before December
23 31st, 2022.

24 It is this modified project that the Commission
25 staff evaluated for technical adequacy and economic

1 benefit; and it was this modified project that the EIR was
2 prepared and certified by the Santa Barbara County
3 Planning Commission and approved by its Board of
4 Supervisors on October 7th, 2008.

5 --o0o--

6 MINERAL RESOURCES MANAGEMENT DIVISION ASSISTANT

7 CHIEF SCOTT: This slide shows some of the project
8 details. At its peak, oil production is estimated to
9 reach approximately 30,000 barrels of oil per day and 7
10 1/2 million cubic feet of gas per day.

11 The estimated recovery during the 14-year period
12 is 90 million barrels of oil, which would be developed
13 from 17 wells. All 17 wells are expected to be drilled
14 during the first five to six years of the project. The
15 short project life, however, will also result in a reduced
16 ultimate oil recovery from the field.

17 --o0o--

18 MINERAL RESOURCES MANAGEMENT DIVISION ASSISTANT

19 CHIEF SCOTT: Platform Irene has one drilling rig, that
20 will share its duties between drilling the wells in
21 T-Ridge as well as performing the ongoing well work needs
22 of the federal Point Pedernales Field operation.

23 All T-Ridge wells will be drilled directionally.
24 PXP will be using "extended reach" drilling technology to
25 reach its target locations within the State's property.

1 Even though the vertical depth of the wells will be
2 between 3,000 and 5,000 feet, this drawing shows the
3 extreme angles which the drilling borers must achieve to
4 be able to reach portions of the field approximately five
5 to six miles away.

6 --o0o--

7 MINERAL RESOURCES MANAGEMENT DIVISION ASSISTANT

8 CHIEF SCOTT: This is a larger view of the aerial photo of
9 the Lompoc Oil and Gas processing facility which I've
10 shown on a previous slide. This is a large facility that
11 would be used for the full period of T-Ridge production.

12 As a part of the PXP agreement with the
13 environmental coalition discussed earlier, the operation
14 of this facility is to terminate by the end of the
15 proposed lease on December 31st, 2022, which coincides
16 with the end of T-Ridge oil production.

17 --o0o--

18 MINERAL RESOURCES MANAGEMENT DIVISION ASSISTANT

19 CHIEF SCOTT: This slide describes the authority which the
20 State Lands Commission has to lease the subject lands for
21 oil and gas development. The California Coastal Sanctuary
22 Act of 1994 re-created the California Coastal Sanctuary,
23 first adopted in 1992, and made all unleased tide and
24 submerged lands off limits to oil and gas leasing and
25 development, with certain limited exceptions.

1 One exception to the Act. Public Resources Code
2 6244 allows leasing by the State Lands Commission if oil
3 or gas from the State-owned tide and submerged lands are
4 being drained by producing wells on adjacent federal lands
5 and that leasing is in the best interests of the State.

6 In the case of T-Ridge, gas is being drained by
7 production from federal Well A-28 and both oil and gas by
8 operations of the federal Point Pedernales Project.

9 --o0o--

10 MINERAL RESOURCES MANAGEMENT DIVISION ASSISTANT

11 CHIEF SCOTT: Two independent third-party studies were
12 performed to determine the occurrence and existence of
13 drainage of state resources from Tranquillon Ridge.

14 The reports concluded that the production of
15 nearby well -- federal Well A-28 has been and continues to
16 be a cause of drainage of state resources, including a
17 loss of reservoir energy due to the withdrawal of millions
18 of barrels of water from the reservoir.

19 In addition, production from the Point Pedernales
20 wells have also caused a loss of oil resources from
21 Tranquillon Ridge by approximately three million barrels
22 of oil annually.

23 I need to point out that on this slide we show a
24 drainage of approximately 27 million cubic feet of gas per
25 year. As you look at that material, there's an error on

1 it. It says it's per day. I just wanted to point that
2 correction out.

3 --o0o--

4 MINERAL RESOURCES MANAGEMENT DIVISION ASSISTANT

5 CHIEF SCOTT: The estimated oil production rates from the
6 development project are shown in this slide. As I stated
7 earlier, the peak rate of approximately 30,000 barrels per
8 day is expected to occur by the third year of development.
9 And we estimate production will then decline to a daily
10 rate of approximately 5,000 barrels per day at the end of
11 the project period at year-end 2022.

12 --o0o--

13 MINERAL RESOURCES MANAGEMENT DIVISION ASSISTANT

14 CHIEF SCOTT: The potential benefits to the State are
15 several. There are significant economic benefits.
16 Royalty revenues to the State can reach or exceed \$1
17 billion depending on various factors, such as oil price,
18 fuel performance, and royalty rate.

19 This project will also reduce the amount of
20 drainage occurring from the federal operations and will
21 enable the State to protect and recover its own resources.

22 In addition, and if feasible, the State lease
23 terms will incorporate the same public benefits, which are
24 provided for in the previously mentioned agreement between
25 PXP and the environmental coalition.

1 end of December 2022.

2 --o0o--

3 MINERAL RESOURCES MANAGEMENT DIVISION ASSISTANT

4 CHIEF SCOTT: Some remaining terms are shown here and have
5 yet to be resolved, but are expected to be completed soon.

6 These include:

7 Reviewing the and understanding the conditions
8 within the just contained right-of-use and easement
9 agreement between PXP and MMS.

10 We've also examined the feasibility and means of
11 incorporating provisions contained within the PXP and EDC
12 agreement as lease terms.

13 We've not yet established the royalty rate for
14 gas, nor how the drilling muds and cutting from T-Ridge
15 should be disposed.

16 Some other remaining terms include how to
17 establish a market basis for pricing T-Ridge oil;
18 consideration of offsetting a possible severance tax on
19 T-Ridge oil against royalty rate; setting lease management
20 fees; and, lastly, establishing an appropriate basis for
21 bonding.

22 --o0o--

23 MINERAL RESOURCES MANAGEMENT DIVISION ASSISTANT

24 CHIEF SCOTT: In addition to the State Lands Commission,
25 several other governmental jurisdictions and agencies have

1 been involved in the review and permitting process.

2 As previously mentioned, Santa Barbara County has
3 completed the CEQA work.

4 If the Commission approves the new leases,
5 approval by the Coastal Commission will be required, as
6 they must review the project for consistency with the
7 California Coastal Act.

8 And then the MMS must review and approve PXP's
9 revised development plan and also execute a right-of-use
10 and easement agreement with PXP to allow them to drill
11 from Platform Irene into State waters.

12 The State, the MMS, and PXP will then execute two
13 memorandums of agreement that address the inspection and
14 drilling and production operations as well as the
15 measurement and allocation of oil production from State
16 and federal wells.

17 --o0o--

18 MINERAL RESOURCES MANAGEMENT DIVISION ASSISTANT

19 CHIEF SCOTT: This is my last slide.

20 The remaining governmental timing is shown here.

21 The State Lands Commission is scheduled to
22 consider the leasing and development project on January
23 29th, later this month.

24 If the Commission issues the leases and approves
25 the project, the Coastal Commission may act as soon as

1 early February on its consistency determination.

2 After that, the MMS could then approve the
3 revised development plan and initial RUE permits.

4 And with all approvals in place, PXP expects that
5 it could begin drilling operations as soon as May of this
6 year.

7 That completes my presentation. I as well as
8 other staff from State Lands are available to respond to
9 comments.

10 Thank you.

11 CHAIRPERSON GARAMENDI: Thank you very much.
12 Very complete and thorough.

13 There are undoubtedly questions.

14 Panel.

15 ACTING COMMISSIONER SHEEHY: Thank you, Mr.
16 Chairman.

17 Mr. Scott, the additional approvals that will be
18 necessary after and if the State Lands Commission approves
19 this lease agreement, do those all have to happen
20 linearly? Is there anything to stop the California
21 Coastal Commission from doing the review that it's going
22 to need to do ultimately anyway? Does everything have to
23 be linear? Or some of these things, can they go on
24 simultaneously in order to shorten the time necessary for
25 this lease to be approved?

1 MINERAL RESOURCES MANAGEMENT DIVISION ASSISTANT

2 CHIEF SCOTT: Well, the process is sequential. We have to
3 have a lease in place first. Once that occurs -- now, the
4 Coastal Commission has concurrently been reviewing the
5 project. However, they must make their final consistency
6 review and decision after the State Lands has issued its
7 lease.

8 The MMS cannot approve the project itself or
9 approve the RUE unless the State Lands Commission also has
10 a lease.

11 So it's essential that the lease is the first
12 course of business in the process.

13 ACTING COMMISSIONER SHEEHY: But I'm generally
14 accurate; in other words, there doesn't have to be a de
15 novo analysis here by the Coastal Commission or MMS I
16 mean. The proposal, such as it is, is a public proposal.
17 The components of it are well known. It's not as though
18 the Coastal Commission or the federal MMS would have to
19 sort of start from scratch in reviewing this view. Is
20 that an accurate assessment?

21 MINERAL RESOURCES MANAGEMENT DIVISION ASSISTANT

22 CHIEF SCOTT: That's correct. They have been reviewing
23 the project since its inception.

24 ACTING COMMISSIONER SHEEHY: Thank you, Mr.
25 Scott.

1 CHAIRPERSON GARAMENDI: My understanding is that
2 the MMS has been extensively -- that the Coastal
3 Commission has been extensively involved in discussions
4 with MMS about this project ongoing; is that correct?

5 MINERAL RESOURCES MANAGEMENT DIVISION ASSISTANT
6 CHIEF SCOTT: Yes, they have.

7 CHAIRPERSON GARAMENDI: But there are still areas
8 of uncertainty as to an agreement and the view of MMS with
9 regard to this project?

10 MINERAL RESOURCES MANAGEMENT DIVISION ASSISTANT
11 CHIEF SCOTT: The MMS has -- we have had ongoing
12 discussions with the MMS. The MMS has cooperated with us
13 and with PXP in trying to move this project forward. We
14 have worked with the MMS in the past in an attempt to
15 establish a unit agreement with them. They have not -- we
16 have not been able to come to terms with the unit
17 agreement. Therefore, the MMS has decided -- MMS has
18 decided that its course of action should be through
19 another process, which is this right of use and easement,
20 which they are working with PXP. PXP has submitted its
21 application recently to the MMS. And they have informed
22 us that they are processing that application to allow PXP
23 to use the platform.

24 So they are working cooperatively on this. We
25 don't believe there are any major issues at this time.

1 However, we still will need to see the content of the RUE
2 agreement and the fact that it may have terms that somehow
3 cause issues with the State Lands Commission as far as any
4 lease terms.

5 CHAIRPERSON GARAMENDI: Thank you.

6 Other questions?

7 CHIEF COUNSEL FOSSUM: Mr. Chairman, there's one
8 more thing that the staff needs to mention before we go on
9 to the next speaker. And that's, that currently PXP has
10 an outstanding balance of more than a quarter of a million
11 dollars in unpaid invoices from the Commission. One
12 invoice is from last July. And the total more than 90
13 days past due is approximately \$175,000.

14 ACTING COMMISSIONER SHEEHY: It looks like
15 they're emulating the State of California, Mr. Fossum.

16 (Laughter.)

17 CHAIRPERSON GARAMENDI: Well, I am sure that if
18 they want this project, they will immediately come forward
19 with at least that portion that is past due.

20 CHIEF COUNSEL FOSSUM: We would hope.

21 CHAIRPERSON GARAMENDI: Now you are assured.

22 (Laughter.)

23 CHAIRPERSON GARAMENDI: There will be no further
24 discussion about that or this thing will cease.

25 ACTING COMMISSIONER SHEEHY: On this point, you

1 know, it's no secret that the State of California and the
2 General Fund is in very, very, very serious condition. In
3 fact, it's really a fiscal emergency we're in. So the
4 fact that Plains Exploration is in arrears on these
5 payments causes great concern to me. And my attempt at
6 levity aside, I'm very concerned about that, Mr. Fossum.
7 And I would like to be kept abreast and know when they
8 become completely current in those payments.

9 CHIEF COUNSEL FOSSUM: We'll let each of the
10 Commissioners know when they do make the payments.

11 CHAIRPERSON GARAMENDI: Thank you.

12 I assume you're not going to leave the room. So
13 if you'll standby, I'm sure there's going to be more
14 questions.

15 MINERAL RESOURCES MANAGEMENT DIVISION ASSISTANT

16 CHIEF SCOTT: I'll be available for additional questions.

17 CHAIRPERSON GARAMENDI: Thank you so much.

18 Our next presenter is --

19 CHIEF COUNSEL FOSSUM: Steve Rusch from the PXP.

20 CHAIRPERSON GARAMENDI: Thank you, counsel.

21 Go ahead, Steve.

22 (Thereupon an overhead presentation was

23 Presented as follows.)

24 MR. RUSCH: Good morning, Mr. Chair and
25 Commissioners, and Happy New Year. My name's Steve Rusch.

1 I'm Vice President of Environmental Health Safety and
2 Government Affairs for Plains Exploration Production
3 Company, better known as PXP.

4 Thank you for providing us this opportunity to
5 speak to you today about the T-Ridge or Tranquillon Ridge
6 Project. And thank, Greg, and your staff for your
7 presentation. And really you're all diligent throughout
8 this long journey, and we look forward to the upcoming
9 hearing on the 29th.

10 2009 presents some unique and difficult
11 challenges for California, to say the least. And PXP
12 believes that the Tranquillon Ridge Project you are
13 being -- proceeding with today is unique and a creative
14 opportunity for the State, one whose tremendous benefits
15 and overwhelming environmental support exemplify the
16 ingenuity for which California's so well known, the
17 ingenuity that will ultimately carry us through these
18 difficult times.

19 Who would have ever thought imaginable that an
20 offshore oil and gas lease proposal would secure the
21 support of environmental activists, such as Get Oil Out!
22 or GOO. First time in its 39-year history. And, ladies
23 and gentlemen, that's what many of us here in this room
24 have been working so hard to accomplish these past four
25 years.

1 Staff did a very thorough job reviewing many of
2 the T-Ridge benefits and project details, so I'll try not
3 to repeat them and make this a fairly brief presentation.

4 --o0o--

5 MR. RUSCH: So what I thought I'd do is just go
6 over some pertinent points on the background; talk briefly
7 about the coalition support, which Ms. Krop will go into
8 more detail, and also the benefits; and spend the last
9 couple slides talking about the economics of the project,
10 both near term and long term.

11 --o0o--

12 MR. RUSCH: Briefly, what are the key features of
13 our proposed project? Some of which -- or most of which
14 Greg's gone over.

15 No new infrastructure is required. It already
16 exists. It's already operating. There's an existing
17 platform, existing pipelines, and onshore treating
18 facilities.

19 We agreed to, as Greg mentioned, the project end
20 date of December 31st, 2022, which means that the original
21 life of those facilities -- existing facilities
22 infrastructure won't be extended.

23 Production from that platform will cease in less
24 than 14 years now, assuming a lease is approved the next
25 couple months.

1 As I'll describe in more detail in a minute, the
2 State stands to benefit economically in the billions of
3 dollars. And that revenue stream, because we're using
4 existing infrastructure, can commence essentially
5 immediately or, as Greg mentioned, I think as early as
6 May.

7 There's overwhelming and unanimous environmental
8 support, first time ever. The project EIR was not
9 litigated. They said it couldn't be done, but PXP and the
10 environmental coalition, normally fierce opponents, worked
11 for over a year, culminating in a partnership which found
12 common ground and solutions.

13 --o0o--

14 MR. RUSCH: We'll skip this slide. It's the
15 locations you've already seen before.

16 --o0o--

17 MR. RUSCH: Some of the support and benefit
18 comments I wanted to mention.

19 Again, we have agreed to cease production at the
20 end of December of 2022.

21 All greenhouse gas emissions -- we have made a
22 commitment to offset all greenhouse gas emissions from
23 this project, even though AB 32 isn't yet implemented.
24 And part of that --

25 CHAIRPERSON GARAMENDI: A little more explanation

1 on that. How do you intend to do that?

2 MR. RUSCH: It's in two parts. And we're in the
3 process, and staff has the greenhouse gas language that
4 we're proposing for the lease. And counsel in the AG's
5 office is working on that right now as we speak. But
6 there's really two parts.

7 The first part is a third-party independent
8 audit, which will be conducted on all of our existing
9 Tranquillon Ridge -- or existing by Point Pedernales
10 facilities, which would include things like increase fuel
11 emission inspections, looking at the boat traffic, looking
12 for separation facilities, all this -- you know, all
13 existing operations that we're doing to see what we might
14 be able to do to reduce those actual existing greenhouse
15 gas emissions in the future.

16 And then the balance, every year we would be
17 tracking actual greenhouse gas emissions from the project.
18 And then the balance would be offset by going through the
19 climate trust or some other appropriately approved group
20 to offset the balance of those emissions at \$10 a ton.

21 So those are kind of the two parts. And that
22 would be over the life of the project

23 CHAIRPERSON GARAMENDI: So it would be a unit for
24 unit offset?

25 MR. RUSCH: Right.

1 CHAIRPERSON GARAMENDI: Thank you.

2 MR. RUSCH: Uh-huh.

3 In addition, we had -- Linda and I had quite a
4 bit of discussion about indirect emissions. And what we
5 agreed to -- PXP agreed to donate an additional one and a
6 half million dollars to the Santa Barbara County Air
7 Pollution Control District to fund -- they have a bus
8 transit technology program. So we agreed to donate one
9 and a half million dollars to add additional funding to
10 that program for local Santa Barbara County emissions
11 reductions. Of course, it not only reduces greenhouse gas
12 emissions, but also air toxics, NOx, SOx, and all the
13 other associated pollutants. And that would be a local
14 benefit in addition to statewide benefit from a greenhouse
15 gas reduction standpoint.

16 And as already mentioned, and as Linda will go
17 into more detail, we have the unprecedented support of the
18 environmental community.

19 --o0o--

20 MR. RUSCH: And just a lot of words on the map
21 here. But, you know, there's over two dozen environmental
22 groups that actually actively support the project. They
23 just haven't gone neutral, not commenting on it, they're
24 actually supporting it, in addition to elected officials,
25 public safety groups, and also business groups. And as I

1 mentioned, Linda will go into that in more detail.

2 --o0o--

3 MR. RUSCH: Economic benefits to the State.

4 We're obviously, as Commissioner Sheehy mentioned, in dire
5 straits with the State, as we all know. And this project
6 is materializing during this period and could contribute
7 financially to -- although it can't solve the problem, is
8 a revenue generating project that would help.

9 It's supported by a broad spectrum of
10 environmental groups and, therefore, the environment
11 doesn't have to be sacrificed. We don't have to reduce
12 environmental regulations or create special benefits to
13 make this project happen. It could happen within the
14 structure that's already been set forth in the EIR and the
15 county permit and future State Coastal Commission, MMS.

16 As I mentioned, big numbers, 2 to \$5 billion,
17 depending on the price of oil. The two is the lower end.
18 And I'll show the graph in a minute here. That's at \$50
19 oil. Five billion would be at the \$100 barrel oil, which
20 we haven't seen that for at least two months or three
21 months. But that's the range that we'll be seeing over
22 the 14-year life of the project.

23 In addition to that, there's other things of
24 value that were brought to the table, including a value of
25 land conveyance, lease rentals, the donation that they

1 talk about, and, of course, the county benefits by the ad
2 valorem taxes.

3 --o0o--

4 ACTING COMMISSIONER SHEEHY: Excuse me. Mr.
5 Chairman, may I ask him a question about that?

6 CHAIRPERSON GARAMENDI: Of course.

7 ACTING COMMISSIONER SHEEHY: Thank you, Mr.
8 Chairman.

9 Mr. Rusch, could you elaborate on the ad valorem
10 taxes? That's a fairly significant number. I'd like you
11 to talk about how that's assessed and where it goes.

12 MR. RUSCH: Sure.

13 By virtue of Tranquillon Ridge being in state
14 waters, obviously because we're asking for a lease, it's
15 within the -- that asset lies within the purview of the
16 county's ability to assess ad valorem taxes. It's an
17 asset, it's a property that then becomes part of their ad
18 valorem tax basis. So the value of those reserves become
19 the basis for assessing the ad valorem tax; and over the
20 14 years, that amounts to that \$313 million figure that
21 you see there. Of course that varies depending on oil
22 price.

23 ACTING COMMISSIONER SHEEHY: Okay. So if I'm a
24 resident and I live in the city of Santa Barbara and I own
25 property, I pay property taxes, that ad valorem tax. That

1 money gets split between the local school districts, any
2 special districts, and the city of Santa Barbara, right?

3 MR. RUSCH: Right.

4 ACTING COMMISSIONER SHEEHY: So this 313 million
5 is being -- if this lease were put into place and was
6 approved, there would be an ad valorem tax that would
7 be -- and I'm assuming that's 313 million over the life of
8 the project?

9 MR. RUSCH: Correct.

10 ACTING COMMISSIONER SHEEHY: Okay. Then,
11 therefore, that money, would it accrue just then to the
12 County and the schools or is there any portion of it that
13 would go to any of the incorporated municipalities within
14 the county or any of the special districts or -- I don't
15 mean to put you on the spot. I know you're not the
16 property -- Santa Barbara County property tax expert here.
17 But if you do know that, it would be great. And if you
18 don't, perhaps we could hear from another witness later.

19 MR. RUSCH: We'll hear from the county a little
20 bit later. But real briefly, it goes to the County of
21 Santa Barbara, the unincorporated portion of Santa Barbara
22 County basically. And that goes -- but it does go to
23 sheriff, fire, schools, you know, the broad spectrum that
24 are funded under that ad valorem tax.

25 CHAIRPERSON GARAMENDI: Marcy Jo.

1 ACTING COMMISSIONER MANDEL: Thank you.

2 Steve, you're talking about the possessory
3 interest real property tax on the leasehold interest that
4 would get the regular Santa Barbara County property tax
5 bill just like someone gets on their house beyond the
6 value attributable to these leasehold interests. So
7 that's the regular county tax that would get distributed
8 however the regular Santa Barbara county tax gets
9 distributed, right?

10 MR. RUSCH: Um-hmm.

11 ACTING COMMISSIONER MANDEL: And then presumably
12 there would also be more throughput on the All-American
13 pipeline from the additional oil and --

14 MR. RUSCH: Well, we're actually -- no, this oil
15 actually goes back to Santa Maria refinery. It doesn't go
16 over to Bakersfield.

17 ACTING COMMISSIONER MANDEL: Okay. But that's
18 all owned by someone else?

19 MR. RUSCH: Um-hmm.

20 ACTING COMMISSIONER MANDEL: Okay. So it says
21 the regular property tax?

22 ACTING COMMISSIONER SHEEHY: Regular property
23 tax --

24 MR. RUSCH: It's an ad valorem tax in Kern
25 County, county assessor; also Ventura County; L.A. County,

1 all assessors --

2 ACTING COMMISSIONER SHEEHY: I'm just trying to
3 establish whether or not that would help the State
4 vis-a-vis our Prop 98 guarantee. It sounds like it would,
5 because the more property taxes that are collected, the
6 less General Fund money being put in to meet the 98
7 guarantee. So it's a benefit to the schools too.

8 I just wasn't sure if there was some special
9 provision about how this oil was taxed. It was just -- so
10 it's just regular ad valorem tax?

11 MR. RUSCH: That's my understanding.

12 ACTING COMMISSIONER SHEEHY: Okay.

13 MR. RUSCH: We may be able to speak more to that.

14 CHAIRPERSON GARAMENDI: And 313 is that \$100 a
15 barrel?

16 MR. RUSCH: Yes.

17 CHAIRPERSON GARAMENDI: Currently it would be
18 something less than a hundred. It could be --

19 ACTING COMMISSIONER SHEEHY: That's a hundred --
20 you say that's a hundred-dollar barrel?

21 CHAIRPERSON GARAMENDI: Yes, 313 is a hundred
22 dollars a barrel.

23 MR. RUSCH: And I believe the county can speak --
24 they ran a couple different sensitivities.

25 CHAIRPERSON GARAMENDI: We'll come back -- when

1 the county's here, we'll ask the county for further
2 information on this question.

3 Thank you for -- please continue on.

4 --o0o--

5 MR. RUSCH: So as I mentioned, this talks a
6 little bit more about the cash flows in the near-term
7 fiscal years. And I've taken fiscal years -- as the State
8 describes the fiscal year '08-'09, PXP has agreed to
9 advance - and this would be upon receiving all approvals
10 and clearance, this is an appeal period - a hundred
11 million dollars of royalties to the State of California.

12 In fiscal year '09-'10 -- so that hundred
13 million, you know, assuming if we started -- that
14 clearances were made. And then we'd write a check for a
15 hundred million dollars to the State, prepaying those
16 royalties in May.

17 Fiscal year '09-'10, we would be paying at the
18 State's proposed royalty rate. And then beginning in '10
19 '11 -- 2010 and '11, we would recoup that prepayment by
20 one of two ways - which we're still working with staff and
21 the Commission to decide whether they take it - by a 50
22 percent reduction in royalty until that prepayment is
23 recouped or by reducing the overall state royalty formula
24 by 15 percent over the entire term of the project, 14
25 years.

1 In addition, starting in 2010-2011, since we will
2 have drilled maybe six wells by then, we would have
3 production and a proven -- what we call proven reserves
4 around each of those wells. So once we get production, we
5 can project how much oil over the life of the project
6 we're going to produce. So now we have an asset in place,
7 we can project what the State royalties are, and the State
8 could go to a financial institution and seek to -- seek
9 what we call a volumetric production payment, or basically
10 an advance of the royalties secured with that production.
11 But it has to be current production. So what we said is
12 then about every two years, and it would probably be three
13 of these as you drill out the project to do these
14 securitizations if the State wanted to bring money
15 forward. Now, there's a price to do that, of course,
16 because the financial institutions are going to want to
17 take a 20 percent cut or whatever.

18 CHAIRPERSON GARAMENDI: They call that borrowing.

19 MR. RUSCH: Yes, exactly.

20 CHAIRPERSON GARAMENDI: We're familiar with that.

21 (Laughter.)

22 MR. RUSCH: But that is an option, and we do have
23 experience with it and be willing to help the State
24 through that process should they so choose.

25 --o0o--

1 MR. RUSCH: So that takes care of kind of the
2 near term plus potentially the longer term with the
3 securitizations.

4 CHAIRPERSON GARAMENDI: Tom, do we have any idea
5 what that securitization might mean in the near term, for
6 example, in '10-'11, if there was a securitization?

7 ACTING COMMISSIONER SHEEHY: Well, I can only --
8 we haven't done an independent analysis of this. And I
9 think that the production figures that I've seen from PXP,
10 and that I've asked the State Lands Commission staff to
11 sign off on, look reasonable, they're conservative. My
12 understanding is is that with the volumetric production
13 payment process you have to have the wells up and
14 producing so that the financiers know what's available.

15 From looking at your numbers, Mr. Rusch, it
16 appears to me that at \$50 oil, which present time seems
17 more likely, by the end of the '10-'11 year, which we
18 would call budget year plus one, with your hundred million
19 dollar prepayment, we could be looking as much as a
20 quarter of a billion dollars in benefit to the State
21 General Fund if this project were to go forward.

22 CHAIRPERSON GARAMENDI: That's a hundred million
23 for the advance plus the securitization?

24 ACTING COMMISSIONER SHEEHY: No, that's -- Mr.
25 Lieutenant Governor, that's a hundred million advance that

1 we would get at the end of '08-'09, at the very beginning
2 of '9-'10, depending upon how things were dragged out.
3 And then the \$50 oil, that assumes an additional 59
4 million in royalty payments in '9-'10 and another hundred
5 million dollar in royalty revenue in '10-'11, based upon
6 production figures that seem rather conservative. And, in
7 fact, I think the State Lands Commission staff told me
8 they thought that maybe you weren't quite aggressive
9 enough on some of those production figures. But that's a
10 \$50 dollar oil -- of course, we don't know what the price
11 of oil will be, but that's the amount of money we think
12 might be available through the end of '10-'11 without any
13 sort of securitization.

14 CHAIRPERSON GARAMENDI: Thank you.

15 Let's continue on.

16 --o0o--

17 MR. RUSCH: I just wanted to put this slide up to
18 show the impact of the price of oil. And then on the --
19 really the cash flow to the State and the cash flow to
20 PXP, and you can see at \$50 oil the State take is about
21 \$1.84 billion at \$50 oil; there's 712 million to federal
22 and local cash flows, and the balance -- that 1.135
23 billion would be PXP's take. And that, of course, just
24 escalates with escalating price. And you can see where we
25 came up with the two to five billion dollar numbers just

1 the first column and third column.

2 --o0o--

3 MR. RUSCH: So, in summary, I said to start is
4 what we believe we've crafted here is a unique and
5 creative project. The first ever to receive support by
6 basically the entire environmental coalition, both local
7 and state. And I think you'll hear from some of those
8 folks today, Sierra Club included.

9 End date for oil production from an offshore
10 platform and for onshore oil field at Lompoc, carbon
11 neutral, in the best interests of the State. We believe
12 it is due to the economic benefits and the existing
13 infrastructures used, immediate cash flow, minimal
14 environmental impacts. They've all been mitigated through
15 the original project.

16 All the air emissions and everything else has
17 been mitigated. T-Ridge production will end within the
18 anticipated life of the existing Point Ped Project.
19 That's my comment about not extending the life of existing
20 facilities. And if you look at, you know, the number of
21 platforms out in the channel, that's a pretty significant
22 statement. Because if you looked at 22 offshore
23 platforms, some of those are 40, 50 years old. So here we
24 are ending production on a platform that was, you know,
25 installed in the late eighties.

1 --o0o--

2 MR. RUSCH: And then the domestic energy policy
3 development -- well, let me move back.

4 CEQA and Coastal consistency findings show that
5 this project is consistent with the Coastal Act. And I
6 think Greg had gone through kind of the findings that are
7 needed to be consistent with the PRC. And no new impacts.
8 And T-Ridge production will end -- repeating myself.

9 And then kind of -- good domestic energy policy.
10 You know, it's an overall reduction in greenhouse gas
11 emissions. You know, in-state production directly offsets
12 importation through, you know, flag vessels in the ports
13 of L.A. and the Bay Area, because the state imports what,
14 68 -- or 65, 68 percent of crude oil. So every marginal
15 crude produced domestically offsets import crude and,
16 therefore, greenhouse gas emissions that go with it.

17 It uses available infrastructure. We should be
18 using infrastructure that we already have.

19 And it really is in our minds and those in the
20 environmental coalition a win-win really for the
21 environment, state, and the industry.

22 And those conclude my comments.

23 CHAIRPERSON GARAMENDI: Thank you very much. And
24 a very good presentation.

25 I also want to commend you and PXP for the

1 creative nature of your proposals and your willingness to
2 work not only with the environmental community but with
3 the staff.

4 I assume the check is going to be delivered very
5 soon?

6 MR. RUSCH: The check is in the mail. I'll take
7 you through the numbers. But I mean I don't think we're
8 outstanding that kind of money but --

9 CHAIRPERSON GARAMENDI: Well, don't let it
10 linger. It's not in your interest.

11 (Laughter.)

12 CHAIRPERSON GARAMENDI: There's an issue -- I've
13 raised this issue several times. And it comes down to the
14 energy policy that you've identified here at the very end
15 of your presentation. The energy policy of the State of
16 California is to move vigorously and immediately to reduce
17 greenhouse gas emissions. The consumption of petroleum
18 products for the production of energy, transportation, and
19 other similar uses does create greenhouse gas emissions.

20 AB 32 and related legislation has very clearly
21 established California's policy and national leadership.

22 I remember my days back at the Department of the
23 Interior when there still existed a program at the federal
24 level of the royalties from the federal leasing or oil
25 production -- oil and gas production, that those revenues

1 would -- at least a good portion of those revenues would
2 flow into a program called the Land and Water Conservation
3 Programs. In recent years that's been significantly
4 diminished and all but eliminated. It seems to me that it
5 would be very useful for the State of California to use
6 these oil revenues for the implementation and advancement
7 of AB 32 goals, ranging from research to subsidies to
8 reduce emissions from fixed sources, such as diesel
9 engines in the central valley for agriculture, or perhaps
10 even port and transportation of all kinds. And also you
11 can certainly use the revenues to advance the wind turbine
12 programs, solar programs, geothermal programs, bioenergy
13 programs and the like.

14 I think we have a very unique opportunity here -
15 very unique opportunity to use these revenues to achieve a
16 preeminent state policy, and to more quickly reduce our
17 greenhouse gas emissions. This is not necessarily a PXP
18 problem. But I can assure you that if I am to vote for
19 this, this will be done or I will be a "no" vote.

20 So if it's in PXP's interest and the State's
21 interest to have this revenue and to have this program,
22 then it is in the interests of everybody concerned to
23 initiate legislation that would establish a fund for the
24 purposes that I've just described.

25 Now we can continue on.

1 ACTING COMMISSIONER SHEEHY: Mr. Chairman, I'd
2 like to just comment on that.

3 CHAIRPERSON GARAMENDI: Sure.

4 ACTING COMMISSIONER SHEEHY: Department of
5 Finance certainly agrees with the comments just made by
6 the Lieutenant Governor as far as the greenhouse gas
7 emission reductions and renewable energies. I just think
8 it's important to point out that the State of California
9 has, in fact, had a very aggressive alternative energy and
10 alternative fuel development program that's been going on
11 for decades. In fact, it started back in the 1970s after
12 the first major oil embargo.

13 In the '07-'08 fiscal --

14 CHAIRPERSON GARAMENDI: And I authored the
15 legislation, at that time, for the subsidies.

16 ACTING COMMISSIONER SHEEHY: Thank you,
17 Lieutenant Governor.

18 In the '07-'08 fiscal year, in fact, we spent
19 over a half a billion dollars in state revenues on
20 alternative energy. These are revenues that came from the
21 Pure Electricity Program run by the California Energy
22 Commission. These come from additional surcharges that
23 the PUC collects.

24 We're spending several hundreds of millions of
25 dollars in a renewable resources trust fund for these

1 types of alternative energy development, sustainable
2 transmission, biofuels. The list goes on and on.

3 In fact, I'm advised by staff at the PUC and the
4 Energy Commission that at some of these funds, they're
5 actually developing rather large balances because more
6 money is currently coming in under the existing surcharge
7 structure than we actually have the ability to expend in
8 the way of research and demonstration projects.

9 So while the Department of Finance certainly
10 agrees that the continued research and development of
11 alternative energy, anything we can do, is a very
12 important public policy goal, we also understand that
13 there's tremendous state investment that's taking place
14 currently through the programs that the Energy Commission
15 has been ongoing for decades, as well as the Public
16 Utilities Commission.

17 And one thing Finance would not support is
18 diverting hundreds of millions of dollars of potential
19 General Fund revenues that we need right now to mitigate
20 cuts to the aged, blind, disabled, university fees and all
21 the other areas to put into a program where we couldn't
22 spend the money for a year. So we think these are
23 dollars, if it was approved by the State Lands Commission,
24 that would need to be put to use right away and not just
25 build up large balances in various funds. And I just

1 thought that was important to put on the record.

2 CHAIRPERSON GARAMENDI: Department of Finance
3 knows my view. Deal with it as you will.

4 Thank you very much.

5 Let's move on to our next witness --

6 CHIEF COUNSEL FOSSUM: The next witness --

7 CHAIRPERSON GARAMENDI: -- which will be EDC.

8 CHIEF COUNSEL FOSSUM: -- will be EDC Chief

9 Counsel Linda Krop.

10 (Thereupon an overhead presentation was
11 Presented as follows.)

12 MS. KROP: Thank you and good morning. I
13 appreciate the invitation to make a presentation.

14 Thank you, Chairman Garamendi, members of the
15 Commission. My name is Linda Krop. I'm the Chief Counsel
16 of the Environmental Defense Center. And we were the lead
17 environmental negotiators with PXP regarding this
18 proposal.

19 And I wanted to set the stage first for those of
20 you who aren't as familiar with the EDC or the
21 organizations that we worked with, primarily in Santa
22 Barbara County.

23 EDC has been around for 30 years. We are a
24 public interest environmental law firm and we represent
25 other organizations on various environmental issues.

1 Offshore oil has been one of our focuses over the full 30
2 years of our existence. We've been lead litigators in
3 challenges to both federal and state offshore leasing. We
4 helped draft the California Coastal Sanctuary Act in 1994.
5 And took this very seriously when we were approached by
6 PXP.

7 We officially represent two groups in this --
8 during this negotiation period:

9 Get Oil Out!, which was formed as a result of the
10 1969 oil spill, that's been around for 40 years now. Its
11 entire mission is to protect the California coast from
12 offshore oil-gas development impacts.

13 And Citizens' Planning Association of Santa
14 Barbara County, which has been around even longer, since
15 the early sixties. And, again, offshore oil has been the
16 focus of their mission for their entire existence.

17 We also coordinated with several other groups
18 including local chapters of the Sierra Club and Audubon
19 and Surfrider, et cetera. A wide variety of groups were
20 participants in an initial meeting with PXP back in May of
21 2007.

22 So there's broad environmental participation in
23 this issue. No environmental opposition whatsoever. As
24 you'll see in my slide show, we have over 20 groups
25 throughout the State that support this proposal. The

1 reason being that this proposal takes advantage of a
2 unique opportunity, that we'll probably never see again,
3 to protect our coast from the impacts of offshore oil and
4 gas development, in that it will phase out existing
5 development.

6 All of the groups that support this deal have
7 been working really hard to support various bans, a
8 moratorium on new development. We also realize we have a
9 lot of existing development offshore California. What
10 this proposal does is for the first time in our nation's
11 history is actually phase out existing oil development
12 that causes current impacts and risks to our coast.

13 --o0o--

14 MS. KROP: With that background, I just wanted to
15 orient the Commission once again to the federal platform
16 here, Platform Irene in federal waters, the pipeline that
17 extends to the onshore oil and gas plant in Santa Barbara
18 County.

19 --o0o--

20 MS. KROP: And as your staff mentioned, there was
21 a prior proposal to drill from an existing platform,
22 Platform Irene, into a new State lease. EDC and our
23 clients vigorously opposed that proposal because it would
24 have -- even though it would not -- it would not have
25 required any new construction or new facilities, it would

1 have extended the life of those facilities. And as I
2 mentioned, we're trying to protect the coast from not only
3 new development, but also existing development.

4 And due to various concerns, the county did deny
5 that project in 2002.

6 --o0o--

7 MS. KROP: Then PXP came along, submitted their
8 application. And according to the Draft Environmental
9 Impact Report, their proposal also would have extended the
10 life of the existing facilities at the platform and the
11 onshore processing facility.

12 --o0o--

13 MS. KROP: We submitted comments on the Draft
14 EIR. And our comments were all focused on the impacts
15 associated with the extended life of these existing
16 facilities. There really were no other impacts from the
17 proposal.

18 Based on our comments, PXP approached us and all
19 of the other groups in Santa Barbara County that work on
20 offshore oil issues and said that they acknowledge our
21 concerns, wanted to address them, and said, "What if we
22 agree not to extend the life of these existing
23 facilities?"

24 --o0o--

25 MS. KROP: Well, that brought us to the table.

1 We spent about a year negotiating an agreement that not
2 only would shut down existing operations at that platform
3 and processing facility, but also bring in the other PXP
4 operations in Santa Barbara County. And that's what's
5 really remarkable about this agreement.

6 PXP did not have to include an end date for other
7 facilities. They're not tied to Tranquillon Ridge
8 whatsoever. And yet to address the concerns of the
9 community and provide this environmental benefit, they
10 agreed to also shut down operations from three other
11 platforms offshore in Santa Barbara County and the Gaviota
12 processing site.

13 We also secured the carbon neutrality agreement.
14 PXP agreed to convey their land holdings in Santa Barbara
15 County, which include the Lompoc oil and gas plant and
16 also hundreds of acres of onshore oil and gas production
17 which will also be shut down as part of the agreement.

18 --o0o--

19 MS. KROP: So this is really an historic
20 agreement. It's never been done before, that existing
21 operations will be shut down with an assured termination
22 date, including four platforms, existing onshore oil
23 wells, two onshore support and processing facilities, that
24 otherwise could operate indefinitely. There are no
25 termination dates in state or federal leases, as you know,

1 formally. We're not aware of any that exist anywhere in
2 the country. Without this agreement, these facilities
3 that are currently operating could operate another 20, 30,
4 40 years. We don't know. The platforms that we have off
5 our coast now we were told would have been removed back in
6 the eighties or nineties. They're still out there. With
7 new technology, with the price of oil fluctuating and
8 rising generally from its initial price, there is no end
9 in sight for this production without this agreement.

10 --o0o--

11 MS. KROP: And so here I want to point out the
12 other benefits, not just Platform Irene. But these three
13 platforms here, shut down production will occur in 2017.
14 And the Gaviota onshore processing site here will be shut
15 down in 2017.

16 Now, these platforms -- these four platforms are
17 really key to protecting the coast. If you look, there
18 are some existing federal leases around here that could be
19 slant drilled from these platforms. The oil and gas could
20 be processed on shore. There are also some doughnut holes
21 in here, some surrounding unleased areas, that the federal
22 government is looking at for new leasing now that the
23 moratorium has expired. If you hear reference to
24 potential for new leasing in federal waters in the western
25 Santa Barbara channel, that's what they're talking about.

1 And they're talking about it because we have existing
2 infrastructure.

3 So for the environmental groups to be able to
4 phase out this existing infrastructure not only phases out
5 existing operations but helps protect this entire area
6 here.

7 --oOo--

8 MS. KROP: In addition, as you've heard, the
9 agreement will result in carbon neutrality, plus an
10 additional donation to Santa Barbara County will provide
11 almost 4,000 acres for permanent public conservation
12 purposes. We've been working with the Trust for Public
13 Lands. They also have an agreement with PXP to ensure
14 timely conveyance and clean up of these areas.

15 There's about 3,700 acres up by the Lompoc Oil
16 and Gas Plant that are immediately adjacent to the State's
17 existing Burton Mesa Ecological Reserve that is managed by
18 the Department of Fish and Game. This is an incredible
19 opportunity to almost double the size of that reserve.

20 So our intention is that the Department of Fish
21 and Game would manage those lands. And those include the
22 Lompoc Oil and Gas Plant, the onshore wells, and
23 additional acreage. On the Gaviota coast up to 200 acres
24 would be conveyed. And our hope and intention is that
25 those would be transferred both to the Department of Fish

1 and Game as well as State Parks. And TPL has been in
2 discussions with both of those agencies.

3 --o0o--

4 MS. KROP: So here you can see the existing
5 Burton Mesa Reserve and the additional acreage and then
6 down here in Gaviota some additional land that's obviously
7 a very valuable location.

8 --o0o--

9 MS. KROP: Finally, the Tranquillon Ridge project
10 is consistent with the California Coastal Sanctuary Act,
11 which, as I mentioned, we have a role in drafting. We
12 feel very strongly that there should be no amendments to
13 the State's law regarding new leasing. Drainage is
14 occurring from existing facilities. No new facilities
15 will be constructed. We believe that the project is in
16 the best interests of the State because it will enhance
17 protection for the California coast, reducing the risks of
18 oil spills in the long term and other impacts from
19 offshore oil and gas development.

20 --o0o--

21 MS. KROP: The support for this is very broad
22 across the environmental community. There is no
23 opposition whatsoever. We have 25 groups on board.
24 Basically, every organization you can imagine in the
25 county is on board. They are ecstatic about this

1 possibility of protecting our coast.

2 And then we also have some statewide
3 organizations - Sierra Club, League of Women Voters of
4 California, the global Surfrider Foundation, the Ocean
5 Conservancy, Pacific Coast Federation of Fishermen's
6 Associations and The Otter Project.

7 --o0o--

8 MS. KROP: And I'm available for any questions.

9 ACTING COMMISSIONER SHEEHY: Thank you, Ms. Krop.
10 You went over this rather quickly. I'd like to understand
11 your view on this a little bit better.

12 With respect to the other rigs that are not
13 directly -- they're only going to use Platform Irene to
14 slant drill into the Tranquillon Ridge area. But there's
15 these three other rigs that are currently being operated
16 by PXP, is that accurate?

17 MS. KROP: That's correct.

18 ACTING COMMISSIONER SHEEHY: So, therefore, if
19 this project doesn't go forward and your agreement doesn't
20 go into place, what's going to happen to Irene and those
21 three other rigs? I mean, do they just continue on with
22 this? Does a federal lease allow them to continue
23 indefinitely; there's no end in sight to that oil
24 drilling?

25 MS. KROP: That's true. And that's the -- that

1 is the critical focus of this agreement, is that without
2 this agreement, those four platforms and the onshore
3 support facilities can operate indefinitely, not just for
4 producing the leases they're currently producing, but they
5 can even produce surrounding areas. And so without this
6 agreement, there would be no end date, those platforms
7 could be out there indefinitely.

8 ACTING COMMISSIONER SHEEHY: So any reason to
9 believe that those surrounding areas would contain the
10 type of reserves that we know -- that we believe to exist
11 in Tranquillon Ridge?

12 MS. KROP: Yes. In fact, several undeveloped
13 federal leases adjoin the Point Arguello project and the
14 Point Pedernales project. There has been some exploration
15 already on those leases. And the oil is, you know, decent
16 quality. There's actually been plans to slant drill --
17 like the Rocky Point unit already.

18 ACTING COMMISSIONER SHEEHY: I see. Thank you.

19 Also, I believe it was Mr. Rusch that had
20 mentioned in his presentation that we've gone through
21 the -- PXP rather got through the CEQA process and the
22 various other administrative processes necessary with a
23 local government down there in Santa Barbara County and
24 was able to achieve all this without any litigation. I
25 find that really hard to believe.

1 Can you -- since you sort of -- as I understand
2 it, Ms. Krop, you sort of led the environmental coalition
3 on this issue. And it seems -- in fact, it seems so
4 unbelievable, maybe we should recruit you to work with the
5 Republicans and Democrats up here in the Legislature to
6 get them to agree.

7 (Laughter.)

8 ACTING COMMISSIONER SHEEHY: But how is it that
9 this could come together without any litigation? I find
10 that very difficult to comprehend.

11 MS. KROP: I appreciate the question. And I
12 probably don't have all the answers. But from the
13 environmental perspective, which is where you would expect
14 a challenge to an oil project, we worked very diligently
15 for a year to make sure that everything we were
16 negotiating would not only provide a benefit but would
17 also be enforceable.

18 And we worked not only with our client groups,
19 but we worked with all of the organizations that had
20 historically participated or monitored or fought oil
21 development issues in our county and even around the
22 State. And we addressed everybody's questions. And we
23 were able to actually add some aspects to our agreement
24 that we had not even thought of, because we went out and
25 talked with other interested organizations and they came

1 in with, you know, their requests.

2 But I think the fundamental thing is that we went
3 beyond just Tranquillon Ridge, that we, you know,
4 collectively came up with a very comprehensive agreement
5 that addressed everybody's concerns.

6 ACTING COMMISSIONER SHEEHY: Mr. Chairman, I have
7 one more question for Ms. Krop.

8 CHAIRPERSON GARAMENDI: Of course.

9 ACTING COMMISSIONER SHEEHY: Thank you, Mr.
10 Chairman.

11 On the enforcement issue, I've heard some suggest
12 that there are loopholes in this agreement that could be
13 exploited. I'm just wondering, since you're an attorney
14 and since you were one of the lead negotiators on this, if
15 you could from your perspective, the environmental
16 community's perspective, talk a little bit about what
17 assurances we have that if we were to support this
18 project, that the environmental benefits that you have
19 described would actually take place, including -- and
20 especially, Ms. Krop, if you could address the shutdown
21 issue, which I think is very important to members of this
22 Commission.

23 MS. KROP: There are several layers of
24 enforceability in this deal. First of all, there's an
25 agreement directly between PXP and the environmental

1 parties. The environmental parties can enforce the end
2 date by bringing a court action for what's called specific
3 performance, having the court compel PXP to stop
4 operating. In the agreement, PXP is also required to
5 actually quitclaim the Tranquillon Ridge leases back to
6 the State at the end of 2022. That's enforceable by the
7 environmental parties in court.

8 We also enforce the end dates by removing the
9 onshore infrastructure. And Trust for Public Lands and
10 the environmental parties have agreements with PXP to
11 require the abandonment, cleanup and removal of the
12 onshore facilities. So that's another layer of
13 protection.

14 The agencies that have to approve this project
15 can also include their own conditions. And the County of
16 Santa Barbara included a condition in its final
17 development plan securing the end date for the Tranquillon
18 Ridge project and the Lompoc Oil and Gas Plant. So that
19 is enforceable also by the county. The Greenhouse Gas
20 Emission Program's also enforceable by the county via a
21 condition.

22 The State Lands Commission can include conditions
23 in its lease agreement with PXP so that you have your own
24 direct enforcement and you would, in fact, encourage and
25 welcome that.

1 The Coastal Commission will also be able to
2 impose conditions on its approval. We've been working
3 real closely with the Coastal Commission staff. And so
4 they will also include the end date, the greenhouse gas
5 emissions in their approvals as well as what we've heard
6 from their staff.

7 ACTING COMMISSIONER SHEEHY: Thank you.

8 CHAIRPERSON GARAMENDI: Let's pick up that issue
9 and carry it a little further here. It's a major concern
10 that's been expressed by staff.

11 Mr. Fossum and Mr. Rusconi, if you could speak to
12 the questions that Tom has raised.

13 CHIEF COUNSEL FOSSUM: Well, we have -- Mr.
14 Chairman, we have looked very carefully at these issues.
15 And while the agreements that PXP and the environmental
16 coalition have entered into do provide for an agreement to
17 do these things, as Ms. Krop mentioned, they would have to
18 go to court to enforce certain elements of it. And one of
19 the questions certainly has to do with the enforceability
20 against MMS. While PXP may be willing to actually cease
21 production of their offshore facilities, they are
22 currently in a contract with MMS to produce from those
23 fields, and it may be difficult for them to walk away from
24 that obligation.

25 There were issues for us as far as

1 interference --

2 CHAIRPERSON GARAMENDI: Before you leave the MMS
3 issue.

4 So PXP has a contract with MMS to produce oil?

5 CHIEF COUNSEL FOSSUM: Yes.

6 CHAIRPERSON GARAMENDI: And there's no end date
7 on that contract?

8 CHIEF COUNSEL FOSSUM: That's correct. Most oil
9 production is done by continuous production.

10 CHAIRPERSON GARAMENDI: Absent an acknowledgement
11 of this agreement or an agreement by MMS, could they --
12 what action could they take to continue production or to
13 continue the existence of the four platforms?

14 CHIEF COUNSEL FOSSUM: Well, we're not certain if
15 they would try and take over the leases themselves or take
16 over the production themselves or whether they would look
17 for another operator to possibly continue production.

18 That is an issue that could be raised. Even if they
19 agreed today -- even if MMS agreed to shut down on those
20 dates, there's nothing that guarantees that that would
21 actually take place, because Congress obviously or
22 another -- or the federal government could step in and
23 under certain conditions they may find it necessary in the
24 national interests to continue to produce those fields.
25 So there could be promises made.

1 One of the things that we did determine is that
2 even if MMS did agree and contracted with us that they
3 would shut them down, we couldn't enforce that against the
4 federal government, because there are a couple of cases
5 that say you cannot obtain specific performance against
6 the United States. You can seek damages. We would have
7 to prove actual damages of some kind, even if MMS agreed
8 to do this.

9 CHAIRPERSON GARAMENDI: Now, you haven't spoken
10 to the onshore facilities. Would you please do so. And
11 what relationship -- Ms. Krop asserted that the
12 elimination -- that the onshore facilities would be
13 eliminated. Is there any reason to believe that they
14 could not be eliminated if one or another party decided
15 not to eliminate them?

16 CHIEF COUNSEL FOSSUM: As I understand it, PXP
17 does own the Lompoc oil and gas processing facility. And
18 part of what they've agreed to apparently is that they
19 would shut that down at the end date. That would
20 presumably require some type of action, if the federal
21 government wanted to continue to use that facility, for
22 them to step in and do something about it. Whether that
23 would --

24 CHAIRPERSON GARAMENDI: Eminent domain or some
25 other mechanism --

1 CHIEF COUNSEL FOSSUM: That certainly would be
2 one option I would expect that they could take.

3 CHAIRPERSON GARAMENDI: Now, presumably if they
4 don't do that, then there's no way to process the oil on
5 land. I suppose that you could always take the oil and
6 put it in a barge and take it off to some other facility
7 somewhere.

8 CHIEF COUNSEL FOSSUM: Yeah -- I mean obviously
9 the agreement that they have entered into has an agreement
10 by the parties who are involved to try to cease production
11 by an end date. But the crystal ball is pretty foggy this
12 far in advance of those activities. The price of oil just
13 the last few years gives us pause, seeing the ups and
14 downs there. So whether or not other things could come
15 about that would require -- I mean, even the State Lands
16 Commission, frankly, if it gets an agreement now, 20 years
17 from now times could change. It's been 40 years since the
18 State Lands Commission's entered into an oil and gas
19 offshore lease of this nature. And times are changing
20 right now, it appears.

21 CHAIRPERSON GARAMENDI: A subsequent Commission
22 could renegotiate the deal.

23 CHIEF COUNSEL FOSSUM: And what are the State's
24 interests at that time?

25 CHAIRPERSON GARAMENDI: Anything to add from the

1 Attorney General's office?

2 DEPUTY ATTORNEY GENERAL RUSCONI: I'm going to
3 ask Deputy Attorney General Alan Hager to answer that.
4 He's been involved in negotiations.

5 DEPUTY ATTORNEY GENERAL HAGER: The problem, or
6 if you could -- you know, the EDC has been asking PXP to
7 see what PXP can do unilaterally.

8 CHAIRPERSON GARAMENDI: Alan, let's try to get up
9 close and personal to that mic.

10 DEPUTY ATTORNEY GENERAL HAGER: EDC has asked PXP
11 to see what PXP can do unilaterally. And a lot of what
12 PXP can do is dependent upon what is very likely to
13 happen, which is that the federal leases that PXP is
14 currently operating at both Point Ped and Point Arguello
15 are going to reach their economic life before the end of
16 the Tranquillon Ridge unit. So therefore, if they reach
17 the end of their economic life, there would be no reason
18 why -- the leases should then be able to be quitclaimed by
19 PXP and there would be no need for the onshore processing
20 facility.

21 Now, to say that -- well, can we absolutely
22 guarantee that that will happen? No, because you don't
23 know what is going to happen. But you're looking at
24 economic probabilities. I mean -- and this is even with,
25 you know, a hundred dollar a barrel oil, not with oil what

1 it is now. But, yes -- but to say that is there a
2 possibility, if some of the federal leases were still
3 economic, would there be no more oil operations there?
4 You can't say categorically, no, there won't.

5 CHAIRPERSON GARAMENDI: Tom.

6 ACTING COMMISSIONER SHEEHY: Thank you,
7 Lieutenant Governor.

8 For the -- Is that Mr. Hager?

9 DEPUTY ATTORNEY GENERAL HAGER: Yes.

10 ACTING COMMISSIONER SHEEHY: Yeah, thank you, Mr.
11 Hager.

12 You mentioned possible federal eminent domain, or
13 perhaps Mr. Rusconi did. Has the federal government ever
14 exercised eminent domain on an oil processing facility?

15 DEPUTY ATTORNEY GENERAL HAGER: To my knowledge,
16 no. Again, is it a possibility? Yes. Has it ever
17 happened? I don't think it ever has.

18 ACTING COMMISSIONER SHEEHY: All right. I just
19 found that -- I didn't mean it to be a real eyebrow
20 raiser.

21 DEPUTY ATTORNEY GENERAL HAGER: I mean it's
22 something that could happen. I mean it's something that,
23 you know, ought to be taken into account, that, you know,
24 the Feds have that authority. But would they -- have they
25 done it, no.

1 CHAIRPERSON GARAMENDI: One of the key elements
2 here in the support of this project by the environmental
3 community, and quite possibly by this Commission, is the
4 termination of the operation and the removal of the
5 onshore facilities.

6 How can the State Lands Commission in its lease
7 further that goal? Are there ways we can write this lease
8 to make it more likely that -- rather than less likely
9 that the operations will terminate?

10 DEPUTY ATTORNEY GENERAL HAGER: I think the thing
11 that you can do that has the greatest strength is what
12 you've already done. The lease says that it will --
13 production operations will terminate December 31st, 2022.
14 That means they cannot produce any longer and they will be
15 out of there.

16 If everything -- the other federal projects are
17 at the end of their economic life, there is no more life
18 to T-Ridge, and there would be no more need for either the
19 Platform Irene or the Lompoc gas.

20 CHAIRPERSON GARAMENDI: And the other three
21 platforms similarly?

22 DEPUTY ATTORNEY GENERAL HAGER: As I say, if
23 those projects reach their economic life, there certainly
24 would be no need to --

25 CHAIRPERSON GARAMENDI: So in the structure -- in

1 the language of the lease, we would write it in such a way
2 as to provide the strongest possible guarantees?

3 DEPUTY ATTORNEY GENERAL HAGER: I mean, the
4 problem would be, as I say, can you direct them to -- the
5 federal government or anybody else who would have any
6 authority to tear down platforms on the OCS?

7 CHAIRPERSON GARAMENDI: One problem is it's two
8 votes could change all of this.

9 DEPUTY ATTORNEY GENERAL HAGER: Yes.

10 CHIEF COUNSEL FOSSUM: Mr. Chairman, one of the
11 things the Commission --

12 CHAIRPERSON GARAMENDI: Excuse me. I said that.
13 But that has not changed the agreement that the
14 environmental community has. So they would still have the
15 opportunity to take action on this item.

16 CHIEF COUNSEL FOSSUM: And I was going to add
17 that the Commission does have direct authority over the
18 pipelines leading from these four platforms to the
19 mainland. And so, in fact, what will be scheduled at the
20 next meeting later in this month is that the pipeline
21 leading from Irene would be placed on the same agenda to
22 have a similar termination date with the leasehold itself.
23 The pipeline leading from the Point Arguello platforms
24 actually has a termination date, I believe, in a few years
25 from now, well short of its proposed termination. And so

1 the Commission will, at that time, have the ability to
2 either extend that lease or not.

3 CHAIRPERSON GARAMENDI: Very good.

4 Ms. Krop, would you like to join in with this
5 discussion?

6 MS. KROP: Yes, please.

7 Two quick responses. First of all, having
8 secured the end dates that we did from the Environmental
9 Impact Report and other, you know, agency-developed data,
10 it's our belief that -- in terms of the federal
11 production, that there would be no risk of MMS pursuing
12 eminent domain, because again they only have jurisdiction
13 over the federal waters. So if there's stranding in state
14 waters, which would be more likely, MMS can't do anything
15 about it. So we don't believe that an eminent domain
16 action by MMS is a likely scenario.

17 Second of all, that's why we have all the layers.
18 It wouldn't just be a change on the State Lands Commission
19 that would be required. All of the other agencies that
20 have end dates, including the County of Santa Barbara, the
21 Coastal Commission, who also have to agree; environmental
22 parties, Trust for Public Lands, you know, would have to
23 waive their agreements that they've been negotiating. So
24 that's why we built in so many layers to protect this
25 agreement.

1 CHAIRPERSON GARAMENDI: Thank you.

2 The discussion thus far has been that the
3 production would end. What becomes of the platforms
4 themselves?

5 MS. KROP: The platforms themselves are under the
6 jurisdiction of MMS.

7 Platform Irene is owned by PXP and they are
8 liable for decommissioning. And they will apply for
9 removal of Platform Irene. Ultimately, it would be up to
10 MMS.

11 The three Point Arguello platforms, the liability
12 for decommissioning rests with Chevron, I believe. And
13 you can ask PXP for clarification. And so, again, they
14 will have to apply at that point. Once production ceases,
15 they will apply for an abandonment plan to MMS, and it
16 will be up to MMS. But no production will be allowed
17 following the end date regardless of whether or not an
18 alternative use is allowed with the platform.

19 CHAIRPERSON GARAMENDI: Well, there's a much
20 larger and longer discussion about platforms and what
21 ultimately happens with them. But we'll let that go
22 unless there's additional questions here.

23 I thank you for the information. I assume that
24 when we come back on the 29th, we'll have another
25 discussion specific to the lease itself --

1 CHIEF COUNSEL FOSSUM: Yes.

2 CHAIRPERSON GARAMENDI: -- as to termination
3 issues. Okay?

4 CHIEF COUNSEL FOSSUM: Yes.

5 CHAIRPERSON GARAMENDI: Good.

6 Further questions of Ms. Krop?

7 MS. KROP: Paul Mason from the Sierra Club was
8 here to speak.

9 CHAIRPERSON GARAMENDI: He would certainly have
10 an opportunity to speak.

11 MS. KROP: Thank you.

12 ACTING COMMISSIONER SHEEHY: Quick question on
13 that, Mr. Chairman.

14 Ms. Krop, I saw on the list of support - an
15 impressive list - that there were several Sierra Club
16 organizations. They look like local chapters.

17 Has the State chapter -- the Statewide chapter
18 taken a position on this? And if so, what is that?

19 MS. KROP: Yes. Paul Mason, who is the Deputy
20 Director of Sierra Club California was here. He had a
21 Board of Forestry hearing as well, so I guess he had to
22 leave. But Sierra Club California has endorsed, the local
23 chapter has endorsed, and the local group. So all the
24 Sierra Clubs that are -- in fact, they have all endorsed.

25 ACTING COMMISSIONER SHEEHY: Thank you.

1 CHAIRPERSON GARAMENDI: Thank you very much. And
2 we note the other organizations are now formally in the
3 record.

4 I think it would be useful, at this point, to
5 hear from the County of Santa Barbara.

6 Doug Anthony.

7 MR. BERG: Hi, Mr. Chairman, members of the
8 Commission. Cliff Berg speaking on behalf of the Santa
9 Barbara County Board of Supervisors. I just want to say,
10 for the record, that the Board of Supervisors has voted to
11 support this project and has approved the permit.

12 And I have with me here Mr. Doug Anthony from our
13 Oil and Gas Division, who has a more lengthy presentation.

14 Thank you.

15 CHAIRPERSON GARAMENDI: Cliff, could you start
16 over. I missed everything you said.

17 Start out with who you're representing.

18 MR. BERG: Thank you.

19 Cliff Berg on behalf of the Santa Barbara County
20 Board of Supervisors. I represent Santa Barbara County.
21 I'm here to indicate that the county indeed is in support
22 of the project and has voted to approve the permit.

23 I have with me Mr. Doug Anthony from our Oil and
24 Gas Division, who has a more lengthy presentation for you.

25 So thank you, and we do support the project.

1 CHAIRPERSON GARAMENDI: Mr. Anthony.

2 MR. ANTHONY: Mr. Chair and members of the
3 Commission. Thanks for giving us the opportunity to speak
4 today to you.

5 Primary message is, as Cliff Berg said, the
6 county has approved this project, and certainly urges your
7 Commission to do the same. It is a very unusual project.
8 It's been a very interesting and intriguing process from
9 the time we received the permit application. This was a
10 project that came forward to the decision makers with full
11 support from environmental groups. And oddly its
12 opposition was from another oil company who had some
13 desire to go and develop this same resource from an
14 onshore site. But it would be located on Vandenberg Air
15 Force Base. And unfortunately for that company, they were
16 unable to get any green light from the Air Force to move
17 forward with that project. So we never deemed the
18 application complete.

19 They were the appellants, which caused the
20 Planning Commission's decision in favor of this project to
21 go forward to our Board of Supervisors, along with a
22 couple others. Another oil company did challenge this
23 project, just to let you know, because they wanted access
24 to the processing facility on shore. This was an onshore
25 producer. And after an agreement and a settlement with

1 claims, they withdrew their appeal. And so we did deal
2 with the appeal, from a private citizen as well
3 challenging the EIR's efficiency. However, that appellant
4 did not show up at the hearing to testify.

5 As noted, there has been no litigation. The
6 statute of limitations for the Environmental Impact Report
7 has run and terminated. And so we're happy to bring
8 forward something to you that at least has issues resolved
9 as far as the EIR.

10 We've got our project team here if you do have
11 questions. And I know you did have a question about the
12 property tax. I did not bring my chart with me. What I
13 can tell you is that all that very rough estimate amount
14 that -- our assessor's office has yet to go through and do
15 any actual evaluation of what property tax would be. But
16 using that figure, the county's general fund would receive
17 about 23.6 percent of that 313 million, if that were the
18 figure, over the life of the project.

19 Its fire department would receive an additional
20 14.4 percent.

21 And then you are right in your assumptions,
22 Commissioner Sheehy, that the rest of it goes to special
23 districts, et cetera. I'll be sure to make that
24 information available to you prior to the 29th.

25 CHAIRPERSON GARAMENDI: Tom.

1 ACTING COMMISSIONER SHEEHY: I'm sorry, Mr.
2 Anthony. You said the rest of it, which should be about
3 60 percent, goes to special districts. That doesn't --

4 MR. ANTHONY: In the schools' special districts
5 that --

6 ACTING COMMISSIONER SHEEHY: -- and the full --
7 take the rest of that, would they not -- would it be like
8 an itty-bitty sliver?

9 MR. ANTHONY: That's correct.

10 ACTING COMMISSIONER SHEEHY: Would it be
11 possible, Mr. Anthony, when we reconvene in Santa Barbara
12 later this month to have a more specific breakout of that
13 and confirm what the ad valorem would likely be under the
14 different oil scenarios, \$50 oil, \$75? I think it would
15 be helpful for us to have that information.

16 MR. ANTHONY: We'd be happy to. We have that
17 information available.

18 CHAIRPERSON GARAMENDI: Marcy Jo.

19 ACTING COMMISSIONER MANDEL: Yes, if you could
20 have that information, it would be great. As you may
21 know, the Controller was, for ten years, a Board of
22 Equalization member and he's very familiar with sort of
23 property tax and how it works. And if we had an update --
24 if we updated numbers, it would be useful in terms of how
25 you're figuring 313 million or what the other numbers

1 might be, and how the Prop 13 and the price of oil and the
2 oil reserves might affect it. He might have -- I don't
3 know if he'll have questions about that, but it's
4 something he might have questions about because of his
5 experience and background.

6 MR. ANTHONY: Very well. I will make sure on the
7 29th that we have the right people from our assessor's
8 office available as well in case questions come up.

9 ACTING COMMISSIONER MANDEL: Okay. Thank you.

10 CHAIRPERSON GARAMENDI: Excuse us. We were --

11 MR. ANTHONY: That's quite all right.

12 CHAIRPERSON GARAMENDI: -- intensely discussing
13 the issue.

14 There's been discussion by some that the County
15 of Santa Barbara and San Luis Obispo should receive a
16 portion of the royalty beyond the ad valorem tax issue.
17 Are you aware of any of that or is there any such
18 discussion or a proposal underway?

19 MR. ANTHONY: My understanding is as far as
20 current law, that we stand to receive as much as one
21 percent of the royalty received by the State. That's
22 because of the park districts. And I believe that's
23 section -- I don't know if --

24 CHAIRPERSON GARAMENDI: Mr. Berg, would you like
25 to comment on this?

1 MR. ANTHONY: And that's been a longstanding --

2 CHAIRPERSON GARAMENDI: Go ahead.

3 MR. BERG: Thank you. Having worked for the
4 county on that issue for about ten years, the county just
5 successfully sponsored legislation, SB 1187, by Senator
6 Maddy, which increased the county, city, local government
7 impacted share from the 1 percent to 20 percent for any
8 new production. That bill did however sunset. The county
9 has continued maintaining an active interest in extending
10 the sunset date on that legislation or entertaining other
11 legislative proposals to increase or restore that
12 provision of the law, believing that it'd make good public
13 policy sense. And therefore, the county does retain an
14 interest in trying to work with the Legislature and any
15 other interested parties to restore that or similar
16 legislation.

17 CHAIRPERSON GARAMENDI: You're going to use
18 legislation to do that?

19 MR. BERG: Not yet this year. But we are
20 contemplating that as part of our legislative program. We
21 did sponsor a bill that Senator Maldonado carried. We did
22 sponsor budget language last year -- or two years ago,
23 maybe three years ago on that subject. So we are actively
24 interested and continue to pursue some kind of legislation
25 in that area or this language.

1 CHAIRPERSON GARAMENDI: But perhaps the
2 Department of Finance would like to comment on this.

3 ACTING COMMISSIONER SHEEHY: Mr. Berg, when the
4 County Board of Supervisors voted to approve the EIR to
5 support this project, did they make their support
6 contingent upon the enactment of that legislation?

7 MR. BERG: Not as far as I'm aware, no.

8 ACTING COMMISSIONER SHEEHY: All right.

9 Thank you very much. I appreciate that.

10 MR. ANTHONY: I will add to that that they still
11 do receive the revenue that you saw -- the estimated
12 revenue of the property tax and even that amount is very
13 valuable to the county particularly in these economic
14 times.

15 CHAIRPERSON GARAMENDI: Well, we used to fight
16 over money.

17 (Laughter.)

18 MR. ANTHONY: I would also like to extend our
19 sincere appreciation to your staff, State Lands Commission
20 staff. As a responsible agency, they worked with us from
21 the get-go on the preparation of the EIR. And they were
22 very helpful, and it's been a pleasure working with them.

23 CHAIRPERSON GARAMENDI: Any other questions of
24 Mr. Anthony?

25 We thank you for your presentations.

1 The next person asking to -- I think Mr. Mason
2 has not returned.

3 Mr. Cottingham.

4 MR. COTTINGHAM: Good morning, Lieutenant
5 Governor and Commissioners. And thank you for hearing us
6 today.

7 I represent PORAC, the Peace Officers Research
8 Association of California. I'm the President. We are the
9 largest statewide law enforcement organization, actually
10 in the nation.

11 Also as a member, we have Santa Barbara Deputy
12 Sheriff's Association, which this project was brought to
13 our attention by them. This is very important to them
14 because, as you mentioned, sometimes it is about the
15 money.

16 It's very rare for public safety organizations to
17 come together and support projects like this. However, we
18 are in a very unique situation in California. As
19 everybody has said, we're in a budget crisis, a financial
20 crisis, and this would bring money to the State; money I
21 don't think that the State can afford to pass up.

22 We have seen already in the State Legislature
23 that the -- and the budget recommendations of the
24 Governor's office and conference calls with the Governor's
25 office, that public safety has been cut.

1 We sponsored an initiative earlier this year to
2 try to solidify dollars for public safety from the State
3 government, and that failed. And as that failed, the cuts
4 continue. Some are ten percent. Some go up to 34
5 percent. The rural grants with small Sheriffs'
6 departments were completely cut out.

7 So we see this as a public safety issue, that
8 revenue that comes in can help public safety. Some of the
9 programs that are cut are the programs that we call safe
10 teams that would monitor 290 registrants and sexually
11 violent predators. I think this is something that is of a
12 real public safety interest and we try to protect the
13 citizens of California.

14 In addition, there would be money that would go
15 to local government that would also support the public
16 safety programs in that area. If the State can't help
17 out, then more of the revenues from the local governments
18 who's going to have to go in and support these.

19 And we're already seeing throughout the State
20 where local government is cutting law enforcement,
21 positions are being held vacant, programs are being cut,
22 narcotics programs are being cut out -- narcotics
23 enforcement, special enforcement teams, investigative task
24 forces are being cut out, multi-jurisdictional task
25 forces. And these, again, are all detrimental to good

1 public safety in California.

2 So succinctly, we see this as a public safety
3 issue. This is a source of new revenue to California.

4 And I think it's a vital source of revenue to California.

5 So representing PORAC, we would urge your support
6 for this project.

7 CHAIRPERSON GARAMENDI: Questions?

8 Mr. Cottingham, thank you very much.

9 I have no other requests for people to speak.

10 And unless there's questions from the Commission,
11 we will terminate the public hearing.

12 I want to thank all the participants. And for
13 those of you that are interested, this project is being --
14 we'll take this up again on the 29th in Santa Barbara at
15 the next meeting of the State Lands Commission.

16 Thank you, all, very much.

17 To the staff, we need to publicly acknowledge the
18 extraordinary amount of work done by the State Lands
19 Commission staff and all of its very elements, from legal
20 to the oil and port section.

21 So thank you, all, very much. If you will clear
22 the room, we do have a private meeting. And we'll take
23 that up immediately as soon as the room is cleared.

24 Thank you very much.

25 (Thereupon the State Lands Commission

1 meeting adjourned at 11:12 a.m.)

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1 CERTIFICATE OF REPORTER

2 I, JAMES F. PETERS, a Certified Shorthand
3 Reporter of the State of California, and Registered
4 Professional Reporter, do hereby certify:

5 That I am a disinterested person herein; that the
6 foregoing California State Lands Commission meeting was
7 reported in shorthand by me, James F. Peters, a Certified
8 Shorthand Reporter of the State of California, and
9 thereafter transcribed into typewriting.

10 I further certify that I am not of counsel or
11 attorney for any of the parties to said meeting nor in any
12 way interested in the outcome of said meeting.

13 IN WITNESS WHEREOF, I have hereunto set my hand
14 this 13th day of January, 2009.

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JAMES F. PETERS, CSR, RPR

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