

MEETING
STATE OF CALIFORNIA
LANDS COMMISSION

CALIFORNIA STATE LANDS CONFERENCE ROOM
100 HOWE AVENUE, SUITE 100-SOUTH
SACRAMENTO, CALIFORNIA

THURSDAY, APRIL 28, 2011

3:00 P.M.

KATHLEEN SKIDGEL, CSR
CERTIFIED SHORTHAND REPORTER
LICENSE NUMBER 9039

APPEARANCES

BOARD MEMBERS

Mr. Gavin Newsom, Lieutenant Governor, Chairperson

Mr. John Chiang, State Controller, represented by

Ms. Cindy Aronberg

Ms. Ana J. Matosantos, Director of Finance, represented by

Mr. Pedro Reyes

STAFF

Mr. Curtis Fossum, Executive Officer

Ms. Jennifer Lucchesi, Chief Counsel

Mr. Gregory Scott, Chief, Mineral Resources Division

Mr. Rick Ludlow, Staff Counsel (Ret.), Legal Division

Ms. Marina Voskanian, Assistant Chief, Mineral Resources
Management Division

Mr. Alex Reid, Petroleum Reservoir Engineer, Mineral
Resources Management Division

Mr. Alan Hager, Retired Annuitant, Attorney General's
Office

Mr. Joe Rusconi, Deputy Attorney General, Attorney
General's Office

Ms. Jessica Rader, Staff Counsel, Legal Division

Ms. Kim Lunetta, Executive Secretary

Mr. Dave Brown, Chief, Fiscal & Administrative Services

Ms. Pamela Griggs, Senior Staff Counsel

Mr. Mark Meier, Assistant Chief Counsel

APPEARANCES (continued)

ALSO PRESENT

Mr. Curtis Henderson, City of Long Beach Gas & Oil
Department

Ms. Sofia Carrillo, Coalition for a Safe Environment

Mr. Jesse Marquez, Coalition for a Safe Environment

Mr. Drew Wood, California Kids IAQ

Mr. Charles Parkin, Deputy City Attorney, City of Long
Beach

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	01 CITY OF LONG BEACH (APPLICANT): Consider approval of the Long Beach Unit Program Plan (July 1, 2011 through June 30, 2012), Long Beach Unit, Wilmington Oil Field, Los Angeles County. (W 17165)(A 54;S 27) (Staff: A. Reid)	6
	02 CALIFORNIA STATE LANDS COMMISSION: Consider a resolution in opposition to proposed federal legislation to amend the Outer Continental Shelf Lands Act that would offer new oil and gas leases off the California Coast, reversing President Obama's Offshore Moratorium. (HR 1231, Hastings, WA)(A & S: Statewide)(Staff: J. DeLeon)	51
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1 Mr. Fossum.

2 EXECUTIVE OFFICER FOSSUM: Thank you,
3 Mr. Chairman.

4 I'd like to also identify the members of the staff
5 of the Commission and the Attorney General's Office present
6 on this conversation.

7 In the Los Angeles office we have Alan Hager, the
8 Attorney General's Office; Greg Scott, the direct -- the
9 Chief of the Division of Mineral Resources, and his
10 assistant Marina Voskanian; and Alex Reid who's the staffer
11 on this particular project, Item 1.

12 In Lieutenant Governor's office is Jennifer
13 Lucchesi, Chief Counsel, Rick Ludlow, staff counsel, and
14 me.

15 In the Department of Finance we have Joe Rusconi
16 from the Attorney General's Office, and Jessica Rader,
17 Staff Counsel for the Commission. And we also have several
18 of our division chiefs in our offices in Sacramento.

19 So with that, let me just begin the Executive
20 Officer Report and say that, in response to the request by
21 the Department of Finance and the Governor's Executive
22 Order, I notified staff of the travel restrictions. And my
23 secretary, Kim, has in fact now reserved meeting locations
24 in Sacramento for the rest of year, at those offices.
25 Today, the only person who was going to be traveling was

1 Greg Scott. And instead, he is staying in the Los Angeles
2 area.

3 Secondly, the Governor's Executive Order regarding
4 travel and salary advances, I'd like you to know that your
5 staff has no salary advances at this time. And that the
6 five travel advances that are out, all travel has already
7 been completed and the claims should be processed within
8 two weeks.

9 On the legislative update, we have two State Lands
10 Commission sponsored bills that passed out of committee
11 this week, SB 152 (Pavley), the fair rent for private piers
12 bill, and SB 595 (Wolk) dealing with abandoned vessels.
13 Two other bills supported by the Commission also passed out
14 of their first committee, AB 752 (Brownley) dealing with
15 sea level rise that was sponsored by the Controller, and AB
16 1112, the Huffman bill dealing with the Oil Spill
17 Prevention Fund.

18 At the last meeting I discussed our update of our
19 website, and Chairman Chiang suggested linking the Coastal
20 Commission's public access info. That has been done.
21 We've also linked the Ocean Protection Council and BCDC
22 websites dealing with sea level rise. There's significant
23 information on those sites as well.

24 Following up on our last meeting dealing with
25 Japan's tsunami and the nuclear disaster, the following

1 week the Commission staff met with PG&E representatives
2 regarding their plans to conduct geophysical research and a
3 seismic study offshore Diablo Canyon, the two faults that
4 are offshore there.

5 PG&E gave a brief introduction to the staff on the
6 three phases that they intend to conduct involving a survey
7 of that area. The first one would deal with some seafloor
8 seismometers for a short four-week study just to get the
9 background noise in the area. That would be followed by --
10 and that's expected to come before the Commission in
11 October.

12 The second part of it would be a more in-depth
13 fiber optic cable and seismic -- seismometers that are
14 being developed to do a much more in-depth study that would
15 last several years.

16 Then there's a third phase that would also
17 require an EIR because of the potential impact to the
18 environment with the use of air gun arrays and hydrophone
19 steamers that are towed behind boats and could affect
20 marine mammals. That third phase would require a
21 full-blown EIR, and we expect that could be heard as early
22 as next spring.

23 Even before -- even before I received the letter
24 from Santa Barbara County last week, we had inspectors out
25 on the beach in Summerland. The Santa Barbara County Board

1 of Supervisors sent a letter, concerned about oil seeps
2 that have been taking place on the beach there.

3 That area had been drilled by trespassers in the
4 late 1800s and early 1900s, even before the State had
5 authorized any offshore oil drilling, which didn't occur
6 until 1921. It, in fact, was the first offshore oil
7 drilling anywhere in the world. And these wells are still
8 seeping from time to time. They weren't properly
9 abandoned.

10 Over the last 50 years the State has been
11 end-capping and plugging those, and it's done almost a
12 hundred wells. We've been doing it in the 60s, 70s and 90s
13 as funds became available; and certainly as more funds
14 become available, we will continue that process.

15 Last week our staff was out and met with county
16 staff as well as Summerland residents and Santa Barbara
17 Environmental Coalition to inspect the beach and discuss
18 the matter. They also met with the Mayor of Goleta
19 regarding the hazard removal program. They were very
20 pleased with that, all those individuals. The county, the
21 Environmental Coalition, and the Mayor all wanted to thank
22 the Commission for that program that's been taking place
23 there and the fact that we met with them and discussed
24 these issues.

25 And that concludes my report.

1 CHAIRMAN NEWSOM: Excellent. Is there any
2 comments or questions of the Executive Officer from the
3 Commissioners?

4 ACTING COMMISSIONER ARONBERG: Aronberg just wants
5 to thank you, staff, very much for putting those links
6 together from your site.

7 EXECUTIVE OFFICER FOSSUM: Great. Appreciate
8 that.

9 Anyone else?

10 ACTING COMMISSIONER REYES: Nope, not here.

11 CHAIRPERSON NEWSOM: All right. Well, the next
12 order of business is our regular calendar. And the first
13 item for consideration is the Long Breach Unit Program Plan
14 and the Annual Plan.

15 And let me just begin by thanking everybody. I
16 realize I'm responsible for this unorthodox meeting, and I
17 know how everyone loves these opportunities to get back
18 together in between the more regularly scheduled meetings.

19 There's nothing more frustrating -- I will
20 acknowledge this as a preamble -- than, you know, going
21 through a process and then concluding that we could have
22 avoided the process. Then again, I'm glad we did because
23 there was some issues that were brought up. There's some
24 questions that I think merit a discussion. And I just want
25 to thank everybody for their sincerity and their commitment

1 to exploring this item further and giving me an opportunity
2 to understand it again.

3 This is -- you know, you won't have to worry about
4 me being the new guy forever, but this is -- this is what
5 happens. But I'm thankful. I'm not here to delay.
6 Nothing frustrates me more, as a guy from the private
7 sector, and then delaying things and killing things by
8 analysis and, you know, just going process to process. So
9 that was not my intent here, but candidly to have more
10 substantive discussions.

11 And I just appreciate the good work of my staff --
12 Mr. Garland and to Mr. Fossum, your team, and to the
13 Attorney General's Office to -- well, you'll hear in a
14 moment from one of the managers. We are grateful for the
15 opportunity to discuss this.

16 So, with that, I know there's a staff presentation
17 and we'll go into comments and questions.

18 EXECUTIVE OFFICER FOSSUM: Yes, Mr. Chair. Greg
19 Scott, our Division Chief for Mineral Resources will be
20 giving that report. But before Greg goes into that, I want
21 to thank you for questioning such an important matter from
22 last month's consent agenda.

23 Although the staff for decades has considered this
24 Program Plan and Annual Plan routine, given its involvement
25 on a daily basis in monitoring the City and OXY's safe

1 operation of the unit, clearly questions raised by the
2 Lieutenant Governor and more thorough review by staff of
3 the Plan has revealed that the Program Plan document itself
4 does not have a great deal of detail, and that -- on safety
5 operations. And, therefore, out of an abundance of
6 caution, staff's recommending a plan -- the plan be revised
7 to conduct a safety and environmental risk audit.

8 I also want to take this opportunity to thank the
9 City of Long Beach for its cooperation in allowing the
10 Commission to take a closer look at the five-year program
11 so that all parties can be confident that implementation of
12 the plan will not only be economically beneficial to all
13 the parties, but also conducted in a safe manner and anyone
14 reviewing the plan can reach the same conclusion.

15 With that, Greg.

16 MINERAL RESOURCES MANAGEMENT DIVISION CHIEF

17 SCOTT: Okay. Thanks, Curtis.

18 EXECUTIVE OFFICER FOSSUM: Jennifer's going to be
19 passing out your slide presentation, here in our office.

20 MINERAL RESOURCES MANAGEMENT DIVISION CHIEF

21 SCOTT: All right. We have those handouts already
22 distributed here.

23 All right, I will start. Good afternoon,
24 Mr. Chair and Commissioners. My name is Greg Scott. I'm
25 the Chief of the Commission's Mineral and Resources

1 Management Division.

2 I'm presenting the staff report for our regular
3 calendar item Number 1, which is consideration of the Long
4 Beach Unit Program Plan for the period of July 1st, 2011
5 through June 30th, 2016, and the Long Beach Unit Annual
6 Plan for the period July 1st, 2011 through June 30th, 2012,
7 within the Wilmington Oil Field in Los Angeles County.

8 I've prepared handout material that you can refer
9 to as I present the staff report. And as part of that
10 material, on the second slide, is an aerial photograph of
11 the Long Beach Unit's four man-made islands to help put the
12 field area in perspective and its proximity to the Long
13 Beach port area as well as the Long Beach shoreline.

14 As noted in slides three and four, pursuant to
15 applicable law, Chapter 941 of the statutes of 1991,
16 Chapter 138 statutes of 1964 and the Optimized Waterflood
17 Program Agreement, the Annual Plans are required to be
18 prepared as submitted to the State Lands Commission for its
19 review and consideration of any necessary revisions.

20 On March 17th, 2011, following an adoption by the
21 Long Beach City Council, the State Lands Commission staff
22 received both the Program Plan and the Annual Plan for the
23 city.

24 As provided by statute, the Commission has 45 days
25 to take action. The 45-day period ends on May 1st. If no

1 action is taken by the Commission during this time, the
2 plans are deemed to be accepted.

3 Slide five, the scope of the Commission staff
4 review of the Program Plan, as provided for in Chapter 941,
5 entails the finding of consistency with good oil field
6 practice, consistency with the documents that govern the
7 unit -- which include the Unit Agreement, Unit Operating
8 Agreement and the Optimized Waterflood Agreement -- and
9 also a review of the plan to ensure it does not involve
10 significant safety or environmental risk.

11 As shown on slide six, the Program Plan is
12 prepared every two years and covers a five-year period,
13 continuing development of the Long Beach Unit. It
14 describes how the Long Beach Unit objectives, our continued
15 field development, will be carried out during the five-year
16 period, including reservoir management methods; field
17 pressure maintenance; well drilling activity and schedule;
18 subsidence prevention and control; well abandonment
19 strategies; waste management; water treatment; and others,
20 to name a few.

21 The Annual Plan is a one-year plan consisting of
22 anticipated expenditures needed to carry out the objectives
23 toward the applicable corresponding year of the Program
24 Plan.

25 Slide seven shows how the Annual Plan expenditures

1 are categorized. These are: Development drilling;
2 operating expense; facilities maintenance and plant
3 expense; field labor and administrative expenses; and
4 lastly, taxes, permits, and administrative overhead.

5 The scope of the Commission staff review of the
6 Annual Plan involves reviewing it for consistency with
7 expenditures, drilling activity, forecast, as stated in the
8 Program Plan, for that same time period.

9 Slide eight shows the economic projections for
10 both Program Plan and the Annual Plan submitted by the
11 city. Program Plan provides for a total of \$1.9 billion in
12 expenditures during the five-year plan period, generating
13 oil and gas revenues of approximately \$2.1 billion, and
14 resulting in a net profit of \$188 million if oil prices
15 average \$45 per barrel over that five-year period.

16 The proposed Annual Plan for the one year, 2011
17 through 2012 fiscal year, has expenditures budgeted at
18 \$377 million which would yield a net income of \$52 million.
19 That's a unit net income of \$52 million, again assuming the
20 price of oil average \$45 for that year.

21 The City's use of the \$45 per barrel oil price is
22 to assure that revenues will be sufficient to pay for unit
23 operations and still provide net profits to the State, OXY,
24 and the City. This oil price yields a conservative
25 projection of net income and is used by the City partially

1 because of current and past oil price volatility that
2 occurred during the first six months of 2008-2009 fiscal
3 year. But also -- I'm sorry, I got ahead of myself here --
4 price volatility, as well as the unanticipated drop in oil
5 prices during the 2008-2009 fiscal year period that caused
6 the city to receive less revenues than they had expected
7 for that fiscal year.

8 The volatility of that period of time is shown on
9 slide nine, and you can see that there is a little over 100
10 barrel -- dollars per barrel drop during the period from
11 July 2008 through January of 2009.

12 State Lands Commission staff, however, believe oil
13 prices during the Annual Plan period will be considerably
14 greater than \$45 per barrel and is presently using a price
15 of \$92 per barrel, derived from a worldwide commodity
16 forecasting firm which we use for internal oil revenue
17 forecast purposes.

18 Staff's oil price estimate, as shown on slide 10,
19 unit net profits would be \$481 million. The state's net
20 profit share would be \$282 million for fiscal year 2011
21 through 2012.

22 State Lands Commission staff has reviewed both the
23 programs, the plan, and Annual Plan for their required
24 consistent criteria as provided by statute. With regard to
25 the Program Plan, staff finds that it was prepared to

1 ensure good oil field practices. Attributing to staff's
2 finding of consistency with good oil field practices, and
3 listed on slide 11, are the description of activities
4 contained within the Program Plan, as well as the ongoing
5 oversight by State Lands Commission staff of the Long Beach
6 Unit's engineering methods and practices.

7 In addition, continuous observations are made by
8 State Lands staff of the unit's adherence to relevant
9 codes, standards, regulations, permits, and accepted oil
10 industry practices, including staff presence in the field
11 observing field operations and surveillance to monitor the
12 unit's safe operating and pollution prevention practice.

13 As a result of lessons learned from the Gulf of
14 Mexico oil spill last year, State Lands Commission staff,
15 at the Commission's direction, has recently implemented a
16 Blowout Preventive Certification Program for all of our
17 offshore oil and gas lessees, including the Long Beach
18 Unit.

19 The city and the unit contractor has been
20 proactive in that regard, have implemented the program for
21 the Long Beach Unit, ahead of the deadline when the SLC
22 program was in place.

23 The Commission will be asked to adopt formal
24 regulations addressing Blowout Preventive Certification at
25 a meeting later this year.

1 With regard to consistency with the agreements
2 under which the Long Beach Unit operates, as shown on slide
3 12, staff finds the Program Plan as prepared is consistent
4 with the Articles of Development and Operations; properly
5 allocates produced substances; provides for proper
6 measurements of quantities and qualities of produced
7 resources; plans are prepared and submitted in accordance
8 to submittal schedules; expenditures are itemized by
9 recorded categories; and the plan provides for and adheres
10 to growing strategies, growing schedules and pressure
11 maintenance and subsidence prevention objectives.

12 The Commission staff's review has also concluded
13 that the Annual Plan is consistent with the Program Plan as
14 it meets the criteria shown on slide 13. And those are
15 consistency with the correct budget categories.
16 Consistency with expenditures, performance objectives and
17 drilling schedule, the Program Plan.

18 Slide 14 addresses environmental safety and risks.
19 With regard to those risks, Commission staff's ongoing
20 participation in unit meetings, onsite inspections, and
21 engineering review helped form the basis for concluding the
22 operation of the Long Beach Unit was being conducted in a
23 safe manner, and the basis for not recommending any changes
24 to the Program Plan at the April 6th, 2011 Commission
25 meeting.

1 However, as recognized by the Lieutenant
2 Governor's Office that, despite Commission staff's
3 observations of the contractor's safe operating
4 environmental protection practices, the Program Plan as a
5 stand-alone document lacks adequate detail and description
6 to allow the Commission to determine that the Program Plan
7 does not involve significant safety or environmental risks.

8 In 2002, Commission Engineering staff completed a
9 Comprehensive Facility Safety and Pollution Prevention
10 Audit for the Long Beach Unit. As a condition of the
11 Commission's approval of the April 2000 contractor
12 assignment from ARCO to OXY Long Beach, that safety audit
13 found a number of action items that proposed a potential
14 safety or environmental risk. Correction of those action
15 items resulted in the overall enhancement to the unit
16 operations.

17 Because that audit occurred 10 years ago,
18 Commission staff believes that another safety audit, if
19 timely, could provide further safety and environmental
20 answers. Staff therefore recommends, as stated on slide
21 15, the Commission, under the Program Plan, be revised to
22 include an updated Environmental and Safety -- Utility
23 Safety Review and Assessment to be performed by Commission
24 staff in consultation with the City and OXY, and to be
25 completed within 15 months.

1 That concludes my staff report, and I'm happy to
2 answer any questions you may have.

3 CHAIRPERSON NEWSOM: Okay, great. Gavin Newsom
4 here.

5 Thank you for the report, and thank you for your
6 recommendation.

7 Just in terms of lack of comprehensive review
8 since 2002, just for purposes of illumination, as you
9 noted, all of the items that were identified in that audit
10 have been corrected. But there were not -- there were more
11 than just a handful of items, correct?

12 MINERAL RESOURCES MANAGEMENT DIVISION CHIEF

13 SCOTT: That's correct.

14 CHAIRPERSON NEWSOM: To wit, the obvious point,
15 which is one I concur with, that perhaps it would be wise a
16 decade later to conduct a similar review.

17 That being said, who pays for it? Who does it?
18 Who paid for it in '02 and who did it?

19 MINERAL RESOURCES MANAGEMENT DIVISION CHIEF

20 SCOTT: The audit in '02 was conducted by State Lands
21 Commission Safety Audit staff, Engineering staff. It was a
22 18-month process, and the OXY reimbursed the state up to
23 \$500,000 for staff expenses. The -- I think the final
24 total for the cost of the audit was a little over \$600,000
25 which was paid out of the unit cost.

1 EXECUTIVE OFFICER FOSSUM: And Greg, just to
2 illuminate on that -- this is Curtis Fossum -- was that
3 then considered a part of their operating budget and so
4 that would lessen the net revenues to the other parties,
5 including the state?

6 MINERAL RESOURCES MANAGEMENT DIVISION CHIEF
7 SCOTT: Well, the differential that -- between 500,000 and
8 the final cost would have gone against unit expenses, and
9 therefore, would have impacted the net income.

10 EXECUTIVE OFFICER FOSSUM: So the five -- so
11 because this was a part of an assignment and part of
12 releasing ARCO from their prior contract, that is why it
13 didn't come out of unit expenses?

14 MINERAL RESOURCES MANAGEMENT DIVISION CHIEF
15 SCOTT: That's correct.

16 EXECUTIVE OFFICER FOSSUM: Okay. Otherwise it
17 would, presumably.

18 MINERAL RESOURCES MANAGEMENT DIVISION CHIEF
19 SCOTT: If we were to conduct another audit, an update,
20 these would come out of unit expenses. Or at least the
21 unit would pay for the audit. However, we expect staff
22 costs would be reimbursed for the time that we would be
23 involved in this audit.

24 EXECUTIVE OFFICER FOSSUM: All right.

25 ACTING COMMISSIONER ARONBERG: This is Aronberg.

1 From where would the cost be -- I mean, would this
2 come from the General Fund? Where would the funds come
3 from ultimately?

4 MINERAL RESOURCES MANAGEMENT DIVISION CHIEF

5 SCOTT: They would come from the unit revenues.

6 EXECUTIVE OFFICER FOSSUM: Yes. And basically the
7 end result is, because the profit -- this is Curtis -- the
8 profit sharing is such that the State and City have 51
9 percent of the net profits in the optimized part of the
10 waterflood plan, a substantial part of the net revenues
11 would presumably come out of those revenues that went to
12 the city and state. A like amount would come out of the
13 net revenues that OXY would get.

14 ACTING COMMISSIONER REYES: You mean the expenses
15 of the survey would come out of those revenues?

16 EXECUTIVE OFFICER FOSSUM: Yes. And if --
17 depending on if -- this isn't something that we would know
18 the answer to right now. It would probably be part of what
19 we would have to talk to the City and OXY about in the next
20 few months because -- is how this expense would be treated.

21 If it was considered a -- and maybe Rick can
22 answer this -- extraordinary expense, then the State
23 would -- it could come 95 percent out of the State's net
24 revenues. If it was based on the percentages overall being
25 brought out of the unit, I think the state would absorb 63

1 percent of the cost of the study and the --

2 So it depends on how the conclusion is reached
3 between the parties, as to where those expenses would be.

4 CHAIRPERSON NEWSOM: And the idea would be --
5 again, Gavin Newsom speaking. The idea would be to come
6 back next meeting, having scoped that discussion more
7 formally before we move forward with an action.

8 EXECUTIVE OFFICER FOSSUM: That's correct.

9 CHAIRPERSON NEWSOM: That we can work through and
10 make a determination of the cost benefit.

11 Is it -- are you assuming it would be roughly
12 equivalent to the cost in '02, in the margin? Or can be it
13 more focused on it, more targeted? Or is that part of the
14 discussions in the next few weeks?

15 EXECUTIVE OFFICER FOSSUM: I think that would be
16 part of the discussions. I think Greg -- this is Curtis
17 again. We've had those discussions internally, but we have
18 not brought OXY or the city into those discussions as to
19 what level of depth it would be because the audit was only
20 10 years ago and, in essence, this might be an update of
21 that audit as opposed to totally starting from scratch.

22 MINERAL RESOURCES MANAGEMENT DIVISION CHIEF

23 SCOTT: Right. We would have to -- this is Greg Scott. We
24 would have to certainly scope out what we think would be
25 the optimal activity for this audit.

1 You know, being that the field was audited 10
2 years ago, many of the existing systems that were in place
3 then most likely would still be -- we would find that those
4 corrections we made back then would still be satisfactory.
5 However, any new systems that may have been introduced in
6 the field during this last 10 years, I think those would
7 be -- those would be systems that we would want to focus on
8 more directly in this updated audit.

9 CHAIRPERSON NEWSOM: Well, I mean, obviously cost
10 is always a factor, and it's an appropriate question,
11 where's the money going to come from, if the General Fund.
12 So I think, you know, the purpose -- for the purposes of
13 this discussion, to at least illuminate those costs and the
14 scope of this audit so we can make a subsequent
15 determination. I certainly would be supportive of that.

16 Again, I think there were over 200 items that came
17 out of the last audit. And, you know, in the auditing
18 parlance they're called "significant". But, you know, a
19 lot of times what may be significant to an auditor may not
20 be to the lay person. But enough there that I think it
21 would merit some consideration.

22 I mean, if there's something that sort of jumped
23 out through this process of getting deeper into this, it
24 was -- you got a 48-page agreement, there's only a couple
25 paragraphs around safety and environmental consideration.

1 The Annual Audit I think was, what, a paragraph or
2 something.

3 And, you know, we live in a world where we know a
4 heck of a lot more than we did in 2002. And I think
5 it's -- I think we have a fiduciary responsibility to
6 explore this further. And obviously I support the
7 recommendation staff, and I compliment it.

8 Without getting ahead of ourselves, it seems
9 perhaps appropriate if Curtis Henderson is here from the
10 City of Long Beach, as our public comments. And I, of
11 course, will open it up to others.

12 But, Curtis, just because you're sitting here
13 patiently listening, perhaps you can chime in and maybe
14 give us your thoughts. I want to thank you and Mayor
15 Foster and his team for their help and support in the last
16 couple weeks.

17 MR. HENDERSON: Okay. Thank you very much. My
18 name is Curtis Henderson. I'm manager of Gas and Oil
19 Operations for the City of Long Beach Gas and Oil
20 Department. I just have a few comments here.

21 In 1964 the State Legislature enacted Chapter 138,
22 granting trusteeship to the City of Long Beach for control
23 of the State's tideland's oil operation in Long Beach.

24 Chapter 138 states that since the existence of oil
25 and gas under the Long Beach tidelands as it's known should

1 be developed for the benefit and profit of the State of
2 California. With the trusteeship, the City became the unit
3 operator to control the development of oil and gas in the
4 Long Beach Unit for the state and the 6,000 individual oil
5 rights owners.

6 The City has submitted next year's fiscal -- next
7 year's Annual Plan and Program Plan which is the subject of
8 this calendar item. Both have been approved by the City
9 Council.

10 The primary focus of the Long Beach Gas and Oil
11 Department is to ensure that the environment is protected
12 and no adverse conditions are caused by oil operations.
13 Since the Long Beach Unit operations are located just
14 offshore of the downtown area of Long Beach, we work
15 closely with the contractor, OXY Long Beach, to ensure the
16 environmental issues are always considered while conducting
17 the day-to-day operations.

18 Additionally, the department is charged with the
19 continued control of subsidence. Subsidence is still a
20 threat to areas overlying oil-producing areas and will
21 continue to be long after production ceases in the oil
22 field.

23 We share your concern for the environment and its
24 protection. I can assure you that we take very seriously
25 our responsibility to safeguard the ocean and to protect

1 the environment within which we operate and take great
2 effort to ensure that that occurs.

3 In over forty years of oil operations in the Long
4 Beach Unit, we have not had any produced oil from our
5 operations, in fact we've breached no harm to the marine
6 environment in the Long Beach Harbor. Although we are very
7 proud of this record, we will continually strive to do
8 better.

9 Environmental stewardship is one of the core
10 values of the City of Long Beach and OXY Long Beach,
11 Incorporated. Maintaining and testing our pipelines
12 through extensive Mechanical Integrity Program is essential
13 to protecting the environment. The main focus of the
14 Mechanical Integrity Program is our pipelines, but the
15 program also covers tanks, vessels, electrical
16 distribution, and other equipment in the field.

17 Some examples of the many programs that are in
18 place are Aggressive Internal Inspection Program, including
19 smart pigging of section pipelines; leak detection;
20 corrosion monitoring of pipelines; internal and external
21 inspections of tanks and vessels; and conducting an
22 automated shutdown and control system testing quarterly
23 with representatives of the State and the City present.

24 I have a list here, and I'm definitely not going
25 to go through all of them.

1 (Laughter).

2 MR. HENDERSON: Unless you'd really like them.

3 Additionally, the City of Long Beach and OXY Long
4 Beach are committed to ensuring that our employees and
5 contractors work safely. Last year 1.7 million hours were
6 worked in the Long Beach Unit with only four injuries, none
7 of which were severe. This equates to a reportable rate of
8 4.7 which is significantly lower than the rest of the oil
9 and gas industry which has a reportable rate of 1.5.

10 We're very proud of this record. That's about --
11 that's 70 percent better than the industry. And there are
12 many safety programs in place. And, like I said, too many
13 to mention here today. But we will continue to work with
14 OXY Long Beach to come up with additional program to make
15 our work space as safe as possible.

16 Finally, OXY Long Beach audits operations every
17 two years against both regulatory standards and its own
18 stringent policies. OXY does this on its own without being
19 requested by either the State or the City.

20 The City of Long Beach welcomes the upcoming audit
21 by the State Lands Commission for the safety and
22 environmental aspects of the Long Beach Unit. The City and
23 OXY Long Beach will assist the State Lands staff in any way
24 possible, any shape that you require.

25 The City of Long Beach, as a unit of operation,

1 is charged with overseeing the day-to-day operations of the
2 oil field and is proud of its environmental and safety
3 record of the Long Beach Unit.

4 CHAIRPERSON NEWSOM: Thank you, Mr. Henderson.
5 Gavin Newsom speaking.

6 I was going to ask, but you answered in the end
7 there, that generally you'd be supportive of this audit. I
8 appreciate that.

9 Are there any comments or questions or any other
10 public comments, someone that I can't see physically?

11 ACTING COMMISSIONER ARONBERG: We have three
12 public commenters in the L.A. office. And if you'd like, I
13 can call them out one by one.

14 CHAIRPERSON NEWSOM: Fabulous.

15 ACTING COMMISSIONER REYES: We have no -- this is
16 Pedro at Finance. We have nobody here.

17 CHAIRPERSON NEWSOM: All right.

18 ACTING COMMISSIONER ARONBERG: Is there anyone at
19 the State Lands Commission office on Howe Avenue?

20 EXECUTIVE SECRETARY LUNETTA: No, there is not.

21 ACTING COMMISSIONER ARONBERG: Okay. So I'm going
22 to start with -- we have -- would you like to start?

23 First we have Sofia Carrillo from Coalition for a
24 Safe Environment.

25 MS. CARRILLO: Hi. Good afternoon. My name is

1 Sofia, and I work for the Coalition for a Safe Environment.

2 I ask today to the State Lands Commission not to
3 approve the City of Long Beach Plans for the new oil
4 exploration and oil wells.

5 Number two, there was no Environmental Impact
6 Report prepared to disclose the environmental and public
7 health impacts in Long Beach and neighboring cities.

8 Number three, I ask that you require an
9 Environmental Impact Report, Health Risk Assessment and a
10 Health Impact Assessment be completed before any plan or
11 project approval.

12 Number four, I ask to -- that you require all
13 negative environmental, public health and socio-economic
14 impacts be mitigate to less than significant. And if it
15 cannot be mitigate to less than significant, the project be
16 denied or that the project require that mitigation funds be
17 established.

18 Thank you.

19 EXECUTIVE SECRETARY LUNETTA: Excuse me. This is
20 Kim Lunetta.

21 Sofia, if you read from a script, would you mind
22 if we could have a copy of that?

23 ACTING COMMISSIONER ARONBERG: Sure. We've got it
24 right here.

25 EXECUTIVE SECRETARY LUNETTA: Okay.

1 ACTING COMMISSIONER ARONBERG: I can fax it to you
2 even if you like.

3 EXECUTIVE SECRETARY LUNETTA: Thank you.

4 ACTING COMMISSIONER ARONBERG: Would you like that
5 right now?

6 EXECUTIVE SECRETARY LUNETTA: Later's fine. Thank
7 you.

8 ACTING COMMISSIONER ARONBERG: Okay, gotcha.
9 Okay.

10 Do we want to have each speaker go in order, or
11 would you like to have staff respond?

12 CHAIRPERSON NEWSOM: Let's hear from everybody,
13 then we'll have staff respond. It's Gavin Newsom speaking.
14 Thank you.

15 ACTING COMMISSIONER ARONBERG: Our second
16 commenter in the L.A. office is Jesse Marquez with
17 Coalition for a Safe Environment.

18 MR. MARQUEZ: Thank you. My name is Jesse
19 Marquez. I am a founder and Executive Director for the
20 Coalition of a Safe Environment. We're headquartered in
21 Wilmington. We also have a Long Beach Coalition for a Safe
22 Environment chapter. And we have members in over 25 cities
23 and Los Angeles County.

24 I have first a question to ask. Did you have an
25 opportunity to review my public comment that I submitted?

1 EXECUTIVE OFFICER FOSSUM: This is Curtis Fossum.
2 Yes, we have.

3 MR. MARQUEZ: And Lieutenant Governor Newsom, did
4 you have an opportunity to do so?

5 CHAIRPERSON NEWSOM: I'm going to take the
6 opportunity to do so, now that you have -- you have alerted
7 me. I have not had a chance to see it yet.

8 MR. MARQUEZ: Okay. We did also provide a copy to
9 Kevin Schmidt who I believe works for you in your office
10 there.

11 CHAIRPERSON NEWSOM: Unfortunately he's back east,
12 but I appreciate it. Thank you.

13 MR. MARQUEZ: Okay. The issues we have is that
14 there are several major points, that this is a project and
15 is subject CEQA -- and there's been no CEQA review of this
16 project.

17 The Port of Long Beach, FIA-type discussion with
18 State Lands Commission office has stated that this is not a
19 project under the definition of the CEQA law and the
20 guidelines. However, if you look at the CEQA law, how it
21 defines what a project is, and if you look at the
22 guidelines as it describes what a project is, there is
23 nowhere in there that it provides an exemption for what
24 they plan to do.

25 What they plan to do, there's going to be a

1 variety of things. They plan to do oil exploration
2 drilling. That's a project. They plan to redrill existing
3 oil wells to deeper depth. That's a project. They plan to
4 assembly and relocate various oil well rigs 231 times.
5 That's a project.

6 They plan to -- there's going to be construction
7 of replacement oil wells involved in this. That is a
8 project. They're going to construct new permanent
9 operating oil wells. That is a project. They're going to
10 construct new pipelines. That is a project. There's going
11 to be 46 wells to be drilled or redrilled in each of five
12 years, for a total of 231 in this project.

13 They're going to repair existing equipment, which
14 could be piping, tanks and vessels, and that is a project
15 in itself. They're going to be replacing some of this
16 equipment. That is a project. And then they're going to
17 be plugging up abandoned oil wells. That is a project.

18 So under our understanding of CEQA law and the
19 guidelines, it is subject to an EIR and there has been no
20 place in this whole process where an Environmental Impact
21 Report has been prepared.

22 So what you have heard is that there have been, in
23 their opinion, no environmental impacts done in the past
24 operations, but that's based on the fact that they did not
25 do an Environmental Impact Report and what was performed in

1 the past was not adequate.

2 Many of us are aware that when we're talking about
3 air pollution, that we're talking about not only
4 particulate matter but we're also talking about VOCs,
5 hazardous air pollutants and greenhouse gases that are part
6 of these operations.

7 And so whatever goes up in the air, which is --
8 and it comes down is called aerial deposition or
9 atmospheric deposition. So pollution goes in the air and
10 also lands. It lands on the ocean, which means it lands on
11 the coastal tideland waters, it lands in fresh water supply
12 such as in dams and rivers. And since it lands on land,
13 when it rains and it soaks -- it permeates and percolates
14 down into fresh water aquifers.

15 And so those types of things have not been
16 evaluated. So they've not taken water samples to determine
17 the amount of contaminants that have been put upon the
18 water. They talk about no major impacts to any aquatic
19 life or wildlife. They've done no assessment to determine
20 that.

21 In terms of public health impact, you know,
22 they've done no Health Impact Assessment. So they don't
23 know what type of affects have been done to workers. They
24 don't know what type of health impacts that have been done
25 to local residents.

1 Now, even though we're talking about Long Beach,
2 Wilmington is neighbor to Long Beach. And so we're talking
3 about a border that's only, you know, a few hundred feet to
4 a thousand feet away. And in the package that I submitted
5 of my public comments, on the very last page is Exhibit B.
6 And Exhibit B, if you flip it to the last page, are
7 actually a color photo of three photos of one of the oil
8 wells right there having a bad day and a bad night. So
9 what you see is flaring occurring all day and all night.

10 Now why did that occur? It occurred because there
11 was a malfunction and there was a breakdown. In fact, they
12 did not report it. It was myself and other members of the
13 public that reported this to the AQMD, and that's how they
14 were called on it, otherwise they didn't admit anything was
15 going to happen.

16 And so no one knew about it, only because it stood
17 out like a sore thumb. In fact, I was leaving Wilmington
18 on the Long Beach freeway, driving north of Anaheim, when I
19 looked in the rear-view mirror and that's when I saw the
20 flames come about, which made me turn around, go get my
21 camera and go take photographs during the daytime, and then
22 come back in the evening because it was still flaring at
23 night.

24 Now how many of these incidents, we don't know
25 because there's no record of it because they don't maintain

1 a record of it. And it's only a record if HMD receives a
2 report. Unfortunately, that's a part of the problem that
3 we have is that the public has always requested there be
4 first-line monitoring of flaring. We've also done research
5 and have found out that flaring is preventable.

6 What we can't tell from the documentation is that
7 in what they're going to be doing in these next project
8 plans, since there's no information provided, we don't even
9 know are they going to build an additional combustion units
10 which are the flare units? If they are, you know, they've
11 done no estimate of those emissions, so we have no clue
12 what they are.

13 CHAIRMAN NEWSOM: Okay.

14 MR. MARQUEZ: And if they're going to be doing
15 that, then if there was an EIR, we'd be able to comment as
16 to, well, what are the alternatives to flaring? What is
17 the alternative to a combustion unit?

18 Well, there is an alternative, and that is what
19 they call a vapor recovery system. A vapor recovery system
20 is actually right off the shelf. You can call up an
21 engineering place that sells them and buy it and install
22 it. And basically what it is, is piping to the place where
23 the gases are being released. It basically sucks them up
24 and goes to an empty storage tank and saves them, and the
25 gases can be reused again.

1 CHAIRPERSON NEWSOM: Mr. Marquez, can you -- we
2 actually have in front of me -- I have in front of me your
3 letter, and I appreciate your passion and your comments.
4 Can you just conclude?

5 MR. MARQUEZ: Okay. So we feel that this is a
6 project under CEQA, and it's -- therefore, a CEQA
7 Environmental Report must be performed. We ask that it
8 also include a Health Risk Assessment in that report, it
9 include a Health Impact Assessment and a Socio-Economic
10 Assessment.

11 Because they are drilling in coastal waters, we
12 also believe it is subject to NEPA, the National
13 Environmental Protection Act.

14 CHAIRPERSON NEWSOM: Very good.

15 MR. MARQUEZ: And that has not occurred.

16 CHAIRPERSON NEWSOM: I appreciate it. Thank you,
17 Mr. Marquez.

18 And I believe there's one other speaker, public
19 comment?

20 ACTING COMMISSIONER ARONBERG: We have Drew Wood
21 who's from California Kids IAQ.

22 Mr. Wood.

23 MR. WOOD: Hi. IAQ is Inner Air Quality.
24 "Healthy", I should say, should be in front of it. My
25 interest is air pollution, and my interests are the

1 children in the area that is in proximity to the Long Beach
2 operation.

3 I have dealt with the Board of Long Beach
4 extensively, and the staff and so forth, and I have to
5 question the degree to which some of these things have been
6 reviewed.

7 One question I have, because I spent part of my
8 life growing up in an oil field, has seismic surveying been
9 done in this area to indicate there is oil there, to be
10 found? Seismic -- you know, they do sound detonation and
11 they do sound -- sound technology practices that my uncle
12 would call a doodle-bugger. And they go out and explore
13 land to determine the layer deep down and where there may
14 be oil and so forth. And the area I'm familiar with is
15 East New Mexico and West Texas.

16 And so I'm wondering if, in fact, they know there
17 is reserves there, or this is a guessing game? And I have
18 reviewed Mr. Marquez's comments, and I do feel they should
19 be addressed.

20 And I also am working with air pollution and
21 children, asthma children in specific, for 18 years. I am
22 concerned about air pollution, but I also realize that we
23 are going to be dependent upon the oil industry for many,
24 many, many decades to come. So I know it can't be
25 eliminated. It has to be worked with. And they need to

1 work with the community to make sure things are done
2 properly.

3 Unfortunately, the records of Exxon Valdez and
4 now, of course, the Gulf -- and I have friends in Saudi
5 Arabia and so forth, and over there it's virtually nothing
6 as far as conservation or pollution measures and concerns.

7 I think here things can be done and they should be
8 done, and they should be reviewed by people that understand
9 what they're reviewing. And one of the problems I have to
10 deal with is working with L.A. and other school districts
11 is that a lot of people are reviewing things that have no
12 idea what they're doing. And the same thing I ran into
13 with the Port of Long Beach, staff people that didn't know
14 what they were doing. They didn't have any background that
15 they should have had.

16 So I'm hoping that the appropriate people take the
17 very careful analysis of this and make sure that things are
18 being done right before things move forward. And
19 Wilmington has many, many examples of abandoned oil wells
20 that are eyesores, that have been sitting there for years.
21 And the oil industry certainly is in the financial position
22 these days to take care of those and convert them to
23 something less of an eyesore.

24 Thank you very much.

25 CHAIRPERSON NEWSOM: Thanks very much, Mr. Wood.

1 Any other public comment?

2 ACTING COMMISSIONER ARONBERG: Anyone else in the
3 room? No.

4 No more public comments in the Los Angeles office
5 location.

6 CHAIRPERSON NEWSOM: Very good. And nowhere else.
7 Well then we'll close public comment.

8 So the theme here around CEQA, Health Impact
9 Assessment, some NEPA questions, projects, etcetera. I
10 mean, if I could, Greg, hear from you or anyone else, just
11 your reaction to the comments that you heard.

12 EXECUTIVE OFFICER FOSSUM: Well, I think -- this
13 is Curtis -- for purposes of CEQA treatment, we've had over
14 half a dozen attorneys look at this. And the way the
15 legislature created the law in 1991 by Chapter 941 was that
16 they severely limited the role the Commission plays in this
17 plan. And that plan is set up in such a way that the
18 elements the Commission looks at are ones that they're not
19 asked to approve.

20 The legislation and the agreements that we've
21 entered into previously do not ask the Commission to
22 approve this plan. It's simply a matter of whether the
23 Commission finds that there's some revision necessary to
24 ensure that there isn't a significant -- in this instance,
25 a significant risk to either environment or safety.

1 And in the 20 some years that we've been reviewing
2 these plans, the Commission has never sought to revise them
3 in the past. We did do the -- 10 years ago we did a
4 audit, but that audit was done as part of changing the
5 operator of the field from -- the contractor in the field
6 from ARCO, who wished to be released from liability, and in
7 order for us to be sure that the operations were being done
8 in a safe manner and release ARCO, we wanted to make sure
9 that OXY was doing it in a safe manner.

10 So there is no project that the Commission is
11 being asked to approve. The Commission simply reviews the
12 plan and decides whether it needs a revision. It's not a
13 project for CEQA purposes because the Commission is not
14 being asked to approve anything.

15 CHAIRPERSON NEWSOM: Is the City -- this is Gavin
16 Newsom -- is City Council of Long Beach, is that under
17 their purview, the CEQA assessment, or the Board of
18 Supervisors?

19 EXECUTIVE OFFICER FOSSUM: If there's a project
20 involved and it triggers CEQA, then the City would
21 presumably be the lead agency. The City actually did a
22 document after CEQA was enacted in 1972, and did an EIR for
23 the operation of the Long Beach Unit. They also did an EIS
24 at the same time, or contemporaneously.

25 From our understanding, when projects come along

1 that require CEQA treatment, because there is a permit
2 issued by an agency for a project that in fact CEQA is
3 being complied with, the Department of Oil and Gas is
4 issuing a permit for drilling or something like that,
5 they're looking at CEQA to see whether or not this
6 particular project complies with that. And the same would
7 be true with air quality, water quality, and so forth.

8 So I think the City can answer the question better
9 than us, but that's the staff's understanding of how it's
10 being treated at this point in time. And I understand the
11 city attorney is -- representative is in the L.A. office as
12 well.

13 So who wants to speak for the city if they want to
14 speak?

15 CHAIRMAN NEWSOM: Anyone? I know Mr. Henderson is
16 here with us, if you want to chime in.

17 MR. HENDERSON: Can I ask a question? Charlie do
18 you want to handle it?

19 MR. PARKIN: If you want to take the first shot,
20 go ahead. This is Charles Parkin.

21 MR. HENDERSON: Okay. This is Curtis Henderson
22 again.

23 Yes, the city is the lead agency, as far as I
24 know, for CEQA. And we do take a look at those issues that
25 come up, when they pop up in the oil field for facilities

1 for wells. And so it either goes to our Developmental
2 Services Department or through the Long Beach Harbor
3 Department, depending upon where the location of whatever's
4 been planned out in the oil field takes place.

5 CHAIRMAN NEWSOM: Charlie, are you there?

6 MR. PARKIN: I am.

7 CHAIRMAN NEWSOM: You concur?

8 MR. PARKIN: I concur with that. I think that in
9 the event that a discretionary permit is required for a
10 project in the oil operations as those projects come due,
11 then environmental compliance is taken care of in whatever
12 the appropriate manner needs to be.

13 CHAIRPERSON NEWSOM: Gotcha. Gotcha. And I did
14 review at least one of those 12 lawyers that put a memo
15 together on this question. And, you know, I will say, just
16 on behalf of the Commission, at least speaking for myself,
17 but I think the other Commissioners have seen the attorney
18 analysis, I concur with Mr. Fossum's point and his
19 assessment.

20 Is there any -- do the Commissioners have any
21 additional comments before we move on this item?

22 ACTING COMMISSIONER REYES: Pedro in Finance. No,
23 I do not. Thank you, Mr. Chair.

24 CHAIRPERSON NEWSOM: Thank you.

25 ACTING COMMISSIONER ARONBERG: No comments from

1 Aronberg.

2 CHAIRPERSON NEWSOM: So this is an action item.
3 And I, again, thank everybody for their indulgence in the
4 conference, in not only this conversation but the
5 conversations that have taken place in subsequent weeks.

6 My inclination is to support this with the
7 understanding that we are going to move forward with an
8 audit. And we'll scope that audit. We'll do it with a
9 judicious eye on the budget and timing considerations.

10 But I do think it's important and certainly in
11 the spirit of moving this along and the support and
12 cooperation and collaboration of the City of Long Beach and
13 Mayor Foster's Chief of Staff who's been particularly
14 responsive and helpful in terms of being willing to engage
15 in a substantive conversation and comprehensive
16 conversation.

17 I would encourage, though I don't know if I need
18 to, my two colleagues to move this item forward.

19 Is there a motion?

20 ACTING COMMISSIONER REYES: Mr. Chair, with all
21 due respect to the Chair, if we could, if we could
22 bifurcate the two. I am supportive of the motion of an
23 audit, and I understand the City of Long Beach is receptive
24 as well. But I would like to understand the scope and the
25 cost of the audit before I commit the Governor's office to

1 it.

2 I am supportive of the staff's recommendation at
3 this time dealing with the modifications proposed, but I am
4 reluctant to bind the two without understanding what the
5 scope of the audit would be and the costs associated.
6 Although I support in concept the audit, I'd like to have a
7 better sense of what it is we're going to get.

8 CHAIRPERSON NEWSOM: I appreciate that.

9 In terms of the action item itself, if we make an
10 amendment with the recommendation of an audit, or is the
11 action item silent on the issue of the audit?

12 EXECUTIVE OFFICER FOSSUM: The action item directs
13 that the plan be revised by the City to include an audit.
14 And it leaves open the costs.

15 CHAIRMAN NEWSOM: So if we were going to take that
16 out, we'd have to -- well, we're moving in real-time
17 here -- to take a look at that language to see if we can
18 pull that, vote on it separately.

19 I certainly appreciate the Finance point of view.
20 For me, there's an interdependence on the two issues, and I
21 certainly respect the concern around costs. But I can't,
22 to the extent that I would feel comfortable, I can't
23 support this without the indulgence of a subsequent review.

24 ACTING COMMISSIONER REYES: Is the audit, the
25 Environmental Safety Review Assessment, to be completed

1 within 15 months; is that the audit we're talking about?

2 CHAIRPERSON NEWSOM: Correct.

3 ACTING COMMISSIONER REYES: Then I'm okay with the
4 staff recommendation. I was concerned that we were looking
5 at an additional audit with the scope to be determined.

6 So I apologize. I support -- I move the staff
7 recommendation as is.

8 EXECUTIVE OFFICER FOSSUM: Well, just to make a
9 clarification, Commissioner Reyes, the recommendation is to
10 do an audit that we will be bringing back to the Commission
11 at the next meeting, the scope of that audit. But it is
12 committing that an audit be done at this meeting.

13 ACTING COMMISSIONER REYES: And what would be the
14 mechanism for -- that's what's causing the angst. Because
15 if we come back with this extraordinary cost, at this point
16 we would then have the Board's approval -- the Commission's
17 approval on an audit with a price yet to be determined. Is
18 that what I'm voting on?

19 EXECUTIVE OFFICER FOSSUM: To some degree, yes. I
20 mean, we can certainly look at the scope in the next two
21 months, to bring back to the Commission, one that we think
22 would not, you know -- I don't want to call bare bones --
23 but one that will try -- attempt to keep costs down. But
24 there will be expenses, and as I said before, I think the
25 expenses could be -- and expectation is somewhere between

1 63 and 95 percent of the costs would be borne by the
2 General Fund. But we would like to keep the costs of that
3 down so that that would be certainly less than the half
4 million it was the last time.

5 So it's likely to be in excess of a hundred
6 thousand and less than 500,000.

7 MINERAL RESOURCES MANAGEMENT DIVISION CHIEF

8 SCOTT: Curtis, I might -- this is Greg Scott -- I might
9 comment here that our audit staff presently conducts audits
10 of state leases offshore. And they are funded -- their
11 expenses are funded through the OSPAF Fund of OSPR. If we
12 were to have them continue to be funded through the OSPAF
13 Funds, then those would be the funds that would pay for
14 the, at least the state's share of the audit activity.

15 EXECUTIVE OFFICER FOSSUM: Yeah. This is Curtis.

16 Just to continue on that theme, the bill did get
17 out of the house, of the first committee in the assembly,
18 as I mentioned earlier, on that -- the bill to augment the
19 OSPAF Fund. We don't know ultimately what it will do. If
20 that's not augmented, we will have some problems with
21 funding staff.

22 I think the one thing that Greg has told me in the
23 past is that, because of the operation and the Long Beach
24 Unit is such a good operation in comparison with some of
25 the other ones around the state, and we've been monitoring

1 it well, that the audit we'll be being conducting on some
2 of the other leases would fall behind. And so it's a
3 matter of not having enough staff to cover both an audit at
4 this location and the other ones that are scheduled to be
5 audited. But it could be done. And if that's the
6 Commission's will, we can certainly go in that direction.

7 ACTING COMMISSIONER REYES: This is Pedro again
8 with the Department of Finance.

9 If we can find alternative funding sources for
10 this, I will be supportive of it. But as it hits the
11 General Fund on a scope of an audit that I've yet -- I have
12 not seen, nor do I understand the whole complexity of the
13 cost of it, I cannot be supportive, with all due respect.

14 But if somebody else can tell me that there will
15 be an alternative funding source for this, then I can be
16 supportive. But a direct hit to the General Fund when
17 we're looking at reducing staff travel, for one, as you
18 pointed out -- I think you brought that up when you and I
19 met -- and we're looking at several other program cuts, I
20 just can't be supportive. And I'm sorry, of course,
21 because of that, Mr. Chair, you and I could not have had
22 this conversation.

23 CHAIRMAN NEWSOM: No, I understand. And I
24 certainly respect your point of view, particularly from
25 where you're sitting.

1 EXECUTIVE OFFICER FOSSUM: Staff can make a
2 recommendation at this point for consideration by the
3 Commissioners. One of the things we could do to augment
4 the recommended findings, is to put in the scope that we
5 bring back at the next meeting a plan that does not look at
6 the General Fund for the sources of revenue. And it may
7 limit the scope of the audit to some degree, obviously.
8 But if it's the desire of the Commission, we can limit it
9 to that.

10 CHAIRPERSON NEWSOM: What do you think of that?

11 ACTING COMMISSIONER REYES: That would work for
12 me. Again, my main goal here is, you know, we have a plan
13 that, if we did nothing, would be approved in three or four
14 days anyway. And now we're putting an audit behind it, and
15 I'd like to minimize the General Fund exposure. And
16 finding alternative funding source gets us to try to get an
17 assessment or an audit of the issues that you just raised,
18 which are very valid issues, no question about it. But I
19 do have to contend with the hit to the General Fund.

20 So if alternative funding sources can be found and
21 the motion is amended accordingly, I'll be okay with that.

22 ACTING COMMISSIONER ARONBERG: Okay. So this is
23 Aronberg.

24 I have a couple of members of the public with
25 questions based on the discussion that's been going on.

1 And then I have my own question, which is, Curtis,
2 what if we just took no action today and just directed
3 someone to look into alternative sources for funding for
4 this?

5 EXECUTIVE OFFICER FOSSUM: The Commission --
6 whatever the will of the Commission was.

7 CHAIRPERSON NEWSOM: Look -- it's Gavin Newsom
8 speaking.

9 Again, I don't know why, but I feel this is really
10 important. And maybe it's just learning a little bit more
11 about what happened in 2002. And I just feel a fiduciary
12 responsibility to explore this audit substantively.

13 And if we can condition that it's not General Fund
14 supported, and we've got a lot of creative folks around
15 here and we've got a lot of resources -- human resources
16 around this building, then I think we addressed the
17 financial hit from the budgetary perspective, at least in
18 terms of dealing with the crisis at hand.

19 I would prefer to move forward with that
20 expectation. In fact, not prefer, just speaking for
21 myself, I wouldn't feel comfortable moving forward without
22 the provision of some consideration, substantive
23 consideration of an audit.

24 And it seems like Finance would be open to
25 supporting the language that doesn't oblige the General

1 Fund.

2 ACTING COMMISSIONER REYES: That is correct. I
3 would be okay with looking at the -- and I understand the
4 environmental safety review is important. Don't get me
5 wrong. It's just that it is competing with other General
6 Fund supported programs that can easily make an argument
7 that are just as critical.

8 CHAIRMAN NEWSOM: You got it. I would indicate
9 again, sitting where you're sitting and sitting where I'm
10 sitting, I think that is absolutely fair and appropriate.

11 ACTING COMMISSIONER REYES: Alternative funding
12 source would ease my concern.

13 CHAIRMAN NEWSOM: Yeah. Well, I certainly would
14 support that.

15 Is there any additional staff comment? I guess
16 we're working on some language. I'm not filibustering.
17 We're working on some language as we speak, and I think
18 we've now got it.

19 ACTING COMMISSIONER ARONBERG: Why don't we take
20 the -- can we take the public's questions at some point
21 before --

22 CHAIRPERSON NEWSOM: Yeah, we did close public
23 comment. Maybe we can limit it just to 60 seconds, and we
24 have the benefit of just a few people. So we might as well
25 listen.

1 ACTING COMMISSIONER ARONBERG: Okay.

2 MR. MARQUEZ: This is Jesse Marquez, Coalition for
3 Safe Environment.

4 Since there was a prior EIR/EIS prepared, that is
5 the legal precedent for having to conduct a new EIR or a
6 supplemental EIR/EIS that the City of Long Beach failed to
7 do, which also violated their trustee responsibility to the
8 public.

9 State Lands Commission's under a public trust
10 document which also obligates you to also represent the
11 public's best interests in making sure that all laws are
12 complied with, and that is not being done.

13 And the next question I would like to ask, would
14 the public have been opportunity to review the draft
15 scoping plan of the public -- I mean of the audit, prior to
16 coming up and seeing only a final version waiting for a
17 final approval?

18 Often times we find out there's inadequacies
19 within the audit document, whereas, if we have an
20 opportunity to review the draft ahead of time, we can make
21 some constructive criticisms or recommendations. And we'd
22 like to ask that.

23 CHAIRPERSON NEWSOM: All right. Any response to
24 that?

25 EXECUTIVE OFFICER FOSSUM: Yeah. This is Curtis

1 Fossum.

2 We'd be happy to do that. If you want to provide
3 your -- whoever's interested in seeing a draft of that
4 before it's submitted to the Commission for formal
5 approval, we'd be happy to do that prior to the next
6 Commission meeting.

7 If there's any other comment, otherwise I can
8 provide a proposed amendment by the staff to the
9 recommended findings.

10 CHAIRMAN NEWSOM: Was there anyone else that
11 wanted to speak?

12 MR. WOOD: Yes. Drew Wood.

13 I have to question why any of this project
14 involvement has to come out of the General Fund?

15 CHAIRPERSON NEWSOM: Well, we're hoping to
16 mitigate that with the following statement of our Executive
17 Officer.

18 EXECUTIVE OFFICER FOSSUM: In the sentence on the
19 recommended findings, it's about five lines from the bottom
20 of the findings, prior to the review and assessment, I
21 would add the following sentence: The scope of the review
22 and assessment shall be funded in a manner so as not to
23 impact net revenues from the General -- to the General
24 Fund.

25 MR. WOOD: Sounds good.

1 EXECUTIVE OFFICER FOSSUM: How does that sound to
2 the Commission?

3 ACTING COMMISSIONER REYES: So you will not
4 appropriate General Fund money for this? It will be just
5 the expense and then you net out?

6 CHAIRPERSON NEWSOM: Yeah. It wouldn't be
7 appropriated in any --

8 ACTING COMMISSIONER REYES: Okay.

9 CHAIRPERSON NEWSOM: Regardless. It would simply
10 be that the net profits that come to the General Fund would
11 be less if it was an expense.

12 But we're going to -- and we'll try and work with
13 the City and OXY to make sure that it doesn't impact that
14 in some manner.

15 MR. WOOD: Of course the problem is, doing
16 something now with the General Fund versus getting
17 something back some years down the road, I think the oil
18 industry should be able to finance -- Occidental should pay
19 for the audit.

20 CHAIRPERSON NEWSOM: Thank you, Mr. Wood.

21 We'll close public comment. I appreciate your
22 concern for the General Fund. And I think we have a good
23 amendment that addresses that.

24 Are there any final comments from the Commission?

25 If we feel appropriate, we could -- well, is there

1 a motion to support the amendment?

2 ACTING COMMISSIONER REYES: Move approval of the
3 amendment to the staff recommendation.

4 CHAIRPERSON NEWSOM: Without objection, we'll do
5 that.

6 And then on the item itself, is there a motion to
7 approve? The amended version?

8 ACTING COMMISSIONER REYES: Move approval of the
9 staff recommendation with the amendment to protect the
10 General Fund.

11 CHAIRPERSON NEWSOM: And is there a second?

12 ACTING COMMISSIONER ARONBERG: Second.

13 CHAIRPERSON NEWSOM: Excellent. So without
14 objection, that will be -- well, that's what we will
15 direct.

16 There is one other item on this schedule today.
17 This is resolution to oppose the proposed federal
18 legislation to amend the Outer Continental Shelf Lands Act.

19 EXECUTIVE OFFICER FOSSUM: Thank you, Mr. Chair.

20 This item recommends a resolution, as shown in
21 Exhibit A to the report opposing HR 1231. It's a bill in
22 Congress entitled the "Reversing President Obama's Offshore
23 Moratorium Act". If this act became -- or if this bill
24 became law, it would open up the Outer Continental Shelf to
25 southern California, to oil gas leasing by the United

1 States.

2 If you look at Exhibit B to the item, you'll have
3 an idea of the other continental shelf lands susceptible to
4 leasing. They're the blue striped areas. They're in Santa
5 Barbara and Ventura County, between the coast and the
6 Channel Islands.

7 As described in the staff report and resolution,
8 the State Lands Commission has not approved any new
9 offshore oil and gas leases since 1968, before the Santa
10 Barbara spill from a federal outer continental shelf
11 platform in 1969.

12 If this resolution is approved, it will be the
13 tenth resolution passed by the Commission in the last 10
14 years, expressing opposition to new leasing and development
15 in the outer continental shelf.

16 On April 13th the House Committee on Natural
17 Resources defeated a number of proposed amendments,
18 including one by former Lieutenant Governor and
19 Commissioner John Garamendi. Congressman Garamendi's
20 amendment would have excluded California, Oregon and
21 Washington from the effect of HR 1231. After defeating
22 those amendments, the Committee sent the bill to the House
23 floor.

24 Staff respectfully requests your approval of Item
25 2.

1 CHAIRMAN NEWSOM: All right. Well, is there any
2 public comment on this item?

3 ACTING COMMISSIONER ARONBERG: Just comment from
4 myself, from Aronberg.

5 I want to thank staff for putting the resolution
6 together at our request. And thank you to Lieutenant
7 Governor, because without this meeting it might not have
8 been timely. So that worked out very well.

9 MR. MARQUEZ: And our organization supports the
10 State Lands Commission on this position. This is Jesse
11 Marquez, Coalition for a Safe Environment.

12 CHAIRPERSON NEWSOM: I love ending on a positive
13 note.

14 (Laughter.)

15 CHAIRPERSON NEWSOM: Any other public comment?

16 ACTING COMMISSIONER REYES: This is Pedro, with
17 the Department of Finance. I echo the Controller's
18 comments.

19 CHAIRPERSON NEWSOM: Excellent. Well, we'll close
20 public comment.

21 I certainly could not be more enthusiastic in
22 support of the opposition and the recommendation.

23 Is there a motion to support the resolution or
24 the -- yeah, the resolution?

25 ACTING COMMISSIONER ARONBERG: Aronberg moves

1 approval.

2 ACTING COMMISSIONER REYES: Second the motion.

3 CHAIRPERSON NEWSOM: And without objection, we'll
4 move that along.

5 And I believe that concludes the regular calendar.
6 Are there any other members of the public that wish to
7 address the Commission during this portion of public
8 comment?

9 Silence. I'm not sure it's golden. That would be
10 unfair of me. But the silence, I assume, means no one.
11 And I will close public comment.

12 And I believe, to the Executive Officer, there's
13 no other items?

14 EXECUTIVE OFFICER FOSSUM: There's no other items
15 and we have nothing to bring before the Commission in
16 closed session today.

17 CHAIRPERSON NEWSOM: Seeing none, then we will
18 adjourn the meeting. Thank you all very much for coming
19 out.

20 (Thereupon the California State Lands Commission
21 meeting adjourned at 4:10 p.m.)

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CERTIFICATE OF REPORTER

I, KATHLEEN SKIDGEL, a Certified Shorthand Reporter of the State of California, do hereby certify:

That I am a disinterested person herein; that the foregoing California State Lands Commission meeting was reported in shorthand by me, Kathleen Skidgel, a Certified Shorthand Reporter of the State of California;

That the said proceedings was taken before me, in shorthand writing, and was thereafter transcribed, under my direction, by computer-assisted transcription.

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

IN WITNESS WHEREOF, I have hereunto set my hand this 9th day of May, 2011.

KATHLEEN SKIDGEL, CSR
Certified Shorthand Reporter
License No. 9039