

STATE OF CALIFORNIA

ENERGY RESOURCES CONSERVATION

AND DEVELOPMENT COMMISSION

CALIF. ENERGY COMMISSION

JUL 26 1983

RECEIVED IN ENVELOPE

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

In the Matter of:)
1982 Annual Petroleum)
Review, Second Draft)

City Board of Supervisors Hearing Room
City Administration Building
105 East Anapamu Street, 4th Floor
Santa Barbara, California

Friday, July 22, 1983
1:25 p.m.

Reported by: Patricia A. Petrilla
Video/Audio Recording Services, Inc.
2100 - 28th Street
Sacramento, CA 95818
(916) 452-2653

COMMISSIONERS PRESENT

- 1 Charles R. Imbrecht, Chairman
- 2 Arturo Gandara, Vice Chairman
- 3 Russell L. Schweickart, Commissioner
- 4 Karen K. Edson, Commissioner
- 5 Geoffrey D. Commons, Commissioner

STAFF PRESENT

- 6 Kent Smith
- 7 Allen Lee
- 8 John Rozsa
- 9 Margaret Felts
- 10 Karen Mathies, Secretary

PUBLIC ADVISER'S OFFICE

- 11 Ernesto Perez
- 12 Gary Heath

ALSO PRESENT

- 13 Jack O'Connell, Assemblyman, State of California
- 14 Sheila Lodge, Mayor of the City of Santa Barbara
- 15 Robert Kallman, Chairman, Board of Supervisors, County
16 of Santa Barbara
- 17 Tom Rogers, Councilman, City of Santa Barbara
- 18 John Helmer, Coastal Energy Specialist, Energy Office,
19 City of Santa Barbara
- 20 Paul Farrell, ARCO
- 21 Jim Barbour, ARCO
- 22 Steve Niino, ARCO
- 23 Rob Wheeler
- 24 Michael Feeney, Citizens Planning Association
- 25

I N D E X

	<u>Page</u>
1	
2	
3	Proceedings 1
4	Opening Remarks - Chairman Imbrecht 1
5	Presentation - Assemblyman O'Connell 2
6	Presentation of 1982 Annual Petroleum Review
7	Vice Chairman Gandara, Presiding Member, Fuels Planning Committee 4
8	Staff Presentation of Annual Petroleum Review
9	John Rozsa, Manager, Fossil Fuels Office, 10 Assessments Division 7
11	Public Comment
12	Mayor Lodge, City of Santa Barbara 46
13	Supervisor Kallman, County of Santa Barbara 55
14	Councilman Rogers, City of Santa Barbara 61
15	John Helmer, City of Santa Barbara 70
16	Staff Response to ARCO letter
17	John Rozsa 74
18	Margaret Felts 75
19	Questions and Responses of ARCO by Commissioners 85
20	Rob Wheeler 87
21	Statement of Get Oil Out 94
22	Michael Feeney, Citizens Planning Association 96
23	Commission Discussion and Consideration 103
24	Commission Vote on Annual Petroleum Review 146
25	Adjournment 146
	Reporter's Certificate 147

1 of issues affecting us, from a public perspective, and
2 we recognize that and want to pay respect to it.

3 The Annual Petroleum Review is prepared each
4 year by the California Energy Commission for the Governor
5 and the legislature, for the purpose of conveying information
6 about the current status of the supply and demand of petro-
7 leum products in our State. It is a document submitted
8 under the provisions of the Petroleum Industry Information
9 Reporting Act of 1980, which directs the Energy Commission
10 to collect relevant information from petroleum companies
11 operating in California, and from other sources, upon
12 which we make our overall plans, as a State government,
13 in terms of dealing with petroleum-related issues.

14 Before calling upon Commissioner Gandara, who
15 is the Presiding Member of the Fuels Committee and was
16 in charge of the preparation of the Annual Petroleum Report
17 for 1983, I would like to first recognize Assemblyman
18 Jack O'Connell of the 35th Assembly District, who, I
19 believe, has some time constraints, who would like to
20 briefly address the Commission.

21 Assemblyman O'Connell?

22 ASSEMBLYMAN O'CONNELL: Thank you very much,
23 Mr. Chairman, and members of the Commission. I just wanted
24 to briefly welcome you to Santa Barbara, an area that's
25 certainly no strange area to Chairman Imbrecht, being

1 a neighbor and residing in Ventura County; and certainly
2 wanted to thank you for coming back to Santa Barbara and
3 giving us here a sneak preview of what we may be able
4 to expect in the immediate future. Your role is incredibly
5 important. You know that Santa Barbara is vitally
6 concerned with the effects and impact of offshore develop-
7 ment, the continuation of the oil industry, the pressures
8 and impacts that it has on our area, and I feel that we
9 are, as Mr. Imbrecht has pointed out, the leading county
10 in the State with respect to being able to plan the
11 cumulative impacts of oil and the decision-making process.
12 And we're very fortunate to have one of the leading environ-
13 mental people in the State, I feel, in having Diane Guzman
14 and her agency here to help plan and help strategize,
15 so that we can minimize the offshore impacts as the
16 development proceeds. And I think that it's incredibly
17 important that we look at the cumulative impacts, with
18 respect to the oil drilling situation and the OCS, and
19 so many of the different and various reports that have
20 come down from both Federal Government, State Lands, Coastal
21 Commission, as well. And as a member of the Assembly
22 Natural Resources Committee, I certainly look forward to
23 continuing to work with you on this very important issue,
24 that I have often stated is the number-one issue facing
25 Santa Barbara County, certainly, this year.

1 Thanks for the opportunity to be with you. A
2 member from my staff, that focuses entirely on energy, is
3 going to be with you the entire portion of the day. If
4 we can offer any specific information, she'll be happy
5 to do so at that time.

6 Thank you, again, for coming down.

7 CHAIRMAN IMBRECHT: Thank you very much,
8 Assemblyman O'Connell.

9 Now, I'd like to turn the meeting to the Vice
10 Chairman of the Commission, Arturo Gandara, who, as I
11 indicated, is the Presiding Member of the Fuels Committee,
12 for additional comments, before we have a brief presenta-
13 tion from our staff as to the findings in the Annual
14 Petroleum Report.

15 Commissioner Gandara.

16 COMMISSIONER GANDARA: Thank you, Mr. Chairman.

17 Just a few comments here, a little bit on history
18 and a little bit on the process, and how we come to be
19 here today.

20 This is the Commission's third Annual Petroleum
21 Report; the first one being published in 1981. For the
22 most part, each report has covered similar issues. Time
23 and events have, however, made several issues more
24 immediately relevant. In this report, in particular,
25 the issues of OCS and development, the natural gas policy

1 issue as a result of deregulation that's been occurring
2 on the national level, which has, in turn, combined with
3 the changes in oil prices, has resulted in some fuel switch-
4 ing issues, which are also covered in the report.

5 We have seen, through the filings at the
6 Commission, several siting cases for plants, cogeneration
7 plants, that will be used for thermally enhanced oil
8 recovery; that, likewise, is an issue that has now come
9 to the fore that is covered in the report. And, then,
10 again, the severance tax analysis.

11 With respect to the process, the report before
12 you is the product of the staff and the Fuels Policy Planning
13 Committee interaction. For the benefit of some of you
14 who may not be familiar with the Commission's organization,
15 the Commission organizes itself around committees, and
16 the committees have jurisdiction over several policy areas.
17 The Fuels Policy Planning Committee prepared, in conjunc-
18 tion with the staff, the Annual Petroleum Report, which
19 is being presented today before the full Commission for
20 adoption. The initial work was done by the previous Fuels
21 Policy Committee, and here I'd like to acknowledge the
22 contributions made by Commissioner Schweickart, when he
23 was presiding over the report. I should note, however,
24 that any omissions, sins of commission, whatever, are
25 entirely this Committee's, but I wanted to acknowledge

1 the fact that he had done substantial work and provided
2 some leadership in this area.

3 The first public draft of this report was issued
4 in late April, and a workshop was held May 6. The results
5 of the workshop were comments by State, local and industry
6 individuals, and those comments have been incorporated
7 into this draft. This is the second public draft, which
8 was mailed out in mid-June, so that it has been available
9 for quite some time for public comment. We have received
10 some written comments during that period, and those
11 comments have been considered and, where appropriate,
12 have been incorporated in the current document.

13 To apprise you of how we will proceed today,
14 we will have a presentation by the staff, who, I estimate,
15 will take about an hour, it will be a presentation of
16 the Executive Summary portion, the various documents will
17 be explained by the staff.

18 So, with that, Mr. Chairman, let me just turn
19 it back to you.

20 CHAIRMAN IMBRECHT: Thank you very much,
21 Commissioner Gandara.

22 I would now like to call upon John Rozsa, who
23 is the manager of our Fossils Fuels Office, in the
24 Assessments Division of the Commission. Again, for a
25 little information, the Energy Commission is divided

1 into four operating divisions: Siting and Environment;
2 Assessments, which handles the energy forecasting for
3 the State; the Development Division, which pursues
4 alternative energy; and the Conservation Division.
5 Mr. Rozsa is one of our office managers in the Assessments
6 Division.

7 John?

8 MR. ROZSA: Thank you, Mr. Chairman.

9 In talking about the process by which we arrived
10 at this document, I'd like to add something more, and
11 that is: As a result of comments that we've received
12 on this June draft, we prepared an errata listing, which
13 should be available to everybody here in the room, which
14 contains substantive sorts of changes that we would propose
15 to be adopted at the same time that the draft document
16 was adopted.

17 Our aim this year in putting together the Annual
18 Petroleum Review was to try and make the subject matter
19 of the technical areas of oil and gas accessible to the
20 general public and to individuals who are charged with
21 the responsibility for making decisions in this area.
22 We have tried to introduce the readers to the context
23 within which oil and gas activity takes place within the
24 State of California, both the technical and the geographical
25 context within which this activity takes place.

1 As I go through the contents of the Executive
2 Summary, I'm going to have a series of maps projected
3 here on the screen to show you the general areas and the
4 general sorts of activities that are distributed through-
5 out the State, to give you that perspective.

6 This 1982 APR is divided into three volumes.
7 The second volume, starting at the end, is a summary of
8 1982 statistical data which was collected either directly
9 by the Commission or by other agencies of government and
10 compiled by the Commission. It also includes supply,
11 demand and price forecasts which were adopted by the
12 Commission in the recent Biennial Report, Fourth Biennial
13 Report.

14 Volume I, which is the basis of the summary
15 in the Executive Summary, contains a series of papers
16 on topics selected for their current relevance to the
17 supply, demand or price of petroleum products. And the
18 Executive Summary attempts to distill the contents of
19 these papers, and also contains a series of conclusions
20 and recommendations.

21 The first set of papers are on Outer Continental
22 Shelf development. There are four such papers, and the
23 number of these papers reflects the importance of this
24 topic to the State. Most recent estimates of expected
25 production are close to a half a million barrels a day.

1 This would represent more than 25 percent of the projected
2 California demand, so this topic area is going to be
3 important to California.

4 The first chapter is entitled, "History of Exxon's
5 Recent OSC Development in the Santa Barbara Channel."
6 The Exxon project was chosen because it tends to exemplify
7 the sorts of issues that are involved in OCS development.
8 The salient points that would be mentioned in this chapter
9 are, that in 1973, Exxon's development plan received
10 approval from the Federal Government to develop the Santa
11 Ynez unit, using either an onshore treatment facility
12 or a floating offshore treatment facility located in Federal
13 waters. Although most State and local agencies approved
14 the onshore facility, alternative measures suggested by
15 the California Coastal Commission, which included the
16 establishment of an onshore pipeline for OCS crude oil,
17 were unacceptable to Exxon, which, instead, pursued its
18 OS&T option in 1976.

19 Since 1976, the Coastal Commission has acquired
20 the authority to insure that federally permitted activities,
21 such as OCS development, be consistent with the California
22 Coastal Zone Management Program, that is, unlike in the
23 case of the earlier Exxon project, the Coastal Commission
24 has veto power over all California/Federal OCS development,
25 which does not conform to the Coastal Management Plan--

1 this is a change.

2 Other important events relating to the Exxon
3 project are, the recent finding in a study known as the
4 "Part C Study" put out by the Santa Barbara Petroleum
5 Transportation Committee, says that a pipeline to Los
6 Angeles to take the quantities of crude oil expected would
7 require extensive refinery modifications in the Los
8 Angeles area.

9 In a following event, in a 1982 Memorandum of
10 Agreement, Exxon and some State agencies and Santa Barbara
11 County agreed that if Exxon's prospective onshore terminal
12 and tanker terminal facility is approved, and if Santa
13 Barbara County determines that pipelining of OCS is
14 infeasible for Exxon, Exxon will install various pollution
15 mitigation measures and remove its OS&T.

16 The most recent event, the most recent development
17 in this history is Exxon's 1982 application to expand
18 its Santa Ynez operations, where it restates its intentions
19 to tanker, rather than pipeline, OCS crude, because it
20 cannot be refined and, therefore, cannot be marketed on
21 the West Coast.

22 The second paper in the OCS section is entitled,
23 "The State's Role --"

24 COMMISSIONER SCHWEICKART: John, can I ask you --
25 well, this slide is just as well. I was going to catch it

1 on the other. One reference is made to Point Paternales,
2 and it's not called out on the maps and the report. Is
3 there -- can somebody point to that?

4 MR. ROZSA: Can you point out Point Paternales?

5 COMMISSIONER SCHWEICKART: Nobody knows where
6 it is. Okay.

7 MR. ROZSA: Paternales.

8 COMMISSIONER SCHWEICKART: It's referred to --
9 I could pick the reference in the report, but it is referred
10 to at one point in the report, and I was lost, not being
11 a local. It's okay, we can let that go.

12 MR. ROZSA: Okay, we'll find it.

13 The second chapter, entitled, "The State's Role
14 in OCS Environmental Review and Permitting Processes,"
15 is an attempt to show the decision areas where the State
16 has a role to play. And, in effect, there are three such
17 areas. Within the Federal OCS Leasing Program, which
18 allows states to provide presale information on proposed
19 lease area which may pose unacceptable problems.

20 The Federal Coastal Zone Management Act also
21 gives states authority to determine whether federally
22 permitted activities are consistent with the states' coastal
23 zone management program.

24 And the California Environmental Quality Act
25 requires the State, and affected jurisdictions, to prepare

1 an environmental impact report of any coastal project
2 which could possibly cause substantial adverse environmental
3 impacts.

4 This chapter also reviews important events in
5 1982.

6 Chapter 3 was entitled, "Refining OCS Crude
7 in California." Chapter 3 was motivated by what I referred
8 to earlier as the Part C Study, which shows that an
9 extensive retrofit of Los Angeles refiners would be
10 necessary if OCS crude were brought into that area. This
11 study was designed to evaluate the entire state's capability
12 to process OCS crude, to evaluate at least one way to
13 improve that capability, and to evaluate the pipeline
14 system's capacity to be able to handle increased quantities
15 of oil associated with OCS development.

16 There are three, perhaps four, findings that
17 come out of this study. The first is, that California
18 refineries, in their current configuration, could process
19 no more than 100,000 barrels of crude, OCS-type crude,
20 a day. And when I say "OCS crude," I'm referring to Hondo-
21 type crude. Our discussions and analyses have assumed
22 that the bulk of this crude would be heavy, high-sulfur
23 crude like that produced by the Hondo Platform. That
24 is the general procedure that has been used by industry
25 people in talking about facilities for this area. California

1 refineries could process no more than 100,000 barrels
2 a day of OCS crude. However, even processing this small
3 amount would require development of a delivery system
4 to transport amounts of between 1,000 and 50,000 barrels
5 a day to 23 different refineries.

6 One method to refine greater quantities of OCS
7 crude in California would be to construct a centralized
8 prerefining facility to upgrade OCS crude oil, by removing
9 sulfur, metals, nitrogen, and increasing gravity. I should
10 note that Chevron is investigating the possibility of
11 such a facility right now.

12 The upgraded OCS crude could be pipelined to
13 California's central pipeline network for distribution
14 to all California refining centers. The finding of this
15 chapter is that there is sufficient capacity in the central
16 pipeline system to accommodate the volumes that we're
17 talking about.

18 The preliminary calculations in this chapter
19 show that it may be a viable proposition to construct
20 such a prerefining facility. This evaluation, however, does
21 not take into effect environmental or other land-use issues;
22 this is simply on the refining economics of such a
23 facility.

24 The fourth chapter in the APR, entitled, "Need
25 for a Comprehensive OCS Development Plan," was inspired

1 by the realization that current limitations of the
2 refinery and transportation system, coupled with a current
3 case-by-case evaluation of company development plans,
4 as well as the short decision period for evaluation of
5 these plans, could result in a less than optimum develop-
6 ment of California OCS resources. This chapter calls
7 for a comprehensive plan to insure that whatever configura-
8 tion results reflect state and local concerns regarding
9 the issues of crude oil transportation, refining, energy
10 shortage vulnerability, cumulative impact, and coordination
11 of development.

12 COMMISSIONER EDSON: Mr. Rozsa, could you say
13 a little bit more about what you mean by "less than optimum
14 development"?

15 MR. ROZSA: "Less than optimum," of course,
16 is within the eyes of the beholder, but --

17 COMMISSIONER EDSON: Exactly why I would like
18 you to elaborate.

19 MR. ROZSA: All right. Certainly, for Santa
20 Barbara County, that would be development which does not
21 require the use of pipelines to transport OCS crude oil
22 to in-state locations.

23 COMMISSIONER EDSON: Is it fair to say, then,
24 that without that kind of planning effort, tankering is
25 much more likely, and perhaps inevitable?

1 MR. ROZSA: In our opinion, it is more likely.
2 It's not inevitable, but more likely, yes.

3 This chapter doesn't specify the details of
4 what would be involved in such a comprehensive plan, since
5 that would be up to the parties who would be involved,
6 but it does urge the legislature to move quickly, to jointly
7 evaluate the need for such a plan; and if the need is
8 established, to designate a state agency to develop such
9 a plan.

10 COMMISSIONER EDSON: Well, the report actually
11 recommends that such a plan be developed, does it not?

12 MR. ROZSA: Yes, but, of course, the legislature
13 would have to make that decision also.

14 COMMISSIONER EDSON: I understand.

15 MR. ROZSA: The second major section in the
16 APR concentrates on crude oil and refined product prices
17 and demand. The fifth chapter, entitled, "California
18 Crude Oil Prices," explains factors which determine prices
19 paid for crude oil in California. Among these factors
20 are, for example, the fact that crude oil prices are
21 primarily a function of crude oil quality, expressed as
22 gravity, that is, viscosity of the oil, generally, or
23 the weight of it, and the sulfur content; because California
24 crudes are relatively low-quality crudes, California crude
25 oils tend to be lower priced than crudes from other states.

1 Another factor in determining crude oil prices
2 is the relative ability to buyers and sellers to come
3 up with other sellers or buyers. In the case of
4 California, California refiners have more supply options
5 than California producers have buyer options. And, so,
6 California refiners are able to pay, perhaps, a lower
7 price for California crude oil.

8 Another factor has to do with the marginal crude,
9 that is, the crude which would be brought in to replace
10 the crude, additional crude that would be needed in
11 California. For California right now, Alaskan North Slope
12 crude is the marginal crude, and that sets the ceiling
13 price for California crude oils. And for ANS crude, Alaskan
14 North Slope crude, that ceiling price is partly determined
15 by the large transportation costs which must be absorbed
16 in bringing it here from Alaska, which are on the order
17 of 6 or 7 dollars a barrel.

18 Two other factors. One has to do with export
19 controls which keep Alaskan crudes on the West Coast
20 and the Gulf Coast, tending to create an oversupply on
21 the West Coast, and tending, also, to lower the price
22 of crude oil here.

23 Finally, refiners, integrated refiners, that
24 is, refiners who have both production and refining
25 facilities, have certain tax incentives to keep their

1 production prices lower, because production activity is
2 taxed more highly than refining activity.

3 And all these factors tend to make California
4 crude oil prices somewhat lower than you might expect.

5 Chapter 6, "Gasoline Prices and Marketing Trends
6 for 1982," discusses factors which helped to depress 1982
7 gasoline prices in California, and shows how excess supply
8 and price competition can interact to produce powerful
9 market forces. And we should note that in 1982, gasoline
10 prices declined for the first time in 10 years, and these
11 gasoline price declines were more than might be expected
12 from parallel crude price increases. The analysis in
13 this chapter points out that the additional declines were
14 due to excessive gasoline supplies and increased market
15 competition, and that the excessive gasoline supplies
16 was caused primarily by bad predictions as to what demand
17 would be like. Gasoline refiners in California overproduced
18 in anticipation of an increase in demand, which never
19 occurred. This made inventories very high and people
20 had to dump inventories on the market. This, in addition
21 to vigorous price competition among refiners, who all
22 realized that they were getting into much smaller markets
23 and that their previous market shares would not do for
24 them any more, tended to depress gasoline prices enormously.

25 CHAIRMAN IMBRECHT: Let me ask you, John, to

1 try to hit some of the highlights and then move on. I
2 think we've got quite a few people who want to testify.

3 MR. ROZSA: Okay.

4 CHAIRMAN IMBRECHT: I notice we have quite a
5 bit, a lot to cover.

6 Just for information of the audience, to help
7 put this in a perspective. John initially addressed the
8 issues affecting Outer Continental Shelf development in
9 California. Now we're discussing the question of petroleum
10 pricing and supply outlook for the next decade, as well
11 as what's happened recently in California, what we can
12 expect in the near future, in terms of vehicle fuel pricing,
13 other fuel pricing. Excuse me.

14 MR. ROZSA: Okay, I'll move on through this.

15 The seventh chapter is, "Petroleum Outlook for
16 1983," which contains the 1983 projections of seven major
17 oil companies, which are reported to the Commission under
18 the PIIRA, Reporting Act.

19 The next chapter, "Projected California Petroleum-
20 Based Transportation Fuel Demand," summarizes the projections
21 that the staff used for BR-IV. In looking at gasoline
22 and diesel usage, the bottom line is that total demand
23 for diesel and gasoline used by cars and trucks is expected
24 to decline by 10 percent, between 1980 and 1984, and then
25 increase by 5 percent, between 1994 and 2002.

1 The next two papers are on natural gas. The
2 first paper, "Natural Gas Prices and Deregulation," provides
3 a history of the regulation of natural gas and relates
4 historical events to the current crisis within natural
5 gas. It was provided as a guide to understanding current
6 efforts to deregulate natural gas.

7 The following paper, "Fuel Switching," discusses
8 the consequences of convergence of gas and oil prices.
9 The most important aspect of this is that, when customers
10 switch away from natural gas, this tends to increase the
11 prices that the remaining customers have to pay; therefore,
12 it's reasonable to look at ways to stop this switching
13 taking place.

14 CHAIRMAN IMBRECHT: Which would tend to support
15 the actions taken by the Public Utilities Commission to
16 provide preferential rate treatment for commercial users
17 that have the ability to switch to other petroleum fuels;
18 is that correct?

19 MR. ROZSA: Exactly. In particular, SCG was
20 allowed to float the rates to -- I'm sorry, the PUC allowed
21 rates to be floated to electric utilities in the SCG system.

22 CHAIRMAN IMBRECHT: I suspect that's a conclusion
23 that is perhaps a little difficult to understand at times,
24 from the perspective of the public. But what it largely
25 says is, that there are fixed operating costs for the

1 natural gas delivery system, and that if you take the
2 major consumers out of the system because they are switching
3 to other fuels, in effect, you leave that burden, largely,
4 upon the residential consumer and the small-business consumer
5 in the state.

6 MR. ROZSA: That's right. And if, for example --

7 CHAIRMAN IMBRECHT: I'm only making these comments
8 to help the audience a little bit to understand what we're
9 discussing.

10 MR. ROZSA: I beg your pardon?

11 CHAIRMAN IMBRECHT: I'm just trying to help
12 the audience understand a little bit what we're discussing.

13 MR. ROZSA: Thank you.

14 The next chapter, "Thermally Enhanced Oil Recovery
15 in California," shows the results of a new reservoir
16 simulation model, which was developed by staff to project
17 TEOR production through the year 2005. TEOR production
18 is thermally enhanced oil recovery, using steam generation
19 to heat oil and increase extraction.

20 The most important result of this work is the
21 estimates of the amount of energy that will be necessary
22 to power TEOR production, which, in the past, has not
23 been taken into account within our energy demand forecasts,
24 and which will be used this year for our BR work.

25 The final paper was --

1 CHAIRMAN IMBRECHT: Is the general rule of thumb
2 there, one barrel consumed for every three extracted?

3 MR. ROZSA: It depends upon the part of the
4 production cycle you are using. Toward the end of the
5 production cycle, it takes more energy to produce the
6 same amount of oil as it does, rather, in the early part.

7 The final paper is a paper on the severance
8 tax, which attempts to bring together a number of studies
9 in order to generate conclusions that could be used by
10 decision makers charged with determining whether or not
11 to impose severance tax on California production. And
12 I won't go through the conclusions of that paper.

13 CHAIRMAN IMBRECHT: I think Commissioner Commons
14 has a question for you.

15 COMMISSIONER COMMONS: Does California have
16 a severance tax now?

17 MR. ROZSA: No, they don't. We have a tax,
18 but it's not a severance tax; it's a mill tax, it's very
19 small.

20 COMMISSIONER COMMONS: Are there any major oil-
21 producing states that do not have a severance tax?

22 MR. ROZSA: No, there aren't.

23 COMMISSIONER COMMONS: Just California?

24 MR. ROZSA: Yes.

25 COMMISSIONER COMMONS: Can you give some background

1 as to why this state does not, and states such as Texas,
2 Louisiana, Oklahoma, and Alaska have severance tax?

3 MR. ROZSA: Well, I couldn't tell you the reasons
4 why we don't have one, for certain. But, it's clear that
5 the legislature hasn't decided to put one on.

6 COMMISSIONER SCHWEICKART: The political will
7 has not materialized to date.

8 CHAIRMAN IMBRECHT: I think there are a variety
9 of factors associated with that.

10 COMMISSIONER COMMONS: On the oil price forecast
11 that we have, would we be adopting these forecasts or
12 reiterating these forecasts that were adopted in the Biennial
13 Report last November?

14 MR. ROZSA: All the oil price forecasts that
15 are in this document are there for historical reasons
16 only. They've been adopted by the BR Committee by extension
17 already. They are there simply to be made available to
18 the general public. They are not the forecasts that would
19 be used for the coming BR.

20 CHAIRMAN IMBRECHT: Again, for the purpose of
21 the audience, the BR that John is referring to is the
22 Biennial Report. Every two years, the law requires the
23 Energy Commission to compile a comprehensive analysis
24 of all energy factors affecting California, including
25 utility energy consumption in all sectors that consume

1 energy, and that's the report that he's making reference
2 to. Excuse me.

3 COMMISSIONER COMMONS: Are there any inconsisten-
4 cies in the draft Annual Petroleum Report as compared
5 to the BR report that was adopted by the Commission?

6 MR. ROZSA: I'm not aware of any.

7 COMMISSIONER COMMONS: We had discussed the
8 one area of the severance tax, that there may be a
9 difference in this area. Would you like to address what
10 the BR report and what this report says?

11 MR. ROZSA: Well, I think this would probably
12 be a good time to take a look at the recommendations that
13 had been adopted by the Committee for the Annual Petroleum
14 Review.

15 I think perhaps we should start at the top and
16 work ourselves down, way down, and get to the severance
17 tax toward the end.

18 You'll note that the essence of these
19 recommendations is, that an integrated, comprehensive and
20 certain planning process for OCS development should be
21 instituted, and the legislature should designate a state
22 agency to carry out the mandate.

23 COMMISSIONER EDSON: I have a question,
24 Mr. Rozsa, about that recommendation. Perhaps I should
25 direct it to the Committee. Is this meant to imply that

1 a state agency should actually have permitting authority
2 in this area, or simply planning authority.

3 MR. ROZSA: In this case, it's just planning.
4 What power goes with that planning, it's not specified.

5 COMMISSIONER GANDARA: If I may respond
6 to Commissioner Edson's question. The Committee's
7 recommendation at this point is simply that we should
8 institute such a comprehensive state plan. The details
9 as to whether that would be just planning authority
10 versus siting authority, or so forth, I think, at this
11 point in time, are more open and to be developed.

12 The important part that the Committee, what the
13 Committee review saw, was that there did seem to be a
14 lack of integrated perspective of the production, the
15 transportation and the refining, and it was principally
16 more addressed at being able to combine that perspective,
17 along with the other concerns that California has, economic,
18 as well as supply security.

19 So, it did not really go much more specifically
20 into the question which you raised.

21 COMMISSIONER EDSON: Thank you.

22 COMMISSIONER COMMONS: I have a question on
23 that also. Hasn't it been traditional in this state that
24 land use planning, which this is essentially an element
25 of, would be done at the local level, and that this is

1 a sophisticated county and has a substantial ability,
2 why could not that planning lead be taken by them, and
3 if there are people from the state, or otherwise, that
4 would like to bring in information, that could not be
5 brought in?

6 MR. ROZSA: Well, first of all, this is more
7 than land use planning. We're not talking about merely
8 where to site facilities. We're talking about what sort
9 of facilities should be sited, to begin with, and that
10 really falls outside of land use planning and prior to
11 that.

12 Secondly, there are issues within OCS development
13 that transcend any particular county's interests, and
14 that's why we're talking about this as a state activity.

15 Santa Barbara County is an excellent example
16 of what a county can do when they take an interest in
17 an issue. But even Santa Barbara County is limited as
18 to the purview that they can -- they can't talk, for example,
19 about state contingency planning or state security issues in
20 determining whether or not to have a particular configura-
21 tion. So, there are certain items which would have to
22 be pumped up to a state level.

23 COMMISSIONER COMMONS: I can understand the
24 federal interest, but when there is no severance tax in
25 the state, can you explain to me what the state interest

1 would be? It would seem like the county interest and
2 the city interest would be certainly very acute. But
3 I don't quite understand what the state interest is.

4 MR. ROZSA: The state interest is in supply
5 security, which is separate from what an issue of a
6 severance tax would be. It has to with contingency
7 planning and how one would operate in cases of shortages.

8 COMMISSIONER COMMONS: Well, in the case of
9 shortages, if I'm not correct, that is done at the federal
10 level, and each state is allocated a proportionate share,
11 and the States of California or Alaska do not receive excesses
12 just because they happen to be producing states.

13 MR. ROZSA: That used to be the case. The
14 Federal Government has opted out of contingency planning.

15 COMMISSIONER SCHWEICKART: John, in the past
16 several years, and especially prior to the more recent
17 finds and announcements in the OCS area, we had talked
18 between the state, the county, and many elements of each
19 of those, of a comprehensive transportation plan for OCS
20 development. The word "transportation" is no longer
21 included in the writeup in the APR. I presume that that
22 is because of the evolution of the processing facility,
23 which then deals not only with moving the crude, but also
24 with, at least to a certain extent, the -- let me say
25 the prerefining of the crude. Is that essentially the

1 extent of the plan, or have you gone further into what
2 should be contained within this recommendation, in terms
3 of the scope of such a comprehensive plan?

4 MR. ROZSA: No, we haven't limited what the
5 scope might be. The reason that it's no longer transporta-
6 tion is as you suggest: There are other issues, such
7 as processing, which make it not merely a transportation
8 issue. But, also, as I mentioned earlier, there are contin-
9 gency planning issues that perhaps need to be taken into
10 account; cumulative impacts, which also, perhaps, are
11 important; other state economic interests might also be --

12 COMMISSIONER EDSON: Let's not leave out coastal
13 protection.

14 MR. ROZSA: Right. We wouldn't want to leave
15 out coastal protection.

16 So, that's why it's no longer called a comprehen-
17 sive transportation plan, but simply a comprehensive plan.

18 COMMISSIONER SCHWEICKART: But I take it that
19 it is not the intent of the recommendation to essentially
20 involve the state or any agencies of the state, or local
21 government, for that matter, in what could be called a
22 total comprehensive plan for cradle to grave on this
23 product, as you are still, I believe, talking basically
24 about the front-end handling of the crude, from bringing
25 it up to the surface to that point where it becomes

1 marketable. And, at least, are you, in fact, then
2 recommending that those are the bounds?

3 MR. ROZSA: We haven't specified any bounds,
4 but neither have we recommended a master plan which would
5 govern every activity that any company would engage in.
6 There are certain goals that state and local agencies,
7 jurisdictions, have, which they perhaps can obtain through
8 or achieve through a comprehensive plan. But the bounds
9 on that have to -- is more -- is an empirical question,
10 I don't think it can be answered in advance.

11 COMMISSIONER SCHWEICKART: Well, the thought
12 occurs that, though far from eliminating all controversy
13 on such a recommendation, certainly going beyond the pre-
14 processing, at least with leaving any implication of where
15 the crude would be marketed beyond that, how it would
16 be processed, whether it would leave the state or not,
17 following that point, the preprocessing point, might
18 generate certain reactions which would be unnecessary
19 should we choose to bound the planning at that point.

20 Let me ask the Committee: Was there any inten-
21 tion or consideration on the part of the Committee in
22 this recommendation of going beyond the preprocessing
23 or that element of the planning which would, in fact,
24 render the crude marketable in the California environment?

25 COMMISSIONER GANDARA: Well, it was not the

1 intent of the Committee to market the product. The intent
2 of the Committee was to recognize that the refinery
3 capability, the refinery configurations could very much
4 limit, in fact, the desirability of particular transporta-
5 tion options. It was, again, not any intent to preclude
6 any focus on transportation, but merely to expand it,
7 in fact, beyond --

8 COMMISSIONER SCHWEICKART: But only slightly,
9 I take it.

10 COMMISSIONER GANDARA: You slightly expand
11 it, slightly to the considerations where the downstream
12 effects would, in fact, have a substantial determinant
13 on the transportation option, and that's the concern.
14 And the report itself goes into detail as to how that
15 could be the case, and that is, in fact, the reason for
16 the discussion on the preprocessing.

17 COMMISSIONER SCHWEICKART: Let me just suggest
18 that if it were favorable to the Committee and the rest
19 of the Commission, we may want to indicate some bounding
20 of the comprehensive planning that we are recommending
21 that the state assume, in order not to have unnecessary
22 misunderstanding within the industry, that we're somehow
23 getting into their knickers at the marketing level or
24 pricing, or things of that kind. I think a plain reading
25 of the report certainly does not indicate that, but when

1 one's recommendation simply says "comprehensive planning
2 for all OCS development," it can be read in the extreme.

3 COMMISSIONER GANDARA: Well, again, to the
4 extent that, as you said, a plain reading of the report
5 doesn't indicate that, I would have no objection if it
6 only made that clear.

7 The concern that I would have in, say, specifying
8 bounds, precluding or including particular elements of
9 a state plan, is that we would get into the discussion
10 of what the state plan ought to be like, when, in fact,
11 what we're calling for is for parties to get together
12 and to decide what that ought to be. But with respect
13 to your original intent, I have no objection to that,
14 and I would respect the Commission's wishes on that.

15 If you can consider suitable language, and so
16 forth, that, again, does not, at least from my point,
17 begin to outline the plan itself, which I think should
18 be the product of the process that we are recommending,
19 we are recommending a process, basically.

20 Go ahead, John.

21 MR. ROZSA: Okay. You'll note that there are
22 four recommendations which relate to OCS. The second
23 is, that the state begin now to develop a comprehensive
24 OCS plan, before developers initiate a significant number
25 of projects, and reduce the options available to include

1 within such a plan.

2 The third is a comprehensive OCS planning process
3 should integrate the following considerations--which I've
4 mentioned earlier.

5 And, finally, the state should conduct further
6 studies on the feasibility of refining all OCS crude in
7 California, including the feasibility of developing a
8 centralized, jointly owned, prerefining facility and pipe-
9 line network.

10 COMMISSIONER EDSON: Mr. Rozsa, could you ela-
11 borate briefly on the options that would be precluded
12 by failing to develop a comprehensive plan in the near
13 future?

14 MR. ROZSA: You mean if we don't develop a com-
15 prehensive plan, what is going to happen?

16 COMMISSIONER EDSON: Well, your second bullet
17 suggests that the options would be reduced, unless the
18 state develops a plan now.

19 MR. ROZSA: All right, okay. I see. I see
20 what you're saying.

21 COMMISSIONER EDSON: I'm wondering what options
22 would be eliminated.

23 MR. ROZSA: To the extent that companies are
24 able to plan and obtain approval for development projects,
25 which do not take into account, say, pipeline, for example,

1 and they develop a separate tankering capability, you
2 essentially lose your ability to include those projects
3 within a plan after the fact.

4 So, let us say that somebody develops a 100,000
5 barrels a day, and they develop a tankering system to
6 take that out of the state. They can basically continue
7 to do that forever, they're outside the bounds of any --

8 COMMISSIONER EDSON: I guess the point I'm getting
9 at is, the earlier -- your earlier statement that not
10 developing such a plan does not have the result of making
11 tankering inevitable.

12 MR. ROZSA: No, I can't say that -- the reason
13 I say that is because it's not clear that our plan is
14 the only way to make certain that tankering is not the
15 only thing that occurs along this coast; it's simply one
16 way, one possible way.

17 The next two recommendations are related to
18 natural gas pricing. The first says that federal and
19 state agencies should evaluate means to insure that natural
20 gas prices are made more responsive to end-use market
21 conditions, including such options as requiring pipeline
22 companies to share in the risk of marketing natural gas,
23 facilitating or requiring the renegotiation of contracts,
24 and having the natural gas market operate on a net-back
25 basis.

1 And the second is to protect producers' pipelines
2 from being trapped by certain contract provisions. The
3 FERC should require market-out clauses beneficial to both
4 buyer and seller in all new certified sales.

5 I think we move now to the recommendation on
6 the severance tax. This recommendation says that in its
7 consideration of a crude oil severance tax, the legislature
8 should examine the impacts of both the proposed tax and
9 expected variations in oil prices as they affect--that
10 should be "affect," with an "a"--the net profitability
11 of California producers.

12 COMMISSIONER COMMONS: Why is our main concern,
13 as the Commission, on the profitability of the producers;
14 why would our main concern not be the interests of the
15 people of the State of California?

16 MR. ROZSA: This doesn't disregard the interests
17 of the people of the State of California. It mainly shows
18 that it is not correct to look at a severance tax and
19 say, "This is a 6-percent severance tax; therefore, I'm
20 only taking 6 percent of your money." The 6-percent severance
21 tax has to be measured against its affect upon final profit
22 that comes out of a particular development. If, for example,
23 on \$25 a barrel of crude oil, you have a 6-percent tax,
24 that's \$1.50 a barrel. If you're only making \$2.50 a
25 barrel, that's 60 percent of your profit that goes out

1 in severance tax.

2 COMMISSIONER COMMONS: But when I go to the
3 store, I pay a sales tax; everybody in this state pays
4 a sales tax, except on a few exempted items. That also
5 affects my ability; when I pay a 6-percent sales tax,
6 there's a lot of items I no longer can purchase because
7 I've used those funds. And it appears in this case that
8 we have exempted a whole industry from essentially paying
9 a sales tax, and are the only state in the country that
10 is a major oil producer that does this.

11 MR. ROZSA: Well, it's not a sales tax.

12 COMMISSIONER COMMONS: On page 24 of the report,
13 I think there is something significant that affects this
14 issue. I noted that from --

15 MR. ROZSA: Which volume are you referring to?

16 COMMISSIONER COMMONS: -- from 1981 to 1982 --

17 MR. ROZSA: Which volume? One?

18 COMMISSIONER COMMONS: -- that Alaskan North
19 Slope oil prices dropped 16.4 percent, and that California
20 oil prices dropped 10.8 percent. Yet, the overall gasoline
21 prices in the state, for example, unleaded, which I guess
22 is the most important, dropped only 6.3 percent. It seems
23 to suggest to me what we're doing, in terms of prices
24 in California, and a small change, like 6 percent, on
25 the production cost, doesn't get translated so much in

1 terms of what we will pay at the pump, it actually goes
2 into the whole United States and the worldwide transporta-
3 tion distribution system.

4 MR. ROZSA: In fact, the paper on the severance
5 tax points out that a 6-percent severance tax would not
6 be passed on to consumers; it would be absorbed by the
7 producers themselves. So, you wouldn't see it reflected
8 in pump prices.

9 So, that's why a 6-percent severance tax is
10 not like an excise tax, which is just simply passed on
11 down the line.

12 COMMISSIONER COMMONS: Is that shown up under
13 the severance tax as one of the major conclusions? Yes,
14 I guess it is. Number 2.

15 MR. ROZSA: Thank you.

16 The final recommendation is that the Public
17 Utilities Commission should evaluate a range of feasible
18 natural gas rate proposals and select rates that minimize
19 fuel switching cost impacts on residential and commercial
20 customers.

21 And that concludes our presentation.

22 CHAIRMAN IMBRECHT: Okay. Any further questions
23 for Mr. Rozsa? Commissioner Commons.

24 COMMISSIONER COMMONS: The BR price forecast,
25 what impact do they have on the policy statements that

1 emanate from this report?

2 MR. ROZSA: None.

3 COMMISSIONER COMMONS: If I were to say that
4 oil prices would remain constant or were to double, you're
5 saying that there would be no changes in the policy
6 statements or recommendations of this report?

7 MR. ROZSA: There's none apparent right now.
8 There would be none apparent to me right now.

9 CHAIRMAN IMBRECHT: Yes, Commissioner Schweickart.

10 COMMISSIONER SCHWEICKART: Mr. Rozsa, as a matter
11 for my own consideration here, and by way of background,
12 can you tell me what the distribution of the remainder
13 of ANS crude is beyond the 35 percent of California's
14 demand that comes in from Alaska?

15 MR. ROZSA: You mean where else does it go?

16 COMMISSIONER SCHWEICKART: Yes, where does the
17 rest of it go?

18 MR. ROZSA: It goes to the Gulf Coast, or a
19 small amount is used in Alaska, but --

20 COMMISSIONER SCHWEICKART: Tankered around
21 California --

22 MR. ROZSA: Tankered through the Panama Canal,
23 or --

24 COMMISSIONER SCHWEICKART: Is the Trans-Panama
25 Pipeline or trans+isthmus pipeline going in?

1 MR. ROZSA: Um-hum.

2 COMMISSIONER SCHWEICKART: Is that moving forward?

3 MR. ROZSA: There is a pipeline already that
4 parallels the Panama Canal, which operates. That's one
5 way.

6 COMMISSIONER SCHWEICKART: And it is used today
7 for ANS oil?

8 MR. ROZSA: Yes, it is.

9 COMMISSIONER SCHWEICKART: Is it near capacity?

10 MR. ROZSA: I don't know.

11 COMMISSIONER SCHWEICKART: That is, if California
12 were to preclude tankering of the OCS, of the California
13 OCS oil, thereby displacing a significant amount of the
14 current ANS oil it consumes, would there be, in fact,
15 any physical impediment to that oil moving in increased
16 flow to the Gulf Coast refineries?

17 MR. ROZSA: It wouldn't necessarily all move
18 through the pipeline; but it wasn't moving through the
19 pipeline before the pipeline was built, anyway; you would
20 have to lighter it through the canal.

21 COMMISSIONER SCHWEICKART: So, that the transporta-
22 tion facilities would exist to handle the increase from
23 California displaced ANS oil?

24 MR. ROZSA: I can't tell you definitively "Yes,"
25 but I am inclined to believe that they would, yes.

1 I don't know the capacity, offhand.

2 CHAIRMAN IMBRECHT: Let me just inquire. What
3 would be the likely shipping route in the event that OCS
4 were required to be refined here in California, and that
5 did have a net impact of a greater volume of Alaskan North
6 Slope coming down the California Coast in tankers; what's
7 the likely route?

8 COMMISSIONER SCHWEICKART: The same -- excuse
9 me, Mr. Chairman. It's the same volume coming down out
10 of Alaska; the difference is, it doesn't stop in California
11 but bypasses.

12 CHAIRMAN IMBRECHT: I appreciate that, and what
13 I'm trying to get to is the issue of what that does in
14 terms of tanker traffic and where those tankers would
15 likely traverse in terms of desired routes.

16 MR. ROZSA: I'm sorry, I didn't quite understand
17 your question.

18 CHAIRMAN IMBRECHT: Because today, for example,
19 a lot of our refining capacity is in Northern California
20 and that's traffic that does not traverse the entire length
21 of the California Coast, which would under that scenario.
22 That's the point of my question.

23 MR. ROZSA: Could you ask the question again,
24 please?

25 CHAIRMAN IMBRECHT: Yes. What's the likely

1 route of additional tanker traffic from Alaska, in the
2 event that Alaskan oil currently refined in California
3 were displaced by domestically produced oil, so that added
4 volume that's currently refined in California would then
5 be shipped down to the Panama Canal or to the pipeline
6 adjacent to it?

7 MR. ROZSA: Well, it would follow the route
8 that all traffic takes now to the Gulf Coast. You would
9 simply have those volumes which stop in Washington and
10 in San Francisco going straight down the Coast, and would
11 be following the same routes, actually through the Santa
12 Barbara Channel.

13 CHAIRMAN IMBRECHT: That's the point that I
14 was trying to get to.

15 Okay. Any further questions? Commissioner
16 Commons.

17 COMMISSIONER COMMONS: On your last recommendation,
18 that the CPUC should evaluate, arrange feasible natural
19 gas rate proposals and select rates that minimize fuel
20 switching cost impacts on residential and commercial
21 customers. Is this an anticompetition proposal, or what
22 are the impacts on both the commercial and on the residential
23 ratepayers?

24 MR. ROZSA: Well, residential ratepayers are
25 always going to have to pay a little bit more in order

1 to allow for flexible rates to keep electric utilities
2 on the system. And the reason for that is because
3 residential ratepayers have the least flexibility in this
4 regard. So, to the extent that you accept that as the
5 basis for any kind of rate changes which are designed
6 to keep fuel switching from occurring, then perhaps what
7 you want to do is, you want to find the most optimum set
8 of rates which minimizes the impacts upon residential
9 and commercial users.

10 COMMISSIONER COMMONS: But isn't -- by having
11 the government, essentially, not only establish the rate
12 of return for a company, but now we're also talking about
13 almost like price control, at the state level, in terms
14 of specific fuels. Isn't this a giant step? Will that
15 have any --

16 MR. ROZSA: No, actually, this is just for natural
17 gas, and this is already done by the Public Utilities
18 Commission, they already established the rates that each
19 customer class pays.

20 COMMISSIONER COMMONS: But we had an unusual
21 circumstance as we were going through decontrol. The
22 tendency in our country is to decontrol and allow prices
23 to float. Have you thought through the long-term impacts
24 and what the market impacts would be of our doing this,
25 or are we maybe moving a little bit outside of our field?

1 I could see this is a statement that we have concern about,
2 as we go through decontrol of large industrial users
3 switching away from natural gas, this was a very important
4 problem this spring. But the way this reads here, I think
5 you're almost raising more questions and problems which
6 we had not carefully analyzed.

7 MR. ROZSA: Decontrol is a national issue.

8 COMMISSIONER COMMONS: But this is the opposite,
9 this is not decontrol, this is suggesting control.

10 MR. ROZSA: Actually, no. This suggests ways
11 to continue with the control that is already there. The
12 Public Utilities Commission now does establish rates.

13 CHAIRMAN IMBRECHT: I think it's an effort or
14 suggestion, Commissioner Commons, really to insure that
15 we recognize the implications of not allowing the price
16 of natural gas for commercial consumers that have switching
17 capability to float with the cost of fuel oil and other
18 alternative fuels which they can use, and recognize the
19 impact on the total system, as I explained a few moments
20 ago.

21 If I may address just one final question for
22 myself. One thing that I don't see in the discussion
23 on the severance tax, and if it's there, I'd like you
24 to call it to my attention, there appears to be a conclusion
25 that severance tax could have a negative impact upon the

1 smaller independent oil producers and marginal wells that
2 perhaps have already been producing and are in the last
3 stages of their productive life. And, yet, there is a
4 similar, or a contrary conclusion that the severance tax
5 would not have an impact on the 14 largest producers in
6 the state.

7 My question is: Have you tried to analyze what
8 impact it would have upon the willingness of the large
9 producers to pursue production in less productive fields,
10 similar to those which characterize the type of field
11 which the independent producer typically is utilizing?

12 MR. ROZSA: Well, several things I think I should
13 comment on. One, large producers usually don't pursue
14 production in less-productive fields, just as a matter
15 of course. It's the small producers that go after the
16 less-productive fields.

17 Secondly --

18 CHAIRMAN IMBRECHT: What about secondary
19 recovery?

20 MR. ROZSA: Secondary recovery is --

21 CHAIRMAN IMBRECHT: Large producers, in many
22 cases, is it not?

23 MR. ROZSA: Is a large-producer activity, right.

24 CHAIRMAN IMBRECHT: All right.

25 MR. ROZSA: Secondly, what determines whether

1 or not somebody is going to pursue production is their
2 perceptions as to -- this is not the only factor, but
3 it is the primary factor, is the perception as to what
4 the price of crude oil is going to be.

5 A severance tax, in effect, clips something
6 off the price of crude oil, it has the same effect. To
7 the extent that somebody would see that the price of crude
8 oil is going to raise, going to increase, so that the
9 effect of a severance tax would be minor, they're going
10 to continue to develop that field, anyway. So, it depends
11 more upon where the price of crude oil is going to go
12 than the severance tax.

13 CHAIRMAN IMBRECHT: But if the severance tax
14 can have a negative impact upon the decision of the small
15 producer to pursue a marginal producing field, it's hard
16 for me to understand why it wouldn't have a similar impact
17 upon the decision-making process of a large producer
18 developing a similar resource.

19 MR. ROZSA: I'm not saying that it wouldn't
20 have an impact.

21 CHAIRMAN IMBRECHT: It's one of the concerns
22 I've had about the legislation in the past that has dealt
23 with the severance tax, is it has attempted to provide
24 an exemption based upon total production of the producer
25 involved as opposed to total production of a given field,

1 which I think, from my perspective, is a more intelligent
2 approach as to dealing with the negative impacts of a
3 severance tax on less productive fields.

4 COMMISSIONER COMMONS: Let me make a comment
5 on that, Mr. Chairman.

6 A 6-percent severance tax is actually an effective
7 2-percent severance tax. Using the forecasts that are
8 in this report, we're talking about real oil prices, that's
9 after taking into consideration the effect of inflation
10 going up 1.5 percent a year. If the full impact were
11 to reduce the output, what would happen is, you would
12 have about a 1-1/2 or 1-1/4 year delay in terms of when
13 it would be cost effective for the petroleum company to
14 drill the well and take out that oil; that's what the
15 impact of 2 percent would be.

16 So long as we have a depletable resource that
17 is going to continue going up in prices in real terms,
18 all we've done is shift the year that that would occur
19 by 1 - 1-1/2 years.

20 COMMISSIONER SCHWEICKART: Another way is saying
21 that -- excuse me. Another way of saying that is, it
22 essentially would -- could be characterized as a state
23 policy, which would cause California's resource to be
24 drained more slowly. It does not make any oil underground
25 ultimately uneconomic; it simply delays that time at which

1 it is economic to withdraw it, and thereby drains
2 California more slowly.

3 COMMISSIONER COMMONS: Well, but one year would
4 be so inconsequential, when you look at the taxes that
5 are imposed by most of the oil-producing nations in the
6 world, and if you look at Alaska, which has been
7 particularly concerned with this issue, where the severance
8 tax is some 13 percent, there, I think, there's much more
9 concern. I think the impact on the marginal field would
10 only occur on those fields which were playing out, and
11 they might play out slightly earlier or have to be postponed
12 until an extra year or two.

13 COMMISSIONER SCHWEICKART: Somehow you got the
14 perception I'm disagreeing with you. I'm totally agreeing
15 with you. I'm trying to characterize it differently.
16 Let me put it the other way.

17 If we don't have a severance tax, one thing
18 you could say is that the state policy is to drain California
19 first. And it's not at all clear that it is in California's
20 ultimate economic interest to have all of its indigenous
21 oil drained first.

22 CHAIRMAN IMBRECHT: I'm not sure that the lack
23 of severance tax necessarily implied that being the
24 California policy.

25 COMMISSIONER SCHWEICKART: The s-i-g-n, the

1 sign is certainly in that direction.

2 CHAIRMAN IMBRECHT: And I suspect that there's
3 a likelihood that we're going to have some continuing
4 disagreements on this issue.

5 Okay. Continued questions for Mr. Rozsa? If
6 not, thank you very much.

7 And we do have a significant list of witnesses
8 and we'd like to move on to that. We appreciate your
9 patience during the staff presentation.

10 First, I'd like to call upon the Mayor of the
11 City of Santa Barbara, Sheila Lodge, a delightful lady
12 I became acquainted with last year. Mayor Lodge.

13 MAYOR LODGE: Thank you very much, Mr. Chairman
14 and Commissioners, and thank you -- welcome to Santa Barbara
15 and thank you for having this hearing in Santa Barbara.

16 Commissioner Schweickart did ask a question
17 about where Point Paternales is. It is just north of
18 Point Arguello, between Point Arguello and Point Sal,
19 but quite close to Point Arguello. It's not a very big
20 point, in terms of sticking way out, but that's why no
21 one perhaps knew the answer to your question.

22 The City of Santa Barbara is vitally affected
23 by oil development in the Santa Barbara Channel. Because
24 benefits of oil development, if any, are minimal, and
25 negative impacts are large, we are particularly concerned.

1 Seventy-one percent of Santa Barbara's outside income
2 comes from retirement and tourism. Our economy is dependent
3 on relatively clean air and clean beaches. Perhaps sur-
4 prisigly, the median per capita income in Santa Barbara,
5 the City of Santa Barbara, is lower than it is for the
6 country as a whole. Those things which are free, such
7 as clean air and clean beaches, are of special importance
8 to people with lower incomes.

9 While the national percentage of people over
10 the age of 65 is 11 percent, in Santa Barbara it's 18
11 percent. The elderly, as well as the very young, are
12 particularly affected and are particularly sensitive to
13 air pollution.

14 Chairman Imbrecht, you made a point of asking
15 and made a point that increased Alaskan North Slope
16 tanker traffic might result if we pipeline the channel
17 crude. However, even if that is the case, that increase
18 in air pollution from that tanker traffic would be far
19 less than the amount of air pollution by pumping -- by
20 loading the oil into tankers.

21 Recently, Charles Hitch, President Emeritus of
22 the University of California, an economist, whose area
23 of specialty is energy and environment, said that there
24 is no reason for the current rush to oil development off
25 the Coast of California. He says it makes neither energy,

1 economic or environmental sense to go after the oil at
2 this time. There is no reason not to take the time
3 to properly plan for that oil development.

4 As you know, it is already projected that off
5 of Santa Barbara County shores some 400,000 barrels of
6 oil per day will be pumped by early 1990, the early 1990's;
7 that's more than the three smallest of the OPEC nations
8 production, if you add that together, and sometimes we
9 a bit bitterly joke around here about seceding from the
10 union and joining OPEC, so that we might at least get
11 the revenue.

12 We realize that there will be oil development
13 off our shores, but we must insist that it be done in
14 the least damaging manner possible. Though it may be
15 difficult, we urge the Commission to work towards a very
16 much needed comprehensive plan for the state, which includes
17 an upgrading facility and pipelining of Santa Barbara
18 Channel crude. Coordination can and must be achieved
19 to provide for reasonable and orderly oil development;
20 development which produces the needed energy, while it
21 respects the city's and area's environment and economy.
22 The entire state would benefit.

23 And if I may, I'd like to introduce John Helmer, the
24 city's coastal energy specialist to make a few remarks.

25 CHAIRMAN IMBRECHT: Thank you very much.

1 MAYOR LODGE: Thank you.

2 CHAIRMAN IMBRECHT: Thank you.

3 Are there questions for Mayor Lodge?

4 COMMISSIONER EDSON: I just have one question.

5 CHAIRMAN IMBRECHT: Commissioner Edson.

6 COMMISSIONER EDSON: What do you believe the
7 effect would be if a comprehensive plan is not developed?

8 MAYOR LODGE: I'm afraid we're going to see
9 uncoordinated development, obviously, which will simply
10 lead to more air pollution, to the possibility of more
11 oil on our beaches, we have had more ever since the 1969
12 oil spill than ever was before, despite the natural seeps,
13 the platform may still leak some. And without that kind
14 of comprehensive plan, which will give us the coordinated
15 facilities, the coordinated upgrading facility, and the
16 pipeline, we're just going to have -- well, it's obviously
17 going to have impacts on our economy and on the whole
18 welfare of this area; just what it will be, is very
19 difficult to predict. But it can't be good.

20 COMMISSIONER EDSON: Thank you.

21 CHAIRMAN IMBRECHT: Commissioner Commons, I
22 believe was next.

23 COMMISSIONER COMMONS: Mayor, the first recommenda-
24 tion was for having this coordinated plan and it said
25 to designate a state agency to carry out that mandate.

1 Do you support that recommendation?

2 MAYOR LODGE: Whoever can do it, I support.

3 And whatever, if it takes state legislation to make it
4 something that will be mandatory and effective, then I
5 do, indeed, support it.

6 CHAIRMAN IMBRECHT: Commissioner Schweickart.

7 COMMISSIONER SCHWEICKART: Well, it turns out
8 my question is not a lot different; it's slightly different
9 wording. Do you support the state joining the county
10 in urging this or taking the responsibility for a comprehen-
11 sive plan? In another sense, let me ask: Do you believe
12 that the county can, in fact, realistically muster the
13 clout to force a comprehensive plan without the assistance
14 of the state?

15 MAYOR LODGE: When you're talking about a compre-
16 hensive plan for the entire state, no. And I would think
17 working together, the county and the state, we'd have
18 more strength. We are working on the EIS with the state,
19 the State Lands Commission, the county is the lead agency
20 on the EIR/EIS for the state tidelands lease, and we're
21 working together there and I don't know why we can't work
22 together on other aspects.

23 COMMISSIONER SCHWEICKART: Well, I would consider
24 that to be a minimum, working together, I guess.

25 MAYOR LODGE: Well, whatever we can get, we'll

1 take. We need all the help we can get.

2 COMMISSIONER COMMONS: Well, you would prefer,
3 then, that it be a joint planning effort between a lead
4 state agency and the county?

5 MAYOR LODGE: Well, no, on the -- as EIR/EIS
6 is concerned, we were very concerned that the county be
7 the lead agency, because it is under CEQA, it's required
8 to be, and we believe as the agency which will have most
9 of the impact.

10 I think it's very important that we have the
11 comprehensive planning. If the county can be the lead
12 agency, great. If it's going to have to be with the state
13 as the lead agency, okay. But the goal is to have the
14 comprehensive planning done.

15 CHAIRMAN IMBRECHT: Commissioner Gandara.

16 COMMISSIONER GANDARA: Yes. Mr. Chairman,
17 before the Mayor leaves, let me try and correct an over-
18 sight.

19 I received a letter from another state agency
20 today; since she's being asked so many questions about
21 state agencies, I thought it would be appropriate if we
22 read it into the record. I assumed that there was going
23 to be a representative from Secretary Duffy's office that
24 was going to --

25 CHAIRMAN IMBRECHT: Yes, I think that's the

1 third item we're going to add to the record, unless you
2 want to do it currently.

3 COMMISSIONER GANDARA: I thought it would be
4 useful, since people are commenting, they might want to
5 comment on the state agency comments, as well.

6 CHAIRMAN IMBRECHT: Fine. Do you want to go
7 ahead and present it? This is a letter to Commissioner
8 Gandara, as the Presiding Member of the Fuels Committee,
9 from Secretary Duffy, Secretary of Environmental Affairs.

10 COMMISSIONER GANDARA: It was dictated over
11 the telephone today, it makes references to attachments,
12 which are not part of this letter, but I assume will be
13 provided later. It says:

14 "Dear Commissioner Gandara:

15 "I appreciate the opportunity to submit these
16 comments on the California Energy Employer's 1983
17 Annual Petroleum Review. We have reviewed the portion
18 of the Annual Petroleum Review concerned with the
19 development of offshore petroleum resources. The
20 comments contained in the Annual Petroleum Review
21 add another perspective to the discussions concerning
22 the developmnt of oil and gas resources off the State's
23 coast. As you are aware, this is an issue of great
24 concern to California.

25 "Thank you for your cooperation in working with

1 my staff on revisions to the earlier draft. Major
2 improvements have been made in this latest version.
3 A few remaining minor corrections of a non-policy
4 nature are listed in the attachment to this letter.
5 Please note that I am not endorsing the policy position
6 and recommendations contained in the Annual Petroleum
7 Review and have only reviewed them as statements
8 of the California Energy Commission.

9 "With regard to the primary policy recommenda-
10 tions, developing a statewide energy plan will be
11 no simple matter and may not be possible in time
12 to guide forthcoming development. A comprehensive
13 plan is likely to be overly complex and static.
14 The dynamic nature of offshore energy development
15 requires continued incorporation of new
16 information. I believe that a cooperative partner-
17 ship among all the parties affected by offshore
18 energy development is a better approach to ensuring
19 a proper balance between economic development and
20 environmental quality.

21 "Finally, you should be aware that the Exxon
22 Corporation's experience with the development of
23 the Hondo A platform as described in the Annual
24 Petroleum Review is atypical and not representative
25 of recent OCS development offshore California. Seven

1 other platforms have been constructed and two are
2 under construction with unnecessary delay. Further,
3 in the time since the initial conception of the Hondo
4 A project both federal and state laws have been amended
5 so the problems described in Chapter 1 of the Annual
6 Petroleum Review are unlikely to reoccur.

7 "As other offshore energy-related issues arise
8 my office will be asking for the assistance of the
9 Commission in analyzing and evaluating projects and
10 development plans.

11 "Sincerely, Gordon Duffy, Secretary of
12 Environmental Affairs."

13 CHAIRMAN IMBRECHT: Okay, thank you.

14 MAYOR LODGE: Thank you. I would just like
15 to comment, if I may.

16 Certainly, "a statewide energy plan will be no
17 simple matter, and may not be possible in time to guide
18 forthcoming development." One of my points is that
19 at least one eminent economist in the area has said that
20 there isn't a need to go ahead with this development at
21 this time, that we should take the time to properly plan.
22 And I appreciate that it would be difficult and time
23 consuming, but I think we must overcome those difficulties
24 and take the time. Thank you.

25 CHAIRMAN IMBRECHT: Okay, thank you. Let me

1 ask you: Mayor Lodge, would it be possible to call upon
2 Supervisor Kallman before we heard from Mr. Helmer?

3 MAYOR LODGE: Certainly.

4 CHAIRMAN IMBRECHT: I like to accommodate.
5 Yes, next I'd like to recognize the Chairman of the Santa
6 County Board of Supervisors, Robert Kallman, who is a
7 good and close and trusted friend. Bob, it's --

8 SUPERVISOR KALLMAN: Thank you, Chairman
9 Imbrecht.

10 CHAIRMAN IMBRECHT: -- an honor to be sitting
11 in your chair.

12 SUPERVISOR KALLMAN: We welcome you to our chambers
13 and we ask you to come back as frequently as you can.
14 We like to have you here where we can talk to you.

15 I'd like to read a comment that represents a
16 unanimous decision of the Santa Barbara County Board of
17 Supervisors.

18 "Thank you for the opportunity to review and
19 comment on the second draft of the 1982 Annual
20 Petroleum Review. In our letter to you, dated
21 May 10th, of this year, we provided comments on
22 several issues discussed in the first draft. At
23 this time, we would like reemphasize some of these
24 comments and point out additional concerns.

25 "Comprehensive OCS Development Plan: We

1 wholeheartedly support the report's recommendation
2 for an integrated, comprehensive, and certain
3 planning processes for OCS development and
4 production. Santa Barbara County is presently
5 involved in the review of a number of OCS
6 development project applications. The Exxon
7 application has already been deemed complete;
8 applications from Getty and Chevron have been
9 formally filed with the County; and ARCO and
10 Union have each proposed projects which are in
11 the preapplication phase of our permitting
12 process.

13 "Faced with this current activity, we feel
14 that it is imperative that the development of a
15 state comprehensive development plan be started
16 immediately. Time is of the essence if we are
17 to incorporate these major projects into the
18 plan.

19 "In justifying a comprehensive OCS development
20 plan, the report seems to imply that future trans-
21 portation of OCS crude by tanker is inevitable.
22 This is not necessarily the case. Under the
23 current conditions referred to in the report,
24 there is not enough capacity to transport
25 anticipated production of OCS crude, either by

1 pipeline or tanker. This is reflected by the
2 applications for marine terminals and pipelines
3 currently pending before Santa Barbara County.
4 While many companies may have indicated a preference
5 for tanker transportation, County policy clearly
6 states a preference for pipeline transportation
7 of increased production, unless found to be
8 infeasible for a particular operator. The report
9 should be modified to clarify this situation.
10 It should also be noted that production from the
11 eastern part of the Channel is currently moved
12 by pipeline to refinery destinations.

13 "Refining OCS Crude: We would like to support
14 several statements made in the chapter, 'Refining
15 OCS Crude Oils in California,' as being consistent
16 with our experience and knowledge at this point.
17 First, we agree that pipelines appear to be an
18 optimal form of crude transportation, environmentally,
19 and tanker transport should be used only as an interim
20 mode or if pipelining is infeasible. We also agree
21 that all relevant costs and income from projects,
22 including constructions costs, must be obtained to
23 determine economic feasibility of pipeline trans-
24 portation if it is not the least-cost option. We
25 feel tanker transportation may pose a substantial

1 environmental burden on the public, and that
2 industry should be allowed to ship oil by tanker
3 only when pipelining is economically infeasible.

4 "We are pleased you note that all crude from
5 offshore Santa Barbara is not likely to be of as poor
6 quality as that from the Santa Ynez unit, as this
7 may improve feasibility for refining in areas
8 accessible by an existing pipeline network. We
9 agree that California crudes will be backed out
10 if OCS were refined without retrofits. However,
11 if refineries were retrofit or an upgrade facility
12 installed, Alaskan, and probably some Californian,
13 would be backed out.

14 "Your report mentions the trends in California
15 and nationwide to retrofit refineries to take a
16 changed crude slate. We wish to emphasize that
17 retrofitting refineries to take large quantities
18 of a particular kind of crude is a normal occurrence
19 and is not an economic burden particular to proces-
20 sing Santa Barbara OCS crude. Perhaps California
21 should investigate the pros and cons of making
22 such a retrofit investment in this state, to help
23 give guidance to both Santa Barbara County and the
24 oil industry. It appears to us, from the CEC
25 analysis, the flexicoking may be an economically

1 viable option. With such an upgrader in place, the
2 feasibility of transporting large quantities of
3 crude oil from Santa Barbara by pipeline is very
4 much increased. The County would support the
5 upgrader option, if the environmental impacts of
6 the upgrader itself were offset by environment
7 benefits, such as reduced tanker traffic, and
8 association emissions or reduced impacts to
9 refinery centers.

10 "We note with interest that even peak production
11 of Santa Barbara OCS crude can be transported in
12 the existing pipeline network, if the crude is heated
13 or upgraded. Again, we suggest the CEC or other
14 appropriate state officials or offices examine the
15 question of whether the crude should be refined in
16 California.

17 "Severance taxes: Although the County has
18 not prepared an independent analysis of the severance
19 tax issue, the report seems to present a solid basis
20 for discussions leading to enactment of legislation,
21 allowing the state and affected local governments
22 to receive compensation offsetting oil development
23 impacts. In this regard, it is imperative that
24 the state tidelands production not be exempted from
25 a severance tax, given the exceptionally high

1 environmental and social costs associated with
2 its development. In fact, the only exemption
3 which should be seriously investigated is the
4 first 100 to 1,000 barrels per day alternative,
5 which seems to address most major concerns
6 regarding small producers at administrative
7 procedures, while affecting potential revenues
8 only minimally. We look forward to working
9 with the state on analyzing a severance tax in
10 more detail.

11 "Again, we appreciate the opportunity to
12 comment on the 1982 Annual Petroleum Review, and
13 look forward to the upcoming public hearing today
14 in Santa Barbara."

15 CHAIRMAN IMBRECHT: Thank you, Bob.

16 SUPERVISOR KALLMAN: Thank you very much,
17 Mr. Chairman.

18 CHAIRMAN IMBRECHT: Are there questions for
19 Supervisor Kallman?

20 If not, we'll let you quite easily.

21 SUPERVISOR KALLMAN: Thank you.

22 CHAIRMAN IMBRECHT: Thank you for appearing.

23 Next, I'd like to call upon, and then I'll go
24 to John Helmer, to keep the protocol in appropriate order,
25 Councilman Tom Rogers, of the City of Santa Barbara, another

1 acquaintance of mine, made this past year. Tom, welcome.

2 Let me just indicate, at the front table here,
3 as well, the Public Adviser of the Energy Commission,
4 which is an office unique to our independent regulatory
5 agency, has a sign-up sheet for anyone in the audience
6 who wishes a copy of the Energy Commission's final Annual
7 Petroleum Review, which, presumably, will be adopted today.
8 Thank you.

9 Tom, welcome.

10 COUNCILMAN ROGERS: Thank you, Mr. Chair. I
11 appreciate the deference to the protocol, as well. I
12 was not sure that I could make it testify or bring comments
13 to you, so I'm glad that you're able to fit me in.

14 I thank you for conducting the hearing here
15 in Santa Barbara. It's important that we in Santa Barbara
16 have the ability to give our views and as many as possible
17 of those views to the Commission.

18 I attended the last hearing in Sacramento on
19 the APR, and I see that the comments in the final APR
20 do reflect a lot of our comments at the time. And one
21 of those comments, a major comment to my mind, was the
22 call for and support for integrated OCS planning. You
23 did address that issue substantially in discussions with
24 staff, and some of your questions referred to that with
25 the Mayor.

1 I would just like to mention that I think the
2 integrated OCS planning is important especially for the
3 City of Santa Barbara for this reason. In the City, we
4 do not have any decision-making power or leverage over
5 the processes and the permits of the projects that will
6 occur all around the City of Santa Barbara and up and
7 down the Coast. This makes our need particularly critical
8 to have some kind of plan within which the City might
9 be able to apply leverage of coastal resource protection,
10 along with maximization of economic benefit.

11 The need that we have here in Santa Barbara
12 in regard to coastal resource protection is well-expressed
13 in our local plans and policies. What we don't have is
14 the development plan, even the economic development plan
15 that would come from the state, a single state agency,
16 perhaps, has been suggested, within which the City can
17 leverage or can trade off potential environmental damages.
18 Unless we have a framework or an opportunity to evaluate
19 what the benefits are economically to the state, and look
20 at those and evaluate those according to what the costs
21 are locally to coastal resources, Santa Barbara stands
22 to lose tremendously. And this is the fuel, if you will,
23 that energizes our need to comment in this case and ask
24 for an integrated OCS plan.

25 There were comments about the effect of a

1 severance tax, and is it a California First Program or
2 a drain California First Program, and what are the effects
3 on timing of that. Well, timing, right now, this first
4 year, if the severance tax were to delay a year or two,
5 in terms of full development of offshore oil resources
6 here in Santa Barbara, if a severance tax were even to
7 delay for a year, or slow down at the front end of
8 development in the Santa Barbara Channel or along
9 Santa Barbara County, it would have a tremendous affect.
10 Certainly, the California First Program is not to drain
11 California first. What we are looking for is a plan that
12 would allow us to integrate the case-by-case review, such
13 that we can protect those resources within this next very
14 critical year of development in Santa Barbara. The --

15 CHAIRMAN IMBRECHT: Tom, excuse me, Commissioner
16 Schweickart has a question.

17 COUNCILMAN ROGERS: Yes, Commissioner.

18 COMMISSIONER SCHWEICKART: Okay. The end would
19 have been all right.

20 CHAIRMAN IMBRECHT: Okay, fine.

21 COMMISSIONER SCHWEICKART: Perhaps you can finish
22 your statement.

23 CHAIRMAN IMBRECHT: Okay, I'm sorry, I thought
24 you wanted to --

25 COUNCILMAN ROGERS: I'll be very accommodating,

1 I'll be glad to answer the question.

2 To sort of wrap that thought up, the need is
3 that critical at this time to begin immediately with an
4 integrated OCS plan, so that we can take the impacts and
5 the costs and benefits that we can evaluate on a case-
6 by-case basis and apply that to the overall regional scheme
7 of things and the overall statewide scheme of things.
8 Certainly, the City supports maximization of economic
9 benefit to the state and maximization of protection of
10 environmental resources. We see this as an optimization,
11 that's what we discussed in the last hearing in Sacramento,
12 we want to optimize the opportunity for benefit out of
13 this development scenario; and, without question, we need
14 an integrated plan to do that, we need a framework within
15 which we can trade off in either direction development
16 for economic benefit and protection of coastal resources.
17 So, we would like the opportunity to support that develop-
18 ment of a plan, under, perhaps, one state agency. As
19 the Mayor said, we'd be very happy to help in any way
20 we can to get at a plan that will allow us to make those
21 tradeoffs that we think are necessary. So, we do support
22 development that allows us to do both.

23 CHAIRMAN IMBRECHT: Thank you.

24 Commissioner Schweickart.

25 COMMISSIONER SCHWEICKART: Tom, thank you for

1 testifying; we certainly appreciate that. I would like
2 to -- well, perhaps, first, a clarification, and John
3 can nod yea or nay here, but it's my understanding that
4 a state severance tax would, in fact, in no way affect
5 OCS oil. Is that correct?

6 MR. ROZSA: That's correct.

7 COMMISSIONER SCHWEICKART: Okay. That lies
8 outside the jurisdiction of the state and, therefore,
9 would not apply to production, it would not affect it
10 in terms of reducing marginal production.

11 COUNCILMAN ROGERS: I think I would agree. I
12 was merely referring to the discussion that had taken
13 place. I think, it was pointed out to me that on page 17,
14 there's -- even economically, there's a discussion of
15 how a severance tax would affect economically revenues
16 and production profitability for companies. So, that
17 point is well taken.

18 COMMISSIONER SCHWEICKART: Yes. In terms of
19 the OCS development, however -- yes?

20 COMMISSIONER GANDARA: Excuse me, might I
21 interrupt to clarify one point? That the Annual Petroleum
22 Review addresses not only the OCS, the Outer Continental
23 Shelf oil and federal lands, but, basically, talks about
24 offshore oil development, which includes that oil which
25 is within the state lands offshore. So, that the severance

1 tax discussion would not be --

2 COMMISSIONER SCHWEICKART: Within the three-
3 mile limit, it would affect OCS development.

4 CHAIRMAN IMBRECHT: Go ahead.

5 COMMISSIONER SCHWEICKART: We appreciate your
6 support for the idea of a comprehensive plan. I am still
7 looking at scoping the assent of such a plan in order
8 to minimize the misunderstanding, I think, represented
9 in the letter from Secretary Duffy read into the record
10 a few moments ago, in which he relates to the overly
11 complex and static nature of, and I quote, "a statewide
12 energy plan." I don't know whether Secretary Duffy
13 misinterpreted the report or has here simply mischaracterized
14 it. I wonder if wording, such as "a comprehensive transport-
15 ation and upgrading plan for OCS development" would come
16 up short of any need you see for matters to be included
17 in such an integrated plan.

18 COUNCILMAN ROGERS: Commissioner, I think your
19 title is more to the point. The -- what was discussed
20 by the Chair of the Board of Supervisors, Mr. Kallman,
21 with regard to a scenario of development that would include
22 transportation by pipeline, if feasible, and upgrade by
23 flexicoking, et cetera, if a scenario that -- for one,
24 a scenario that is of great interest to us, because it
25 allows us to maximize the economic benefit to the State

1 of California through development of oil resources, and,
2 at the same time, is in concert with our local plans and
3 policies. Again, we're looking for a plan, hopefully
4 not one that is so large that it perhaps overly would
5 delay development, and not so large that it is complex
6 and we lose sight of the goal. The goal that we are seeking
7 is the ability to provide for the state, as the state
8 wishes; provide to its citizens the benefits of oil
9 development in state waters, but, at the same time, allows
10 us to maintain the integrity of our plans and policies,
11 maintain local control for development, which includes
12 all of the goings-on at the local level, the local coastal
13 plan, and consolidation of facilities, et cetera. So,
14 our abilities to do that, at first blush, would seem to
15 be included in your title of a study, which really is
16 much more to the point; transport of oil. There may be
17 an addition for, perhaps, some study of just how
18 consolidation of facilities would fit into that. Certainly,
19 it fits into our local plans and policies and our local
20 goals; but at a statewide basis, in terms of conservation
21 of resources, how that might also apply. But I think
22 your suggestion is much more to the point and perhaps
23 would reduce the lack of -- reduce the feared complexity
24 and lack of timeliness that a large-scale energy plan
25 would connote.

1 CHAIRMAN IMBRECHT: Commissioner Commons.

2 COMMISSIONER COMMONS: Are you in accord with
3 the statement read by the county?

4 COUNCILMAN ROGERS: To some extent. I have
5 not seen the letter and I have not had a chance to review
6 it in detail, Commissioner Commons. As I said, the scenario
7 that the Chair of the Board, Mr. Kallman, presented is
8 one that members of the City Council and members of the
9 local community have been working very closely with the
10 County on; and, to that extent, yes.

11 The idea is that we have the ability to control
12 the development insofar as it complies with established
13 local plans and policies and goals that we are seeking
14 to implement for oil development along the Coast. That
15 scenario allows us to do that. We are interested, of
16 course, in the determination of feasibility with regard
17 to the pipeline; I don't believe that determination has
18 been made; that is, to some extent, a lynchpin. At this
19 point, information shows that pipelining has a less dramatic
20 effect, transport means has a less dramatic effect
21 environmentally than does tankering in the Channel, and,
22 therefore, is of interest to us. Of course, at this point,
23 if it can be done economically, we would support it. And
24 that, right now, looks to be the preferred method, as
25 far as we're concerned, because of what we know so far

1 in terms of environmental impacts of tankering, the other
2 alternative.

3 COMMISSIONER COMMONS: So, you would support
4 adding a policy recommendation, stating that the
5 California Energy Commission has a clear preference for
6 pipeline transportation of increased production, unless
7 found to be economically not cost effective for a particular
8 operator?

9 COUNCILMAN ROGERS: Well, I'd want to make sure.
10 I can't speak for the Petroleum Transportation Committee,
11 which has been a committee made up of industry and local
12 and elected officials and members of the community, and
13 they've been working for several years on this, and we
14 do not have a full study of that yet. But that -- yes,
15 in a general sense, I would. That is, at this point,
16 in concert with what we've agreed to and are looking to
17 make a determination on.

18 As I say, I would defer to the PTC's goals,
19 as I understand them.

20 CHAIRMAN IMBRECHT: Okay. Any further questions?
21 Tom, again, thank you.

22 COUNCILMAN ROGERS: Thank you very much.

23 CHAIRMAN IMBRECHT: We appreciate your testimony.

24 COUNCILMAN ROGERS: Very nice to see you again.

25 CHAIRMAN IMBRECHT: Good to see you, as well.

1 Next, as we do have quite a few additional wit-
2 nesses -- and I would indicate, as well, if anyone else
3 wishes to testify, if they would please fill out a witness
4 card with the Public Adviser, who is the front table.

5 Next, John Helmer, from the City of Santa
6 Barbara.

7 MR. HELMER: Thank you, Mr. Chairman, members
8 of the Commission.

9 Earlier, Commissioner Commons asked the question,
10 what interest would the state have in establishing such
11 a comprehensive plan. I think there's a couple reasons
12 I think the state would be interested.

13 One, we could have a better control of a protec-
14 tion enhancement of the coastal zone, as mandated in the
15 Coastal Act. We could perhaps prevent certain preemptions
16 of that by -- of acts by the Federal Government. In the
17 case of Exxon, after Exxon wasn't satisfied with what
18 they could do onshore, they went to the federal waters
19 and built their OS&T that nobody is particularly happy
20 with.

21 And, thirdly, I think perhaps that the state
22 plan might be able to clear up some of the questions and
23 conflicts that have come about that cause this constant
24 litigation on almost every energy project we've always
25 seen.

1 The report is clear there is no clear mandate
2 on what state agency would be responsible for developing
3 a comprehensive plan. But I also think it's apparent
4 that it is not clear who is responsible or what state
5 agency is responsible for establishing current policy
6 on existing plans.

7 Supervisor Kallman pointed out there are several
8 development projects within Santa Barbara County, and
9 you're aware of the several other projects that are pending,
10 existing lease sales, lease sale 73, and now the Southern
11 California lease offering. And it comes to mind, who
12 is responsible for establishing the rules as far as the,
13 quote, "state point of view," who resolves major conflicts
14 and issues, especially with regard to transportation modes
15 and location and numbers of onshore facilities.

16 One other point we have to make, and I think
17 it's more of a clarification, is that the comprehensive
18 plan says for OCS areas, and I assume that also means
19 state lands offshore. Perhaps the policy, the recommended
20 policy could be clarified in that regard. Thank you.

21 CHAIRMAN IMBRECHT: Any questions? Mr. Helmer,
22 thank you very much.

23 COMMISSIONER EDSON: I have a brief comment.

24 CHAIRMAN IMBRECHT: I'm sorry. Commissioner
25 Edson.

1 COMMISSIONER EDSON: Not a question, but really
2 a comment. I think the local agencies involved here have
3 made very strong statements about the need for the compre-
4 hensive plan that is recommended by the Annual Petroleum
5 Review, and I think the uncertainty about what state agency
6 will ultimately have some say is really very troubling,
7 and I think it's incumbent on us, as an Energy Commission,
8 and on the local agencies involved and the other state
9 agencies involved to encourage the legislature and the
10 administration to resolve that question.

11 I am particularly troubled by the letter from
12 Secretary Duffy, which actually suggests that a comprehensive
13 plan is not desirable because it would be overly complex
14 and static. I think that certainly causes me concern
15 and I hope that we, as a Commission, and the local agencies
16 that are involved can join together and try to persuade
17 the administration to take an affirmative stance in this
18 area.

19 MR. HELMER: Thank you. One point, Mayor Lodge,
20 she handed me a note just before she left, was in regard
21 to Secretary Duffy's letter, is that perhaps this plan
22 could be similar to city and county general plans, in
23 that it would be flexible and dynamic, and can change
24 with the conditions as they change, and not be as cumbersome
25 perhaps as Secretary Duffy suggests.

1 CHAIRMAN IMBRECHT: Thank you again.

2 We've entered Secretary Duffy's letter into
3 the record. We also have a communication from the Atlantic
4 Richfield Company, which is quite lengthy, as to specific
5 comments, which the Public Adviser's Office, I believe,
6 will summarize and we will adopt with -- or, I should
7 say, enter into the record, without objection, the full
8 text of the comments from the Atlantic Richfield Company.

9 MR. HEATH: I'd just like to point out that
10 representatives are here. Their representatives are here,
11 if there's any questions on their handout.

12 CHAIRMAN IMBRECHT: Fine. Would anyone care
13 to make a presentation on behalf of Atlantic Richfield?

14 All right. I would urge members of the Commission
15 to review the testimony; as I indicated, it is quite specific
16 and also takes issue with a number of items in the staff
17 draft that's now before us.

18 COMMISSIONER GANDARA: Mr. Chairman?

19 CHAIRMAN IMBRECHT: Yes, Commissioner Gandara.

20 COMMISSIONER GANDARA: I don't know if you
21 might want to ask staff to respond or not, item by item,
22 but perhaps, in general, as to whether some of those concerns
23 have been addressed, because I believe that, in reading
24 some of those comments, they are addressing the earlier
25 draft as opposed to the second draft.

1 CHAIRMAN IMBRECHT: I see. Has staff had an
2 opportunity to review the testimony from Atlantic Richfield?
3 Are you prepared to respond at this point?

4 MR. ROZSA: I'm sorry, I didn't hear the question.

5 CHAIRMAN IMBRECHT: Excuse me?

6 MR. ROZSA: I'm sorry, I didn't hear the question.

7 CHAIRMAN IMBRECHT: Are you prepared to respond
8 to the comments made in the written testimony from Atlantic
9 Richfield?

10 MR. ROZSA: Yes, we can respond now.

11 CHAIRMAN IMBRECHT: Why don't you do that briefly
12 for us.

13 MR. ROZSA: Okay.

14 CHAIRMAN IMBRECHT: Is Commissioner Gandara's
15 representation accurate that this is a response to the
16 earlier draft of the report?

17 MR. ROZSA: Yes, that's correct.

18 CHAIRMAN IMBRECHT: Okay. Is it fair to assume,
19 then, that much of this has been addressed?

20 MR. ROZSA: Most of these things have been
21 addressed, that's right.

22 CHAIRMAN IMBRECHT: Could you highlight for
23 us those issues which have not been addressed to the
24 satisfaction of Atlantic Richfield?

25 MR. ROZSA: Okay. At this time, I would turn

1 this over to Margaret Feltz, who is the author of Chapter 3,
2 and have her respond.

3 CHAIRMAN IMBRECHT: Fine, thank you.

4 Margaret, why don't you just come up to the
5 lecturn, it might be easier to make a presentation from
6 there.

7 MS. FELTS: Okay. Let me say that I believe
8 these questions were asked after reading the first draft
9 that was published, not after reading the second, because
10 several of the questions were addressed in the rewrite,
11 in the final draft that is now included in the APR.

12 There were a couple of things that we included
13 in the errata sheet. One of them is the suggestion, I
14 believe it's the last suggestion--I'll go to that first--
15 that would change the wording from -- let me find it.
16 "The last sentence should be softened to indicate that up-
17 grading OCS crude before transferring it to existing
18 refineries" --

19 CHAIRMAN IMBRECHT: This is page 6 of the ARCO
20 testimony.

21 MS. FELTS: Excuse me. -- "may be a viable
22 option, not is a viable option." That change was accepted
23 and will be reflected in the final draft. I don't believe,
24 at this point, that it's too critical.

25 The rest of the comments are fairly technical

1 in nature, have either been addressed or reflect a mis-
2 understanding of the nature of the data we have at the
3 Commission. In other words, they said the information
4 we have doesn't indicate that, and when, in actual fact,
5 the data we have, which is very comprehensive and is real
6 data from each refiner, shows that what we have stated
7 in the text is, in fact, happening. So, for instance,
8 "The question of the quality of California crude oil from
9 onshore fields being lower sulfur than is normally indicated
10 on the market." We simply have the information of what
11 types of crudes and the quality that are being run in
12 the refineries, and we go on that basis. We assume that
13 what the oil companies are reporting to us is accurate.
14 And, based on that information, we show that the average
15 sulfur content of onshore crude is considerably lower
16 than the oil companies continue to indicate to us. And
17 I believe that that's probably most of the oil that is
18 produced from onshore that's available on the market is
19 high-sulfur, and the low-sulfur crude is kept by the
20 producers for refining.

21 I'd welcome any comments on that. That's the
22 best I can do.

23 CHAIRMAN IMBRECHT: Well, there are a number
24 of specific and rather pointed critiques of various items
25 in the text. I guess what I'm trying to determine is

1 where, beyond the one that you indicated specifically --

2 MS. FELTS: Would you like me to go through
3 each of them individually?

4 CHAIRMAN IMBRECHT: -- you agree with or take
5 issue with, and the reasons therefor, because this tends
6 to be the most detailed response we've had as yet.

7 MS. FELTS: Okay. I can go through them one
8 at a time, if you'd like, and comment.

9 CHAIRMAN IMBRECHT: I think that might be useful.

10 MS. FELTS: Very briefly.

11 CHAIRMAN IMBRECHT: Let's start with page 35,
12 paragraph 4.

13 MS. FELTS: Fine.

14 CHAIRMAN IMBRECHT: "This paragraph indicates
15 that because of the high metals content this crude cannot
16 be fed directly to standard upgrading processes." ARCO's
17 contention is, "This is not correct. The metals tend
18 to concentrate in the heavier fractions and the crude
19 can be handled in conventional units, i.e., crude/vacuum/
20 delayed coker/fluid catalytic cracking with feed pretreat."
21 That's a mouthful. Excuse me.

22 MS. FELTS: Right. My answer is, that the state-
23 ment in the APR, I believe, says the same thing that ARCO
24 is saying. It says that it cannot be fed into upgrading
25 units which I qualify as not including crude and delayed

1 and vacuum units, or delayed cokers, but things such as
2 catalytic crackers and hydrofining equipment. And in
3 that last sentence, they say "catalytic cracking with feed
4 pretreating," which is exactly what I'm saying, is it
5 needs to be pretreated before you feed it into those units.

6 CHAIRMAN IMBRECHT: The next concern is page 35,
7 paragraph 5. "Naphthenic acids and certain sulfur
8 compounds, rather than nitrogen/ammonia create the primary
9 corrosion problems."

10 MS. FELTS: Okay. It depends on which units
11 you're dealing with, and this particular comment can be
12 incorporated with no change to the -- just of the argument.
13 It's a matter of adding in one --

14 CHAIRMAN IMBRECHT: So, you would agree with
15 that comment?

16 MS. FELTS: Right.

17 CHAIRMAN IMBRECHT: Okay. Page 39, APIG sulfur
18 correlation, figure 3-3. "Although heavier crudes tend
19 to have higher sulfur levels, there are many exceptions,
20 so Figure 3-3 is a gross oversimplification."

21 MS. FELTS: Okay, figure 3-3 is based on pool-
22 by-pool data from DOG, cross-related with quality data
23 submitted by producers to DOE. And I don't think we could
24 be much more accurate than that.

25 CHAIRMAN IMBRECHT: So, you take exception to

1 their --

2 MS. FELTS: Yes, I do.

3 CHAIRMAN IMBRECHT: Page 42, paragraph 2. "Based
4 on 15 months of data, a conclusion is drawn that the shift
5 from light, sweet foreign crudes to California and Alaskan
6 crude is evidence that refineries are continuing their
7 trend toward increasing capacity to process heavier, higher
8 sulfur crudes. First, 15 months is not adequate data
9 to draw such a conclusion, and second, a more plausible
10 explanation of the shift is that the reduced demand for
11 low sulfur fuel oil has backed out sweet foreign crudes."

12 MS. FELTS: Okay. I partially take exception
13 and I partially agree. The first section, regarding
14 "evidence that refineries are continuing their trend toward
15 increasing capacity to process heavier...crudes," may
16 be a little bit misleading, in that what I meant was they're
17 managing to accommodate higher sulfur crudes, not necessarily
18 that they are retrofitting their refineries, you know,
19 at a great rate.

20 One of the main ways that you can accommodate
21 a higher sulfur crude is by reducing input. And since
22 demand has been low and it continues to decrease, it makes
23 it possible for them to increase the sulfur content of
24 the crude. So, it may be that a slight rewording there,
25 a qualification is needed.

1 In the second section, "a more plausible explanation of the shift is that the reduced demand for low sulfur
2 fuel oil has backed out sweet foreign crudes," is not,
3 in our estimate, a plausible explanation, just looking
4 at the data. The backing out of sweet foreign crudes
5 has occurred prior to the 15 months for the data. So,
6 the use of sweet crudes has been fairly stable, overall,
7 in the last two years.

9 CHAIRMAN IMBRECHT: If there are Commission
10 questions as we move on, please let me know.

11 Next paragraph, paragraph 3, page 42. "Is data
12 available to support the claim that no refinery has idle
13 sulfur removal capacity and all refineries are currently
14 processing as much high sulfur crude as possible?"

15 MS. FELTS: The data is available and it is
16 submitted to us annually through the PIIRA Reporting Act.
17 Our availability of that data submitted to us for 1982
18 verifies that fact.

19 CHAIRMAN IMBRECHT: Page 44, paragraph 3. "A
20 statement is made that California sweet crudes are used
21 to dilute the sulfur content of Alaskan North Slope crude
22 which in turn is used to lighten the low API gravity of
23 California heavy crudes. This is generally not correct.
24 Low sulfur crudes are run to produce low sulfur fuel oil
25 and ANS crude is used as an opportunity to lower raw material

1 cost."

2 MS. FELTS: I take exception to that one. The
3 data we receive, as I mentioned before, shows that there
4 are low-sulfur California crudes that are being used to
5 dilute the sulfur content of ANS crude.

6 CHAIRMAN IMBRECHT: Okay. Page 48, paragraph 5.
7 "There is apparently a lack of understanding of the distri-
8 bution of metals in the crude. The metals tend to concen-
9 trate in the residual and are not generally a problem
10 for catalytic crackers and reformers."

11 MS. FELTS: I went back and reviewed the data
12 I had from Exxon on this particular problem, and, apparently,
13 there is enough carryover from this particular crude in
14 the gas/oil fraction that causes problems in catalytic
15 crackers. So, I'll stand on that statement.

16 CHAIRMAN IMBRECHT: Page 49, paragraph 2. "The
17 basis for the statement that in all cases California crude
18 had to be backed out is not well defined." Well, that's --

19 MS. FELTS: The problem with defining that any
20 better is that we get into dealing with confidential data.
21 The study was done on a refinery-by-refinery basis. And
22 I agree that the information is rather brief. We can
23 pursue that other ways, I suppose, but we ran into a
24 difficulty, in that we're not allowed to divulge refinery-
25 by-refinery data, and once you aggregate it, you lose

1 a lot of the background information.

2 CHAIRMAN IMBRECHT: So, that's in the context
3 of our safeguarding a propriety information?

4 MS. FELTS: Right.

5 CHAIRMAN IMBRECHT: All right. Page 49, para-
6 graph 5. "The statement that currently there are no process
7 units in California that can upgrade this crude is not
8 correct. Conventional vacuum units/delay cokers can do
9 it if sulfur removal capacity and metallurgy is adequate."

10 MS. FELTS: I'd comment that they should look
11 back at the Bechtel Study, Part C, that was released last
12 fall, which also states that the convention vacuum units
13 in LA, which are not much different from the rest in the
14 state, cannot handle that particular crude.

15 The statement about metallurgy being not adequate
16 comes from conferences, individually, with major oil
17 companies. Now, ARCO may take an exception, because they
18 have an exceptional refinery and are, apparently, very
19 close to being able to process this crude. I haven't
20 talked to them specifically on that technical information,
21 so I can't verify it. I do know, overall, on a statewide
22 basis, the statement is true.

23 CHAIRMAN IMBRECHT: Do you think it would be
24 important to have an exception listed for them?

25 MS. FELTS: We could include the exception.

1 COMMISSIONER GANDARA: Mr. Chairman, I was
2 just going to ask whether we might not be able to --

3 CHAIRMAN IMBRECHT: Yes, this is going to take
4 a long time to do.

5 COMMISSIONER GANDARA: Speed this up.

6 MS. FELTS: I'll be happy to write a --

7 COMMISSIONER GANDARA: I just wanted to comment
8 that the staff has reviewed this, you know, the original
9 report has been out since April, and we've tried to address
10 as much as we can. Some of these are questions of
11 judgment, and I think, ultimately, would have little impact
12 one way or the other on the substance of the report. If
13 there are any technical inaccuracies and corrections,
14 I -- you know, I would be pleased to make them.

15 MS. FELTS: I think all of the -- anything that
16 the oil companies took exception to technically was brought
17 through in the Exxon comment and in the meeting we had
18 with Chevron, and those corrections were made.

19 CHAIRMAN IMBRECHT: Okay. Commissioner Commons.

20 COMMISSIONER COMMONS: We're expected, I do
21 believe, to take action, and as you've gone through a
22 selected few of these examples, we have found that there
23 are some areas where we would like to make --

24 CHAIRMAN IMBRECHT: That need further drafting,
25 that's right.

1 COMMISSIONER COMMONS: -- technical corrections.
2 Is there a way, in terms of the adoption of the report,
3 that we can refer to these comments and ask staff to address
4 those that they concur with or where there are appropriate
5 changes to be made?

6 CHAIRMAN IMBRECHT: Yes. I think that can be
7 accommodated.

8 Commissioner Gandara?

9 COMMISSIONER GANDARA: I might just note that
10 in documents of this type, there's the Biennial Report,
11 the Electricity Report, and so forth, we generally adopt
12 the document, subject to editorial corrections, correction
13 of inaccuracies, and conforming changes.

14 CHAIRMAN IMBRECHT: Okay, fine.

15 Okay, thank you very much.

16 MS. FELTS: Thank you.

17 CHAIRMAN IMBRECHT: Our next witness is -- excuse
18 me?

19 COMMISSIONER COMMONS: Before you leave ARCO --

20 CHAIRMAN IMBRECHT: Oh, I'm sorry. Commissioner
21 Commons had some questions he wished to address to the
22 representatives of Atlantic Richfield. Are they present
23 and would they be prepared to answer questions from
24 Commissioner Commons?

25 Could you please identify yourself?

1 MR. FARRELL: Pardon?

2 CHAIRMAN IMBRECHT: Could you please identify
3 yourself?

4 MR. FARRELL: Yes. I'm Paul Farrell. I'm
5 Manufacturing, Research and Engineering Manager of Services.
6 And, Jim?

7 MR. BARBOUR: Jim Barbour, in the same group.

8 CHAIRMAN IMBRECHT: Thank you.

9 COMMISSIONER COMMONS: I wouldn't know which
10 of you gentlemen to direct my few questions to, but whichever
11 one of you wants to respond would be --

12 MR. FARRELL: Hopefully, one of us can answer it.

13 COMMISSIONER COMMONS: I want to thank you for
14 coming up here and spending your time with us.

15 On the severance tax, you make reference to
16 the severance tax being a tax penalty.

17 MR. FARRELL: Excuse me, you have the wrong
18 two culprits up here. We're Manufacturing. I'd better
19 defer to some other representative there in the audience
20 there. I am not an expert on severance tax, I don't know
21 how to punch holes in the ground.

22 MR. BARBOUR: We'd be happy to comment on any
23 of the comments from the Chapter 3 section on refining.

24 COMMISSIONER COMMONS: My questions all refer
25 to the section on the severance tax.

1 MR. NIINO: Commissioner, my name is Steve Niino,
2 I am Manager of Government Coordinations for ARCO Petroleum
3 Products Company, a division of Atlantic Richfield.

4 We would like to just entertain questions
5 at this time of a technical nature, relating only to
6 Chapter 3, refining OCS crude in California. We would
7 be happy to entertain any other questions of a written
8 nature that are submitted to us at a later time, if you
9 don't mind.

10 CHAIRMAN IMBRECHT: I take it, then, you're
11 not prepared to address the comments relative to the
12 severance tax?

13 MR. NIINO: No, not relevant to the severance
14 tax, Commissioner.

15 CHAIRMAN IMBRECHT: Okay, fine.

16 COMMISSIONER COMMONS: Would it be appropriate
17 to comment at this time on their statement or --

18 CHAIRMAN IMBRECHT: Why don't we save that for
19 the end, Commissioner Commons, and then we'll take your
20 comments on their statement, and I suspect we can have
21 an ongoing dialogue with me.

22 Next witness is Rob Wheeler, and it is not clear
23 to me whether he's representing himself or the Redwood
24 Alliance.

25 MR. WHEELER: I'm representing myself. I just

1 wanted to say that I am a member of Friends of the Earth,
2 Santa Barbara, League of Conservation Voters, Redwood
3 Alliance, which is an affiliate of the Abalone Alliance,
4 California.

5 The first part that I'd like to say is, there's
6 questions in the report about economic feasibility for
7 different transportation modes, and I'd like to say that
8 I feel undue weight has been given to those questions
9 relative to the environmental questions that come up with
10 the different transportation modes. And I think that
11 it's been a political decision whether or not there should
12 be oil drilling at all off the Coast of California. And
13 in that light, to look at it in economic terms at this
14 point, what mode is the best one is a mistake, unless
15 all due consideration is given to the environmental factors.

16 So, I think that should be listed in the report,
17 that that is the situation. And that, along with that,
18 you'd be seeing that if, say, perhaps processing in-state
19 turns out to be the most environmentally reasonable
20 alternative, but it happens to be more expensive, that
21 that be looked at in a political way, as well, rather than
22 just in economic terms. I think the Mayor of Santa Barbara
23 her point was well-taken, from my point of view, when
24 she spoke that there is no rush to go into the development
25 of the oil. That's taken for political means, to rush

1 into that type -- I think it's a mistake if we don't consider
2 all the environment ramifications.

3 With that in mind, I'd like to commend the staff
4 and the Commission for the recommendations, as far as
5 they go.

6 Kirvil Skinnarland made a statement in a newspaper
7 article, she says, "But once big oil is discovered, the
8 companies are in a rush to get production on line. We
9 can't say to the companies, 'Go away, and come back in
10 two years, when we've finished our long-range plans.'"
11 And I would ask: Why can't we?

12 It certainly to me makes more sense to have
13 all the plans established before you go ahead and say,
14 "Start your permit process. Finish your permit process,
15 a permit process is complete." I think that's a mistake
16 to say, until you've seen, have your long-range planning
17 completed, you've considered all the environmental
18 implications of the planning.

19 As well, she talks about a study being done,
20 funded by the oil companies, which would be included in
21 the long-range planning. As well, I think that's the
22 way to go. If it turns out that if it's not feasible
23 economically for the oil to be taken out of the Santa
24 Barbara Channel because of the environmental consequences,
25 then maybe it's not time to take those out. Certainly,

1 within the next 20 or 30 years, the financial picture
2 will change and it would be feasible then to take it out.
3 But maybe now is not the time, maybe it's better to go
4 from Alaska and continue to take it out from there. But
5 I think now is the time to go ahead with some long-range
6 planning and get that established, get that taken care
7 of, so when the time does come that it is economically
8 feasible to take it out in an environmentally safe and
9 protective manner, that the plans are there, that the
10 government regulations are there, so that the areas where
11 it is taken from are protected.

12 Throughout the United States, there are now
13 areas that are called "national sacrifice areas," and
14 I'd hate to see Santa Barbara be termed one of those in
15 another 10 years.

16 At the county level, they have six months after
17 the permit application is filed. I would submit that
18 until a complete EIR is issued, that they do not have
19 all the information for permit processing, and, so, they
20 do not have the authority yet to say that there is a complete
21 permit application, which would be the case with Exxon.
22 And I would suggest that at least a preliminary EIR be
23 turned in before it is said that the permit application
24 process is complete.

25 As well, the Coastal Commission has a consistency

1 determination to make. And I would say, in terms of that,
2 as well, until the EIR is done on transportation modes,
3 that they cannot determine whether it is consistent or
4 not, and they can only determine from their own studies
5 what the likelihood is of consistency with a California
6 coastal plan; in which case, I would suggest these things
7 be included in the overall report that you are putting
8 in, to show where local and state agencies are giving
9 away some of their rights in terms of environmental
10 protection and that they're actually giving that to the
11 oil companies. And I really don't see where the oil
12 companies are working with the local and state government
13 to protect the environment in terms of the modes. It
14 seems they're more running against the government agencies.

15 I have nothing against the development of the
16 oil resources, but I do think that all people concerned
17 should work for the environmental protection, and the
18 protection of local communities. As well, I think that,
19 as this planning is done, when an agency is set up or
20 a review plan commission, whatever, that they should look
21 not only at the environment in California, how it's
22 affected, but throughout the United States. If oil is
23 shipped from Alaska, down through, and through the Panama
24 Canal, what affect does that have not only on the California
25 coastline, but going through, perhaps, the Panama Canal.

1 So, all the environmental implications should
2 be studied, not just as it relates to Santa Barbara County
3 and the California Coast area.

4 Thank you very much.

5 CHAIRMAN IMBRECHT: Thank you. I think there
6 is a general consensus on that. And I would just say
7 one brief comment.

8 MR. WHEELER: Any questions?

9 CHAIRMAN IMBRECHT: There is a wide span as
10 to the sensitivity between oil companies to some of the
11 issues that you have particular concern about, and my
12 own experience has been that, as with most cases or most
13 situations in life, it's probably not accurate to generalize,
14 I think there are some companies that are dramatically
15 more sensitive to environmental considerations than are
16 others and it's probably unfair to broad-brush oil companies
17 generically.

18 MR. WHEELER: Okay. I didn't mean to do that.

19 CHAIRMAN IMBRECHT: I understand. But I'm just
20 saying that I think that's been the experience here in
21 Santa Barbara, it certainly has been the experience down
22 in Ventura County, as well, and --

23 MR. WHEELER: My only problem is, when I see
24 that --

25 CHAIRMAN IMBRECHT: I think some oil companies

1 recognize, to a large extent, it's in their economic
2 interest, as well as social interest, to be concerned
3 about the environmental issues; others have not come to
4 that conclusion.

5 MR. WHEELER: I would agree with that. Seeing
6 what I see in the papers, in particular, is that when
7 the companies are told that they have to use -- rather
8 than using the barges, use another method, their answer
9 is, "We just can't do that, that there's no way it's
10 possible." I don't think that's true. I think there
11 are political answers that can always be worked out. There
12 are ways to go back and say, "We're going to need some
13 help from the state government, from the Federal Government,
14 if we're able to put in a pipeline or if we're able to
15 put in a processing plant to upgrade the oil to where it
16 can be refined in California." There are other ways than
17 just to say, "We have to have it our way or we can't do it
18 at all." And that's the type of response I see from the
19 oil companies, so that's why I overgeneralized as I did.

20 CHAIRMAN IMBRECHT: Thank you very much.

21 Next, I believe it's Ellen Sidenberg, representing
22 Get Oil Out. My understanding is we have a written
23 statement; the Public Adviser's Office is prepared to
24 offer it for the record.

25 MR. HEATH: You've been given a copy of the

1 statement from Get Oil Out, GOO, and we will enter it
2 into the record as read.

3 CHAIRMAN IMBRECHT: Without objection, that
4 will be accepted.

5 //

6 //

7 //

8 //

9 //

10 //

11 //

12 //

13 //

14 //

15 //

16 //

17 //

18 //

19 //

20 //

21 //

22 //

23 //

24 //

25 (Nothing omitted.)

OFFICERS

Joan Kerns, President
 Ann Marsak, Vice-President
 Harriet Miller, Secretary
 Richard Fortune, Treasurer
 Ellen Sidenberg, Executive Director

Get Oil Out inc. P.O. Box 1513 924 Anacapa Street  Santa Barbara  California 93102  Phone (805) 965-1519

DIRECTORS

David Anderson
 Fred Eissler
 Henry Feniger
 Harriet Miller
 Paul Relis
 William K. Rogers
 Lois Sidenberg
 Hilda Volkman

July 22, 1983

California Energy Commission
Hearing on
Annual Petroleum Review
Santa Barbara CA

ADVISORY BOARD

Harold Beveridge
 James Bottoms
 Stephen R. Boyle
 Betsy Bromfield
 William Gesner
 Cecil Hendrickson
 Kalon Kelley
 Donald McFarland
 J. Marc McGinnes
 Francis Sarguis
 Marvin Stuart
 Alvin C. Weingand
 Elizabeth Weingand

Thank you for the opportunity to present our comments on the 1983 Annual Petroleum Review.

GOO, an organization committed to monitoring Santa Barbara Channel offshore oil development, has a policy that urges that OCS oil reserves be developed with the best possible planning and with the least amount of environmental damage. We believe that your report is a positive step in seeing that our county is able to achieve this goal.

We have been deeply concerned that under present policy and regulations our county has been forced into a piecemeal approach to the permitting of onshore facilities to support offshore oil. As you know, steps are presently being taken to help correct this problem. However, the problem of economic feasibility of shipment of channel crude by pipeline has trapped our officials into a position where somekind of compromise for at least interim tankering may very well have to be reached.

GOO does not believe that tankering of channel OCS crude is inevitable. We do believe it is imperative that a decision be reached as soon as possible as to the economic and environ-

Page 2.
California Energy Commission
Comments on Annual Petroleum Review

mental feasibility of pipelining OCS crude. Further, a decision needs to be reached as to the advisability of using an upgrade facility in northern Santa Barbara County with ultimate refining of the OCS crude in central, northern, or southern California. We did not believe that your report fully covered the air pollution problems resulting from the transport of the OCS crude by pipeline with ultimate California refining of the crude. This option needs further study.

We would like to comment on a recommendation of the report made on Page 20, Volume I of the Annual Petroleum Review. This recommendation stated a need for a state agency to be designated to carry out OCS project permitting.

Our organization does urge a consolidated comprehensive planning process to be implemented for OCS crude. We do however urge that ultimate control of the permitting process will remain with the county whose coastal areas are affected and involved. We do not believe a central state agency is required.

Again, thank you for the privilege of commenting on the Annual Petroleum Review.



Ellen Sidenberg
Executive Director
Get Oil Out Inc.

ES:es

1 CHAIRMAN IMBRECHT: And, last, Michael Feeney,
2 the Executive Director of the Citizens Planning
3 Association, here in Santa Barbara.

4 Mr. Feeney.

5 MR. FEENEY: Thank you, Chairman Imbrecht, members
6 of the Commission. Michael Feeney, for the Citizens Planning
7 Association.

8 By way of introduction, CPA is a nonprofit
9 membership association of about 650 families and
10 individuals, who are concerned with land-use planning
11 and resource management in Santa Barbara County. We've
12 been actively monitoring planning issues in Santa Barbara
13 for 24 years.

14 I think that the Commissioners should get the
15 sense from the speakers today that Santa Barbara, both
16 its elected officials and its citizens are taking a
17 responsible attitude towards offshore oil development,
18 that we accept that there's going to be substantial
19 increase in production from our coastal waters, and that
20 we do have to respect the needs of the state, of the country,
21 and of the industry. And we're taking the approach that
22 we want to make sure that the development is done under
23 the strictest conditions possible to protect the interests
24 of our county residents and to minimize the environmental
25 impacts associated with this development. And we see

1 that the bottom line is that we're going to have to have
2 a consolidated, multiuser transportation system to get
3 the oil out and to the refineries, and that that is going
4 to take a comprehensive approach to transportation
5 planning.

6 I think it was Commissioner Schweickart that
7 asked one of the speakers previously what we saw happening
8 if that didn't occur. And what we see in the pipeline
9 now at the county is three or four separate marine terminals,
10 three of them within 15 miles of each other. What we
11 see is two or three, or possibly more, onshore processing
12 and storage sites. What we see is one or two supply bases.
13 And what we see is, through this lack of coordination,
14 unacceptable environmental impacts, disruption of the
15 local economy, commercial fisheries, things that could
16 be avoided if we take a comprehensive approach to
17 accommodating the development.

18 There are three points that have become
19 increasingly clear to those of us who are working on this
20 on a week-to-week basis. First, is that the county can't
21 study or plan for oil activity in a vacuum, that it's
22 not the county's purview or ability to determine the
23 overall picture for California, and the county can't set
24 the rules for just the county without considering what
25 it means statewide.

1 Second, is that it's very important that a high
2 degree of local control be maintained over the planning
3 process and that whatever involvement there is by the
4 state agencies in planning should respect the existing
5 jurisdictions that have permit authority and planning
6 authority, and that the role of the Energy Commission
7 and Secretary of Environmental Affairs and any other
8 agencies that are involved should be to work with those
9 local jurisdictions in the planning process.

10 And the third point is, and why I think that
11 the comprehensive planning approach has been endorsed
12 by the speakers today, is that the county is not going
13 to be able to attain its planning objectives without state
14 policy that's consistent with those objectives and
15 supportive of those objectives. But the county is not
16 going to have the clout to force the industry into a
17 consolidated system, into the most environmentally
18 sensitive system, without support from the state agencies.

19 Our association would hope that, in addition
20 to adopting the Annual Petroleum Review and recommending
21 the policies that you have to the legislature, that you
22 would reemphasize in the final draft the importance of
23 the local control and keeping a lead agency status on
24 the planning in the local jurisdictions in the areas that
25 are most affected by the development. And I think that

1 Santa Barbara County has consistently demonstrated its
2 willingness to work with, in a cooperative way, all the
3 agencies and the industry, and that we're doing a good
4 job at that and that should be continued.

5 Some specifics that could go into the comprehensive
6 planning approach. First would be for the Energy
7 Commission or another agency to look at the relative
8 economic benefits and the environmental and economic costs
9 of the various transportation and refining options,
10 including pipelining within California, and the possibility
11 of an upgrade or retrofitting refineries, the possibility
12 of pipelining to Texas, and tankering it out of the state;
13 that what are the benefits to the state in terms of
14 employment, in terms of taxes, local tax and state
15 revenues, in a level of detail that's sufficient to give
16 the decision makers a general sense of how those options
17 pan out.

18 Second would be, and this, we feel, is very
19 important, to continue studying pipeline base transportation
20 scenarios, because that, at this point, on the information
21 we have, is the preferred way to go, and to identify what
22 policy decisions need to be made, what policy inconsistencies
23 need to be cleared up within the various agencies that
24 have some kind of authority in order to help the county
25 implement this consolidated transportation base, or pipeline

1 base transportation system. And the wording of how you
2 recommend that to the legislature is very important. We
3 think that it has to include not only transportation and
4 the potential upgrading option, but also the refining
5 and the refining destinations, and what the impacts are
6 associated with that.

7 And, finally, that whatever agency on the state
8 level is designated to coordinate this effort, that their
9 role is, again, to identify the policy decisions that
10 have to be made where the authority already exists. We
11 don't think that there's a need to set up new authority
12 for planning. We think the authority is there. The problem
13 is that it's decentralized in several different agencies,
14 and what you need to do is pull that together and
15 coordinate it, but you don't need to create new authority.

16 We hope that you'll go ahead and adopt this
17 approach and recommend this and push for this comprehensive
18 planning to be done. That's the only way we see of a
19 rationale process being followed that's going to be in
20 the interests of all parties and that's going to avoid
21 adversity and protracted disputes, and ultimately throw
22 the whole thing into the courts, where no one's interest
23 will be met.

24 Thank you very much.

25 CHAIRMAN IMBRECHT: Thank you very much. Excuse

1 me. Commissioner Schweickart has a question for you.

2 COMMISSIONER SCHWEICKART: Yes. Mr. Feeney,
3 I appreciate your responding to the question I've asked
4 other representatives of the public and the city and the
5 county earlier, with regard to perhaps a specific
6 descriptor of the comprehensive planning to include
7 transportation and upgrading of OCS oil production.

8 I take it from your statement that you feel
9 that there would be some unnecessary limitation of what
10 ought to be done by that descriptor in your reference
11 to going beyond the upgrading to refining and refining
12 destinations.

13 I wonder if you could elaborate on that. In
14 what way do you perceive it to be the responsibility of
15 the state, that should OCS development be transported
16 by pipeline to an upgrading facility--and by an "upgrading
17 facility," I mean one which would allow the resultant
18 product to be refined in the existing refinery structure.
19 With that assumption, on what basis should the state go
20 beyond that to get into the area of refinery destinations
21 themselves or allocation to various refineries, or that
22 sort of thing?

23 MR. FEENEY: I don't think that we would be --
24 that we're maintaining that the state should determine
25 where it's going to be refined. I think if you're going

1 to determine a transportation scenario, based potentially
2 on upgradings, you have to know that there are refiner
3 destinations that can accommodate it. And that's a part
4 of the planning, is determining that, yes, you have the
5 refining capacity at the locations where it could be
6 economically shipped to in a pipeline.

7 COMMISSIONER SCHWEICKART: So that --

8 MR. FEENEY: So, not that you're determining
9 that yes, it will go to this refinery.

10 COMMISSIONER SCHWEICKART: So, if, when I say
11 transportation and upgrading of OCS oil, if the understand-
12 ing is upgraded to that point where it is marketable in
13 the California refineries, then I take it you feel that
14 would be an adequate bound?

15 MR. FEENEY: Yes. And maybe you don't need
16 specifically to include that, but it's got to be part
17 of what you're studying.

18 COMMISSIONER SCHWEICKART: Yes. It can't be
19 minimal upgrading, leaving it still unmarketable.

20 MR. FEENEY: Or it can't be upgrading it and
21 putting it somewhere where there's not transportation
22 capacity to take it to refiner centers.

23 COMMISSIONER SCHWEICKART: Okay. That's all.

24 CHAIRMAN IMBRECHT: Thank you.

25 Any further questions? Thank you very much.

1 Is there anyone else who wishes to make
2 presentation before the Commission at this point in time?
3 Okay, I guess we'll entertain comments and questions from
4 members of the Commission, and move on to taking action
5 on the report.

6 Commissioner Gandara.

7 COMMISSIONER GANDARA: Mr. Chairman, just to
8 make sure that we have a basis for Commission discussion,
9 let me just move that we adopt the APR, as modified by
10 the errata sheet, and we can move from that particular
11 motion to any other changes.

12 CHAIRMAN IMBRECHT: Fine, thank you.

13 COMMISSIONER COMMONS: I'll second that.

14 CHAIRMAN IMBRECHT: It's been moved and seconded
15 by Commissioners Gandara and Commons, respectively, that
16 we adopt the Annual Petroleum Review, as modified by the
17 errata sheet which has been distributed.

18 Commissioner Schweickart.

19 COMMISSIONER SCHWEICKART: Mr. Chairman, yes,
20 I would move to amend the first recommendation on page 20
21 of the Executive Summary, with the following wording.
22 In the third line of that recommendation, I would add,
23 following the words "should develop an," I would add
24 "integrated and comprehensive plan for transportation
25 and upgrading of"; I would then strike "integrated,

1 comprehensive, and certain planning process for...."

2 CHAIRMAN IMBRECHT: Why don't you --

3 COMMISSIONER SCHWEICKART: I would -- excuse
4 me. If I can finish --

5 CHAIRMAN IMBRECHT: Sure, please.

6 COMMISSIONER SCHWEICKART: -- then, I would
7 also strike in the following line, "development and."

8 CHAIRMAN IMBRECHT: Why don't you just read
9 to us the paragraph as it would read, pursuant to your
10 amendment.

11 COMMISSIONER SCHWEICKART: All right. My amend-
12 ment would reword recommendation one, although it's not
13 designated as such, to read: "While individual OCS projects
14 will continue to require case-by-case review and permitting,
15 the Legislature, Governor, state agencies, and local
16 agencies should develop an integrated and comprehensive
17 plan for transportation and upgrading of OCS production,
18 and a state agency designated to assume lead responsibility
19 in this effort." Let me reword that, "and a state agency
20 should be designated to assume lead agency responsibility
21 in this effort."

22 CHAIRMAN IMBRECHT: Okay. The only question
23 I've got is that, as worded, in effect, there would not
24 be -- there would be a comprehensive plan for transportation
25 and upgrade, but not for general development and production

1 issues. And I think --

2 COMMISSIONER SCHWEICKART: Well, I've stricken
3 the word "development," I have retained the word
4 "production"; that is, it would read, "a plan for
5 transportation and upgrading of OCS production."

6 CHAIRMAN IMBRECHT: Okay. Is there a second
7 to the motion?

8 COMMISSIONER COMMONS: I'll second the motion.

9 CHAIRMAN IMBRECHT: The motion to amend has
10 been seconded.

11 Any comment?

12 COMMISSIONER COMMONS: I have a question.

13 CHAIRMAN IMBRECHT: Commissioner Commons.

14 COMMISSIONER COMMONS: Why would you want to
15 eliminate the word "development"?

16 COMMISSIONER SCHWEICKART: First of all, I believe
17 that the word "development" is a catch-all, which I find
18 difficult to define or to delimit in such a way that the
19 task that would be committed to would be focused enough.

20 Secondly, in looking at the major responsibility
21 of the state in terms of the welfare of its citizens and
22 protection of their environment, the challenge which has
23 been identified here is principally one related to
24 transportation of the OCS development, of the OCS production.

25 Development, to me, at least in my way of thinking,

1 is too general a statement. I think it is the transporta-
2 tion and upgrading of the produced oil which has the major
3 bearing on the environmental challenges which Santa
4 Barbara County, Ventura County, eventually Santa Maria
5 County, and others, and the state, as a whole, will be
6 suffering. So, that I think "development," to some
7 extent, deludes the intention and perhaps may broaden
8 it to a point which may create reaction which is unnecessary;
9 that is, it is not the intent to somehow get into the
10 overall development plans here, but more to address the
11 issue of the transportation and handling of the increased
12 production in the OCS area.

13 COMMISSIONER EDSON: In point of information:
14 Who would designate the state agency? Would that be the
15 legislature, in concert with the Governor, or would that
16 be the Governor?

17 COMMISSIONER SCHWEICKART: Well, I think that
18 the designation would be handled by the statutory language,
19 which would be passed by the legislature and presumably
20 signed into law by the Governor, and it's certainly
21 influenced, in addition, by other state agencies and local
22 agencies. But, technically, it would be the legislature
23 and the Governor, together.

24 CHAIRMAN IMBRECHT: It could be accomplished
25 in either fashion. I think the Governor would have the

1 ability to issue an executive order, as well, that it
2 would accomplish the same result. It would be preferable
3 to have --

4 COMMISSIONER SCHWEICKART: It could also be
5 done by Executive Order. This does not delimit the way
6 in which it would be done. I would think that there would
7 be arguments both ways, but I put in my oar for statutory
8 direction.

9 CHAIRMAN IMBRECHT: Well, I would agree, I think
10 it would be delightful to see a demonstration of consensus
11 on an issue in Sacramento, currently, representing both
12 legislative and executive prerogative.

13 Is there objection to adopting the amendment
14 as proposed by Commissioner Schweickart and Commons?

15 COMMISSIONER GANDARA: Yes, there is Mr. Chairman.

16 CHAIRMAN IMBRECHT: Yes. Would you care to
17 state your objections?

18 COMMISSIONER GANDARA: Commissioner Schweickart
19 has already indicated that if one read the report, that
20 the concerns that he raised would not be as great,
21 indicated a concern that there might be an overreading
22 or a misinterpretation, which, in fact, it seems to me,
23 the report has taken pains to avoid.

24 I am more concerned, however, by the fact that
25 the recommendation, as it stands, merely is a recommendation

1 recommending a process, and it is not a recommendation
2 at this point in time that is trying to preclude, include
3 any particular item, option, and so forth. I would think
4 that it would be premature for us to do that here.

5 I am concerned as well that in the issue of
6 the OCS development, as vague as that may be, there is
7 a common understanding, and that that has led to many
8 studies with respect to production. It has, naturally,
9 led to the question of: Well, you produced it, what do
10 you do with it? You've got to transport it somewhere.
11 And even the natural evolution of studies we've been
12 involved in has been: Well, so what if you can transport
13 it? What do you do when it gets there? And that, in
14 fact, that unique contribution that the Commission was
15 able to make in this area was not so much to identify
16 transportation concerns, many people have identified those,
17 but, in fact, to identify how, in fact, the refinery
18 limitations may affect the transportation concerns.

19 So, I'm not opposed to Commissioner Schweickart's
20 emphasis or concern over the transportation upgrading.
21 I would note, however, that the recommendation, as is,
22 wouldn't preclude that. I do feel, however, that the
23 recommendation would preclude other things that I think
24 are very important. It, moreover, goes too far, I believe,
25 in suggesting that upgrading would be necessary. The

1 report itself has taken pains to indicate that that's
2 one option that was pursued; whether that's preprocessing
3 or whether it's upgrading of refineries, would this
4 language permit only consideration of upgrading with
5 respect to a preprocessing plant, or would it permit it
6 with respect to refineries; it might create more problems
7 if it were interpreted that way.

8 In addition, the report also leaves open the
9 option that, in fact, the west-east pipelining might
10 preclude preprocessing or processing of -- of upgrading
11 of refineries.

12 So, in summary, I just feel that the proposed
13 language seems to introduce many more problems of the
14 very same nature Commissioner Schweickart is concerned
15 about. I would prefer to leave well enough alone and
16 to just proceed and adopt the recommendation as is.

17 I do recognize, however, his concern that, as
18 currently worded, there might be -- the omission of
19 transportation might be of significant concern to him,
20 and perhaps to the public. I would not be opposed to,
21 for example, for a substitute motion that would read:
22 "for OCS development, production, transportation, upgrading
23 refining, and designate a state agency." I'm afraid,
24 however, that we're getting to the point of including
25 many elements, and that, as it, really, it speaks more

1 to the process that was envisioned at the time as opposed
2 to limiting, directing, and so forth, a state plan that
3 is envisioned, that if one engaged in the process, it
4 would be the product. And that, in fact, it might be
5 that the emphasis that is being produced by the motion
6 would be the way it turned out.

7 CHAIRMAN IMBRECHT: May I try a little ground
8 here to see if we can't resolve this?

9 What if we basically left the--I'm asking this
10 of you, Commissioner Schweickart--we left the language
11 basically intact, but simply added a phrase that said,
12 "and local agencies should develop an integrated,
13 comprehensive and certain planning process, which includes
14 consideration of transportation and refining factors for
15 OCS development and production." Would that satisfy your
16 concern?

17 COMMISSIONER SCHWEICKART: My fear, to a certain
18 extent --

19 CHAIRMAN IMBRECHT: To insure that there is
20 attention drawn to the transportation issue.

21 COMMISSIONER SCHWEICKART: Mr. Chairman, my
22 fear, to a certain extent here, is, in fact, realized
23 by the, I certainly hope, accurate but unfortunate response
24 that, at least in my view, that we've gotten from Secretary
25 Duffy, that the recommendation here is the development

1 of a statewide energy plan, which he characterizes as
2 being "no simple matter and may not be possible in time
3 to guide forthcoming development." I believe that
4 Secretary Duffy has, to some extent, reacted to a reading
5 of this as a very broad, total plan, when, in fact, I
6 believe, the subject of concern, from my three years of
7 experience in working with the county and other state
8 agencies in trying to develop an integrated memorandum
9 of understanding, is that the concern lies not with overall
10 development, which I think is handled adequately by the
11 responsibilities of the California Coastal Commission,
12 and permitting by the local agencies, and all of the rest
13 of it, but by that one element of how is the oil to be
14 moved and handled.

15 The only reason, in fact, one would go beyond trans-
16 portation solely in this arena is the recognition identified
17 and emphasized by our staff, rightly so, that transportation
18 of crude into California does not, in fact -- is not
19 feasible without severe problems, unless there is upgrading
20 of either the existing refinery capacity or the
21 establishment of some upgrading facility, which then converts
22 the production into a syncrude which is compatible with
23 the existing refinery structure.

24 So, that I believe that Secretary Duffy's
25 response is almost invited by the wording, which, although

1 I appreciate your effort, I think the wording which you're
2 suggesting even implies greater complexity. My proposed
3 wording would, I believe, limit legitimately the intent
4 of what it is we're trying to do here, and disinvite over-
5 reaction to what we're saying.

6 CHAIRMAN IMBRECHT: I think I understand your
7 point.

8 Commissioner Edson, and then we'll get a sense
9 of our consensus or lack thereof.

10 COMMISSIONER EDSON: Let me offer a third alterna-
11 tive. And I think, as Commissioner Schweickart has said
12 and Commissioner Gandara has argued, that, when read in
13 the context of the whole report, the transportation and
14 refining issues are certainly central to this recommendation.

15 I also, I share Commissioner Schweickart's concern
16 about the comments by Secretary Duffy, which imply that
17 this is a comprehensive state energy plan and would be
18 overly complex, and, as a result, is undesirable.

19 I would suggest that rather than, at this point,
20 try to further refine the recommendations in this report,
21 which I think, again, when read in the context of the
22 whole report, are clear, we should prepare a response
23 to Secretary Duffy which provides a complete explanation
24 of what we mean by the recommendation that's included
25 here, and that that letter be circulated to Commissioners

1 for comment, so that Commissioner Schweickart's concerns
2 can be addressed in that correspondence, and that we,
3 at this point, adopt the report as drafted and corrected
4 by the errata.

5 CHAIRMAN IMBRECHT: Okay. I sense, then, that
6 I'm the deciding vote on this issue, and I think that
7 I will adopt --

8 COMMISSIONER COMMONS: Well, I think you should
9 take a vote, because I haven't even expressed myself, I
10 just seconded the motion.

11 CHAIRMAN IMBRECHT: You seconded the motion,
12 I assumed that that --

13 COMMISSIONER COMMONS: I have a general theory
14 of seconding motions.

15 CHAIRMAN IMBRECHT: Okay.

16 COMMISSIONER COMMONS: How else can we discuss
17 things?

18 CHAIRMAN IMBRECHT: It was an erroneous
19 assumption on my part, Geoff, that that indicated support
20 for the motion. Okay.

21 All right. Any further comments? Commissioner
22 Gandara.

23 COMMISSIONER GANDARA: Well, as a last comment,
24 let me say that Commissioner Edson's proposal is acceptable
25 to me, particularly since I don't wish to impute at this

1 time exactly what might be in Secretary Duffy's mind when
2 he wrote this -- communicated this particular letter.
3 We certainly are very interested in accommodating his
4 views and have done so in the report itself. And I might
5 add that, as his letter indicated, we did work closely
6 with his staff, the staff was aware of this particular
7 recommendation; and so that I'm not quite sure that the
8 proposed substitute language would have resulted in any
9 particular change one way or the other, it might, it might
10 not have, I don't know. But I would think that just to
11 be on the prudent side, I am agreeing with Commissioner
12 Edson's recommendation.

13 So, I'm prepared to vote on the proposed
14 substitute motion.

15 CHAIRMAN IMBRECHT: We'll move to a roll call
16 quickly, we have a lot of things to consider.

17 I'll just say that, generally speaking, I like
18 the sentiment expressed by Commissioner Schweickart; I'm
19 not totally happy with the precise language, and so I
20 tend to favor the positions of Commissioners Gandara and
21 Edson.

22 Commissioner Commons.

23 COMMISSIONER COMMONS: Commissioner Schweickart,
24 I think -- oh.

25 COMMISSIONER SCHWEICKART: No, I'm ready to vote.

1 CHAIRMAN IMBRECHT: Okay, fine. Will the secretary
2 please call the roll.

3 COMMISSIONER EDSON: This is a vote on the --

4 CHAIRMAN IMBRECHT: This is on the language
5 as proposed by Commissioner Schweickart and seconded by
6 Commissioner Commons.

7 SECRETARY MATHIES: Commissioner Commons?

8 COMMISSIONER COMMONS: No.

9 SECRETARY MATHIES: Commissioner Edson?

10 COMMISSIONER EDSON: No.

11 SECRETARY MATHIES: Commissioner Schweickart?

12 COMMISSIONER SCHWEICKART: Yes.

13 SECRETARY MATHIES: Commissioner Gandara?

14 COMMISSIONER GANDARA: No.

15 SECRETARY MATHIES: Chairman Imbrecht?

16 CHAIRMAN IMBRECHT: No.

17 The motion is defeated.

18 COMMISSIONER SCHWEICKART: Mr. Chairman?

19 CHAIRMAN IMBRECHT: Yes, Commissioner Schweickart.

20 COMMISSIONER SCHWEICKART: I'd like to propose
21 an amendment to the first recommendation, which would
22 strike the words in the fourth line, "and certain planning
23 process," and substitute the word "plan." In other words,
24 we would be calling for the combined efforts of the state
25 in developing "an integrated, comprehensive plan for OCS

1 development and production," and the rest of the wording
2 as is indicated, rather than "an integrated, comprehensive,
3 and certain planning process."

4 CHAIRMAN IMBRECHT: Fine, I think the motion
5 is clear. Is there a second?

6 COMMISSIONER COMMONS: Second.

7 CHAIRMAN IMBRECHT: Seconded by Commissioner
8 Commons. Is there further discussion? I think we've --
9 Is there objection to the motion?

10 Hearing none, it will be adopted.

11 Any further comments by members of the Commission?
12 Commissioner Commons.

13 COMMISSIONER COMMONS: I have a series of amend-
14 ments.

15 CHAIRMAN IMBRECHT: Okay, let's take them one
16 at a time.

17 COMMISSIONER COMMONS: First, I want to make
18 a statement that in the report there is reference to the
19 Biennial Report price forecast, and my vote on the final
20 document should not be interpreted as support for the
21 price forecast that is shown herein. And I understand
22 that that price forecast is for reference purposes only.

23 Let's see. On page 20, just above "Recommendations,"
24 there's a statement saying, "California's current
25 tax burden is no higher than the average of other oil-

1 producing states and depending upon how it is measured
2 may be significantly be lower."

3 I'm not sure if that's referencing to oil taxes,
4 drilling, the overall tax burden in the state. But I
5 would like to move that that paragraph be deleted, and
6 inserted be the following --

7 CHAIRMAN IMBRECHT: Which paragraph?

8 COMMISSIONER COMMONS: This is just above
9 "Recommendations" on page 20.

10 CHAIRMAN IMBRECHT: "California's current tax
11 burden is no higher than the average of other oil producing
12 states and depending upon how it is measured may be
13 significantly lower."

14 COMMISSIONER COMMONS: Yes. That gets way beyond
15 the competence of this Commission in making this assess-
16 ment, I think.

17 And I think I'd like to recommend that what
18 we add is the statement that, "California is the only
19 major oil-producing state without a severance tax."

20 CHAIRMAN IMBRECHT: Well, I didn't -- okay,
21 first, is there a second to that motion, to delete the
22 paragraph immediately above the word "Recommendations"
23 on page 20, and to substitute it with the language that
24 "California is the only major oil-producing state without
25 a severance tax"?

1 Hearing none, the motion dies for lack of a
2 second.

3 COMMISSIONER COMMONS: All right. Then I'll
4 try breaking them up into two separate parts. First,
5 having the deletion of the paragraph on the tax burden.

6 CHAIRMAN IMBRECHT: Okay. Is there a second
7 to delete that paragraph?

8 I'll second that.

9 Commissioner Gandara.

10 COMMISSIONER GANDARA: I was going to offer
11 a substitute motion to the motion to amend, which I think
12 might solve the problem we have here, it might shorten it.

13 If you refer to page 17, the last paragraph,
14 first sentence says, "California's current tax burden
15 on the oil production industry is no higher than the
16 average...." I think that we could solve this problem
17 if we just added to that bullet, you know, "on oil
18 production" after "burden."

19 COMMISSIONER SCHWEICKART: You're suggesting
20 that that language is --

21 CHAIRMAN IMBRECHT: Just simply make the bullet,
22 "California's current tax burden is no higher than the
23 average of other oil-producing states." You would stop
24 it there, is that what you're saying?

25 COMMISSIONER GANDARA: No, I was suggesting --

1 as I understand Commissioner Commons' concern, is that
2 the bullet, as reads, is unclear as to whether you're
3 talking about general tax burden, whether you're talking
4 about an oil tax burden. And I'm referring to the language
5 on page 17, which makes it clear that the tax burden --

6 CHAIRMAN IMBRECHT: Oh, "California's current
7 tax burden on oil production is no higher than
8 the average...."

9 COMMISSIONER GANDARA: Yes, on oil production.

10 COMMISSIONER SCHWEICKART: On the oil-production
11 industry.

12 COMMISSIONER GANDARA: And that clarifies that,
13 and we might then proceed a bit faster here.

14 CHAIRMAN IMBRECHT: Does that satisfy your concerns,
15 Commissioner Commons?

16 COMMISSIONER COMMONS: Well, that would be --

17 CHAIRMAN IMBRECHT: This would read then,
18 "California's current tax burden on oil production is
19 no higher than the average of other oil-producing states,
20 and, depending upon how it is measured, may be significantly
21 lower."

22 COMMISSIONER COMMONS: Well, I would -- if I
23 could not receive a majority support on the Commission
24 on what I'd like to say, I would accept that. But it's
25 my belief that the current tax burden on oil production

1 in this state is significantly lower, since we are the
2 only state without a severance tax; and, so, there's an
3 implication there that would not be satisfactory. Clearly,
4 that is better than the current statement, which has nothing
5 to do with the report.

6 CHAIRMAN IMBRECHT: Okay. Without objection,
7 we will adopt Commissioner Gandara's suggestion that that
8 paragraph then be amended to read, "California's current
9 tax burden on oil production is no higher than the average
10 of other oil-producing states," et cetera.

11 I would just indicate to you that the reason
12 I can't support the statement you wish to offer as an
13 alternative is, that while it is true that we are the
14 only oil-producing state, a major oil-producing state
15 without a severance tax, we are one of a handful that
16 also has an in-lieu property tax on unpumped reserves
17 in the ground, and that's a statement and a caveat that
18 I think is frequently left out of the discussion of the
19 severance tax. It's been some time since I've debated
20 that issue in detail, but I recall that to be a specific
21 fact, and I'm not sure that I see reference to that in
22 our report, as well.

23 Okay. Other --

24 COMMISSIONER COMMONS: All right. Then I'd
25 like to take the other half of that motion, which is to

1 include thereunder severance tax, that the statement that
2 "California is the only major oil-producing state without
3 a severance tax."

4 CHAIRMAN IMBRECHT: Is there a second?

5 Hearing none, the motion dies for lack of a
6 second.

7 COMMISSIONER COMMONS: Then, in the "Recommendations"
8 section, I'd like to move that we add a recommendation
9 that, "The California Energy Commission has a clear
10 preference for pipeline transportation of increased
11 production, unless found not to be -- unless found to
12 be infeasible for a particular operator." I think this
13 was the main recommendation of the county testimony that
14 we heard.

15 CHAIRMAN IMBRECHT: Is there a second?

16 COMMISSIONER EDSON: I'll second it just to
17 open a discussion.

18 CHAIRMAN IMBRECHT: Okay. It's been moved and
19 seconded. Discussion.

20 COMMISSIONER SCHWEICKART: I'd like to comment
21 on it, Mr. Chairman.

22 CHAIRMAN IMBRECHT: Commissioner Schweickart.

23 COMMISSIONER SCHWEICKART: Yes. I believe that
24 the statement, as worded, is inappropriate, frankly,
25 because, as was pointed out by Mr. Wheeler, I believe

1 it was, the clear responsibility of government is to go
2 beyond pure economics and consider the value of environmental
3 quality and other factors, noneconomic, establishing its
4 regulations and policies; and whether or not transportation
5 to any particular oil company may be infeasible by pipeline
6 from purely profit point of view, is, if it is the judgment
7 of the state to be environmentally unacceptable, not an
8 adequate criteria for backing away from good principle.
9 As a result, I think the implication in your statement
10 is that the state will use economic criteria in judging
11 whether or not, in any particular project, tankering is
12 acceptable. And I would, therefore, have to strenuously
13 oppose such statement.

14 COMMISSIONER COMMONS: Would you prefer the wording
15 that we have a "clear preference for pipeline transportation
16 of increased production"?

17 COMMISSIONER SCHWEICKART: Yes, I would, because
18 I believe that the -- while one can study and study and
19 study, we have had so many years of study on this issue
20 that it is clear, and especially with the increased finds
21 in the OCS area, that, given the responsibilities of the
22 state in this area, that pipelining is clearly preferable,
23 from the state point of view. It may or may not cause
24 effectively a slightly decreased value to the production
25 itself, from a purely economic point of view; I don't

1 think that's clear. But I think from the point of view
2 of all of the analysis that has been done, pipelining
3 is clearly preferable.

4 COMMISSIONER COMMONS: I would take that as
5 a friendly amendment to the amendment.

6 CHAIRMAN IMBRECHT: Okay.

7 COMMISSIONER COMMONS: If the seconder would.

8 CHAIRMAN IMBRECHT: Technically, what you want
9 to do is withdraw your motion and make a new motion which
10 would substitute the language Commissioner Schweickart
11 suggested, which is, "The Energy Commission" --

12 COMMISSIONER COMMONS: -- "has a clear preference
13 for pipelining transportation of increased production...."

14 CHAIRMAN IMBRECHT: -- "transportation of
15 increased production from OCS development," I presume.

16 Further discussion?

17 Okay, I would just express my view. I think
18 that it is fair to say that -- well, I can say that I
19 clearly prefer pipeline transportation, and, from an
20 environmental standpoint, it clearly is the preferable
21 approach. I still have some reservations as whether or
22 not it is -- as to what the implications are, vis-a-vis
23 the distribution of other crude oil resources in our state,
24 and the implication for increased tankering down our coast-
25 line. And I recognize those are points that are, at this

1 point, yet to be resolved, and that's why I have some
2 concern about putting a statement in there without some
3 consideration about the technological feasibility and
4 ultimate considerations of destination of such a pipeline,
5 and so forth, which I am not sure we have a factual basis
6 in the report upon which to predicate that kind of a final
7 conclusion.

8 COMMISSIONER EDSON: Did the Committee consider
9 a recommendation of this sort?

10 COMMISSIONER GANDARA: It was one of many
11 recommendations and variations and permutations. The
12 Committee thought it best, frankly, to lay out the back-
13 ground of the discussions that had been made, and, as
14 Commissioner Schweickart indicated, there's been a multitude
15 of studies and statements made as to this preference.

16 The Committee focused more, however, on the
17 integrated, comprehensive planning process, as perhaps
18 a way to be able to balance the various issues. At an
19 early stage, I think that it was narrowly posited as
20 transportation by tankering versus pipeline only, as opposed
21 to some combination or some preprocessing, and combinations
22 thereof. It was mainly because of the multiplicity of
23 permutations that could occur that the Committee did not
24 go as far as the recommendation did, although, clearly, the
25 Committee recognized that that was an option that would

1 be beneficial and would be preferable, the discussion
2 seems to lead in that direction, but does not go as far
3 as the particular recommendation indicated here.

4 COMMISSIONER SCHWEICKART: Mr. Chairman?

5 CHAIRMAN IMBRECHT: Yes.

6 COMMISSIONER SCHWEICKART: I would indicate
7 here that the wording, at least as I understand it, states
8 a clear preference. I would point out, if I understand
9 the wording correctly, I would point out that that is
10 already the Energy Commission's position that is on
11 record. This is not, in fact, something new; it states
12 a clear preference. It has no effect in terms of any
13 kind of mandate, but it is unambiguous in terms of all
14 of the analysis and conclusions that have been drawn by
15 state agencies, including the Commission, to date, as
16 well as the county and others.

17 And I think that about the only thing that it
18 adds, frankly, to the existing recommendations is, in
19 some sense, the clear basis upon which the other
20 recommendations are therefore -- therefore flow.

21 In regard to the question you asked earlier
22 and the comment that you've made about the bypass tankering
23 flow, it is quite clear from studies made by, to my
24 knowledge, all parties, and I don't believe it is a matter
25 of controversy, that the risk, the environmental risk

1 in tankering predominantly lies at the -- or let me say
2 that the environmental penalties from tankering predominantly
3 lie as one approaches and leaves the terminal area, if
4 you will, the cruise portion of the transportation scenario
5 is not the principal concern. In terms of accident
6 potential, again, a steady flow is considerably less risky
7 than the interaction of actions leaving and arriving at
8 ports and that sort of thing.

9 In terms of the air quality burden, it is clearly
10 the unloading, the loading, the lightering, and that sort
11 of thing, the operations in and about port which create
12 the principal air burden. Ships simply passing by the
13 coastline, although they certainly do contribute to the
14 air burden, are not the major air problem.

15 So, it is the terminal and near-terminal operations
16 which represent the major environmental challenge. There-
17 fore, the fact that the same amount of ANS oil flowing
18 along the total California Coast, as opposed to a portion
19 of it stopping at Northern California, is a considerably
20 reduced overall risk and environmental challenge than
21 that tankering diverting into California, in addition
22 to the tankering which would then, in addition, leave
23 from the OCS development.

24 So, if one looks at the overall displacement
25 and risk, I don't believe that that's at all controversial.

1 CHAIRMAN IMBRECHT: Okay. I suspect that the
2 citizens along the Big Sur, and so forth, might have a
3 slightly different perspective about that.

4 COMMISSIONER SCHWEICKART: Not that we ever
5 heard.

6 CHAIRMAN IMBRECHT: It's just my guess. But,
7 in any case, I think that I'm prepared to accept the motion
8 at the same -- well, I certainly -- and to support it,
9 but say that I still have some continuing questions in
10 my own mind as to some of these other ancillary impacts.
11 I don't think the statement, as proposed, in effect, suggests
12 that those are not still valid concerns and may have an
13 impact upon ultimate decisions.

14 Okay. Without objection, we'll adopt the
15 substitute motion.

16 Commissioner Commons, do you have other concerns?

17 COMMISSIONER COMMONS: Yes. In reference to
18 the ARCO letter, which I think had some excellent technical
19 suggestions. For example, I think on page 44, paragraph 3,
20 it should be deleted; on page 35, paragraph 5, the statement
21 of ARCO should be added; and that other technical correc-
22 tions which staff would agree to should be made to the
23 report before it becomes final, as per the ARCO letter.

24 CHAIRMAN IMBRECHT: I agree. In fact --

25 COMMISSIONER COMMONS: And I would make that

1 as a motion.

2 CHAIRMAN IMBRECHT: I think that that can be
3 done without a motion; simply a direction for me as Chair
4 to the staff, and I'll handle it in that fashion, by offer-
5 ing that direction to the staff, if that's acceptable
6 to you.

7 COMMISSIONER COMMONS: It's acceptable.

8 CHAIRMAN IMBRECHT: Any other questions or comments
9 or concerns by members of the Commission?

10 COMMISSIONER COMMONS: I have other motions.

11 CHAIRMAN IMBRECHT: Oh, I'm sorry, I thought
12 that was your last. Commissioner Commons.

13 COMMISSIONER COMMONS: I haven't even gotten
14 to the severance tax yet.

15 On top of page 21, we have a new statement of
16 policy of the California Energy Commission, that "The
17 legislature should consider the impact of a severance
18 tax upon the net profitability of all California producers,
19 given the current price of crude oil, in deciding whether
20 to impose such a tax."

21 To me, this is one of the strangest recommenda-
22 tions I have seen. Certainly, in imposing a tax, we should
23 consider the profitability, and it's very important in
24 our state that we have a business environment that is
25 positive. Whether or not one industry should be exempt,

1 and this be the only state in the country that should
2 be exempt from a severance tax, is a separate issue.

3 Clearly, though, in looking at a severance tax,
4 the profitability of California producers, given the current
5 price of oil, is not the only consideration that should
6 be made in evaluating whether or not we should have a
7 severance tax. I believe the Chairman has raised at least
8 one other issue. Certainly, there are 30 or 40 that we
9 could identify; the welfare and benefits of the State
10 of California, and the people in the state, would clearly
11 be one.

12 Since this is such a biased and unbalanced
13 recommendation, with no offset, I would like to move that
14 we eliminate that recommendation.

15 CHAIRMAN IMBRECHT: Okay, fine, the motion is
16 clear.

17 Is there a second?

18 COMMISSIONER EDSON: I'll second it.

19 CHAIRMAN IMBRECHT: Okay, it's been moved and
20 seconded to eliminate the recommendation relative to the
21 severance tax.

22 Then you would suggest that, vis-a-vis
23 recommendations, we are silent as to the second issue
24 of severance tax?

25 COMMISSIONER COMMONS: Just this motion.

1 CHAIRMAN IMBRECHT: Pardon me?

2 COMMISSIONER COMMONS: That's just this motion.

3 COMMISSIONER EDSON: I think the staff may have
4 a comment.

5 MR. ROZSA: Excuse me, Mr. Chairman --

6 CHAIRMAN IMBRECHT: Well, I have -- I was prepared
7 to offer an amendment to this particular recommendation,
8 as well, and I guess it might make more sense, it seems
9 to me, from a procedural standpoint, to discuss what we
10 would like to say relative to severance tax before we
11 go to a vote on this motion, and determine whether
12 simply deletion --

13 COMMISSIONER SCHWEICKART: Mr. Chairman, could
14 I suggest that we take all comments here and perhaps amend
15 Commissioner Commons' motion to --

16 CHAIRMAN IMBRECHT: That's fine; that's exactly
17 what I had in mind.

18 COMMISSIONER SCHWEICKART: Okay.

19 MR. SMITH: Mr. Chairman?

20 CHAIRMAN IMBRECHT: Yes.

21 MR. SMITH: Page 4 of the errata sheet addresses
22 that language.

23 COMMISSIONER SCHWEICKART: Ah.

24 MR. SMITH: I think John would like to comment
25 on that.

1 COMMISSIONER SCHWEICKART: The ever popular
2 errata sheet.

3 CHAIRMAN IMBRECHT: Fine.

4 COMMISSIONER COMMONS: I have read the errata
5 sheet and it was thus that I made the motion.

6 CHAIRMAN IMBRECHT: Well, I don't find this
7 to remedy my concerns either. The errata sheet would
8 change that recommendation to read, "In its consideration
9 of a crude oil severance tax, the legislature should examine
10 the impacts of both the proposed tax and expected variations
11 in oil prices as they affect the net profitability of
12 California producers." I'm not sure what that says, myself.

13 COMMISSIONER SCHWEICKART: Mr. Chairman, I would
14 appreciate, and perhaps all of us could benefit from the
15 staff justifying this recommendation.

16 CHAIRMAN IMBRECHT: All right, fine.

17 COMMISSIONER SCHWEICKART: I find it totally
18 motherhood, so inoffensive, that it's hardly worth
19 considering, other than removing it for embarrassment.

20 MR. ROZSA: Well, we're always ready to accept
21 offensive recommendations.

22 This recommendation says, basically, that a
23 tax has the same kind of effect upon crude oil exploration,
24 as does a change in oil prices. And in really knowing
25 what the impact of a tax is going to be, you have to

1 compare it against expected crude oil price increases.
2 And that's the factor that has to be looked at, rather
3 than looking at the percentage of the tax against what
4 the crude oil price is. And that's what is meant by the
5 recommendation. It's an advisory recommendation.

6 CHAIRMAN IMBRECHT: Okay. Well, why don't we
7 listen and see what individual Commissioners would like
8 to say about this issue.

9 COMMISSIONER SCHWEICKART: John, excuse me,
10 if you could stay there for just a moment.

11 MR. ROZSA: Sure.

12 COMMISSIONER SCHWEICKART: If I understand you
13 here, you are essentially saying to the legislature: Look,
14 don't overestimate the impact of the tax, it's no different
15 from the expected increase in the price of oil, in any
16 case, in one and a half years, and the effect that that
17 would have on production. Is that --

18 MR. ROZSA: That's right.

19 COMMISSIONER SCHWEICKART: So, in essence, you're
20 trying to say: In addition to all of your other considera-
21 tions, you should also recognize this and consider it?

22 MR. ROZSA: That's right.

23 COMMISSIONER COMMONS: I would have never guessed
24 that.

25 COMMISSIONER EDSON: I like saying it that way

1 a lot better.

2 COMMISSIONER SCHWEICKART: Yes.

3 COMMISSIONER COMMONS: I would have never guessed
4 that's what you were driving at.

5 COMMISSIONER SCHWEICKART: I think the problem
6 here is the way in which it's worded. It obscures the
7 simplicity and clarity of the point you're trying to make.
8 So, I'm concerned not with the intent of what you're
9 saying, then, in fact, I would quite strongly support
10 it, but the way in which it's been worded.

11 MR. ROZSA: Right; that's always a difficulty.
12 It's very hard for us to render recommendations in the
13 vernacular. And, so, we're happy to accept whatever
14 recommendations --

15 COMMISSIONER COMMONS: The problem is, you left
16 the apple out of the pie.

17 CHAIRMAN IMBRECHT: Okay. Well, let's --

18 COMMISSIONER SCHWEICKART: Thank you, John.

19 CHAIRMAN IMBRECHT: Commissioner Commons wants
20 to delete this paragraph. Let's find out if we -- rather
21 than just simple deletion, if we can find a substitute
22 paragraph, if anyone wants to address this.

23 I'll express myself very quickly, and that is,
24 I certainly think that the considerations that are in
25 the paragraph as proposed in the errata sheet are, as

1 Commissioner Commons indicated, but two of a number of
2 considerations that have to be taken into context, relative
3 to the issue of the severance tax. And from my way of
4 thinking, an equally, if not more important, issue is
5 the one relative to production and what impact that has
6 vis-a-vis our mix of foreign versus domestic oil, what
7 impact that has upon strategic resources for California,
8 and, ultimately, as well as economic considerations, such
9 as jobs and economic development. And I guess, finally,
10 if -- and the reason that I, while I appreciate what
11 Commissioner Schweickart had to say earlier about the
12 issue of whether or not you should save the oil or pump
13 it out now, I also think that one of the considerations
14 that should be taken in context is whether or not by saving
15 oil in marginal fields, that today is very difficult to
16 extract and more costly to extract, where the profit margin
17 is substantially less by diminishing production from those
18 resources, do we, in effect, implicitly increase pressure
19 upon OCS development and other such more marginal or
20 troublesome environmental production resources.

21 It seems to me, that to the extent that you
22 diminish production from existing fields onshore that
23 have already been impacted by development, that you
24 necessarily have some modicum of impact upon increasing
25 the pressure for development of OCS resources, et cetera,

1 or other environmentally sensitive areas.

2 I think those are very real and legitimate policy
3 considerations as you discuss severance tax issues, and
4 I really don't see anything in our staff discussion. The
5 conclusion on 157 says, in effect, that this -- "In
6 conclusion, the near-term effect upon state crude oil
7 production caused by a severance tax will likely be minor,"
8 that's undoubtedly true, in terms of the total context
9 of oil production. "This, however, should not be taken
10 to mean that all producers will be affected equally. Some
11 small independent producers whose operations are already
12 marginally profitable could be heavily affected." I continue
13 to assert and I fail to see any distinction drawn as to
14 why not marginal profitability fields for large or small
15 producers are equally affected by the same consideration
16 of the severance tax. In my mind, whether Shell or Union
17 or ARCO owns a marginal field, doesn't have any different
18 impact upon that issue versus an independent oil company
19 owning the field. As oil companies, as I understand it,
20 make decisions as to whether or not they're going to
21 extract from a given field, it's a question of the
22 profitability of that individual field, not a question
23 of the total profitability of their overall company. And
24 that's why I find the analysis to be lacking.

25 Commissioner Commons.

1 COMMISSIONER COMMONS: You may be suggesting
2 an interesting alternative, Mr. Chairman.

3 On the one hand, not bowing to the pressure
4 of the independent oil producers, you're saying that all
5 businesses should be treated equally.

6 CHAIRMAN IMBRECHT: That's correct.

7 COMMISSIONER COMMONS: Second is, taking into
8 consideration Commissioner Schweickart's concern, in terms
9 of that we have a resource, that this resource is going
10 to become more valuable with time, that there is value
11 to that and we don't want to put increased pressure on
12 the development of that resource. And, at the same time,
13 people have made capital investments in existing resources,
14 and we might be making an existing field that is being
15 pumped suddenly become marginal because of an activity.
16 This would lead to recommending, possibly, a severance
17 tax, but exempting all existing production.

18 CHAIRMAN IMBRECHT: Okay, that's a permutation
19 that I hadn't suggested.

20 I guess my concern is, that the proposals that
21 have been formally considered by the legislature to date
22 have provided exemptions based upon the production of
23 an individual company on an annual basis, not based upon
24 the production of an individual oil field or oil resource,
25 which I personally believe to be the far more intelligent

1 approach to the exemption issue. And, as I say, then
2 it's irrespective of ownership of the field, it's more
3 a function of whether or not the severance tax does have
4 an impact.

5 It's quite clear that the severance tax has
6 a dramatically greater impact upon a marginally producing
7 field than it does upon a field that has high volume of
8 production. And my view is, that if we're going to make
9 a policy statement with respect to severance tax, that
10 we ought to encompass that, I think, basic fact, economic
11 fact.

12 Commissioner Schweickart.

13 COMMISSIONER SCHWEICKART: Yes. Mr. Chairman,
14 the recommendations in no way deal with the issue which
15 you are discussing, at least in their current form.

16 CHAIRMAN IMBRECHT: Well, in their current form,
17 they suggest to me that the net profitability of the
18 California producer is, in effect, the principal issue
19 that should be taken into consideration, vis-a-vis the
20 imposition of the severance tax. I personally believe
21 that there are other issues that are of at least equal
22 importance to the net profitability of the producer which
23 should be considered.

24 COMMISSIONER SCHWEICKART: Okay. My interpretation
25 of the staff's clarification, when we brought Mr. Rozsa

1 forward, is that the intention of this recommendation
2 is not in any way to deal with the profitability of any
3 particular oil company, large, small or intermediate,
4 but that the overall effect on production of oil in
5 California of a 6-percent severance tax is no different
6 from a 2-percent increase in the price of oil on the world
7 market; that it has nothing to do with small, large or
8 intermediate production firms.

9 Now, the point you make, that the issue of the
10 impact of a severance tax on small producers, big producers,
11 marginal fields, highly productive fields, is certainly
12 valid, but I don't understand the point of this recommenda-
13 tion being related to that at all. I believe that the
14 reference to profitability is really one related to the
15 impact of the severance tax on overall production.

16 Now, I believe Commissioner Edson is working
17 up wording of something which would clarify that in terms
18 of meeting the intent, as I understand it at least, of
19 the staff's recommendation.

20 CHAIRMAN IMBRECHT: The intent is way off from
21 this exact language, and I would not be comfortable with
22 this exact language that's here.

23 COMMISSIONER EDSON: Well, let me try and --

24 CHAIRMAN IMBRECHT: Let's hear a suggestion,
25 fine.

1 COMMISSIONER EDSON: Let me try an alternative.

2 CHAIRMAN IMBRECHT: Put it on the table.

3 COMMISSIONER EDSON: "In addition to other
4 considerations related to production and tax burden, the
5 legislature should recognize that a severance tax has
6 no greater impact on the net profitability of California
7 producers than expected variations in oil prices."

8 COMMISSIONER COMMONS: I understand the wording.
9 I would say that that should go prior to the section on
10 "Recommendations," because it's pretty much a statement
11 of fact.

12 COMMISSIONER SCHWEICKART: Well, I think that
13 the problem here is that, as worded, it's also a statement
14 of fact. It's a good question whether -- I mean, what
15 we're recommending here is that, among other things, the
16 legislature recognize or the legislature consider. I
17 suspect the legislature will consider with or without
18 our recommendation.

19 The only question, I think, before us is whether
20 or not this fact --

21 CHAIRMAN IMBRECHT: And will consider it from
22 other perspectives, as well, I can assure you.

23 COMMISSIONER SCHWEICKART: Is whether this fact
24 is so obscure that it's worth our pointing out.

25 COMMISSIONER COMMONS: I have a --

1 COMMISSIONER SCHWEICKART: And might otherwise
2 be overlooked.

3 COMMISSIONER COMMONS: I have a point of
4 information. What is the current policy as enunciated
5 in the BR of the Commission on this issue?

6 COMMISSIONER SCHWEICKART: To the extent that
7 I recall it, the Commission's recommendation did not regard
8 whether or not there should be a severance tax, but that
9 if there were one, that the production -- the effects
10 on production would be minor, as I recall, was about all
11 we said.

12 COMMISSIONER GANDARA: No, it was slightly
13 different. What it said, it basically recognized that
14 the severance tax was a way of raising additional revenues
15 to the state, and recommended that if the Governor or
16 the legislature needed more revenues, that they could
17 do so, they would recommend that it --

18 COMMISSIONER SCHWEICKART: That it should be
19 considered.

20 COMMISSIONER GANDARA: Yes, it should be
21 considered.

22 COMMISSIONER EDSON: Well, I think we recommended
23 it as revenue source in the event that the legislature
24 and the administration thought revenues were desirable.

25 COMMISSIONER COMMONS: Well, I would be willing

1 to delete this paragraph and --

2 CHAIRMAN IMBRECHT: I'm not willing to do that.

3 COMMISSIONER COMMONS: -- continue the -- whatever
4 the existing program was in the BR. But I'd like to see
5 the exact language before I would take a position.

6 COMMISSIONER SCHWEICKART: Have you got a BR
7 there?

8 COMMISSIONER COMMONS: Which is the question
9 I think I addressed to staff before we came down here,
10 was what was the existing position on this issue.

11 COMMISSIONER SCHWEICKART: Well, where is the
12 BR? Maybe we can look at it.

13 CHAIRMAN IMBRECHT: We were supposed to get
14 a date certain today from the state printer, as I recall.

15 MR. SMITH: As a matter of fact, I think there
16 are people in Sacramento that do have copies.

17 COMMISSIONER SCHWEICKART: Is that right?

18 MR. SMITH: That's right.

19 COMMISSIONER SCHWEICKART: The BR is out.

20 MR. SMITH: Printed.

21 COMMISSIONER SCHWEICKART: Hey, amazing.

22 MR. SMITH: Actually, it looks quite nice.

23 COMMISSIONER COMMONS: Commissioner Gandara,
24 can you repeat what your understanding of what the BR
25 position is?

1 COMMISSIONER GANDARA: I did earlier. I believe
2 it was in the "Recommendation" section, and it said should
3 the revenues be needed, that a severance tax on oil is
4 a viable way of raising revenues and would not affect
5 production significantly. Something to that effect. I
6 don't have the exact wording for you here.

7 CHAIRMAN IMBRECHT: Well, I'm going to try one
8 other option. If we took the language in the errata sheet
9 and simply added to it, so it would read, "In its considera-
10 tion of crude oil severance tax, the legislature should
11 examine the impacts of both the proposed tax and expected
12 variations in oil prices as they affect the net profitability
13 of California producers, as well as the impact of such
14 a tax on the volume of California petroleum production."

15 COMMISSIONER SCHWEICKART: Second.

16 COMMISSIONER COMMONS: Would you repeat it,
17 please?

18 CHAIRMAN IMBRECHT: I would add to the end of
19 the sentence proposed by staff, I would change the period
20 to a comma, and add the phrase, "as well as the impact
21 of such a tax on the volume of California petroleum
22 production."

23 COMMISSIONER EDSON: My comment is simply that
24 I find the wording in the errata confusing.

25 CHAIRMAN IMBRECHT: Well, I do, too.

1 COMMISSIONER EDSON: I'm not --

2 CHAIRMAN IMBRECHT: I think this is slightly
3 better, but I'm not hung up on the first point, so if
4 somebody wants to rewrite the first point, that's fine with
5 me. It's the last phrase I'm concerned about.

6 COMMISSIONER COMMONS: As the maker of the motion,
7 I'm not willing to withdraw my motion --

8 CHAIRMAN IMBRECHT: All right.

9 COMMISSIONER COMMONS: -- and I would consider
10 it an unfriendly amendment, because I don't think it
11 addresses the problem.

12 CHAIRMAN IMBRECHT: Your motion then is to delete
13 this paragraph--period.

14 COMMISSIONER COMMONS: I would like to delete
15 that paragraph. And then I have a second motion.

16 CHAIRMAN IMBRECHT: Okay, why don't we just
17 clear this one out. Is there objection to deleting this
18 paragraph?

19 Hearing none, that will be the order.

20 Commissioner Edson just showed me language that
21 I think maybe "splits the child," if you will. Would
22 you --

23 COMMISSIONER COMMONS: Well, I would like to --

24 CHAIRMAN IMBRECHT: Would you like to offer
25 yours first?

1 COMMISSIONER COMMONS: Yes.

2 CHAIRMAN IMBRECHT: Okay, I'm sorry.

3 COMMISSIONER COMMONS: I would like to move
4 that we adopt the BR language, which is existing policy
5 of the California Energy Commission, and insert that
6 recommendation as written in the existing BR.

7 CHAIRMAN IMBRECHT: Is there a second?

8 Hearing none, the motion dies for lack of a
9 second.

10 Since we're addressing this issue, Commissioner
11 Edson, why don't you read --

12 COMMISSIONER EDSON: It's very similar to what
13 I read earlier, except it adds specific reference to
14 consideration of production volume. It would read, "In
15 addition to other considerations related to production
16 volume and tax burden, the legislature should consider
17 that a severance tax has no greater impact on the net
18 profitability of California producers than expected
19 variations in oil prices."

20 CHAIRMAN IMBRECHT: Is there a second?

21 COMMISSIONER GANDARA: Second.

22 CHAIRMAN IMBRECHT: Second. Is there objection?

23 COMMISSIONER COMMONS: Yes, I object.

24 CHAIRMAN IMBRECHT: Commissioner Commons.

25 COMMISSIONER COMMONS: The change in oil prices

1 can be 100 percent, and that effect on profitability is
2 clearly enormous. The imposition of a severance tax has
3 a net impact of 2 percent. And we're talking about here,
4 of a situation where we're trying to compare a penny with
5 a dollar, and that motion makes the penny the same as
6 a dollar. So, I don't think that the way the wording
7 of that motion is presented really gets to the heart of
8 the problem.

9 CHAIRMAN IMBRECHT: Secretary, will you please
10 call the roll?

11 SECRETARY MATHIES: Commissioner Commons?

12 COMMISSIONER COMMONS: No.

13 SECRETARY MATHIES: Commissioner Edson?

14 COMMISSIONER EDSON: Yes.

15 SECRETARY MATHIES: Commissioner Schweickart?

16 COMMISSIONER SCHWEICKART: Yes.

17 SECRETARY MATHIES: Commissioner Gandara?

18 COMMISSIONER GANDARA: Aye.

19 SECRETARY MATHIES: Chairman Imbrecht?

20 CHAIRMAN IMBRECHT: Aye. Motion carries four
21 to one.

22 Further items, Commissioner Commons?

23 COMMISSIONER COMMONS: Yes. I'd like to move
24 that we make a recommendation as follows: "Whereas,
25 California is the only significant oil-producing state

1 in the county without a severance tax, whereas the oil
2 resources of California are one of our major resources,
3 and whereas a severance tax would have minimal impact on
4 the development of that resource, and whereas the State
5 of California has significant revenue requirements, that
6 the legislature should consider the imposition of a 6-
7 percent oil severance tax."

8 CHAIRMAN IMBRECHT: Is there a second?

9 Hearing none, the motion dies for lack of a
10 second.

11 Other items?

12 COMMISSIONER COMMONS: That's it.

13 CHAIRMAN IMBRECHT: Okay. Anything else from
14 members of the Commission?

15 Okay, the motion is before us for adoption of
16 the Annual Petroleum Review. Any further comments? Is
17 there objection to a unanimous roll call?

18 Hearing none, that will be the order.

19 Ladies and gentlemen, thank you very much for
20 your attendance and your patience today. This meeting
21 is adjourned.

22 (Thereupon, at 4:35 p.m., the hearing before
23 the California Energy Resources Conservation and Development
24 Commission was adjourned.)

25 --o0o--

1 REPORTER'S CERTIFICATE

2
3 THIS IS TO CERTIFY that I, Patricia A. Petrilla,
4 Reporter, have duly reported the foregoing proceedings
5 which were held and taken in Santa Barbara, California,
6 on Friday, July 22, 1983, and that the foregoing pages
7 constitute a true, complete and accurate transcription
8 of the aforementioned proceedings.

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

12
13 *Patricia A. Petrilla*
14 Patricia A. Petrilla

15

16

17

18

19

20

21

22

23

24

25