

SCOMM

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PIE-WEST OUTLOOK

SANTA YNEZ OIL TRANSPORT CONTROVERSY

**By Land or by Sea?
The Critical Question in Southern California**

by Robert M. Wolcott

A MAJOR RESOURCE MANAGEMENT PROBLEM is plaguing the State of California, Exxon and the U.S. Department of the Interior (DOI). They disagree about oil and gas development in the Santa Ynez Outer Continental Shelf (OCS) unit of the Santa Barbara Channel, which is 20 miles wide, 60 miles long, bordering the coastal city of Santa Barbara.

The debate is whether Exxon should be allowed to process crude on tankers moored more than three miles off the coast in federal waters, then take the oil to refineries by tanker. Or should Exxon be required to construct and operate an onshore pipeline that would transport processed crude 140 miles south to the refineries at Long Beach?

But the issue is bigger than this. It also confronts the broader question of the state's power to regulate facilities within state jurisdiction needed to support development of any sort in federal waters.

After more than a year of negotiations, last March 3, the Coastal Zone Conservation Commission granted Exxon a permit to construct and operate Santa Ynez facilities, with the permit contingent on certain conditions.

Exxon asked to pipe crude oil from wells out in the channel onshore to be processed in Las Flores Canyon, and then pipe the processed crude back out 1/4 mile to an offshore terminal where tankers would pick it up and haul it to Long Beach for refining. But the commission, to satisfy the environmental standards of the Coastal Act, required Exxon to stop using the marine terminal by 1981, and transport crude through an onshore common carrier pipeline that would serve all Santa Barbara producers. This condition would:

1) Reduce air emissions from tanker loadings



Oil via tanker—an environmental risk

2) Eliminate the risk of marine oil spills

Continued on page 7

WE CAN HELP

PIE WEST DIRECTLY ASSISTS citizen groups through our Clearinghouse and Education programs. The Clearinghouse links economists with groups needing research assistance, advice or expert testimony. The Education program sponsors workshops and conferences designed to increase public awareness of economic issues.

Enclosed in this newsletter is a short survey for you to answer to help us aid citizen groups. The survey asks about your needs for PIE economists and results also will be used to set priorities for workshops in the coming year.

We encourage citizen groups to complete the survey and help us to serve you better.

TOWARD INDEPENDENCE

La Raza Centro Legal Seeks IRS Ruling

by Chuck Hoelscher

A PROPOSAL SUBMITTED to the IRS by San Francisco La Raza Centro Legal could, if approved, make it possible for Centro Legal, as well as other nonprofit legal assistance groups, to move closer toward self-sufficiency.

The proposal calls for a change in 501 (c)(3), the IRS code governing nonprofit corporations.

La Raza Legal wants to charge clients whose incomes are too high to get free services from Legal Aid or other such groups, but too low for them to afford legal fees of a private attorney. Centro Legal wants to charge on a sliding scale based on ability to pay.

PIE West economist Fred Doolittle did a study for La Raza that showed Centro Legal must be able to charge for its services on a sliding scale to survive.

Public interest groups around the country will also be affected by what the

Continued on page 2

Continued from front page

IRS does.

La Raza has already completed the first of a two-pronged effort to bring self-sufficiency. It has California Bar Association approval to charge referral fees for the four to five referrals it handles daily. Before, only the Bar could charge referral fees.

According to the PIE West study, the legal service group now draws more than half of its clients from the lower middle class and the small business community. The other clients are unable to pay anything.

Eighty per cent of Centro Legal's clients were born outside the United States in Spanish-speaking countries. Centro Legal, the only bilingual, bicultural legal center in San Francisco, is their only alternative for legal help.

Like many nonprofit corporations, La Raza Centro Legal is funded mainly by grants, which tend to decline over a few years, forcing groups to seek alternate



Yolanda Alcantar-Garcia: "Important community services"

funding.

Now sliding scale fees are necessary if La Raza Centro Legal is to continue, Doolittle's study concludes.

"Nonprofit hospitals and schools are allowed by IRS regulations to charge fees. They can charge anything they like," says Yolanda Alcantar-Garcia, Centro Legal spokeswoman. "But legal services don't have this method of self-support. Centro Legal should have the same methods of self-support. Centro Legal should have the same methods of self-support as nonprofit schools and hospitals. We, too, provide important community services."

If La Raza Legal gets its sliding fee approved (maximum fee would be \$50), legal groups all over the country will be in a better position to perpetuate themselves without federal, state or foundation funding. They will also be able to serve a large group of people they've had

to turn away before, those between poverty and the middle class.

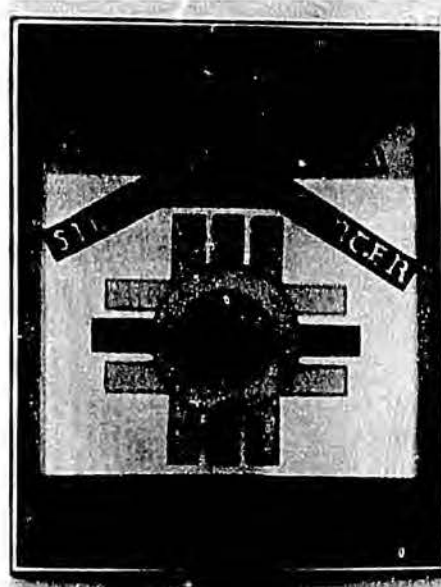
La Raza Centro Legal has been operating since 1973. Each year has brought more clients. Now, 48% of them come from the Mission (Latino) District of San Francisco, the rest are Latinos from throughout the city.

If allowed to advertise, La Raza's clientele both in and out of the Mission District would increase many times.

Centro Legal now provides assistance worth an average of \$212 a case. Its income from each case is zero.

In 1976, Centro Legal provided \$105,375 worth of legal services while receiving about \$76,000 in funding. Just to hold even, Centro Legal must find other sources of income.

This crisis caused by IRS regulations affects more than just La Raza Centro Legal; it affects the continuing existence of many nonprofit community legal groups.



Photos by Melinda Marble

SILKSCREEN TRAINING

Learning skills on the job

LA RAZA SILKSCREEN CENTER provides on-the-job training in techniques of silkscreening and printing, including graphics and composing, and teaches business skills. Now supported by foundations, the Center wishes to become self-sufficient by expanding commercial accounts, while continuing to provide low-cost services to other nonprofit groups.

PIE's Michael Kavanaugh is developing revenue forecasts based on past performance, the purchase of new equipment and possible new markets, to assist the Center in developing a strategy for self-sufficiency.

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DIRECTIONS

by Robert M. Wolcott
Director, PIE West

ARMED WITH THE WISDOM of twelve months hindsight and a strong sense of achievement, PIE West is entering its second year. This is an appropriate juncture to reflect upon where we have been and what directions we intend to pursue.

I began PIE West in March of 1976, with the specific objective of involving concerned and talented economists in public debate. This end is realized through their conducting of disinterested, high quality analysis for citizen/public interest groups. The need for this derives from the obvious imbalance between the capacity of large private interests and government to purchase high-powered economic talent, and the inability of smaller, less well-heeled citizen groups to afford the same.

This community-oriented concept, though already operative in some other professions, had not been advanced by economists in the West; and, as our experience this past year has clearly demonstrated, the need is most evident.

The Clearinghouse Project we have developed to respond to this need involves recruiting economists from universities, research institutes, and the private sector to provide expertise on an ability-to-pay basis. During the year we completed more than fifty projects for citizens or community organizations, and I intend to see our efforts increased during this next year.

For myself, the experience of PIE West has been exciting and enriching. This process of linking disparate allies is

rewarding not only because we are continuously buttressing the underdog position, but also because we pursue truth in the commonweal.

As for the citizen groups we serve, I believe our experience clearly demonstrates that the use of an economist strengthens a group's position technically and lends public credence before commissions, courts and councils. During the year, PIE economists appeared before state and county courts, boards of supervisors, planning commissions and regulatory commissions. In some cases, the economist's analysis and representation was responsible for successfully resolving the issue.

Objective economic testimony can be of value to nearly every citizen

PIE Philosophy

PIE West economists will try to grant any non-profit organization's request that is in the public interest, which PIE defines as activities that will:

- Improve the general welfare by making more efficient use of human and natural resources.
- Increase responsiveness of the economy and political institutions to public needs.
- Decrease inequalities in income, wealth and economic power.
- Increase public understanding of the economic characteristics of current issues.

group. I have observed, however, that our assistance can be most effectively employed in the areas of energy pricing, environmental management, budgetary and tax policy, consumer issues and urban redevelopment policy. I select these areas for two reasons: First, the groups active in these areas tend to be the most organized and have clearly stated policies that give the economist a precise point of reference. Second, the profession itself has recently bred a substantial number of economists specializing in welfare, environmental, natural resource, and public finance issues. These economists, who are aggressively researching issues that require current policy decisions, tend to be more willing to become involved in the frays of public debate. Therefore as a matter of course, these economists stand to gain professionally from PIE participation.

Though not serving a direct advocacy role, our Research Program may ultimately contribute most to the long run public interest. By conducting professional research on contract basis, we are able to enlist the most talented economists to perform analytical work that serves the broad range of citizen groups and, in most instances, directly affects current public issues.

I sincerely hope we can continue to provide relevant assistance and that you, our readers, whether economist or interested citizens, will demand that of us.

PIE WEST'S EDUCATION PLANS

New Series of Economics Workshops in the Works

PIE WEST'S EDUCATION program convenes workshops, seminars and conferences to increase awareness of economic issues among those actively seeking to influence public policy. The topics of these meetings vary according to requests from citizen groups and current public policy significance.

During the past year, representatives from more than 100 citizen action groups attended workshops on four topics:

- Economics of rent controls, rent subsidies and code enforcement
- Transformation markets in the food industry
- Economics of preventative health care
- Municipal finance and the impact of the Serrano school budgeting decision.

Our next workshop will focus on developing community-based neighborhood banks as vehicles for investing residents' savings in housing and com-

mercial development within their own community. Community banks are a way to keep money within neighborhoods in transition or considered to be poor risks by traditional lending institutions.

PIE West is expanding the Education program to include seminars for a variety of special interest representatives as a forum to explain and discuss policy issues before the Legislature.

Our first seminar will be June 24 in San Francisco. It will deal with how to change state pollution control from the present regulatory system to one of economic disincentives called emission charges. Dr. Allen Kneese, a member of PIE West's Board of Directors and an authority on this approach, will lead the seminar. Invitations have been extended to fifty people, representing a cross section of knowledgeable legislators, environmentalists and those being regulated.

by Sam Sternberg

PIE IN ANAHEIM

Two sessions in June

PUBLIC INTEREST ECONOMICS will sponsor two sessions at the Western Economic Association Conference in Anaheim, Calif. — June 20 - 23.

The first session — Food and Health Issues — features three papers: Retail Grocery Industry by Gene Adkins; Financing - The Case for Reform by David Bradwell; and Health Maintenance Organizations: Theory and Evidence by Hal Luft. Charles Bigelow, Michael Baldigo and J.A. Lennie will discuss.

The second session — Energy Development and the Public Interest — includes: Optimal Risk Sharing by Hayne Leland; Competition and Leasing by Polly Roberts; and Boom and Bust in Resource Regions by Edgar Rust. Discussing at this session will be Michael Yokell, Claron Nelson and John Jurewitz.

A SINGLE RATE FOR WATER

Can a rate structure effectively aid conservation?

by Helen Burke, Board Member,
East Bay Municipal Utility District

IN PAST YEARS of normal rainfall, East Bay Municipal Utility District (EBMUD) was a sleepy, special district efficiently serving water to 1.1 million people in Alameda and Contra Costa counties. Water then was a high-quality, low-cost commodity

in plentiful supply that helped attract new industry and housing to the area.

This second year of drought has changed all that. EBMUD now is a high-profile agency allocating a scarce resource. The goal now is to conserve water rather than encourage its use. So one question that arises is to what extent can rate structure affect this conservation.

EBMUD has a declining block rate structure typical of utilities. Before new rates were set, the first 4,000 cu. ft. per mo. cost 24 cents for 100 cu. ft. The next 396,000 cu. ft. was 22 cents/100 cu. ft.; more than 400,000 cu. ft. dropped to 18 cents per 100 cu. ft.

On March 22, the board adopted a rate increase to offset loss of revenues from water rationing. Except for "lifeline" block rate, the rate structure remains basically declining block.

Now, the rate for the first 500 cu. ft. in a month is 29 cents per 100. The next 3,500 cu. ft. per month is 39 cents a 100. The next 396,000 cu. ft. is 37 cents a mo. per 100. And more than 400,000 cu. ft. per month drops to 33 cents per 100 cu. ft.

The problem with the declining block rate is that it is based on the premise "the more you use, the less you pay," thereby providing little financial incentive to save water. District staff explain that the basis for this rate structure is that it costs the district less to serve a large volume of water to one industrial customer than relatively small quantities to thousands of homeowners.

Marin Municipal Water District (MMWD) in Marin County is an example of what a water district can do with pricing policies during an emergency. Marin has let the marketplace alone be the deterrent in water use by establishing a single rate for water — \$1.22/100 cu. ft. — significantly higher than EBMUD's. Penalty rates have been set considerably higher than EBMUD's. Marin's penalty is \$10 for each 100 cu.

ft. over the allocated amount up to 300 cu. ft. and \$50 per unit thereafter, whereas EBMUD's excess use charges go up at the rate of two, three and four times the unit cost, only reaching \$7.80/unit when 500 cu. ft. has been exceeded. To date, MMWD has been successful in meeting its goal of 57% cutback in water usage.

The question remains: To what extent can a rate structure at EBMUD ef-

fectively serve a conservation goal? EBMUD differs markedly from MMWD in several respects:

First, EBMUD is much larger than MMWD (about 300,000 vs. 50,000 accounts).

Second, EBMUD has a much larger proportion of heavy industrial users than MMWD (about 23%, whereas MMWD has little or none).

Third, EBMUD has wide disparities in climate and income, which affect consumption patterns within the district.

To accommodate this complex situation, EBMUD has adopted an allocation system reinforced by pricing policies, penalty charges and regulations prohibiting the wasteful use of water. So far, the district has succeeded in reaching the overall goal of reducing water use 35%.

As a minority of one on EBMUD's board, I voted against the rate increase because I favored adopting a rate structure that would reinforce conservation goals by discouraging the wasteful use of water. As a step in that direction, I advocated keeping the lifeline rate but establishing a single rate where every gallon of water would be worth the same as every other gallon of water.

Staff estimated the single rate at 37c /

COMPARISON OF RATE ALTERNATIVES

CURRENT CONSUMPTION

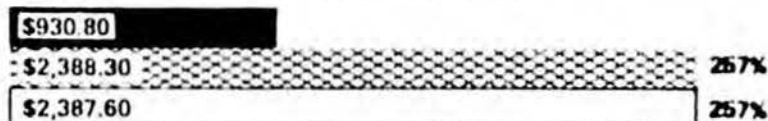
- OLD RATES
- ▨ CURRENT RATES
- SINGLE UNIT RATE (\$0.37)

Water Bill (Includes excess use charge)

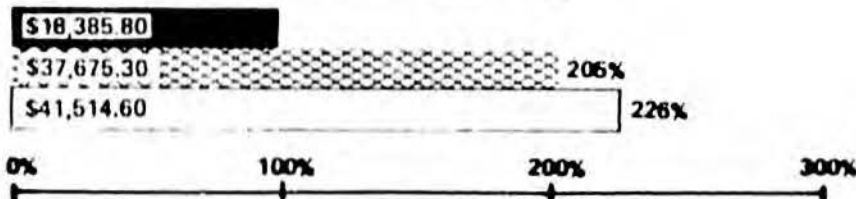
RESIDENTIAL — 22 Units Use (bi-monthly) (280 gpd)



COMMERCIAL — 4000 Units Use (monthly)



INDUSTRIAL — 100,000 Units Use (monthly)



per 100 cu. ft. in order to obtain the necessary revenues.

In comparing average monthly bills for current rates, proposed rates and the single rate, the impact of the single rate was shown to be slightly less in the residential sector, exactly the same for commercial, and slightly more in the industrial category. An industrial customer using 100,000 units, for example, would pay about \$4,000 more per month in rates.

While rate structure can reinforce conservation goals, it alone cannot do the job. It is generally agreed that water pricing is only partially elastic. In the past, water has been priced so low that, in the case of EBMUD, staff say the price would have to be tripled, quadrupled, or quintupled to affect demand significantly.

In view of MMWD's experience, it may be that Marin's \$1.22/100 cu. ft. price is sufficiently high to effectively curb demand.

The basic problem here is that EBMUD is an autonomous local agency with authority to set its own rates and taxes without review by outside agencies, such as the State Public Utilities Commission. Consequently, district



Helen Burke: A minority of one

staff attitudes tend to become ingrown and resist change. This is nowhere more evident than in the area of rate structure.

Recently, I talked to a member of the state PUC who indicated that cost of service is no longer considered the sole criterion for justifying rate structures. Other considerations, such as cost of the last unit of water supplied, as well as conservation goals might also be considered. He felt that in the future more utilities would adopt the single rate structure. Although the PUC is taking the lead in new approaches to rate-setting, district staff still cite them as authority for the cost-of-service approach.

District staff say the rate increase is temporary, necessary only during the

Continued on page 6

FIGHTING THE SCAVENGERS

Garbage Rate Battle in Emeryville

by Cheryl Allmon

EMERYVILLE NEIGHBORHOOD IMPROVEMENT Association (ENIA) and PIE West successfully investigated a whopping rate increase proposed by the Oakland Scavenger Company.

The rate hike for residents was cut almost in half by the Emeryville City Council and the industrial rate was raised.

It all began last July when the Emeryville Neighborhood Improvement Association learned that Oakland Scavenger proposed a 110% rate increase. ENIA began to investigate whether the increase was justified. Emeryville residents were faced with a hike from \$1.90 to \$4 a month.

Although one-fifth of Emeryville's residents are on low or fixed incomes, Bill Neukomm, ENIA staff director at that time, said, "This was really not a poverty case. Rather, the principle of the thing caused all the interest." This would have been the Scavengers' first rate hike since 1968. But it was too much money all at once and without prior notification that galled the residents.

ENIA contacted PIE West to request an analysis of the Scavengers' rates and operating costs. The Scavengers had compiled a 12-page rate increase application that did not include actual costs but simply projected operating costs. There was also a lengthy study compiled by Price-Waterhouse for the Joint Refuse Rate Review Committee (comprised of representatives of all the municipalities served by the Scavengers) that recommended uniform garbage rates. However, the report failed to study differences in hauling costs between the various municipalities.

PIE West recommended accountant Andy Grimstad who met with Neukomm. "My part was to help Bill develop some sort of strategy to block the increase until proper data could be brought in to determine whether or not the increase was justified," Grimstad said. He composed 10 questions for ENIA to request such information as 1974-76 Scavenger income tax returns, and actual production costs.

Pressure on the city council increased to deny the rate raise until, with the City Manager's support on August 10, the council denied the increase until the Scavengers reported all costs and revenues. A month later, Oakland Scavenger Co. produced extensive data.

At this point, Grimstad left the project and recommended a masters student at U.C. Berkeley, who wishes to remain anonymous, to continue in his place. Neukomm and the new analyst went through the books and saw something wrong.

"It looked funny but that was all we could say because we had no independent figures," Neukomm said. "We eventually found inflated expenses such as the cost of sending three extra trucks to Emeryville when they really didn't send them."

There was also the much undeclared revenue from the money-making business of selling salvage. Furthermore, the Scavengers were exaggerating the actual cost of garbage collection in Emeryville, which is a relatively flat but compact city and should be an easy pickup route compared with surrounding cities.

In sum, expenses were inflated and revenue deflated.

After careful analysis, ENIA decided that a 50% to 55% increase for the Scavengers would be fair. Neighborhood and city business representatives formed a negotiating committee. They reviewed figures and concluded that if the proposed rate for industry was raised 5 cents per unit, then the proposed resident rate could be reduced to \$3 per trash can each month.

The Scavengers backed this plan and it was agreed to at the May 10 City Council meeting John Seseck, ENIA staff director, said.

"The company was forced to justify its rate increase and business was very instrumental in not giving up ground until a compromise was in sight. The rate increase became a rallying point for the residents of Emeryville and the strength that resulted from this controversy will hopefully be used again."

Continued from page 5

drought, and that the rate structure review underway — which ultimately will come before the board — is the proper place to discuss rate structure changes. My concern is that because we don't know how long the drought will last — some say we may be headed for a third dry year — what better time to consider rate structure change that encourages prudent use of water than during the worst dry year on record?

MILK PRICES

Why State Dropped Minimum

by Susan Little

THE CALIFORNIA DEPARTMENT of Agriculture eliminated minimum retail prices for milk on January 6. The effort to drop the minimum price started years ago but came to a head last year when the Berkeley Co-op set its milk prices below the minimum and the state took action within 24 hours.

Lois Salisbury and Sidney Wolinsky of Public Advocates served as the Co-op's legal defense during the months of hearings. PIE West provided Public Advocates with an expert resource in economist Polly Roberts of U.C. Berkeley, who prepared several papers and presented testimony.

Salisbury says that Sacramento deregulation has not had much impact because the state dropped the minimum there more than a year ago as an experiment; the half-gallon price has remained at 68 cents and 69 cents.

The retail grocery market in Southern California is more competitive than in the Bay Area.

San Diego was the first to show a city-wide drop, from 71 cents to 64 cents. Around Los Angeles the price came down at the beginning of March and settled at 64 cents.

In the Bay Area prices vary. Wherever there's a Co-op, competitors have cut prices to match the Co-op's 64 cents. Where there is no Co-op, prices have remained the same.

The big chains absorb these price drops by raising prices on other items, but the Co-op did not raise prices on other items. The Co-op management believes the price of milk, a basic food, should be as low as possible and that the prices of basic foods should not be used to subsidize less nutritious items.

Public Advocates is asking the state for attorney's fees for this case. Each 1 cent drop in the price of milk means annual savings of \$10 million to consumers.

Board politics are also involved in setting the district's rate structure. As an environmental activist, I have long been interested in using rate structure to accomplish conservation. The other six board members tend to represent the business community and have stated they do not wish to affect industry adversely in any way or to cause job layoffs. To date, this has included opposition to looking at any alternative

LOW PAY, BIG REWARD

Public Interest Profile

Clair VICKERY, assistant professor of economics at U.C. Berkeley, and a labor economist who has been part of class action suits and has testified about discrimination, unemployment and the federal welfare system, is not all altruist in her contributions to public interest work. She explains:

"The economic problems of public welfare issues are more interesting to me than private sector issues, and the opportunities to influence public policy add to the interest. Research is often grubby, tedious work but economists like to share their knowledge."

There is no money to speak of in public interest work. Vickery sometimes receives small sums, at most a few hundred dollars, as payment for services. She says she accepts the fee because she feels expert witnesses should be paid, but then she turns over the money to a needy campus group. Being paid to testify can be seen as compromising, she realizes, but actually most testimony grows naturally out of research with no strings attached. It's simply that, after investigating a problem, an economist "turns around and gives advice at the administrative, policy-making level," she said.

The pressures of academic life can conflict with working to influence public policy. "It's like trying to dance to two different tunes," Vickery says. The university rewards theoretical work, which is not always like pursuing the practical implications of public policy. She strongly believes basic research is valuable and that the university can provide the necessary time and support to do it.

"Economists investigate real world problems. The problems I can see concretely motivate my research," she explains. "Research consists of setting up a theoretical model and measuring it with data. In this way, economists can assist a

approach to rate-setting.

While I have concurred in other board members' concern about possible loss of jobs and cutback in production, I also feel the district can and should consider establishing an equitable rate structure that both rewards conservation and distributes equally costs of producing water and serving customers, as one weapon in its arsenal of conservation strategies.

HOSPITAL COSTS

Fresno Medical Center — Public vs. Private

THE 1975 - 1976 FRESNO COUNTY GRAND JURY recommended that the county consider awarding management of the county's only public hospital, Valley Medical Center (VMC), to a private firm.

This prompted West Side Rural Health Conference, Mejicanos Unidos, Centro La Familia, and Fresno County Legal Services to form the Community Coalition on VMC to study the public vs. private management of the 450-bed hospital.

"There is substantial reason to doubt that private management would benefit the San Joaquin community that uses the services of VMC, especially the low-income who are frequently unable to obtain medical services elsewhere," says Bill Plumb of the coalition.

The coalition asked for assistance from PIE West and Accountants for the Public Interest (API) in interpreting the financial statements and management proposals of the private firms. The coalition also wanted VMC's budget analyzed to better understand any changes in services or accounting procedures that the private firms might propose. The coalition successfully pressured the VMC management to respond to the same questions that the private firms will address in their bids.

API is now waiting to receive the proposals, review them, compare the Fresno experience to other county hospitals, then write a report this summer. PIE West provided the coalition with the names of several economists in the area who are available for consultations regarding methods of measuring hospital efficiency.

by S.L.

groundswell movement.

"That is the value of PIE: Citizens groups can receive technical assistance to support their positions in front of policy makers."

by S.L.

DOWNZONE DISPUTE Noe Neighbors Get Action

NOE VALLEY NEIGHBORS FOR ACTION WON A temporary victory on April 14 in their fight to maintain the quality of life in their neighborhood.

The San Francisco Planning Commission voted to continue until January 1978 controls that limit commercial development along upper 24th Street, the main business street in Noe Valley.

Until January, 24th St. had been zoned C-2, which allows commercial or office use on upper stories as well as the ground floor. But Noe Valley Neighbors, East-West of Castro Improvement Club, Friends of Noe Valley, and Business and Professional Association of Noe Valley favor rezoning to RC-3, which allows ground level commercial development but protects upper story residential units.

The growing commercial development was driving out residents as well as increasing noise, litter and congestion.

Frank L. Smith, economist at the University of San Francisco, assisted Noe Valley Neighbors by anticipating the arguments of the opposition and preparing rebuttals. Smith testified before the Planning Commission and said: "There is no evidence at all that the adoption of the zoning requested here would close the neighborhood against any expansion of business enterprise. There would still be room for a roughly 10% increase in the number of businesses over those already in place."

Smith also pointed out that the long term effects of "letting the market decide" the extent of commercial development can be disastrous: "What happens if a failure to rezone forces people out of their homes? Apart completely from their problem of finding housing they can afford, they take their buying power with them, including the taxes they pay . . . Failure to rezone in the best interests of neighborhood stabilization means a probable loss to the city, plus loss of buying power to new and established business.

"It's true that a short term gain could accrue to San Francisco in increased property values and taxes. But in the longer term it would also probably mean abandoned units and only paper evaluations."

When controls expire in January 1978, the application will be reviewed in the light of two Planning Commission studies concerning residential and industry and commerce zoning. Margy Ortiz of Noe Valley Neighbors is "optimistic" about the final outcome and plans to continue working with her neighbors to keep the neighborhood their own.

by Susan Little

Continued from front page

3) Reduce the need for other marine terminals, thereby reducing air emissions oil spill risks and the potential for vessel collisions.

Exxon objected, saying the oil reserves might not justify the cost of an expensive pipeline, and that the delay in production while the pipeline was being designed and the necessary permits obtained was too great.

The commission agreed production should not be delayed, which was why it would allow the marine terminal to be used until 1981. It also acknowledged that the pipeline might prove impossible or undesirable to complete and if so Exxon could continue using the marine terminal. The commission would decide desirability or the economic soundness of the pipeline. Exxon rejected this condition, primarily on the ground that a public agency could shut down its means of transporting crude. Exxon also insisted on retaining the right to decide the economic feasibility of the pipeline and wanted to set dollar limits on the cost.

A last-minute telegram

Negotiations broke down, but Exxon had planned for this eventuality. In 1973, Exxon had requested DOI to approve processing the crude in vessels moored in federal waters if state or local authorities rejected the marine terminal plan. DOI approved the offshore alternative provided Exxon would make "diligent, good faith efforts to construct and operate the onshore facility under reasonable terms and conditions."

Minutes before the Coastal Commission met last March to vote on the permit, DOI telegraphed to say it would approve the facilities in federal waters if the state refused the permit. DOI said later it took this step because "lessees of OCS tracts cannot be expected to produce oil in a timely and efficient manner if they must operate in a regulatory climate of excessive uncertainty. The second and related consideration is that public decision-making on environmental issues must proceed along rational lines in which risks are quantified and evaluated to the very limits of our ability, and a balance is struck between environmental and economic considerations."

Melvin Lane, Coastal Commission chairman, wrote DOI Secretary Kleppe asking him to rescind the permit. Lane wrote, "We were shocked and at a loss to understand how Under Secretary Frizzell could make the statement contained in his telegram without first discussing with us what efforts were made to obtain state approval and giving us an opportunity to explain to you the reasonableness of our conditions in our approval of the Exxon

development."

The state has brought suit against DOI on several grounds, including failure to review the commission's action on its merits, acting capriciously and exceeding its authority.

One month after Exxon received its conditional coastal permit, the Governor's Office of Planning and Research contracted with PIE West to analyze the Santa Ynez oil transportation question and to assess unshore economic effects of OCS development generally.

At about the same time, DOI evaluated the costs and benefits of three alternatives for transporting Santa Ynez crude from wellhead to market:

- 1) Onshore pipeline to refineries
- 2) Offshore storage and treatment plant (OS&T) with tankers to distribute.
- 3) Onshore facility with tankers loading crude from a marine terminal 1/4-mile offshore.

DOI found the onshore pipeline the most expensive, followed by OS&T, then the marine terminal.

In its analysis, PIE West economists Richard Norgaard, Sandra Baron and Robert Wolcott used the DOI evaluation as a stepping-off point. They critiqued assumptions, cost and benefit assessments and discount rates, and expanded the economic analysis of the three alternatives. The PIE-West report, *The Santa Ynez Petroleum Transportation Controversy*, has since been cited in the state's appeal to DOI to reconsider the offshore permit as well as in its case against Exxon in federal court.

PIE West's analysis generally supported the reasonableness of the Coastal Commission conditions. The principal conclusion was that instead of asking should the pipeline be built now, it was more appropriate to ask whether the Commission had been reasonable to grant the permit for five years with renewal contingent on proven reserves.

PIE economists also found that it is competitive to transport oil through a pipeline even with levels as low as those specified by Exxon, and about half the cost of tankers when other near shore deposits are run through the line.

Technical issues

The technical points of PIE West's analysis:

- 1) Resource estimates — U.S. Geological Survey reported Santa Ynez contains 730 million to 1.1 billion barrels of oil, more than half the recoverable reserves in the Santa Barbara Channel. Industry estimates the reserves at 2 billion to 3.5 billion barrels. However, DOI's analysis used a range of 93 million to 220 million barrels.

Continued on back page

which PIE West found to be too low.

- 2) Natural gas reinjection — An offshore storage and treatment facility requires reinjection of natural gas into the field because the state won't let Exxon build a natural gas pipeline until it abides by the permit's conditions. Assuming a conservative market value of the gas at 75 cents per 1,000 cubic feet and a 10-year delay in production, PIE West estimated a net loss of \$76 million.
- 3) Transshipment — Exxon contends that L.A. cannot use all of the S.Y. crude and that insufficient refinery capacity for the low gravity asphaltic crude will require transshipment to Benicia, on S.F. Bay, Exxon's only West Coast refinery. On this point, PIE West argued that a substantial portion of the crude is high gravity, which can be refined in L.A., and if the production period is extended that may be more appropriate for the L.A. market than overloading it with crude.
- 4) Pipeline versus tanker costs — PIE West determined that Exxon capital cost estimates were high compared with other 20-inch

pipelines. It also became clear that DOI's analysis had attributed 20 cents of the 37 cents per barrel operating cost to storage and terminal costs only for the pipeline option, not for tankers. PIE West determined this cost would be higher for tankers.

Economics of scale strongly affect pipelines because both pipe and pumping costs decrease as pipe size and throughput increase. By calculating peak production rates for Exxon's range of reserve estimates, PIE West demonstrated that the 20-inch line DOI assumed would be used to full capacity would actually be used only at the highest end of the estimate of reserves and then only for a few years.

- 5) Environmental considerations — PIE West addressed the environmental costs associated with both tankers and pipelines. Using DOI's sources of spill rates, PIE West concluded that the volume of oil spilled by tankers can be expected to be 45% greater than that spilled by a pipeline.

On air quality, the DOI analysis concluded that auto use can be expected to reduce commensurate with the increased hydrocarbon

levels resulting from rented tanker emissions, thus no environmental effect. PIE West dismissed this line of reasoning, concluding that over the life of the Santa Ynez field substantial air quality costs could result.

Where We Are Now

Resolution of the matter will have substantial repercussions for California, and may set a precedent for offshore operations elsewhere.

The state feels DOI is undermining state and local bodies responsible for controlling coastal development. The state also considers DOI negligent in failing to support its position with data, while state and local governments are sponsoring several studies on air quality, marine safety and oil spills.

Both the Carter and Brown administrations are concerned about this matter. Some court cases are proceeding toward a resolution and Secretary of the Interior Cecil Andrus has taken a special interest in the matter. Gov. Brown's office anticipates a final resolution of the matter in the next few months.

pie-west

PUBLIC INTEREST ECONOMICS

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San Francisco Study Center

April 20, 1977

Dear Friend:

1095 Market Room 620

John Markoff of the Pacific Northwest Research Center suggested I write to you to let you know about the services of Public Interest Economics West. PIE West is a consortium of economists who work with public interest organizations on the economic aspects of public policy issues. PIE West economists work on a free or low fee basis based on a group's ability to pay.

Public Interest Economics was founded 5 years ago in Washington, D.C. by an economist and a public interest organizer who saw that, time and time again, citizens who wanted to assert the public interest in policy discussions were outgunned by high-priced corporate and governmental experts. They felt that citizen groups needed access to that expertise at prices they could afford. So they put together a group of economists who would analyze data, do research and answer questions, and offer advice and testimony at public forums to represent the public interest.

PIE West, the first regional office of Public Interest Economics, opened in San Francisco more than a year ago to serve groups in the western region of the country. Since that time PIE West economists have helped dozens of groups ranging from local ethnic and neighborhood groups to statewide environmental, tax reform and utility rate reform organizations.

John suggested that your group might be able to use the services of a PIE West economist, or that you might know the names of other groups who could be potential clients. If you want help, or can recommend other groups, please contact me at the San Francisco Study Center. The Study Center is doing community outreach work for PIE West and letters should be sent to me here.

Thanks and keep PIE West in mind!

Sincerely,
Judy Pope
Judy Pope
PIE West Coordinator



Public Interest Economics-West is a nonprofit resource center providing economic expertise on a free or low fee basis to citizen groups throughout California. PIE-West's services are in three categories:

The Clearinghouse Project—Economists are linked with citizen groups to represent, from a technical perspective, the concerns of these groups before legislative, judicial and regulatory bodies. Examples:

A. Technical analyses of the impact of public investment projects such as urban redevelopment, mass transit, land reclamation, wastewater treatment, and institutional expansion.

B. Evaluate the impacts of private sector production and consumption on communities, consumers, minorities and the distribution of income.

C. Evaluate the impact of governmental regulation upon various economic sectors as well as assess the impact of fiscal and developmental restrictions such as tax laws, zoning, and code enforcement.

Public Education—PIE-West convenes meetings, workshops, seminars and conferences to focus on public policy issues. Meetings range from small informal discussion groups of local economic concern to large conferences devoted to expanding public awareness of the economic consequences of growth and energy choices.

Research—PIE-West will conduct independent economic research on issues of major public concern. The research will be conducted primarily on a contract basis.

Groups seeking to obtain technical assistance through PIE-West can contact the San Francisco Study Center for more information. P.O. Box 5646, San Francisco 94103. (415) 626-1650

economics as if people mattered