

## 29. AUTHORIZATION TO FILE NOTICES OF DEFAULT WITH STATE OIL AND GAS LESSEES - W 9603.

During consideration of Calendar Item 28 attached, Lieutenant Governor Ed Reinecke requested an explanation of the State Lands Commission's procedure for filing default notices. Mr. Warren J. Abbott, Deputy Attorney General, described the process.

After Mr. Abbott's explanation, Mr. E. N. Gladish, Executive Officer of the State Lands Commission, asked the Commission to table the item due to the fact that at this point in time it is moot. In explaining the reasons therefor, he advised that earlier this week the staff received word that the Federal Energy Office had reversed its ruling on State exemptions and had promulgated new regulations. He then stated that he would re-review the Division's income projections based on this new action, and asked Mr. Abbott to describe the legal aspects of the action, after which he would ask for a resolution from the Commission for further action with regard to the Federal ruling. In addition, Mr. Gladish stated that he would discuss the royalty oil sell-offs.

In response to Mr. Gladish's request, Mr. Abbott gave a brief chronology of events leading up to this new ruling. He stated that the Office of the Attorney General is now working on bringing a lawsuit on the procedure used by the FEO, questioning the legality of the order.

Mr. Gladish then briefed the Commissioners on the economic effect of the new ruling. In summary, Mr. Gladish informed the Commission that because of the new FEO ruling, the Commission's revenue potential is reduced but its revenue is still greater than estimated in the budget. The new revenue forecast for this fiscal year will exceed the previous forecast by some \$30 million. However, Mr. Gladish stated that the Division is not in a position at this time to be firm about next year's forecast. Mr. Gladish commented on the other effects which the new ruling has on the Commission, including such things as putting the Commission in a refund posture of \$1.3 million because of areas ruled illegal by the FEO.

Mr. Flournoy brought up the question of the sell-offs, at which time Mr. Gladish gave a brief status report. Mr. Harold P. Lingle, Deputy City Attorney, City of Long Beach, approached the Commission and presented a brief report on the recent agreements with THUMS on paying the exempt oil price, and the effect of the sell-offs in the Long Beach Unit. He stressed that as trustee the City of Long Beach has a duty to enforce the contracts and try to get what the City is entitled to on behalf of the State under those contracts or face a potential taxpayer's suit.

Mr. Flournoy asked Mr. Abbott to briefly summarize the Commission's options with regard to the new ruling. Mr. Abbott responded by repeating that the Attorney General's Office is researching the matter and preparing to file an appropriate action in the Federal court if the Commission desires. He

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mentioned that they had discussed the possibility with the City of Long Beach of the City joining the State as party plaintiff in the action. Other options he mentioned include petitioning Mr. Simon, Administrator of the Federal Energy Office, to reconsider the new action; petitioning that the State be given exceptions as to the retroactive effect; and congressional action.

At the end of Mr. Abbott's testimony, Mr. Flournoy voiced his opinion that the State Lands Commission should do everything it can to reverse this new ruling and approve the following resolution:

IT IS RECOMMENDED THAT:

THE COMMISSION AUTHORIZE THE EXECUTIVE OFFICER AND THE ATTORNEY GENERAL TO TAKE ANY ACTION TO REVERSE, AMEND OR REPEAL THE ACTION TAKEN BY THE FEDERAL ENERGY OFFICE ON FEBRUARY 21, 1974, IN CONNECTION WITH THE EXEMPTION OF STATE AND LOCAL GOVERNMENTS FROM CEILING PRICES FOR CRUDE OIL, INCLUDING BUT NOT LIMITED TO BRINGING APPROPRIATE COURT PROCEEDINGS AND FILING OBJECTIONS AND PETITIONS WITH THE FEDERAL ENERGY OFFICE.

However, Mr. Reinecke voiced objections to the recommendation. In essence he stated that he agreed that public hearings should have been held but observed that if the State were exempt, it would increase the cost of gas to the consumer and thereby contribute toward inflation. Therefore, for lack of a majority, the resolution died.

Mr. Flournoy, however, stated that he felt the third member of the Commission, Director of Finance Verne Orr, should be given the chance to voice his position on the staff's recommendation. If Mr. Orr concurred with Mr. Reinecke's position, the matter would remain dead. However, if his position coincided with Mr. Flournoy's, then a meeting should be set up as soon as possible to vote on the resolution.

CALENDAR ITEM

28.

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W 9603

AUTHORIZATION TO FILE NOTICES OF DEFAULT  
WITH STATE OIL AND GAS LESSEES

State oil and gas leases provide, in general, that when royalties are paid in cash such royalty shall be determined in accordance with the current market price at the well. Further, the current market price is to be determined by the State and shall not be less than the highest price in the nearest field in which oil of like gravity and quantity is being sold in substantial quantities. Therefore, in accordance with the respective lease terms and the exempt status of governmental agencies from the Federal crude oil price controls, the staff has invoiced each of the State lessees for royalty oil produced under their leases based on the exempt oil prices. The leases also require that royalty payments be made by the 25th of the month following the month in which the oil is produced. However, in view of the crude oil price confusion, the Division has charged interest on late payments from the date of our invoice notices rather than from the lease due date. Such notices were not considered to be lease-default notices; however, as indicated in Exhibit "A", certain lessees are still delinquent in their royalty payments.

EXHIBIT: A. Table 1.

IT IS RECOMMENDED THAT THE COMMISSION:

1. FIND AND DETERMINE PURSUANT TO THE RESPECTIVE LEASES THAT THE CRUDE OIL PRICES USED FOR INVOICING STATE OIL AND GAS LESSEES ON THE DATES LISTED IN EXHIBIT "A" ATTACHED AND BY REFERENCE MADE A PART HEREOF AND FOR THE PERIODS SPECIFIED IN SAID INVOICES ARE THE MARKET VALUES OF THE ROYALTY OIL FOR THOSE PERIODS.
2. AUTHORIZE THE EXECUTIVE OFFICER TO NOTIFY THOSE LESSEES THAT HAVE NOT SUBMITTED ROYALTY PAYMENTS BASED ON THE EXEMPT OIL PRICES THAT THE LEASES ARE IN DEFAULT AND UNLESS PAYMENTS ARE RECEIVED WITHIN THE TIME PERMITTED UNDER THE RESPECTIVE LEASES, SUCH LEASES WILL BE CANCELLED.

Attachment: Exhibit "A"