STATE OF CALIFORNIA

Minutes of the Meeting of the
State Lands Commission
Sacramento, California

APPEARANCES

Present: Kenneth Cory, State Controller, Chairman
Mervyn M. Dymally, Lieutenant Governor, Commissioner

Staff Members in Attendance:
William F. Northrop, Executive Officer
R. S. Golden, Assistant Executive Officer
James F. Trout, Manager, Land Operations
Donald J. Everitts, Manager, Energy and Mineral Resources Development
Robert C. Hight, Staff Counsel
Diane Jones, Secretary

Also in Attendance:

Representing the Office of the Atrorney General
N. Gregory Taylor, Deputy Attorney General

Appearances:

Executive Officer's Report
Honorable John A. Nejedly, Senator, 7th District

Re Minute Item 7 - Amendment of Commercial Lease PRC 2052.
Mrs. Anona Dunbar Perry, Applicant.

Re Minute Item 13 - Approval of Proposed Drilling of New Wells; Exchange Oil and Gas Lease E 392; Burmah Oil and Gas Company.
Mr. Jim Fink, Citizen.

Re Minute Item 23 - Approval of Proposed Incorporation of the City of Truckee of Adjacent Tide and Submerged Lands.
Mr. James Porter, Attorney for proponents of proposed incorporation of the City of Truckee.

MINUTES OF THE STATE LANDS COMMISSION
MEETING OF
DECEMBER 1, 1975

Chairman Kenneth Cory called the meeting to order at 10:08 a.m. noting the presence of Commissioner Mervyn Dymally and the absence of Commissioner Roy Bell. The minutes of the October 29, 1975 meeting were confirmed as written.

EXECUTIVE OFFICER'S REPORT:

Mr. William F. Northrop, Executive Officer gave his report to the Commission which included the following:

FEA Remedial Order

On November 6, 1975, a Remedial Order from the FEA requiring the State to resume deliveries of royalty oil from Tract 2 to ARCO was issued. Delivery to ARCO commenced on November 7, 1975. An appeal was filed by the State on November 12, 1975.

Mr. N. Gregory Taylor of the Attorney General's Office, expounded on the current situation and stated a hearing would be scheduled in Washington, D.C. soon, to hear oral arguments.

Contract Completion

The resources appraisal the State Lands Division has been conducting relative to the Federal OCS Lease Sale 35, offshore Southern California, for the Office of Planning and Research was completed and forwarded to them.

School Land Sale Applications

Four pending applications for the purchase of approximately 5,223 acres of vacant school lands have remained uncompleted since the late 1960's. Without objection from the Commission, the staff will submit recommendations to the Commission at the next meeting to cancel these applications and restore the lands to unencumbered status.

U. S. Department of Interior OCS Lease Sale 35 - Southern California

Approximately 428 acres of lands to which California asserts ownership were included in the Department of Interior's final tract maps for the proposed Southern California OCS Lease Sale 35.

These lands were removed from the proposed sale making it unnecessary to authorize the Division and the Office of the Attorney General to proceed with seeking an injunction from the U. S. Supreme Court as contemplated in Calendar Item 28.

Alaskan Natural Gas Impact Report

Mr. Donald Everitts, Manager, Energy and Mineral Resources, gave an oral progress report on the staff study on the impact of Alaskan natural gas and the potential impact of establishing deepwater ports along the coast of California.

During Mr. Everitts' report, Mr. Cory instructed the staff of the Division to contact the local governments concerning figures of importation capacity on the oil and gas they expect to receive from Alaska and report back to the Commission.

Mr. Northrop responded to a request from Governor Dymally on the FEA crude oil differential. Mr. Northrop was advised the State was turned down on the appeal for a parity price for crude oil that would bring California old oil prices in line with the $5.25 old crude oil prices.

He reported the State was going to have to shut oil back and replace it with $14 oil. Congressman Hannaford arranged for a meeting with Mr. Zarb of the FEA, City of Long Beach Officials, and some independent oil producers to discuss this situation.

Mr. Taylor of the Attorney General's Office, reported the State had exhausted all administrative remedies to resolve this matter to the State's satisfaction.

A motion was made and approved to memorialize the California Congressional Delegation to investigate the entire crude oil pricing in the FEA as it applies to the discrimination against the State of California, and work with the Delegation in setting up needed legislation in regard to this matter.

Mr. Northrop's last item on his report involved the trespass areas in and around Bethel Island, Contra Costa County.

Mr. James Trout, Manager, Land Operations, gave a report on these trespassers occupying State lands without a lease. He then gave a slide presentation giving an overall view of the situation.

Governor Dymally asked that the staff try to reintroduce legislation to prevent this type of trespassing when the Legislature reconvenes.

Senator John Nejedly appeared later in the meeting to address the Commission regarding this trespass situation. He asked the Commission to outline the lands that are felt to be within the jurisdiction of the Commission and the general procedures and policies of the Commission with reference to utilization of these lands. He also asked a meeting be arranged at Bethel Island with the land owners to answer their questions and set forth these policies.

The Commission directed the staff to set up such a meeting as expeditiously as possible to outline the areas in question and set forth the policies of the Commission in this regard.

Senator Nejedly also asked for a rehearing on a dredging permit issued to Mr. Antone Dowrelio (Contra Costa County) at the October 29, 1975 meeting, due to economic hardship on Mr. Dowrelio because of the royalty imposed on the dredged materials.

This request was granted and the matter will be heard at the next Commission meeting.

The date for the next Commission meeting was confirmed for January 14, 1976.

Mr. Northrop's written comments are attached as Exhibit "A".

Mr. Everitts' written comments are attached as Exhibit "B".

EXHIBIT "A"

STATE LANDS COMMISSION MEETING

December 1, 1975

EXECUTIVE OFFICER'S REPORT

by

WILLIAM F. NORTHROP

FEA REMEDIAL ORDER

A royalty oil sales contract between the State and U. S. Oil and Refining Company was issued in late 1973, covering royalty oil produced from the ARCO lease in Tract 2 of the Long Beach Unit. This contract was awarded to the successful bidder at 74 cents above posted price.

Deliveries were to have started on May 1, 1974. However, the Federal Energy Administration issued new regulations in January of 1974 and the next month repealed the State's exemption from crude oil price controls. FEA also ruled that removal of the State's exemption was retroactive to October of 1973 and that the supplier/purchaser relationship in effect between ARCO and the State on December 1, 1973, could not be terminated. ARCO, therefore, could not be required to meet U. S. oil's bid offer.

On November 6, 1975, we received a Remedial Order from FEA requiring the State to resume deliveries of royalty oil from Tract 2 to ARCO. Appropriate notices were served, and delivery to ARCO was effected on November 7th. The FEA order also provided that the State could file an appeal on any of the issues. An appeal was filed by the State on November 12, 1975.

The FEA Remedial Order pertains only to the injunctive aspect and specifically defers any ruling on the damages aspect until additional data are received from both ARCO and the State. Such information is currently being prepared by the staff.

CONTRACT COMPLETED

The resources appraisal which the State Lands Division has been conducting with regard to the federal OCS Lease Sale 35 offshore Southern California for the Office of Planning and Research has been completed.

SCHOOL LAND SALE APPLICATIONS

The Division has on file four pending applications for the purchase of about 5,223 acres of vacant State school lands. These applications have been on file since the late 1960s, and are from public agencies and political subdivisions. Attempts to process these applications through to a completed sale have not been successful. In fact, it now appears that the sales will never be completed.

It is my understanding that the Commission has directed staff to prepare, and diligently follow, a management plan for the vacant school lands. The significant acreage now pending on these incomplete applications is inconsistent with your directive.

If you have no objection, it is staff's intent to submit recommendations to the Commission at its next meeting to cancel these applications and restore the lands to unencumbered status.

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U.S. DEPARTMENT OF INTERIOR OCS LEASE SALE NO. 35 - SO. CALIFORNIA

Immediately upon the U. S. Department of Interior's release of final tract maps for the proposed Southern California OCS Lease Sale No. 35, I instructed F. D. Uzes, Supervising Boundary Determination Officer for the Division, to check the tract maps to insure that offshore areas claimed by California were not included in the proposed sale. This check revealed that the Department of Interior had included in the proposed sale approximately 428 acres of lands to which California asserts ownership. Determination of the ownership of this acreage, together with several other offshore areas, is one of the issues remaining in the case of U.S. v. California, which is pending before the United States Supreme Court.

On November 18, 1975, I wrote Secretary of Interior Thomas S. Kleppe, informing him of the situation and strongly demanding that the disputed acreage be withdrawn from the proposed sale. Simultaneously, I instructed the Office of the Attorney General to be prepared to obtain an injunction from the United States Supreme Court to stop any lease of the acreage claimed by California. The necessary papers have been prepared and are ready for filing.

Last Wednesday evening, the Department of Interior informed us that the disputed acreage is being withdrawn from the proposed sale. A notice to this effect will appear in the December 2nd edition of the Federal Register. The Division staff has checked the descriptions of the parcels to be withdrawn, and finds that all areas claimed by California have been withdrawn and a buffer zone of 800 to 2000 feet beyond those areas has also been deleted.

In light of this action by the Department of the Interior, it will be unnecessary for the Commission to authorize the Division and the Office of the Attorney General to proceed with seeking an injunction from the United States Supreme Court as contemplated in Calendar Item No. 29.

We shall continue to monitor this situation carefully. Should the need arise, an emergency meeting of the Commission will be requested.

ALASKAN NATURAL GAS IMPACT REPORT

Staff is currently preparing a report on the impact which delivery of liquefied natural gas from Alaska would have on California, and on the potential impact of establishing deepwater ports along the California coast. The full report should be completed soon. However, I have asked Don Everitts, Manager of Energy and Mineral Resources for the Division, to give you an oral progress report today on the staff study.

1330

EXHIBIT "B"

ALASKAN NATURAL GAS IMPACT ON CALIFORNIA

by
DONALD J. EVERITTS, Manager
Energy and Mineral Resources
State Lands Division

Mr. Chairman, my statement today is a preliminary progress report on the investigation you have requested staff to make concerning any possible impact which the arrival of Alaskan natural gas would have on California. The full report should be available soon, and will include our findings on any impacts which could be generated by the construction and installation of deepwater ports.

California's consumption of natural gas has been steadily increasing since about 1945. During the same period, production within the State has been decreasing. To meet the demand, out-of-state imports have been required: from New Mexico, From West Texas, even from Canada.

Nationwide, the United States consumes 22 trillion cubic feet of natural gas per year (1974). California consumption is 8 percent of the national use -- at 1.86 trillion cubic feet per year. Only 14.5 percent of the California consumption is supplied by California production; the rest is imported. As production decreases, imports from Alaska and foreign countries will be necessary to satisfy the State's energy requirements.

Several companies competing for Alaskan natural gas reserves expected to be available for delivery to the United States have proposed various routes and modes of transportation, and have filed applications with the Federal Power Commission.

*Presented before the State Lands Commission Meeting in Sacramento, December 1, 1975.

The Alaska Natural Gas Transmission System has proposed installing a 48-inch buried line from Prudhoe Bay, through Alaska and Canada, to new and existing networks in the United States -- thus supplying both the East and the West Coasts.

El Paso Gas Company has proposed laying a pipeline from Prudhoe Bay to Valdez, paralleling the 48-inch crude oil line presently under construction and scheduled for completion in 1977. Under this proposal, the gas would be liquefied near Valdez and transported to California in LNG vessels. It would then be regasified and distributed from terminals which Western LNG Terminal Company (a subsidiary of Pacific Lighting Company) proposes to operate from three sites on the California coast: the Los Angeles Harbor, Oxnard, and Point Conception.

Environmental Impact on California

Underground, high-pressure, natural gas pipelines are common in California. Systems similar to those proposed for transporting natural gas from Alaska have been successfully installed and are presently in use with a minimal effect on the environment.

The worldwide movement of LNG currently exceeds 500 billion cubic feet annually and is expected to reach 2 trillion cubic feet by 1980. The viability of liquefaction, ocean transport, and revaporization of LNG has been thoroughly demonstrated.

It is possible, however, that liquefied natural gas revaporization terminals could produce some adverse impacts:

a. Increased tankership activity in a sensitive area.

b. Visual impacts of piers, storage tanks and buildings. (Locate further out to sea at hinterlands.)

c. Portions of the sea coast would be unavailable to the public.

d. Cooling sea water through extraction of heat for revaporization could adversely affect some marine life.

e. Potential hazards of fire and explosion through handling and transfer of liquefied natural gas.

Some of the adverse effects could be mitigated as the supply requirement increases by instituting some of the following policies:

a. Use remote coastal areas rather than popular ocean front acreage for placement of industrial complexes.

b. Use multi-ported diffuser pipes to reintroduce used seawater into the ocean. Effluent is thus discharged over a larger area and the water temperature immediately surrounding the discharge line dept within acceptable biological limits.

c. Reduce the flammability dangers that occur when LNG vapors are mixed with air in the correct proportions by storing in specially designed containers and transferring in piping to keep the product isolated from the atmosphere. A significant hazard could occur from a large-scale LNG spill at sea. However, the Federal Power Commission staff has developed a model to predict the behavior of a 100,000 cubic meter spill at sea -- a much larger spill than is likely to occur.

Current Status

The Federal Power Commission is currently considering the applications of both Alaska Natural Gas Transmission System and the El Paso Gas Company. Hearings have been going on throughout the year; in Sacramento on September 29 and 30. A 17-volume Draft EIS was issued by the U. S. Department of the Interior in June 1975. The document, however, deals mostly with the proposal put forth by Alaska Natural Gas Transmission System since El Paso Gas Co. did not file an application with Interior for federal right-of-way permits and their proposal was not available for evaluation in preparing the Draft EIS.

It is possible that the Federal Power Commission will grant permits to both companies.

Future Cost of Natural Gas

If the price of natural gas is deregulated, it is likely that the cost of Alaskan gas will rise to that of fuel oil -- on an equal BTU basis. This is also true of LNG foreign imports, expected to reach 3 to 5 billion cubic feet per day by 1985. The cost of natural gas to industrial consumers could rise to $1.88 per 1000 cubic feet, compared to today's cost of 75 cents per 1000 cubic feet.

This has been just a summary of the staff investigation, in order to keep the Commission informed of our progress. A more complete document, including consideration of deepwater ports, is now in preparation and will be presented to you for approval before publication and distribution.

During the meeting, the recommendations of the staff relative to Calendar Items 3, 4, 5, 6, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 20, 21, 22, 24, 25, and 27 were adopted as the resolutions of the Commission by unanimous vote.

With regard to Calendar Items 1, 2, 7, 19, 23, and 28, the resolutions of the Commission are as set forth on pages 1336, 1340, 1359, 1394-1395, 1415, and 1430, respectively.

Calendar Item 26 was informative only with no Commission action being necessary.