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MEETING  
STATE LANDS COMMISSION

ROOM 2117  
STATE CAPITOL  
SACRAMENTO, CALIFORNIA

THURSDAY, AUGUST 25, 1977  
10:10 A.M.

ORIGINAL

Reported by: DIANE PATRIG, C.S.R., 3692

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MEMBERS PRESENT

1  
2 Mr. Roy Bell, Acting Chairman, Director of Finance

3 Ms. Betty Jo Smith, Commission Alternate, Representative  
4 for Lt. Gov. Mervyn Dymally

5 Mr. Keith Seegmiller, Commission Alternate, Representative  
6 for Chairman Kenneth Cory

MEMBERS ABSENT

7  
8 Mr. Kenneth Cory, State Controller, Chairman

9 Mr. Mervyn M. Dymally, Lieutenant Governor, Commission  
10

STAFF PRESENT

11  
12 Ms. Diane Jones, Secretary

13 Mr. William Northrop, Executive Officer

14 Mr. Robert Hight

15 Mr. Jan Stevens, Assistant Attorney General

16 Mr. William Thompson, Manager, Long Beach Operations

17 Mr. Wes Pace

18 Mr. William J. Lamont, Special Counsel

19 Mr. James Trout, Manager, Land Operations  
20

ALSO PRESENT

21  
22 Mr. Peter Lingle, City Attorney for the City of Long Beach  
23  
24  
25

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PROCEEDINGS

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1  
2  
3 ACTING CHAIRMAN BELL: Good morning, ladies and  
4 gentlemen. I'd like to get the meeting started.

5 Mr. Northrop, may I have the roll call?

6 EXECUTIVE OFFICER NORTHROP: Chairman Corv?

7 Lieutenant Governor Dymally?

8 MS. SMITH: Betty Smith sitting in.

9 EXECUTIVE OFFICER NORTHROP: Ms. Smith.

10 Secretary of finance, Mr. Roy Bell?

11 ACTING CHAIRMAN BELL: See, I'm the secretary --

12 EXECUTIVE OFFICER NORTHROP: The Director of  
13 Finance.

14 ACTING CHAIRMAN BELL: I'm elevated.

15 EXECUTIVE OFFICER NORTHROP: Mr. Chairman, I  
16 think counsel wants to make a statement.

17 MR. HIGHT: If I can do a little housekeeping for  
18 a moment, Mr. Seegmiller is sitting in for Mr. Corv in a  
19 non-voting capacity this morning.

20 ACTING CHAIRMAN BELL: I wondered if we could  
21 have two. But anyway, we have two legal votes sitting here  
22 on the left.

23 MR. HIGHT: That is correct.

24 ACTING CHAIRMAN BELL: On your right. We do have  
25 a quorum present.

1           We have confirmation of minutes of the meeting of  
2 July 26th which are before you with your calendar and  
3 agenda. Do I have any corrections or other comments on  
4 those?

5           If not, they'll be deemed approved.

6           The report of the Executive Officer.

7           EXECUTIVE OFFICER NORTHROP: Thank you very  
8 kindly, Mr. Chairman. Mr. Chairman and members, during the  
9 week of July 31st through August 4th, California hosted the  
10 Western States Land Commissioners conference in San Diego.  
11 All 19 western states were represented. That 19 includes  
12 Louisiana, which they are just slightly east of west, I  
13 guess.

14           The State of Wisconsin attended on a fact-finding  
15 mission. Wisconsin sent the State Treasurer and the  
16 Lieutenant Governor from Wisconsin.

17           The meeting was particularly constructive, at  
18 least instructive, in that the Bureau of Land Management  
19 held a meeting of all its state directors at the same time  
20 and place. We enjoyed several joint sessions, and we  
21 discussed on-going problems of the state with regard to  
22 the federally-administrated programs by the Bureau.

23           Featured speakers included both Chairman Cory  
24 and Governor Dymally and Undersecretary of Interior Guy  
25 Martin. I was elected President of the organization for

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1 '77-'78.

2 ACTING CHAIRMAN BELL: I hope it does not involve  
3 any out-of-state travel?

4 EXECUTIVE OFFICER NORTHROP: No. We tried to hold  
5 it down. However, Louisiana was selected as the host for  
6 the next meeting, and as President, I do think I have to go.

7 MR. SEEGMILLER: It wouldn't be in the State of  
8 California two years running.

9 EXECUTIVE OFFICER NORTHROP: Yes, that's right.  
10 But it's in the summer, and that's really not all that much  
11 fun, I guess. It will be held in either Baton Rouge or  
12 New Orleans.

13 Each commissioner has been sent a copy of the  
14 land consolidation report, with the expressed caveat that  
15 the commission might make significant changes. The draft  
16 has also been furnished to the State Office of the Bureau of  
17 Land Management for preliminary evaluation. The draft report  
18 covers four basic areas of commission concern:

19 One is the satisfaction of remaining entitlements,  
20 entitled lands, unsurveyed lands, and so forth we have  
21 coming to us; and a classification of high quality lands  
22 for indemnity selection.

23 The third area is priority in the BLM staff  
24 exchanges, including additional federal staff if necessary.  
25 The fourth is further grants of public lands.

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1           A briefing on the report will be calendared at a  
2 subsequent meeting. We plan on it for next time -- for next  
3 meeting at this time. However, the initial federal reaction  
4 is that the state should not expect any early reaction.

5           I think the federal government is looking at maybe  
6 a time frame of at least ten years until the inventory  
7 required by the Federal Land Policy and Management Act is  
8 done. The Bureau of Land Management feels they have been  
9 directed to go slow or not act at all on any transfers from  
10 federal ownership. This includes indemnity selections and  
11 exchanges.

12           However, we have noticed in other meetings that  
13 the Southern Pacific Railroad and other private entities  
14 are getting much better service than the state is.

15           Further, it was made very clear at San Diego that  
16 state exchanges have a low priority and state help during  
17 the budget hearings will be necessary for any change in this  
18 priority. It was quite evident that BLM was going to look  
19 to us for help in their budget. I think they were kind of  
20 holding us up for budget help before they would give us any  
21 exchanges. That was very clear in the comments that they  
22 made.

23           Another issue is whether exchanges benefiting  
24 other state agencies, Fish and Game, or Parks, will have to  
25 be processed first. BLM seemingly would like to make the

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1 exchanges and exchange our land and Parks and Fish and Game  
2 land so that they can get two for the price of one. I'll  
3 keep you briefed on how this is going.

4 The hazard removal program, the next subject:  
5 The accomplishments of the hazard removal task force to date  
6 have been quite satisfactory. Three area projects have been  
7 established, and they are: The Lake Tahoe hazard removal  
8 program; the American River hazard removal program; and the  
9 Upper Sacramento River hazard removal program.

10 The Tahoe removal program is currently the most  
11 advanced. A contract has been made with the Corps of  
12 Engineers to administer and oversee the removal program at  
13 Lake Tahoe. They are presently advertising for the job.

14 Additionally, all hazards have been identified,  
15 mapped, and shoreline access for their removal to upland  
16 locations has been identified, which was a considerable  
17 program. Removal operations will begin about September 12th  
18 and as indicated in Item 26 on today's agenda, the initial  
19 cost will be about \$200,000.

20 The Division will soon enter into a \$25,000  
21 contract with Sacramento County for removal of hazards in  
22 the Lower American River. All of these hazards have been  
23 identified and mapped, as I've discussed. Operation will  
24 commence once the Sacramento County Board of Supervisors  
25 approves the contract later this month.

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1           The Division has just recently initiated a third  
2 hazard removal program in the Upper Sacramento River.  
3 Hazards have been identified and are currently being mapped.

4           In addition, initial contacts have been made with  
5 local and state agencies to determine whether it would be  
6 feasible to contract with them for hazard removal. The  
7 Division proposes to begin operation in the Sacramento River  
8 at Keswick Dam and proceed south until the funds are expended.

9           On August the 11th, the Executive Officer conducted  
10 a public hearing for the purpose of gathering evidence to  
11 serve as a basis for your determination of the reasonable  
12 market value for royalty purposes of natural gas deliveries  
13 by Chevron from certain Northern California gas fields.

14           As you will recall, the Commission on September  
15 30th of 1976 approved for a period of six months commencing  
16 July 1, 1976, letter modifications to gas sales agreements  
17 between Chevron and Pacific Gas and Electric. Such approval  
18 was subject to the right of the state at the end of the  
19 six-month period to make a determination of the reasonable  
20 market value of the gas deliveries by Chevron to PG&E.

21           Testimony at the hearing was presented by the  
22 Commission's staff, a representative of the Office of the  
23 Attorney General, a consultant retained by staff, Chevron,  
24 Pacific Gas and Electric, and the Public Utilities Commission.  
25 The hearing is being held open for further written rebuttal

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1 to the statements made at that meeting through August the  
2 26th, tomorrow.

3           Upon conclusion of the hearing, staff will  
4 analyze all testimony and present recommendations for the  
5 establishment of the reasonable market value of the gas  
6 produced from January 1st, 1977, through June 30th, 1978,  
7 the term of the modified sales contracts. After June 30th,  
8 1978, the question will again be open as to the reasonable  
9 market value applicable to Chevron's royalty payments to the  
10 state.

11           ACTING CHAIRMAN BELL: Is this the item that the  
12 Public Utilities Commissioners keep reminding me is the  
13 tail that wags the dog? Our little old tiny two percent  
14 or less is in effect, when we try to make a nice profit for  
15 the state on our little bit, the consumers of Northern  
16 California get ripped off.

17           EXECUTIVE OFFICER NORTHROP: That has been the  
18 position, Mr. Chairman --

19           ACTING CHAIRMAN BELL: By the way, that's not  
20 my position. I'm merely quoting some people who have  
21 commented to me.

22           EXECUTIVE OFFICER NORTHROP: How ar, we did have  
23 a comment from one of the Public Utilities Commissioners  
24 encouraging us to proceed with our hearings and get a  
25 fair price for it. However, there's one interesting point

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1 that came from the hearing.

2 That's that Standard Oil Company, who has been  
3 our negotiator, who is the lessee --

4 ACTING CHAIRMAN BELL: Yes.

5 EXECUTIVE OFFICER NORTHROP: -- is a negative  
6 gas producer. In other words, they are buying gas. And  
7 while we are looking at a price considerably less than  
8 two dollars, Standard is paying a price considerably in  
9 excess of two dollars per MCF for gas.

10 So I wonder if that tail wagging the dog concept --

11 ACTING CHAIRMAN BELL: Who are they buying from?

12 EXECUTIVE OFFICER NORTHROP: PG&E, of course.

13 So that's an interesting concept, Mr. Bell.

14 Staff has taken some preliminary steps to  
15 initiate sell-offs of the 12 1/2 percent of the Contractors'  
16 oil in the Long Beach unit.

17 ACTING CHAIRMAN BELL: This is crude oil?

18 EXECUTIVE OFFICER NORTHROP: Yes, as outlined  
19 in Chapter 138.

20 MR. SEEGMILLER: When was the last sell-off?

21 EXECUTIVE OFFICER NORTHROP: The last sell-off,  
22 I believe, initiated in 1972.

23 MR. SEEGMILLER: Are these periodic or required  
24 annually or --

25 ACTING CHAIRMAN BELL: It's option --

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1 EXECUTIVE OFFICER NORTHROP: We are going to have  
2 a discussion on that in a few minutes, Mr. Seegmiller.

3 MR. SEEGMILLER: Okay. Fine.

4 EXECUTIVE OFFICER NORTHROP: And part of it we  
5 can sell off, and staff has agreed that those that we can,  
6 we're going to take the necessary steps. Staff has had a  
7 meeting in Sacramento in which Counsel for the City of Long  
8 Beach was present and they're in agreement. There seems to  
9 be general agreement that we should proceed where we can.

10 Now, FEA has put some road blocks in our way,  
11 and we have got to solve these FEA problems before we can  
12 fully go ahead. The picture is very unclear.

13 I've asked John Lamont and Mr. Thompson and Mr.  
14 Pace -- Mr. Thompson and Mr. Pace from our Long Beach  
15 operations to at this time come forward and we'll discuss  
16 this in some kind of a round table panel as to our problems  
17 and what we're looking at in the way of crude oil processing.

18 So if Mr. Lamont and Mr. Pace and Mr. Thompson  
19 will come up here right now, I'd like to discuss this with  
20 the Commission.

21 While they are coming up here, we additionally  
22 have been cited by the FEA for a probable violation of the  
23 FEA regulations and some of the contracts we let at the time  
24 Mr. Seegmiller. We are taking the necessary steps to contest  
25 these violations and contest the citation. We'll keep you

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1    abreast of where we are going in that particular area.

2                   Do you gentlemen want to come down here?

3                   MR. LAMONT: Thank you, Mr. Northrop. It's very  
4    difficult to explain in any very simple terms exactly what's  
5    happening. We are running into a situation in which we have  
6    a confrontation building up between some rather complex  
7    state statutes, administrative regulations, and contract  
8    procedure, and some FEA regulations which are sufficiently  
9    complex that they are quite probably the most complex  
10   regulations that have ever been put together in the history  
11   of mankind.

12                   Briefly, the problem is that in the '71-'72  
13   series of sell-off contracts, it's not exactly clear whether  
14   we are an initial seller or a reseller or -- excuse me.  
15   Whether the contracts were initial sales by the state for  
16   the state or if they were sales by private persons at the  
17   state's direction and for the state's account or if they  
18   are in fact resales by the private person for their own  
19   account to achieve the general competitive purposes.

20                   Please, do not shoot the bringer of bad news.  
21   He didn't create the complexity. But that's it.

22                   At the same time, we have this to confront:  
23   The problem comes along that the FEA regulations are in the  
24   process of continual flux and change. They have just  
25   issued a full series of new regulations relating one, to the

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1 reseller crude oil purchaser, regulation of which goes clear  
2 back to 1974, which continues crude oil purchaser-reseller  
3 relationships notwithstanding the termination of the basic  
4 contracts.

5           In other words, even though the basic contracts  
6 which we have with purchasers -- if it is a reseller  
7 contract, that those contracts may have expired by  
8 virtue of the FEA regulations are continued in force  
9 indefinitely. Those regulations are also in the process  
10 of change.

11           One of the reasons why -- in fact, I think after  
12 two full days of conference and discussion with all of the  
13 other lawyers who have any part of this on the state side,  
14 we agreed that we have to go into this notice of probable  
15 violation proceeding if we are ever under any circumstances  
16 to be able to go forward with the necessary resell -- with  
17 the necessary sell-off contracts. We are in a rather  
18 unusual situation.

19           The federal government, in fact, is trying the  
20 state for a violation of administrative regulations. It  
21 raises federal questions that are extremely complicated.  
22 But we have to bow our heads and go straight through the  
23 complexities of that proceeding if we are to get a judgment  
24 as to exactly what our status is under those regulations,  
25 assuming that those regulations continue to apply to us.

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1           At the same time, the Executive Officer will be  
2 discussing with the Governor and with the Governor's people  
3 the possibility that we might conceivably receive an exemption  
4 under the National Energy Program legislation that is  
5 pending, an exemption from some of the more burdensome  
6 federal regulations.

7           EXECUTIVE OFFICER NORTHROP: Okay. The notice of  
8 probable violation, I've asked Mr. Lingle, Counsel for the  
9 City of Long Beach -- and he's worked very closely with us --  
10 to join us. Do you have any additional thoughts on this?

11           MR. LINGLE: No. I think John has explained how --  
12 I'm as confused as you probably are, but not from John's  
13 explanation. We have worked closely and there is no conflict  
14 between us.

15           EXECUTIVE OFFICER NORTHROP: So we're going out  
16 on the NOPV as it's called, and we are appealing it, and we  
17 have written the necessary letters, and we are now awaiting  
18 a hearing. That hearing will be -- we submitted -- I would  
19 just say in excess of 1,000 pages of testimony and informa-  
20 tion. Is that number correct, John?

21           MR. LAMONT: I would say about 35 pounds, and  
22 let it go at that.

23           EXECUTIVE OFFICER NORTHROP: We've given them  
24 about 35 pounds of substantiating information, and they are  
25 now going through it. When they've reviewed it, they will

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1 return it to us for a hearing in which we can explain to them  
2 what they have read. That is to be coming.

3 I think in line with this, I think Mr. Thompson  
4 and Mr. Pace really should give us an up-date as to where  
5 we are dollar-wise. And that doesn't mean much. But at  
6 least, if it's any comfort to know, the only reason I'm  
7 giving it to you -- if it's any comfort to know -- we're  
8 trying to stay on top of it. So Mr. Thompson, if you'll  
9 give the Commission some kind of indication of what the  
10 revenues look like, and what the oil production looks like,  
11 I think we'd appreciate it.

12 MR. THOMPSON: What we can give you is a little  
13 less negative approach here. The FEA has announced they are  
14 going to have hearings on some crude oil price increases  
15 for the months of September, October, and November.  
16 This is a break out from the freeze that's been on since  
17 June of 1976.

18 The increases aren't very overwhelming. For  
19 lower tier, they are going to be seven cents a barrel in  
20 three months; for upper tier, they'll be 74 cents a barrel,  
21 which sounds good on the surface except that really, when you  
22 take away the 65 cents rollback that occurred a few months  
23 back, really 65 cents really means that you are going to  
24 get a nine cent increase on this compared to rollback.  
25 Again, they are having hearings on this.

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1           As far as lower tier, we still don't know that  
2 if they raised the ceiling price by even the seven cents,  
3 whether we would be paid it or not because the ceiling price  
4 is still 60 cents above the price we're currently being  
5 paid. The entitlements program doesn't, according to the  
6 refiners, allow the ceiling price to be paid. So we're  
7 still a part of the program and John will probably comment  
8 on that later on.

9           MR. SEEGMILLER: Where are we today?

10           MR. THOMPSON: Four dollars 31 cents a barrel.  
11 We're allowed 60 cents more in the ceiling price, but that  
12 is not being posted or paid for lower tier oil even though  
13 we have another seven cents per barrel increase that might  
14 be an increase in the ceiling and we don't know that we  
15 actually would be paid that or not until the 1st of September  
16 when these increases come on.

17           MR. NORTHROP: And the reason now, according to  
18 the book, is why at this time we're going for the sell-off  
19 and have not done it before, according to the book, is why  
20 at this time we're going for the sell-off and have not  
21 done it before, is before we were enjoying the maximum legal  
22 price for the oil. We are now 58 cents or so below the  
23 maximum ceiling price allowed, so we feel -- I have had and  
24 I'm sure all the Commissioners here have had calls from  
25 people who would like to obtain the oil at the maximum ceiling

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1 price.

2 So with that kind of interest, we're moving now  
3 as fast as we can to set up a sell-off that would at least  
4 insure us that 60 cents or 58 cents difference.

5 MR. SEEGMILLER: That could be just shy of  
6 five bucks maximum?

7 MR. THOMPSON: Actually when you look at it,  
8 lower tier oil since December of 1973 has had 20 cents a  
9 barrel increase if you include the seven cents. That is less  
10 than one percent per year, which leads us to another problem  
11 that we have a little trouble in understanding what's  
12 really going on in the FEA because under the federal law  
13 passed in February of '76, they mandated a composite price  
14 for all domestic crude oil. This is where the seven million  
15 barrels of domestic crude oil shall fit, the average price  
16 shall follow this.

17 This first program here was modified later to  
18 say there is an allowable ten percent per year increase in  
19 this composite, under which then we thought the first of the  
20 year that a deal was made by the FEA that crude oil prices  
21 would be kept then on controlled oil -- which is upper and  
22 lower tier -- in constant 1976 dollars.

23 In other words, that means that you start back  
24 at the start of this federal program, crude oil prices  
25 would go up at the rate of inflation, on the natural

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1 deflator. Actual costs are lots of times in the neighbor-  
2 hood of one and a half to two and a half times of that  
3 deflator by the time you get the ripple effect in the cost.

4 The FEA, by having some bum numbers overpaid here,  
5 and they went into a price freeze in June of '76. So they  
6 are now proposing to break this price freeze from here.

7 But this overpayment here has certainly been  
8 more than then paid back by this. And actually, by the time  
9 they get through with this small price increase, they will  
10 still be on the average about 60 cents per barrel below the  
11 composite. This is what Congress intended.

12 You equate that 60 cents a barrel times the  
13 seven million barrels a day provided by the domestic  
14 producers, the domestic producers are being shortchanged  
15 over four million dollars a day.

16 MR. SEEGMILLER: The foreign crude oil doesn't  
17 come into this at all on that chart?

18 MR. THOMPSON: No. And I think the consumer sees  
19 his consumer prices going up all the time even though we're  
20 not even allowed this inflation. And how FEA receives this  
21 mandate to not give this, in effect put a whole year's  
22 inflation back from producer, we completely miss the point  
23 of this. And we'll probably comment on that in these  
24 hearings coming up.

25 That's all I have. As far as revenue of the

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1 state, I wish I could tell you because I don't know what the  
2 prices will be and whether we would pay.

3 MR. SEEGMILLER: I would just like to ask some  
4 illustrative questions. Foreign oil is not under any of  
5 this price control?

6 MR. THOMPSON: Right.

7 MR. SEEGMILLER: We receive -- as I understand in  
8 Long Beach Harbor now there is probably some Saudi Arabian  
9 or Indonesian oil coming in?

10 MR. THOMPSON: Probably quite a bit of it.

11 MR. SEEGMILLER: What's the landed cost of that  
12 oil?

13 MR. THOMPSON: Roughly \$14.

14 MR. SEEGMILLER: \$14 a barrel. That oil floats  
15 in in supertankers about Long Beach Harbor, right? And if  
16 we won't drill oil out of our oil wells, the consumer in  
17 this country will pay 14 bucks to Saudi Arabia and four  
18 bucks to us?

19 MR. THOMPSON: That's right.

20 MR. SEEGMILLER: 4.31 a barrel.

21 MR. THOMPSON: Not on that, but if you take this  
22 particular graph here which shows a little bit on entitle-  
23 ments, the period of times for every barrel of foreign  
24 crude that comes in, the refiner gets a credit of \$2.36 to  
25 refine that oil.

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1           This is only one of a few cases I know of where  
2 we subsidize a foreign industry.

3           MR. SEEGMILLER: We get paid money to make it  
4 cheaper for him to buy higher-price oil and we can't sell  
5 our oil.

6           MR. THOMPSON: He doesn't do that. He gets a  
7 credit for what he runs, that barrel of foreign crude. And  
8 in the end, it's the consumer --

9           MR. HIGHT: He actually gets paid it out of the  
10 refiners' pool, as a matter of fact.

11          MR. THOMPSON: But it's all passed on to the  
12 consumer.

13          MR. PACE: Which reduces his cost of that foreign  
14 crude by the 2.36.

15          MR. NORTHROP: Which brings us to another problem  
16 which this Commission has got to face or at least be  
17 aware of, that is, the Alaskan oil is coming in in much the  
18 same manner.

19          MR. LAMONT: At the same price.

20          EXECUTIVE OFFICER NORTHROP: At the same price,  
21 and we can't use the foreign argument except the fact it's  
22 going to enrich some foreign countries who own a good share  
23 of it. But that's another problem, and that could well  
24 make our oil not only uneconomic, but undesirable, given the  
25 present refining techniques.

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1 MR. SEEGMILLER: So we have oil out there at  
2 \$4 a barrel they are going to shunt in and we are going to  
3 pay 14 for it?

4 EXECUTIVE OFFICER NORTHROP: Yes.

5 ACTING CHAIRMAN BELL: What is Alaskan going to  
6 cost?

7 EXECUTIVE OFFICER NORTHROP: Mr. Lamont?

8 MR. LAMONT: It's going to cost --

9 MR. PACE: 13.50 laid down.

10 MR. LAMONT: About 13.50 laid down here.

11 The ceiling price on -- well-head ceiling price will be the  
12 regular upper tier ceiling price. But I think it will all  
13 be -- it's all plus the transportation and they are too  
14 enormous --

15 MR. THOMPSON: However, every refiner that burns  
16 Alaskan North Slope crude will also get the comparable entitle-  
17 ment credit that foreign crude gets.

18 MR. LAMONT: No. The issuance of the order on  
19 the Alaskan crude oil entitlements is really rather  
20 mysterious. It was issued two weeks or a week and a half  
21 after Congress had gone home for the purpose of -- I mean,  
22 together with about four other orders. It has received  
23 very little publicity, and very little consideration.

24 But what it means, according to the FEA's own  
25 press release, is the payment of \$3 a barrel for each barrel

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1 of taps crude, the Arctic North Slope crude.

2 This means that there are three companies which  
3 will be collecting additional subsidization of \$3 a barrel.  
4 Since that crude oil is a fairly heavy crude, it's 27 degrees  
5 of gravity, it will occupy, require for its refining exactly  
6 the same refining capacity that is available for the heavy  
7 California crude. And it either -- it makes it out or in  
8 more familiar economic terms, it will require a cut in the  
9 price of the California crude in order to stay there.

10 Moreover, while I believe they had it in mind that  
11 this \$3 entitlement advantage would ship the stuff into  
12 Districts one through four across the Rocky Mountains, that's  
13 a two to two and a quarter a barrel shipment cost with the  
14 kind of equipment they have available for immediate shipment.  
15 And it may well be that a number of those -- some of those  
16 three companies involved may well say, instead of encouraging  
17 two to two and a half to ship it to the Gulf Coast, we'll  
18 simply take a dollar to a dollar and a half less and keep  
19 it here.

20 It's an inexplicable blunder, I think, and it's  
21 something that has to be reversed or has to be balanced in  
22 some way or the California lower tier crude is in for some  
23 extremely difficult times.

24 EXECUTIVE OFFICER NORTHROP: Mr. Chairman, that  
25 completes our very cheery report today.

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1           ACTING CHAIRMAN BELL: You left out the part about  
2 what the LA assessor is doing to us.

3           EXECUTIVE OFFICER NORTHROP: We have a calendar  
4 item on it, but we'll be happy to talk about it now because  
5 that fits in the same program.

6           ACTING CHAIRMAN BELL: Just adds to it.

7           MR. SEEGMILLER: You're talking about backing out  
8 of production of California crude, shutting wells, the  
9 proceeds of which the State of California now uses for  
10 higher education and water development projects, so we're  
11 going to lose the source of money for those very necessary  
12 projects because of these shenanigans going on in Washington?

13           EXECUTIVE OFFICER NORTHROP: Well, you have to  
14 understand this, Mr. Seegmiller. The FEA in conferences  
15 that I've had with the Director, Mr. --

16           MR. LAMONT: John O'Leary.

17           EXECUTIVE OFFICER NORTHROP: John O'Leary. He  
18 said he could see no difference between the State of  
19 California and Exxon. I hastily pointed out he had had  
20 four auditors in my office for nearly two years, and he  
21 hadn't done that for Exxon yet.

22           MR. SEEGMILLER: How many irrigation canals  
23 and schools has Exxon built lately?

24           EXECUTIVE OFFICER NORTHROP: I really don't  
25 know.

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1 MR. LAMONT: None here, but some in Venezuela  
2 and a number in Saud. Arabia.

3 (Laughter.)

4 EXECUTIVE OFFICER NORTHROP: This completes my  
5 report, Mr. Chairman.

6 Mr. Chairman, the Assistant Executive Officer is  
7 on vacation.

8 ACTING CHAIRMAN BELL: I have a question.

9 MS. SMITH: You've given us this report. What  
10 do you suggest as a solution to this problem?

11 MR. NORTHROP: Well, I think Mr. Lamont and some  
12 of our lawyers might be able to draft a successionist bill  
13 that would stand. I don't know.

14 (Laughter.)

15 MR. SEEGMILLER: Cut off the Pacific Coast Highway  
16 and join OPEC, right?

17 ACTING CHAIRMAN BELL: I tried that with NASA on  
18 solar deal, and it didn't work.

19 (Laughter.)

20 MR. LAMONT: Well, I think one of the things  
21 that's important, Ms. Smith, is the fact that the Executive  
22 Officer and the Chairman have made a considerable amount of  
23 overtures to the California congressional delegation, both  
24 House and Senate, pushing very, very hard for the  
25 recognition of the rather peculiar situation in which we

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1 have been put. If that delegation works and works reasonably  
2 hard, considering that President Carter's energy program  
3 has not yet passed the Senate, there is a possibility that  
4 we can get some kind of relief if we are lucky and the  
5 wind holds.

6 EXECUTIVE OFFICER NORTHROP: The Governor's  
7 office has arranged a meeting this coming week with Mr.  
8 Beeman to pass this problem on again to the delegation.  
9 And we're encouraged by the fact that we've been joined in  
10 this through the Western States Lands Commissioners and the  
11 work we've done in Texas, Louisiana. Louisiana particularly  
12 understands our problem and has agreed -- one of their  
13 Senators has agreed to do what he can to get some help for  
14 us on that because he happens to be on the committee concerned.

15 So we are doing some political moves, but it moves  
16 very slowly.

17 MR. SEEGMILLER: You've got all these legal  
18 hearings the violations thing.

19 ACTING CHAIRMAN BELL: You've got to go through  
20 these administrative --

21 EXECUTIVE OFFICER NORTHROP: We have to exhaust  
22 the administrative --

23 MR. LAMONT: We have no alternative but to go  
24 through the administrative hearings. They have put more  
25 administrative hearings than just one, because -- one thing

1 that I forgot to mention is that Mr. O'Leary also told  
2 Senator Johnson in the hearing on August the 4th that at  
3 the same time they were thinking of this Alaskan entitlement  
4 advantage, the adjustment of the California lower tier  
5 crude oil price which had been the subject of hearings  
6 before, he believed had to be put over for still further  
7 hearing.

8 I think, now, that will be about the fifth. But  
9 we can't default.

10 EXECUTIVE OFFICER NORTHROP: And we also have  
11 support, Mr. Chairman, I think it's important for the  
12 record, from the Interstate Oil Compact Commission on this  
13 concept because they understand the problem.

14 ACTING CHAIRMAN BELL: Okay. I guess thank you  
15 for your report.

16 The report of the Assistant Executive Officer.

17 EXECUTIVE OFFICER NORTHROP: Mr. Chairman, the  
18 Assistant Executive Officer is on vacation this week and I  
19 believe you will have his report next time.

20 ACTING CHAIRMAN BELL: All right. Fine. We now  
21 go to the consent calendar which I believe is item C-1  
22 through C-24, is that correct?

23 Are there any persons in the audience who wish  
24 to appear or comment or have pulled off the calendar any  
25 of the items C-1 through 24 which are generally pretty routine?

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1 EXECUTIVE OFFICER NORTHROP: Go ahead.

2 ACTING CHAIRMAN BELL: If not --

3 MS. SMITH: I move the adoptiiong of the consent  
4 calendar.

5 ACTING CHAIRMAN BELL: All right. Without objec-  
6 tion, then, items C-1 through 24 of the consent calendar are  
7 approved.

8 We now go to page lx. We now go to the regular  
9 calendar.

10 Item 25 is California Blue Valley, trustee.

11 EXECUTIVE OFFICER NORTHROP: Mr. Chairman, Mr.  
12 Trout will make the presentation on this. Mr. Trout.

13 MR. TROUT: Mr. Chairman, in 1974 the Commission  
14 authorized a temporary pipeline for fire flow protection in  
15 Donner Lake. After a number of six-month extensions, the  
16 Commission rather vigorously said that the people up there  
17 should get their act together or the Commission would grant  
18 no further extensions. The staff was directed to work with  
19 the people in the area to see if a permanent solution couldn't  
20 be arrived at.

21 As a result of some very good work on the part  
22 of our staff, we now have an application from the Donner  
23 Lake Utility Company to take the temporary pipeline, to bury  
24 it beneath the sand or the beach at Donner Lake, and to use  
25 that pipeline one, for continued fire protection for that

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1 northwest corner of Donner Lake; and second to use it in  
2 place of an existing diversion that the company now has from  
3 Donner Lake.

4           The Donner Lake Utility Company has filed a  
5 notice of diversion, and indication of a water right with  
6 the State Water Rights Board. The pipeline was initially  
7 put in in 1910, as I understand it, which preexists the  
8 Water Rights Board's formation in 1914.

9           Now, as we got close to this calendar, we  
10 thought we were ready to go with it. However, there are some  
11 environmental technicalities of the California Environmental  
12 Equality Act. The new pipeline has the potential under  
13 certain conditions for allowing increased growth and  
14 expansion in the area. The present pipeline now serves the  
15 domestic potable water needs of the residents and the houses  
16 in the west end of Donner Lake. The new line will have  
17 slightly more capacity because they need three to six  
18 thousand gallons per minute for fire protection. That's  
19 I guess, to reach the top of three-story and multi-story  
20 condominiums and other buildings.

21           Because of the technicalities of the Environmental  
22 Equality Act, and working some of these things out with the  
23 Office of the Attorney General and the Applicants, we have  
24 come back to you for a further six-month extension. However,  
25 we believe that prior to the running of that six months, we

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1 will have a permanent solution to bring to the Commission  
2 for approval.

3 I think the item before you then for the six-month  
4 extension is supported by the Applicant, by California Blue  
5 Valley, the Donner Lake Utility Company, and by your staff.  
6 However, Terry Roach, who is an attorney from Nevada City  
7 and represents the trustee, I believe, who is now in  
8 effect the owner of the property, would just like to briefly  
9 address the Commission to give you a very brief overview of  
10 their point of view.

11 What they're really trying to do is to be able  
12 to sell some condominiums that they have been foreclosed  
13 from selling for some period of time.

14 So, Mr. Roach.

#3 15 MR. ROACH: I'm Terry A. Roach, and I'm the  
16 attorney for California Blue Valley, Inc., who is the  
17 trustee who holds title to easements, and pumping facilities  
18 at the Donner Village -- well, which are the subject matter  
19 of these proceedings.

20 We have entered into a contract with Donner Lake  
21 Utility Company whereby we will transfer subject to approval  
22 of this body, the facilities that have been in the lake --  
23 again, which are the subject matter of these proceedings --  
24 since approximately 1974.

25 I also am here today speaking on behalf of IDS,

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1 Investors Diversified Services, who owns Donner Village as  
2 a result of foreclosures, and also First National City Bank,  
3 which is a party in interest with regard to Donner Pines  
4 West, also served by these facilities.

5 It's my understanding in discussions with the  
6 staff -- and it's my purpose, basically, to be sure that I  
7 understand the staff's position so that we can comply with  
8 their wishes -- that the objections, the possible  
9 environmental objections arise out of the hooking up of this  
10 system for potable water service to the Donner Lake area.

11 It's my further understanding -- and again, I'm  
12 subject to being corrected on this -- that you have no  
13 basic objections with regard to permanent installation for  
14 fire flow purposes.

15 Now, does that fairly state --

16 MR. TROUT: The staff would recommend approval  
17 of a lease for the permanent installation of the pipeline  
18 for fire flow.

19 ACTING CHAIRMAN BELL: The answer, I think, was  
20 yes.

21 MR. TROUT: And the second point was that the  
22 application which we have before us -- which the staff has,  
23 but is not before you today -- is really to change the  
24 point of diversion of the domestic -- not fire flow -- but  
25 the domestic water supply. It is that area that the Attorney

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1 General's Office has expressed some concern as to whether  
2 we have technically met the requirements of the California  
3 Water Quality Act in allowing people who might be affected  
4 by the ability to draw further water from Donner Lake, that  
5 those people have an opportunity to comment on the proposal  
6 and that the use of the pipeline is a discretionary act on  
7 the part of the Commission.

8 So, thus the reason for the further extension  
9 while we get the environmental data which the Applicant has  
10 promised, and which we will then circulate for public comment  
11 and see. It looks like there may well be simply an  
12 environmental assessment and a negative declaration, but  
13 it does appear that the public is entitled and should have  
14 the opportunity to comment on the capability.

15 That doesn't mean that the utility company would  
16 supply any more customers. It just means that they have  
17 the greater capacity to do that.

18 MR. NORTHROP: Mr. Chairman, I might add in  
19 buttress to what Mr. Trout has said, I'm sure the staff  
20 would feel that we want to look at the record before we  
21 comment with any conclusion at this time. So from what we  
22 have seen before us, I think Mr. Trout was indicating we  
23 have drawn some preliminary conclusions, but certainly they  
24 are far from final.

25 MR. TROUT: On the fire flow, right.

1 MR. ROACH: Do I understand now that you're  
2 saying that the fire flow -- you're making no final  
3 conclusions as to the fire flow either. Is that --

4 MR. NORTHROP: We have given you our indication  
5 at the present time, but to I think largely the package,  
6 the staff would like to see the entire package.

7 MR. ROACH: I'd also like to make one or two  
8 minor corrections here. The total flow that this system  
9 can provide is 1350 gallons per minute. I believe the  
10 statement is made 32 -- well, it says 2000 here and I  
11 think Mr. Trout indicated it was substantially more than  
12 that.

13 MR. NORTHROP: Page 82, Mr. Chairman.

14 MR. ROACH: And the fire flow requirements in  
15 that area are 2000 gallons per minute. This system plus  
16 other existing systems owned by Donner Lake Utility Company  
17 combine to provide the 2000 gallon flow.

18 ACTING CHAIRMAN BELL: I see. So it just isn't  
19 this one?

20 MR. NORTHROP: Page 82, it should read 1350, is  
21 that correct Mr. Trout?

22 MR. TROUT: That is correct.

23 MR. ROACH: Thank you very much.

24 MR. STEVENS: Mr. Chairman, I think that's  
25 basically a fair statement. The project is capable of

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1 causing an effect on the environment. Basically, we're  
2 required to follow the steps of the Environmental Quality  
3 Act, and I think that's the only purpose.

4 ACTING CHAIRMAN BELL: Okay. A six-month  
5 extension.

6 All right. Without objections. Without objection,  
7 item 25 for the six-month extension is approved.

8 The next item, number 26, PG&E.

9 MR. NORTHROP: Mr. Chairman, this is a finalization  
10 of a contract with Pacific Gas and Electric for the use of  
11 the McDonald Island Gas Field as a storage area. We have  
12 negotiated some new rents and a new biometric through put  
13 on it.

14 ACTING CHAIRMAN BELL: All right. Without  
15 objection item 26 is approved.

16 Item 27.

17 MR. NORTHROP: Mr. Chairman, item 27 is an  
18 application by Union Oil Company for some make up wells  
19 for a power unit at the geyser. It will consist of four  
20 wells and in an area that has been used for that purpose  
21 now. We have done the environmental work that has to be  
22 done.

23 ACTING CHAIRMAN BELL: Union and Magma?

24 MR. NORTHROP: Union and Magma. To make up the  
25 necessary wells to allow an electrical producing unit to have

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1 the adequate steam to produce at capacity.

2 ACTING CHAIRMAN BELL: Okay. Well --

3 MS. SMITH: Am I correct in understanding that  
4 this produces an additional income to the state of \$200,000?

5 MR. NORTHROP: Yes, that's correct. Our contract  
6 calls for the steam when it's marketed, so now we'll be  
7 able to market not only this, but steam from other wells.

8 ACTING CHAIRMAN BELL: All right. Without  
9 objection, item 27 is approved.

10 Item 28.

11 MR. NORTHROP: Mr. Chairman, excuse me.

12 ACTING CHAIRMAN BELL: Well, a noncontroversial  
13 subject in a noncontroversial area.

14 MR. NORTHROP: Well, this is really rather non-  
15 controversial. We have issued -- it's an assignment of a  
16 permit to drill some core holes in the Point Conception  
17 area, 20 holes of 120 foot depth. And Western LNG  
18 Terminal Company is assigning it to Western LNG Terminal  
19 Associates.

20 ACTING CHAIRMAN BELL: Yes. Actually, we're  
21 not doing anything but finding out what the geologic strata  
22 of Point Conception is. We're not doing any damage to  
23 anybody. We're not making any decisions as to whether  
24 LNG is going to be anywhere or whether Point Conception is  
25 going to be anything.

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1           MR. NORTHROP: I think preliminarily it may well  
2 turn out that these tests could show that -- have the  
3 potential of showing that maybe Point Conception does not  
4 have the necessary base rock bed, etc., that would allow  
5 a trestle to be built there. So we have to find out.

6           ACTING CHAIRMAN BELL: May or may not. Well,  
7 it's certainly of advantage to have that basic data,  
8 isn't it?

9           MR. NORTHROP: Yes.

10          ACTING CHAIRMAN BELL: Okay. Is there anyone  
11 who wishes to speak on item 28 in this regard?

12                    If not, item 28 is approved.

13                    Item 29.

14          MR. NORTHROP: Mr. Chairman, at the last meeting  
15 in the Executive Officer's report, we discussed the problem  
16 we were having with the taxation of the Long Beach Field.  
17 And if you've read the papers, particularly in the Los  
18 Angeles area, you realize that there has been considerable  
19 upheaval in the Tax Assessor's Office there with the  
20 resignation of the Tax Assessor, the filing of tax appeals  
21 by the Assessor himself or his representatives, and so we  
22 have been unsuccessful in making some contact.

23                    So we are asking with this calendar item to  
24 authorize the Executive Officer and the Attorney General  
25 to take the necessary steps and appropriate action to affect

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1 a timely filing of an application for the reduction of the  
2 1977-78 assessment of the Long Beach unit with the Los Angeles  
3 County Assessment Appeals Board.

4 I might add parenthetically that we have  
5 communication with the City of Long Beach to affect the  
6 same, to affect some of the same problems. And I think Mr.  
7 Thompson has --

8 ACTING CHAIRMAN BELL: Do we have a friend in  
9 court in terms of the City of Long Beach? Or I should say,  
10 a joint interest in this.

11 MR. NORTHROP: Yes, I believe you are prepared  
12 to speak to that.

13 MR. LINGLE: In our conversations, though, I  
14 think we are going to cooperate with you fully.

15 MR. NORTHROP: That's been the indication --  
16 those have been the indications that I have gotten.

17 MR. LINGLE: Realize that we can't help but  
18 flinch when our property tax rates go up a little.

19 ACTING CHAIRMAN BELL: I realize that you have  
20 an adverse stake in this to some extent. But we are asking  
21 Long Beach to cooperate with us in reducing the amount of  
22 taxes they get --

23 MR. NORTHROP: That is correct, Mr. Chairman.

24 ACTING CHAIRMAN BELL: From the State of  
25 California.

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1 MR. NORTHROP: And the deadline for the  
2 application is, as I understand it, September the 15th.

3 ACTING CHAIRMAN BELL: September 15th?

4 MR. NORTHROP: Right.

5 ACTING CHAIRMAN BELL: Okay. Now, who was going  
6 to put it together? The Attorney General and who else?

7 MR. NORTHROP: The Attorney General and our staff  
8 will put it together, Mr. Chairman.

9 ACTING CHAIRMAN BELL: Okay. I also wondered  
10 who -- you know, a property owner usually is a guy who  
11 goes in and appeals his assessment to the Assessment Appeals  
12 Board, and I always wondered what the State of California  
13 did about that.

14 MR. NORTHROP: Surprisingly, when I made my  
15 initial contact, in attempting to get to Assessor Watson,  
16 I was told to take it up with the State Board of Equalization.

17 (Laughter.)

18 MR. NORTHROP: So the contents --

19 MR. THOMPSON: In essence, Mr. Bell, you're  
20 correct that actually this appeal will be made by the  
21 field contractor unless all the participants in the Long  
22 Beach unit -- actually those people who are taxed. We're  
23 an affected party, but rather than go through the definition  
24 of what an affected party is, why, those who actually are  
25 taxed.

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1           ACTING CHAIRMAN BELL: In effect it's a joint  
2 action?

3           MR. THOMPSON: In other words, the assessor taxes  
4 the field contractor through a possessory interest concept.

5           ACTING CHAIRMAN BELL: Which we end up paying.

6           MR. THOMPSON: And your problem then, of course,  
7 is that you're trying to decide as to whether taxes collected  
8 by the local entity are of more importance than money brought  
9 up and used for state-wide. And that's really the issue  
10 as far as the commission is concerned.

11           Admittedly, the local taxing agencies will have  
12 to collect more taxes to make up if we were to win the  
13 appeal, but that same money then would come for state-wide  
14 use. This particular money then would actually be going in-  
15 to capital outlay for higher education.

16           ACTING CHAIRMAN BELL: Well, it does also involve  
17 the Carter Energy Plan, doesn't it?

18           MR. THOMPSON: Well, this is part of our concern  
19 on actually the appraised value of the unit.

20           ACTING CHAIRMAN BELL: Part of our appeal process.

21           MR. NORTHROP: Right. And the assumptions made,  
22 I think, by the LA County Assessor as to future pricing are --  
23 you know, we are at a loss --

24           ACTING CHAIRMAN BELL: What the amount of that  
25 possessory interest is.

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1 MR. NORTHROP: We are at a loss to figure out  
2 what information he had on the first Monday in March that  
3 led him to believe this kind of for a tax.

4 MR. THOMPSON: Actually, for a little background  
5 on this, the appraised value for the Long Beach unit as of  
6 March 1st, 1977, was set at \$675 million. And this is  
7 about a 40% increase over the March 1st, 1976, appraised  
8 value of \$485 million.

9 ACTING CHAIRMAN BELL: That's a depreciation in  
10 the figure.

11 MR. THOMPSON: That's a fair market value,  
12 supposedly, of what it's going to be. However, an increase  
13 is justified. I'll get to that in just a minute.

14 Now, the State Board of Equalization as part of  
15 their inter-county equalization program, goes through and  
16 samples properties in each of these counties and does their  
17 own appraisal. Their appraisal for the Long Beach unit as  
18 of March 1st, 1976, was \$347 million compared to the  
19 \$485 million the assessor had for the same year.

20 And this graph over here, in the broken red  
21 line are the assessed values for the past years. You can  
22 also see the blue line then is the remaining research item,  
23 and that broken green line now is the Board of Equalization's  
24 assessment as to the Long Beach unit as of the same point  
25 in time as the county assessment. And that's the difference

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1 between the 347 and the 485.

2 ACTING CHAIRMAN BELL: Okay.

3 MR. THOMPSON: Now, admittedly there should be an  
4 increase in market value for the Long Beach unit between the  
5 two years because the FEA gave us a reinterpretation of  
6 the property. So our composite crude oil price increased  
7 about 20% as of September 1st, but we don't believe that  
8 the 20% increase in crude oil price quite relates to an  
9 over 40% increase in assessed valuation.

10 This increase in oil price more than offsets the  
11 amount of oil that you produce during the first year, plus  
12 some added value. But we think that extra amount is a  
13 little high.

14 Now, since you really don't buy and sell oil  
15 properties like this, to get it at the appraised value,  
16 you take and run a future revenue period.

17 ACTING CHAIRMAN BELL: It's an income stream  
18 approach.

19 MR. THOMPSON: Right, and discountage. Now,  
20 the big difference we have here is in the oil price, and  
21 the discount rate, because we are in effect using the same  
22 oil product rate and the same expenses.

23 The assessor went through and escalated oil  
24 prices in the future. We don't think he has any basis for  
25 doing this, and especially it's very strange that he

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1 escalated to \$11.45 by 1984.

2 But at the same time, he got some pretty high  
3 escalations. What we show herein, we believe is the impact  
4 of the program that's now in front of Congress. That's the  
5 Crude Oil Equalization Tax, in which the refinery is to  
6 collect an amount of money over and above what is paid to  
7 the producer up to a certain level.

8 If this were to pass, as we understand it now,  
9 the red area would be the Crude Oil Equalization Tax, which  
10 would be collected by the refinery and sent to the federal  
11 government. It appears to us that the assessor is crediting  
12 the unit with revenue that in effect is going to be collected  
13 at the refinery in a tax. And this to us seems to be a very  
14 one of the anomalies we see in this part.

15 MR. NORTHROP: We are paying tax on a federal tax,  
16 is what it amounts to.

17 MR. THOMPSON: Now, the impact on this --

18 ACTING CHAIRMAN BELL: This would be one of  
19 the things that would create that 40% versus 20%?

20 MR. THOMPSON: That's the reason, because in  
21 effect that's the crude oil price in use for future years.

22 Our initial crude price is only 5.34 as of lien  
23 date, and then he increased that up to \$11.45. So in  
24 effect, he's creating revenue that we don't know.

25 We also think that the discount rate should

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1 probably be higher because this in effect is an offshore  
2 operation. You have more environmental risk and hazard  
3 involved in offshore operation.

4 And the impact on this, if that assessed  
5 evaluation were to stay as shown on the other graph there,  
6 this large increase, this would be about \$4 million to the  
7 State of California.

8 ACTING CHAIRMAN BELL: Over what period?

9 MR. THOMPSON: The ad valorem tax for that year  
10 will be \$4 million.

11 ACTING CHAIRMAN BELL: One year.

12 MR. THOMPSON: One year, for the next year.

13 The total taxes of the Long Beach unit -- ad valorem tax  
14 for the Long Beach unit, would be about \$17 million under  
15 this. And this equates to about almost 60¢ a barrel, which  
16 is about 11% of the gross.

17 This also seems to be a little high on the  
18 taxation ratio, to take almost 11% of the gross as tax.

19 Now, I believe it was mentioned before we must  
20 file an appeal by September 15th if we want to keep this  
21 issue open. So this in effect, we are asking you for  
22 permission to file this particular appeal.

23 You have in front of you a newspaper clipping  
24 which relates the Board of Equalization's ruling on the  
25 adjustment, and this particular adjustment by the Board of

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1 Equalization in its dropping from 25% to 24 1/2% as mandated,  
2 would be in excess of \$300,000. So there's every reason,  
3 I think, for us to file at least for that.

4 Then, I think that the people should look at it  
5 and the lawyers and everyone like that, to see what we  
6 wanted to do after that.

7 ACTING CHAIRMAN BELL: Well, at least we had  
8 better make our appeal date.

9 Without objection, then -- I assume that is  
10 item 29?

11 MR. NORTHROP: Yes, sir.

12 ACTING CHAIRMAN BELL: In effect if we approve  
13 item 29, that authorizes you to go ahead.

14 MR. THOMPSON: And file that appeal. And we'll  
15 be reporting back to you as to the action we would take  
16 under this appeal at any previous meetings.

17 ACTING CHAIRMAN BELL: All right.

18 MR. THOMPSON: This is merely to file the appeal.

19 ACTING CHAIRMAN BELL: All right.

20 MR. THOMPSON: This is merely to file the appeal.

21 ACTING CHAIRMAN BELL: All right. Fine.

22 Motion and second. Without objection, item 29 will then be  
23 approved.

24 Item 30, Long Beach operation.

25 MR. NORTHROP: Mr. Chairman, item 30 is approval

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1 of a modification that among other things would allow the  
2 City Manager to delegate some of the permitting operations  
3 as outlined in Chapter 138 to a Deputy City Manager.

4 MR. THOMPSON: This is merely a delegation of  
5 authority.

6 ACTING CHAIRMAN BELL: Delegation of authority?

7 MR. NORTHROP: Right.

8 ACTING CHAIRMAN BELL: No problem. Without  
9 objection, item 30 is approved.

10 Item 31.

11 MR. NORTHROP: Mr. Chairman, item 31 will be  
12 handled by Mr. Thompson.

13 MR. THOMPSON: This is merely reporting on an  
14 enhanced recovery demonstration in prior development.

15 MR. NORTHROP: 31.

16 ACTING CHAIRMAN BELL: 31. Closing AFE.

17 MR. THOMPSON: This is merely a sewer line that,  
18 because we had 10 feet of fill, had to be emplaced on top of  
19 the line and had to be abandoned, so we had to abandon the  
20 line and put a new one in. And the final closing costs of  
21 this are \$66,000, of which there are another \$24,000 to be  
22 put to the city.

23 ACTING CHAIRMAN BELL: No problem. Item 31 is  
24 approved.

25 Item 32 is informative.

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1 MR. NORTHROP: Mr. Chairman, Mr. Thompson is  
2 still on center stage with his new problem of flood. He  
3 would like just for a few minutes to tell us where we are.

4 MR. THOMPSON: Yes. We are back with this again.  
5 This is where we are running a demonstration with the federal  
6 government. Our main concern to date has been the fact of  
7 whether we could manufacture this material that we inject  
8 out of our own crude there. And we have been running tests  
9 on this. They look favorable at this time. So because  
10 this looks favorable, we took this next step of drilling  
11 this one well, as reported here, and coring, and we are  
12 running saturations on the particular cores there.

13 At the present time we are running behind schedule,  
14 but it looks promising now as far as the preliminary approach.  
15 We reevaluated the configuration of the way the program will  
16 be run underground in the flooding pattern, but everything  
17 is on, still going down the track.

18 ACTING CHAIRMAN BELL: Is this one of our pilot  
19 tertiary --

20 MR. NORTHROP: Right. Which ERDA had given us.

21 ACTING CHAIRMAN BELL: This isn't what I call  
22 the detergent one?

23 MR. NORTHROP: No. That's the one Long Beach had.

24 ACTING CHAIRMAN BELL: Any questions?

25 Without objection, then, item 32 is approved.

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1           Item 33, Bolsa Chica.

2           MR. NORTHROP: Mr. Chairman, the state Legislature  
3 has approved an expenditure of some \$4,600,000 in excess of  
4 that for the acquisition of Bolsa Chica area in Orange  
5 County. We have had an appraisal of a somewhat lesser  
6 figure. What we're possibly asking for in this calendar  
7 item is the authority to negotiate with the owners of that  
8 area in an attempt to come to some kind of agreement.

9           ACTING CHAIRMAN BELL: Okay. This is strictly  
10 negotiation?

11          MR. NORTHROP: Strictly negotiation.

12          ACTING CHAIRMAN BELL: No objection to that  
13 negotiation. Item 33 is approved.

14          Item 34, boundary line agreement.

15          MR. NORTHROP: Mr. Chairman, Mr. Hight, staff  
16 counsel, will discuss that.

17          MR. HIGHT: Yes, Mr. Chairman, this is the  
18 authorization to execute a boundary line agreement between  
19 the Commission and Cliffside Properties. This is part of  
20 the Golden Gate National Seashore, and this sets the  
21 boundary between the public and private ownership.

22          ACTING CHAIRMAN BELL: Okay. Okay. All right.  
23 Without objection, then, that item is approved.

24          The next item is called compromise settlement,  
25 item 35.



1 MR. NORTHROP: Mr. Chairman, that will be  
2 handled by Mr. Hight.

3 MR. HIGHT: Mr. Chairman, the federal government  
4 is attempting to set up a South San Francisco Bay Federal  
5 Wildlife Refuge. Part of the land which will be encompassed  
6 by that refuge is currently state land.

7 This is a settlement of those disputes and a  
8 lease to them for 66 years for the interest that we will  
9 have. This will only become effective upon the federal  
10 government acquiring the other land within the area.

11 ACTING CHAIRMAN BELL: All right. All right.  
12 Without objection, then, item 35 is approved.

13 Item 36, Lake Tahoe hazard removal which we talked  
14 about.

15 MR. NORTHROP: Mr. Chairman, that's what I was  
16 talking about earlier. The Commission authorized me to  
17 spend up to \$100,000. However, the first contact was for  
18 \$200,000.

19 As in my report earlier, I outlined how we are  
20 going to spend the entire half million. I think we are  
21 going to get a great deal of work done for that half million  
22 dollars, considering Lake Tahoe, Donner, American, and the  
23 Upper Sacramento. I think we have had a lot of cooperation  
24 with the Corps of Engineers. We are getting exceptionally  
25 good cooperation from the County of Sacramento, and all the

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1 areas are really doing everything they can to help us in  
2 getting a full value for the money we have spent.

3 ACTING CHAIRMAN BELL: Is this \$200,000 the last  
4 of the Lake Tahoe part?

5 MR. NORTHROP: This will wrap up the Lake Tahoe  
6 part.

7 ACTING CHAIRMAN BELL: The rest goes down?

8 MR. NORTHROP: The rest will go on the other side.  
9 The Corps of Engineers has been very helpful.

10 As a matter of fact, they are going to handle the bids. We  
11 are very pleased. We are very pleased at the way not only  
12 the federal but the state agencies and local agencies have  
13 really cooperated on this effort and done a real fine job  
14 so far.

15 ACTING CHAIRMAN BELL: Item 36 is approved.  
16 Litigation, item 37.

17 MR. NORTHROP: Mr. Chairman, we would suggest  
18 that items 37 and 38 be taken together, as they are  
19 represented by a common counsel. Mr. Hight will address  
20 that.

21 ACTING CHAIRMAN BELL: All right. Fine.

22 MR. HIGHT: Yes, Mr. Chairman. This is the  
23 settlement of some litigation authorized by you as the new  
24 Lands Commission. This is two people on the Sacramento River  
25 who maintained that they did not have to apply or get a

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1 permit for recreation up here on the river.

2 We would like one change to be made in the  
3 resolution. On number 4 on page 100, the resolution  
4 currently reads, "authorize the staff to settle litigation  
5 and execute a nonprejudicial dismissal of People v. Stanley  
6 Gale," etc.

7 We would like to take out the word, "nonprejudicial,"  
8 to make it a dismissal. They will be a dismissal with  
9 prejudice as to back rent only.

10 MS. SMITH: As to back rent?

11 MR. HIGHT: As to back rent.

12 MS. SMITH: Okay. And what was your settlement  
13 agreement on back rent?

14 MR. HIGHT: There wasn't any. That's why we are  
15 agreeing to this.

16 MS. SMITH: You're not collecting any back rent?

17 MR. HIGHT: No.

18 MS. SMITH: What are you receiving for forgiving  
19 the debt?

20 MR. HIGHT: The lease and a boundary line  
21 agreement.

22 ACTING CHAIRMAN BELL: Oh, thank you. I  
23 understand that we are just about to get a bill that says  
24 that recreational piers, etc., etc.

25 MR. NORTHROP: I hope we don't get that bill,

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1 Mr. Chairman. We have written a letter asking the Governor  
2 to veto it. We will probably have it transmitted today.

3 MR. HIGHT: Excuse me. I misspoke when I said,  
4 "boundary line agreement." The lease will provide for a  
5 high water boundary as the consideration.

6 That same amendment would be done to both 37  
7 and 38, taking out the word, "nonprejudicial," with regard  
8 to back rent only.

9 ACTING CHAIRMAN BELL: Okay. That changes the  
10 items on page 111 and 109?

11 MR. HIGHT: Yes.

12 ACTING CHAIRMAN BELL: Okay. Without objection --

13 MS. SMITH: No objection.

14 ACTING CHAIRMAN BELL: Without objection, we'll  
15 approve item 37, and I guess we'll approve item 38 at the  
16 same time.

17 MR. NORTHROP: Yes, we do, sir.

18 ACTING CHAIRMAN BELL: We have made the change  
19 as amended on both of those items as amended.

20 MR. HIGHT: Yes, sir.

21 ACTING CHAIRMAN BELL: Item 39.

22 MR. NORTHROP: Mr. Chairman, item 39 is a request  
23 by the staff for the authorization of the Attorney General  
24 or our State Lands Commission staff to take the necessary  
25 steps, including litigation, to eliminate a trespass on the

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1 claim at the Klamath River.

2 ACTING CHAIRMAN BELL: Who is Roy Rook?

3 MR. HIGHT: He is a private land owner who has  
4 a small marina.

5 ACTING CHAIRMAN BELL: Oh, this is the marina?

6 MR. NORTHROP: Yes.

7 MR. HIGHT: Yes.

8 ACTING CHAIRMAN BELL: Just curious. Without  
9 objection, item 39 is approved.

10 Going to retrocession of concurrent jurisdiction  
11 which is a fascinating word -- we have items 40 and 41.

12 MR. NORTHROP: Item number 40, Mr. Chairman, is a  
13 retrocession which really will give jurisdiction back to the  
14 local agent, share it with the local agency, as well as the  
15 federal government in a list of military hospitals and  
16 cemeteries that you have in front of you.

17 ACTING CHAIRMAN BELL: Primarily Veterans  
18 Administration?

19 MR. NORTHROP: Right. The bulk of the Veterans  
20 Administration hospitals and cemeteries.

21 ACTING CHAIRMAN BELL: Okay. Now, there's no  
22 problem on this with the local sheriffs?

23 MR. NORTHROP: No. The local sheriffs --

24 ACTING CHAIRMAN BELL: They just objected to the

25 MR. NORTHROP: To the giving up of that authority.

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1 The retrocession is where we had the problem with the  
2 sheriffs.

3 MS. SMITH: No objection.

4 ACTING CHAIRMAN BELL: All right. Then as far as  
5 we are concerned item 40 is approved.

6 Item 41.

7 MR. NORTHROP: Mr. Chairman, as we commented off  
8 the record earlier, we are asking for permission to conduct  
9 public hearings to amend our Administrative Code as it  
10 applies to recreational piers. As we have discussed earlier,  
11 the Attorney General had given us an opinion that the  
12 recreational pier without costs per se was unconstitutional.

13 We are now, after consultation with some of the  
14 Senators -- some of the Legislators representing the areas  
15 affected, we have worked out, we hope, an agreement with  
16 them to change our regulations providing for -- that under  
17 certain conditions, piers could be rent free.

18 And those conditions would be that the builders  
19 or owners of the piers do certain public service features.  
20 For example, provide piers with fire extinguishers, and life  
21 rings, and those kinds of things that would be of public  
22 service. Those piers would be rent free, with the exception  
23 I should assume, that we should not bear the obligation of  
24 financing the preparation of the necessary papers.

25 ACTING CHAIRMAN BELL: Yes. I was going to say

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1 not a rental charge, but at least a permit fee or something.

2 MR. NORTHROP: A permit preparation fee, just  
3 whatever it costs us, because we are running -- the  
4 preparation runs several hundred dollars just to process.  
5 Just a processing fee.

6 ACTING CHAIRMAN BELL: Yes. A \$200 processing  
7 fee might be fair. We could skip the \$4 rental fee if we  
8 got a \$200 processing fee.

9 MR. NORTHROP: The staff will be recommending  
10 to the Governor a veto of the particular bill involved.

11 MS. SMITH: That's not the way the regulation  
12 reads to my understanding, the proposed regulation. It  
13 wouldn't be a processing fee, it would be a rental charge.

14 MR. NORTHROP: A rental charge, where the  
15 processing fee would be provided in the bill. I'm sorry.  
16 We're talking about two separate areas.

17 MS. SMITH: What do you propose to do should the  
18 Governor decide not to veto SB 349?

19 MR. NORTHROP: In that case -- if he decides  
20 not to veto 349? In that case, we would probably have to  
21 go with the law of the land and say it's the law, and we  
22 would require a processing fee.

23 ACTING CHAIRMAN BELL: Then what would happen  
24 on item 41?

25 MR. NORTHROP: Item 41 would probably be moot.

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1 MS. SMITH: Is that correct, Mr. Stevens?

2 MR. STEVENS: Well, Mr. Chairman, Ms. Smith, I  
3 believe it would be possible nevertheless to adopt some  
4 regulations. But if the bill in question were signed into  
5 law, then we would have to reexamine the situation because  
6 the Legislature in effect would have made a finding that  
7 these piers constituted a public purpose. And Legislative  
8 findings certainly deserve more consideration than  
9 administrative or even executive ones.

10 So it may moot the matter, but I really couldn't  
11 say that definitely.

12 MS. SMITH: Do you have a date in mind for an  
13 administrative hearing?

14 MR. HIGHT: Sometime within the next month, we  
15 would hope.

16 ACTING CHAIRMAN BELL: Since the bill is down  
17 to the Governor, we would assume that you would wait to  
18 find out whether he vetos or signs it before you had public  
19 hearings?

20 MR. NORTHROP: Certainly as soon as we got some  
21 indication. We would at least wait that far to find out  
22 what the feeling on it is, Mr. Bell, yes.

23 MS. SMITH: I would agree to approve or to give  
24 you the authorization on the condition that should the  
25 Governor approve SB 349, that you come back to the Commission

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1 for reconsideration.

2 ACTING CHAIRMAN BELL: Our action then would be  
3 moot. They would have to come back.

4 MR. NORTHROP: Fine. No problem.

5 ACTING CHAIRMAN BELL: Okay. Did we get the  
6 change on that one, then?

7 MR. NORTHROP: Yes.

8 ACTING CHAIRMAN BELL: In effect we are  
9 authorizing this subject --

10 MR. HIGHT: Subject change.

11 MR. NORTHROP: Subject to the Governor's veto,  
12 and if the Governor does not veto, we'll come back.

13 ACTING CHAIRMAN BELL: If the Governor signs the  
14 bill, this recommendation is moot and you'll have to come  
15 back.

16 MR. NORTHROP: We'll come back to the Commission.

17 ACTING CHAIRMAN BELL: All right. Approval on  
18 item 41 as amended.

19 Status of major litigation.

20 MR. STEVENS: Mr. Chairman, Ms. Smith, we have  
21 just received a Superior Court ruling in the case of  
22 Post versus State Lands Commission. This was a ruling in  
23 effect that the statute which gives the owner of geothermal  
24 property a right of first refusal in bidding situations is  
25 constitutional, not a denial of equal protection or of due

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1 process. We don't know whether there will be an appeal or  
2 not.

3 We have met with the special master in California  
4 versus Nevada, and set forth some tentative ground rules for  
5 our litigation concerning the interstate boundary north of  
6 Lake Tahoe. We expect to have hearings within about three  
7 to four months after the completion of research and discovery  
8 on that question.

9 We had an extended hearing last week in the  
10 litigation over the high water boundary of Lake Tahoe,  
11 Fogarty versus State of California, which lasted some two  
12 hours and was submitted in Superior Court in Placer County.  
13 A similar hearing will take place in Nevada County with  
14 respect to Donner Lake on September 16th.

15 We have filed a petition with the California  
16 Supreme Court for a hearing in the Exxon case in which the  
17 Court of Appeals here in Sacramento held in effect that the  
18 Commission was bound by negotiations and representations  
19 made with respect to a lease entered into under the prior  
20 Commission membership period.

21 We think there is a significant question of law,  
22 and we hope that the higher court will accept it and reverse  
23 the decision of the Court of Appeals.

24 MR. NORTHROP: That completes it.

25 ACTING CHAIRMAN BELL: Very good. Now, if I have

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1 the right page, the next item is confirmation date, time,  
2 and place, of next Commission meeting, tentatively set for  
3 Thursday, September 29th, 1977 in Sacramento at 10:00 a.m.,  
4 is that correct?

5 MR. NORTHROP: That is correct, Mr. Chairman.

6 ACTING CHAIRMAN BELL: All right. Is there any  
7 other business to come before the Board?

8 All right. If not, we are adjourned.

9 (Thereupon at the hour of 10:20

10 o'clock a.m. the meeting of the

11 State Lands Commission was adjourned ;

12 --o0o--

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1 STATE OF CALIFORNIA )  
 ) ss.  
 2 COUNTY OF SACRAMENTO )

3 I, DIANE FATTIG, a Notary Public in and for  
 4 the County of Sacramento, State of California, duly appointed  
 5 and commissioned to administer oaths, do hereby certify:

6 That I am a disinterested person herein; that  
 7 the foregoing State Lands Commission hearing was reported  
 8 in shorthand by me, Diane Fattig, a shorthand reporter,  
 9 and thereafter transcribed into typewriting.

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

13 IN WITNESS WHEREOF, I have hereunto set my hand  
 14 and affixed my seal of office this 25th day of September,  
 15 1977.

16

17

18

DIANE FATTIG  
 Notary Public in and for the  
 County of Sacramento,  
 State of California

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**PETERS SHORTHAND REPORTING CORPORATION**

26 NESS COURT  
 SACRAMENTO, CALIFORNIA 95826  
 TELEPHONE (916) 383-3601