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BUSINESS MEETING
STATE LANDS COMMISSION
STATE OF CALIFORNIA

CITY OF LONG BEACH
925 HARBOR PLAZA BOARD ROOM, 6th FLOOR
LONG BEACH, CALIFORNIA

TUESDAY, AUGUST 26, 1980
10:00 A.M.

DIANE M. HOLNBACK
C.S.R. License No. 4022

MEMBERS PRESENT

1
2 Mr. David G. Ackerman, Commissioner, Acting Chairperson
3 Ms. Susanne Morgan, Commissioner
4 Mr. John Jervis, Commissioner (Non-voting) representing
5 Mr. Kenneth Cory

STAFF PRESENT

6
7 Mr. William F. Northrop, Executive Officer
8 Mr. Robert C. Hight
9 Mr. James F. Trout
10 Mr. Donald J. Everitts
11 Mr. Richard S. Golden
12 Mr. Robert Paul
13 Mr. Wilbur M. Thompson
14 Mr. Allen Willard
15 Ms. Diane Jones
16 Mr. David Hayward
17 Mr. Leslie H. Grimes
18 Ms. Roberta Miner
19

ALSO PRESENT

20
21
22 Mr. Jan S. Stevens, Attorney General's Office
23 Mr. Alan V. Hager, Attorney General's Office
24 Mr. Richard L. Maullin, Geothermal Kinetics, Inc.
25 Mr. Peter Dalquist, Environmental Management Agency,
Orange County

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P R O C E E D I N G S

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3 ACTING CHAIRPERSON ACKERMAN: I'll start over
4 again. I think I have some procedural things to go through.
5 I'll bring the gavel down and everything.

6 Mr. Hight, did you have a preliminary announcement

7 MR. HIGHT: Yes, Mr. Chairman. For the record,
8 Mr. Jervis will be sitting in a non-voting capacity for
9 Mr. Cory.

10 ACTING CHAIRPERSON ACKERMAN: Okay. Thank
11 you. We'll have confirmation of the minutes of the meeting
12 of July 24th, 1980. Are there any questions or corrections
13 by any of the commissioners to the minutes?

14 COMMISSIONER MORGAN: The minutes are fine.

15 ACTING CHAIRPERSON ACKERMAN: Seeing no
16 corrections or additions, the minutes will be deemed
17 approved as submitted.

18 Before we go into the Executive Officer's report
19 and items on the agenda, I think it's important to note
20 that we are here for a particular reason in Long Beach
21 today. In the past 15 years, the State of California
22 has witnessed really an unusual joint effort among the
23 State and the City of Long Beach and the oil industry
24 in developing the Long Beach Unit.

25 Today, or really most recently, a milestone

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1 has been reached. And that was the production of
2 500 million barrels of oil from the Unit. This has been
3 done with no adverse effects on the coastline of the City
4 of Long Beach. And I think that's quite an important
5 point. It has been accomplished under a net profit-sharing
6 contract, which has reduced the risk for the industry
7 contractors and provided the maximum funds for statewide
8 benefit. And the use of these funds for the Central Valley
9 Water Project has provided benefits for the people of
10 California from one end of the state to the other, as
11 does the Capital Outlay Fund for Public Higher Education.
12 That fund has provided classrooms, laboratories and
13 libraries on the campuses of the University of California
14 and the state university and college system.

15 I believe that we will pass more milestones
16 in the near future. Undoubtedly, we will commemorate
17 the production of another 100 million barrel increment
18 within the next few years. We will also see the added
19 statewide benefit from the oil revenue received by the
20 State. Recent directives from the State Department of
21 Finance indicate that the tidelands oil revenues are going
22 to play an increasingly important part in the future
23 financial status of the State, anyway.

24 The current revenues from the state tidelands
25 are being reviewed now by the Legislature and the Governor's

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1 Office and will provide those maximum future statewide
2 benefits.

3 Everyone that's been involved in this, I think,
4 deserves a pat on the back and should be complimented
5 for his or her part in helping to maximize the recovery
6 of the valuable resources. It's critical, not only to
7 our national economy but our security as well and also
8 to demonstrate that this type of oil operation can be
9 done without imperiling the environment and in demonstrating
10 the net profit-sharing concept is the way to proceed in
11 the development of these public resources in the future.

12 I think at this point I'd like to turn it over
13 to Mr. Northrop, the Executive Officer of the Commission,
14 for comments he may have concerning the milestone we've
15 reached today.

16 EXECUTIVE OFFICER NORTHROP: Thank you very
17 kindly, Mr. Chairman and members. The staff has been
18 pleased not only with the cooperation that we received
19 from the City of Long Beach as a trustee in this matter
20 but also from the contractor. We are very pleased that
21 this has worked out this way. Thank you.

22 ACTING CHAIRPERSON ACKERMAN: Mr. Northrop,
23 do you have an Executive Officer's report?

24 EXECUTIVE OFFICER NORTHROP: Yes, Mr. Chairman.
25 I would like to proceed with the Executive Officer's report,

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1 if I may. We have a particular problem in Long Beach
2 at the present time on a parcel of sell-off crude, that
3 is crude that was sold at auction and that recently I
4 understand the parcel of some 600 barrels a day has been
5 returned to the city. And we have a very short time fuse
6 in reawarding the oil, because as I understand around
7 September 1st the oil will not have a place to go.

8 So, Mr. Thompson will go into it in some detail.

9 MR. THOMPSON: All right. About nine months
10 ago, the Commission approved the bids, forms and
11 specifications for putting this eight percent LBOD oil
12 out for sell-offs. We've had to give the present contractor
13 notice to take this oil, and, therefore, the City of Long
14 Beach has the oil and must dispose of it.

15 Under this bid form, we went out and got it,
16 bids back, and then about seven months ago the Commission
17 approved the awarding of this bid to the highest bidder.
18 This was for a six-month period with two options to extend
19 for additional six-month periods, two six-month periods.

20 The successful bidder at that time did not
21 exercise his option to extend the second six months, which
22 starts September 1st. This left the City of Long Beach,
23 then, with this 600 barrels a day of oil that they have
24 to do something with on September 1st. So, this puts
25 them in a very short time bind. They had to get out and

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1 have a sealed bid, because all these bids must be sealed
2 bids, competitive bids.

3 They just got the bids back yesterday. We
4 didn't have time to get this on the calendar item, and
5 this is of an emergency nature. So, we would like to
6 fill you in on it now and hope that you could have a special
7 meeting to approve this particular sell-off at sometime
8 in the future, because it has to start September 1st.
9 The City Council is acting on it today.

10 By sealed bids, MacMillan was the highest bidder.
11 And you have the list of bids in front of you there and
12 that particular letter. And they bid 37.1 cents a barrel
13 over the contract price.

14 ACTING CHAIRPERSON ACKERMAN: Okay. The City
15 of Long Beach will act on this and approve the bid today?

16 EXECUTIVE OFFICER NORTHROP: Yeah. We expect
17 them to act on it in the City Council meeting that's
18 meeting concurrently with this meeting this morning.

19 MR. THOMPSON: They have a one-week calendaring
20 problem, whereas we have almost a three- or four-week
21 leave. And so, we weren't just able to get it on the
22 calendar, because things just happened too fast.

23 EXECUTIVE OFFICER NORTHROP: The options we
24 have open to us are these. We could proceed with the
25 bids, after advising you, and have a confirming meeting,

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1 confirm it next month, or we could have a special meeting,
2 given the seven-day notice as of today, and have it a
3 week from today.

4 Counsel, do you have any advice on that?

5 MR. HIGHT: In this matter, I believe that
6 the Commission would fall within the purview of a special
7 meeting, which would require 24-hours' notice. And I
8 think that a meeting could be put together this week or,
9 if it could be worked out, next week, as long as the city
10 approved it.

11 ACTING CHAIRPERSON ACKERMAN: Is there any
12 seven-day notice requirement for them prior to the Commission
13 taking action?

14 EXECUTIVE OFFICER NORTHROP: Not on an emergency
15 meeting.

16 MR. HIGHT: It would be 24 hours on an emergency
17 meeting.

18 ACTING CHAIRPERSON ACKERMAN: I would think
19 that if the Commissioners agree that it would be appropriate
20 for us to act prior to September 1st to make things easier
21 for the city as well.

22 EXECUTIVE OFFICER NORTHROP: In that case,
23 we would probably use the emergency meeting and meet in
24 Sacramento probably tomorrow.

25 ACTING CHAIRPERSON ACKERMAN: Okay.

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MR. THOMPSON: It would certainly be nice to help the City of Long Beach out on that, because this was a problem of our scheduling not theirs, and they've done everything they can to get a quick turnaround back on this thing. So, I'd appreciate that.

ACTING CHAIRPERSON ACKERMAN: If we could attempt to have a meeting --

EXECUTIVE OFFICER NORTHROP: We'll structure it for Thursday. Counsel said he will take necessary steps in the morning to make the 24-hour notice.

ACTING CHAIRPERSON ACKERMAN: Okay. Thursday will be fine. Do you have any comments?

COMMISSIONER MORGAN: I think I have a prior commitment on Thursday, but --

EXECUTIVE OFFICER NORTHROP: It won't take very long, Commissioner Morgan. We can work it in before or after your particular schedule.

COMMISSIONER MORGAN: Fine.

ACTING CHAIRPERSON ACKERMAN: In any event, we should take action prior to September 1st.

COMMISSIONER MORGAN: I agree. Thank you, Mr. Thompson.

MR. THOMPSON: Thank you very much.

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, that completes my report.

1 ACTING CHAIRPERSON ACKERMAN: Do we have a
2 staff report on State Coastal Commission matters?

3 MR. GOLDEN: Yes, Mr. Chairman. As your
4 representative on the State Coastal Commission and the
5 San Francisco Bay Conservation Development Commission,
6 I have the following items summarized. The State Coastal
7 Commission has certified the Long Beach Local Coastal
8 Program. Conditions prohibiting the night drilling of
9 oil were dropped, based upon the testimony presented by
10 your staff. The City of Long Beach will now assume coastal
11 permitting jurisdiction from the Coastal Commission over
12 most of the lands in the coastal zone within the city.

13 We have provided input on many Local Coastal
14 Programs or LCP's, concerning public trust lands --
15 Redondo Beach, Huntington Beach, Ventura harbor, and the
16 City of San Buenaventura being the most recent. A number
17 of LCP's are still backlogged, largely because of
18 controversy surrounding housing considerations of the
19 Coastal Act.

20 Our staff has participated with Coastal Commission
21 staff in drawing up the access guidelines and insuring
22 through the Commission's public hearing process that State Lands
23 Commission interests were met, for example, proper recognition
24 of our role and the type of access easements that State
25 Lands might consider accepting.

1 Moving on to the San Francisco Bay Conservation
2 and Development Commission item, an applicant,
3 George Kokalis, in the Bay Area, San Francisco Bay Area,
4 wished to build a pier on tidelands that were sold as
5 Board of Tidelands Commissioner Lots. The pier was going
6 to be a nuisance, in that it would interfere with a harbor
7 seal haulout area, one of the few left in the Bay Area.
8 The applicant built the pier without benefit of an Army
9 Corps permit or any required state permits.

10 State Lands Commission, along with other state
11 agencies, have refused to issue a permit to date.
12 Kokalis has retained counsel and has sued BCDC. We haven't
13 been named, and we may be. I don't know. That concludes
14 my report, Mr. Chairman.

15 ACTING CHAIRPERSON ACKERMAN: My congratulations
16 to your success in the Coastal Commission on the night
17 drilling, too.

18 MR. GOLDEN: Thank you.

19 COMMISSIONER MORGAN: Can I ask a question?

20 ACTING CHAIRPERSON ACKERMAN: Sure.

21 COMMISSIONER MORGAN: About the access guidelines
22 were you in agreement with the staff report on the
23 guidelines?

24 MR. GOLDEN: Basically, we've had no problem
25 with the access guidelines that they've come up with.

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1 They are still, however, subject to some finetuning. The
2 Commission hasn't really dealt with the problem of, in
3 my estimation at least, and I think some other commissioners
4 are still in doubt as to just the need for access in certain
5 areas. And this is the one problem. They want to finetune
6 a little more on that.

7 COMMISSIONER MORGAN: We -- the Coastal
8 Conservancy has yet to act, as a matter of fact expressed
9 some reluctance to adopt all of the standards and
10 recommendations. And that's why I was interested.

11 MR. GOLDEN: The Conservancy is in a lead
12 position in terms of being nominated to take over many
13 of these access ways.

14 COMMISSIONER MORGAN: Right.

15 MR. GOLDEN: And I can understand this.

16 COMMISSIONER MORGAN: Thank you.

17 ACTING CHAIRPERSON ACKERMAN: John, do you
18 have any questions?

19 COMMISSIONER JERVIS: No.

20 ACTING CHAIRPERSON ACKERMAN: Okay. We will
21 now proceed into the regular calendar items. On the agenda
22 today, Items 1 through 33 are considered the Consent
23 Calendar. I understand Item 2 is going to be pulled off
24 the agenda --

25 EXECUTIVE OFFICER NORTHROP: Correct.

1 ACTING CHAIRPERSON ACKERMAN: -- as well as
2 Item 43?

3 EXECUTIVE OFFICER NORTHROP: That's correct,
4 Mr. Chairman.

5 ACTING CHAIRPERSON ACKERMAN: Okay. Items
6 1 through 33, with the exception of Item 2, which has
7 been pulled, is considered the Consent Calendar. These
8 are normally items of administrative nature which are
9 noncontroversial and will be approved upon proper motion
10 en masse by the Commission.

11 Is there anyone in the audience that has any
12 questions or would like to request that any item on the
13 Consent Calendar be pulled off and discussed as an
14 individual item before the Commission?

15 MR. DALQUIST: I have a comment.

16 ACTING CHAIRPERSON ACKERMAN: Yes, sir? If
17 you could come forward and identify yourself, please,
18 in the microphone? Which item would you like to ---

19 MR. DALQUIST: Item number 31. Orange County
20 Environmental Management Agency. My name is Pete Dalquist.
21 I represent the County of Orange Environmental Management
22 Agency.

23 We received a staff report, and we are not
24 in concurrence with one of the wordings of the staff member.
25 I have two letters here I'd like to submit.

1 COMMISSIONER MORGAN: Mr. Chairman, I have
2 a question. Are these letters items that have been
3 presented to the staff previously?
4

5 MR. DALQUIST: I'm sorry. I can't hear you.

6 COMMISSIONER MORGAN: Were these items presented
7 to the staff previously?

8 MR. DALQUIST: No, they were not. We just
9 received the staff report late last week.

10 COMMISSIONER MORGAN: Excuse me a minute. I'd
11 like to request that the Chairman take this item, put
12 this item aside, to give the staff a chance to review
13 the material that you're presenting now. And we will
14 take it up later out of order.

15 ACTING CHAIRPERSON ACKERMAN: Would that be
16 satisfactory?

17 MR. DALQUIST: I'm having trouble hearing.

18 ACTING CHAIRPERSON ACKERMAN: What I'd like
19 to do is put this item over until later on the agenda
20 so that the staff has adequate time to take a look at
21 the letters you presented. Then, we can take this item
22 up later on in the calendar agenda.

23 MR. DALQUIST: Yes. That would be acceptable.

24 ACTING CHAIRPERSON ACKERMAN: Okay.

25 COMMISSIONER MORGAN: In that case, I'll move approval
of the remaining items on the Consent Calendar.

1 ACTING CHAIRPERSON ACKERMAN: Okay. I have
2 a motion. If there is no objection, the Consent Calendar
3 will be deemed approved with the exception of Item 2,
4 which has been pulled, and Item 31, which will be placed
5 on the agenda later this morning.

6 We will now proceed into the Regular Calendar
7 items. Item 34 and 35 both deal with the City of Eureka.
8 Mr. Northrop?

9 EXECUTIVE OFFICER NORTHROP: Mr. Chairman,
10 Items -- before we start, it might be will that Ms. Miner,
11 in the back, has registration. She is at the right, back --
12 if you'll stand up -- and has registration. If anyone
13 would care to address the Commission on items either on
14 the calendar or outside, she would be happy to furnish
15 them with a slip so we don't miss anyone.

16 Mr. Chairman and Commissioners, Item 34 and
17 35 we would, if it please the Commission, we'd like to
18 take as a unit and have Les Grimes from our Lands staff
19 explain the transaction, if we may.

20 ACTING CHAIRPERSON ACKERMAN: That would be
21 fine.

22 EXECUTIVE OFFICER NORTHROP: Les?

23 MR. GRIMES: Mr. Chairman, Commissioners, Item
24 34 ends about 12 years of litigation in the Eureka
25 waterfront. This particular item is a settlement of 21

1 existing lawsuits. If I can, I'll step over there to
2 the exhibit so it will make --

3 ACTING CHAIRPERSON ACKERMAN: Please.

4 COMMISSIONER MORGAN: There is a problem with
5 the tape, a problem with the tape, if he's over there.

6 ACTING CHAIRPERSON ACKERMAN: Do we have a
7 microphone over there?

8 EXECUTIVE OFFICER NORTHROP: No, we don't. Let's
9 see.

10 MR. GRIMES: Arcata is seven miles that way.
11 (Indicating.) Eureka is about 300 miles this way. Lazio's
12 Fish Restaurant is right there. (Indicating.)

13 If you recall about a year ago, maybe over
14 a little over a year --

15 COMMISSIONER MORGAN: Les, Eureka is not 300
16 miles south.

17 MR. GRIMES: San Francisco.

18 COMMISSIONER MORGAN: Thank you.

19 ACTING CHAIRPERSON ACKERMAN: That's close.

20 (Laughter.)

21 MR. GRIMES: If you recall about a year ago,
22 the -- about a year ago, the Commission approved a
23 settlement from where Joe is pointing down to Highway
24 101, which goes up to Arcata.

25 The present settlement is from K Street here

1 down to Commercial Street. The settlement was made with
2 the Eureka waterfront plan in mind. We picked up
3 additional access along the waterfront, picked up additions
4 to the new First Street that they are building there,
5 put all of the structures under lease that are out beyond
6 the agreed waterfront boundary, which runs right along the
7 existing water line.

8 The City Council has approved the agreement.
9 The 100 or so principals have all signed the agreement.
10 The Attorney General has reviewed and approved the
11 agreement. His people were involved in the negotiations.
12 The staff of the State Lands Commission also recommends
13 that the Commission approve this settlement.

14 EXECUTIVE OFFICER NORTHROP: Could you separate
15 items 34 and 35 for the Commission?

16 MR. GRIMES: Okay. Item 35 is a transaction
17 that took place back in 1973 but had a ten-year time period
18 for the Commission to make the findings that the trust
19 easement was approved. It involves this piece of property
20 here, which was acquired so that the new fish plant, the
21 fish processing plant, could be built there. It had been
22 there and is the most imposing structure on the waterfront.
23 It's about a three-story job.

24 This transaction involved the city purchasing
25 from Northwestern Pacific this piece of ground here --

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1 (Indicating.) -- and whatever reversionary interest they
2 may have had in the city boat harbor, which is right
3 adjacent, and conveying to them a small piece of unused
4 city property that was an abandoned dog pound.

5 This transaction also has been reviewed by
6 the Attorney General and the staff and finds that it meets
7 the criteria. And the City Council has approved it. All
8 of the parties have signed the agreement.

9 ACTING CHAIRPERSON ACKERMAN: Les?

10 MR. GRIMES: Yes?

11 ACTING CHAIRPERSON ACKERMAN: How many parcels
12 remain for settlement, or is this the final one?

13 MR. GRIMES: This winds it all up. In the
14 downtown area there is some stuff down here in -- west
15 of the Broadway area, which is transition-type property,
16 redevelopment stuff and all. But there is no lawsuit
17 pending down there. And it's just a matter of negotiations.
18 And that's all under control by the city.

19 ACTING CHAIRPERSON ACKERMAN: So, this will
20 complete all the waterfront exchanges --

21 MR. GRIMES: Yes.

22 ACTING CHAIRPERSON ACKERMAN: -- and settlements?

23 MR. GRIMES: From here down to here. (Indicating.)

24 ACTING CHAIRPERSON ACKERMAN: It's quite a
25 project.

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1 MR. GRIMES: Eleven city blocks in this
2 settlement and about a mile and three-quarters in this
3 one.

4 ACTING CHAIRPERSON ACKERMAN: And the City
5 Council has approved these, and they are happy with the
6 deal?

7 MR. GRIMES: Yes, they are.

8 COMMISSIONER MORGAN: Les, are you aware of
9 any opposition?

10 MR. GRIMES: None. We've had a number of hearings
11 and presentations in the area up there with the City Council
12 and all, and nobody is against the settlement.

13 COMMISSIONER MORGAN: What does the State get
14 out of this?

15 MR. GRIMES: The State is kind of a backup
16 in the litigation problem. There is a -- the State has
17 come to the aid of the City of Eureka, and there is a
18 special appropriation of \$500,000 to pursue this litigation.
19 Hardly any of that \$500,000 will have to be used, because
20 it has been settled rather quickly.

21 COMMISSIONER MORGAN: Would that revert?

22 EXECUTIVE OFFICER NORTHROP: It would revert
23 if the grant was ever revoked. We would have to take
24 it back in the best of our interests, yes.

25 ACTING CHAIRPERSON ACKERMAN: John, do you

1 have any questions regarding the settlement?

2 COMMISSIONER JERVIS: No, I don't.

3 ACTING CHAIRPERSON ACKERMAN: Is there anyone
4 in the audience who wishes to speak on Item 34 or 35?

5 (No response.)

6 ACTING CHAIRPERSON ACKERMAN: Without objection,
7 the staff recommendations on the exchanges will be approved,
8 then, on Item 34 and 35.

9 Les, congratulations on 12 years' worth of
10 hard work.

11 MR. GRIMES: Thank you.

12 ACTING CHAIRPERSON ACKERMAN: Item 36, land
13 exchange agreements with Navy land?

14 EXECUTIVE OFFICER NORTHROP: Mr. Chairman,
15 this is an exchange of land located in the Mojave "B"
16 and the Chocolate Mountains area of considerable size.
17 Most of this, if not all the lands involved on our side
18 of the trade, is encumbered with unexploded ordinance,
19 which was placed there during and after World War II.

20 As a matter of fact, I understand, General Patton's tanks
21 trained in the Chocolate Mountains area. And there are
22 considerable numbers of bombs there. And you know the
23 high regard I hold him for. So -- that was a quick aside.

24 COMMISSIONER MORGAN: I was going to ask you
25 who General Patton was.

1 EXECUTIVE OFFICER NORTHROP: Oh.

2 (Laughter.)

3 EXECUTIVE OFFICER NORTHROP: We are exchanging
4 it for considerably better property in the area of Norco.
5 Mr. Trout is pointing out the area we received in the area
6 of Norco.

7 ACTING CHAIRPERSON ACKERMAN: Where is the
8 City of Corona?

9 EXECUTIVE OFFICER NORTHROP: The City of Corona
10 is there. Highway 15 is just below it. And we gave it --
11 we are giving up parts of the sections in the pink in
12 that area.

13 ACTING CHAIRPERSON ACKERMAN: Where is the
14 property we are exchanging, and what are we getting?

15 EXECUTIVE OFFICER NORTHROP: We are giving
16 up an area in the Chocolate Mountain area there and
17 Mojave "B" Test Range. It's not the total pink. It's
18 considerable area in that, but it's not the total pink.
19 We have scattered few sections for township in that area.

20 There is a considerable amount of land. We
21 are getting some good property.

22 COMMISSIONER MORGAN: The land has been determined
23 to be of equal value?

24 EXECUTIVE OFFICER NORTHROP: The land has been
25 appraised, and it is of equal value. It's an equal-value

1 exchange, I believe.

2 COMMISSIONER MORGAN: What are we going to
3 do with the land that we are acquiring?

4 EXECUTIVE OFFICER NORTHROP: At this time we
5 have no request for the land. It will be available to
6 those state agencies that might need land in that area.
7 Probably, we will use part of it for our ongoing tree-
8 planting program in the short term and other uses as
9 determined if other people wanted it. We have had
10 indications from General Services that they might be
11 interested in the property. Certainly no one is interested
12 in the Chocolate Mountains we traded out. It well may
13 be that we -- now that we have this, we may be able to
14 make some exchanges for other property with the Department
15 of the Interior or Bureau of Land Management in an area
16 that we would really want, in a forest area or some place
17 that we could make a trade. But we now have a piece of
18 property that has some value, and we have something to
19 trade.

20 We have gotten the Department of Defense problem
21 behind us. And now we can move on to perhaps -- I would
22 like to present to the Commission some options later of
23 an exchange with BLM on some other things. I think the
24 piece of property itself has value. And that's really
25 what we're looking at as a medium of exchange to move

1 on to something better.

2 ACTING CHAIRPERSON ACKERMAN: Do we still have
3 land interest in the Chocolate Mountain area?

4 EXECUTIVE OFFICER NORTHROP: We have now
5 extinguished all our interest in that area with this
6 exchange, but we've retained the minerals. Did you ask
7 me minerals or --

8 ACTING CHAIRPERSON ACKERMAN: And the live
9 bombs.

10 (Laughter.)

11 EXECUTIVE OFFICER NORTHROP: Yeah. Should
12 there be some kind of a mineral discovery that would make
13 it economic to clear it or someone who would care to lease
14 it for that, it can be done.

15 ACTING CHAIRPERSON ACKERMAN: Okay. Are there
16 any questions from the Commissioners on this item?

17 COMMISSIONER JERVIS: That reminds me. What's
18 happened to the piece of property in Northern California
19 where the U.S. Government used property for an artillery
20 range, and they are attempting to give it back to us as
21 is? What's happened to that?

22 EXECUTIVE OFFICER NORTHROP: Jim, do you want
23 to respond to that?

24 MR. HIGHT: Mr. Jervis, I think you're referring
25 to Honey Lake. And to date, we have the same problem

1 with Honey Lake. The Federal Government wanted to give
2 it back to us with a hold-harmless clause, that we would
3 hold the Federal Government harmless for any of the bombs
4 that they placed on our land. We are still trying to
5 negotiate with them without much success.

6 ACTING CHAIRPERSON ACKERMAN: Is there anyone
7 in the audience that wishes to address the Commission
8 on Item 36?

9 (No response.)

10 ACTING CHAIRPERSON ACKERMAN: I will entertain
11 a motion.

12 COMMISSIONER MORGAN: I'll so move.

13 ACTING CHAIRPERSON ACKERMAN: It's been moved,
14 seconded, that the item be approved without objection.

15 Item 37, United States Department of Agriculture,
16 Forest Service, perpetual road easement.

17 EXECUTIVE OFFICER NORTHROP: Mr. Chairman,
18 this is for a road easement of nearly two acres.

19 ACTING CHAIRPERSON ACKERMAN: Okay. Is there
20 anyone in the audience on Item 37?

21 (No response.)

22 ACTING CHAIRPERSON ACKERMAN: Are there any
23 questions from the Commissioners?

24 (No response.)

25 ACTING CHAIRPERSON ACKERMAN: Item 37 will

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1 be deemed approved.

2 Item 38, United States Forest Service.

3 EXECUTIVE OFFICER NORTHROP: Mr. Chairman,
4 this is an approval of a sale of a perpetual road easement
5 on the Pacific Crest Trail.

6 ACTING CHAIRPERSON ACKERMAN: Is there anyone
7 in the audience on Item 38?

8 (No response.)

9 ACTING CHAIRPERSON ACKERMAN: Any questions
10 from the Commissioners?

11 COMMISSIONER MORGAN: So moved.

12 ACTING CHAIRPERSON ACKERMAN: Seeing none,
13 item shall be approved.

14 Item 39, Chevron U.S.A., general lease right-
15 of-way use.

16 EXECUTIVE OFFICER NORTHROP: Mr. Chairman,
17 this is for a four-inch submarine gas pipeline.

18 ACTING CHAIRPERSON ACKERMAN: Anyone in the
19 audience on Item 39?

20 (No response.)

21 ACTING CHAIRPERSON ACKERMAN: Questions from
22 Commissioners?

23 (No response.)

24 ACTING CHAIRPERSON ACKERMAN: Item 39 will
25 be approved as presented.

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1 Item 40, Charles V. Kelly, applicant for a
2 15-year lease.

3 EXECUTIVE OFFICER NORTHROP: This is for a
4 15-year commercial general use permit, Mr. Chairman and
5 members.

6 ACTING CHAIRPERSON ACKERMAN: And it's on the
7 Klamath River.

8 EXECUTIVE OFFICER NORTHROP: Pardon?

9 ACTING CHAIRPERSON ACKERMAN: On the Klamath
10 River?

11 EXECUTIVE OFFICER NORTHROP: On the Klamath
12 River, right.

13 ACTING CHAIRPERSON ACKERMAN: Is there anyone
14 on Item 40? Questions?

15 COMMISSIONER JERVIS: No.

16 ACTING CHAIRPERSON ACKERMAN: Item 40 will
17 be deemed approved without objection.

18 Item 41, Crown Zellerbach Corporation.

19 EXECUTIVE OFFICER NORTHROP: Mr. Chairman,
20 this is for four day beacons to be installed on the
21 San Joaquin River near Antioch. That's four, four day
22 beacons.

23 ACTING CHAIRPERSON ACKERMAN: Could you explain
24 to me a day beacon?

25 EXECUTIVE OFFICER NORTHROP: In the daytime

1 for warning and other directional aids, usually triangular-
2 shape day-glow panels are laid out for navigation on the
3 river. And these are day beacons. They are unilluminated,
4 but the size and the color of them make them serve as
5 landmarks.

6 ACTING CHAIRPERSON ACKERMAN: Normally that's
7 because the corporation that's doing business has created
8 a hazard that necessitates the navigation beacon?

9 EXECUTIVE OFFICER NORTHROP: That's correct.

10 ACTING CHAIRPERSON ACKERMAN: Okay. Is there
11 anyone in the audience on Item 41?

12 (No response.)

13 ACTING CHAIRPERSON ACKERMAN: Are there any
14 questions from Commissioners?

15 COMMISSIONER MORGAN: No.

16 ACTING CHAIRPERSON ACKERMAN: Item will be
17 approved without objection.

18 Item 42, the Huntington Marina Association.

19 COMMISSIONER MORGAN: I have some questions.

20 ACTING CHAIRPERSON ACKERMAN: So do I.

21 EXECUTIVE OFFICER NORTHROP: Mr. Chairman,
22 this is a recreational pier permit for 92 small boat slips
23 for the Huntington Marina Association of a 1.344-acre
24 parcel in Sunset Bay near Surfside in Orange County.

25 ACTING CHAIRPERSON ACKERMAN: Okay. I believe

1 Susanne has some questions.

2 EXECUTIVE OFFICER NORTHROP: Sure.

3 COMMISSIONER MORGAN: There is a comment in
4 the summary of the item, which I couldn't find explained
5 in the item itself. But it says we're going to the --
6 the amendment would delete the bond requirement. Why
7 would we do that?

8 EXECUTIVE OFFICER NORTHROP: The association --
9 do they have a hold-harmless on that? Do they have a
10 hold-harmless on that?

11 MR. GRIMES: Yes, there is.

12 EXECUTIVE OFFICER NORTHROP: Okay. I think
13 that's the answer I'd give on that. Go ahead. Les Grimes.

14 MR. GRIMES: This thing here actually qualifies
15 for a recreational pier permit which, under 6503 requires
16 no bond, no insurance, nothing. However, because they've
17 wanted a slightly longer tenancy on the land than a
18 recreational pier permit would give, we gave them a monetary
19 permit based on recreational use. And we don't feel that
20 we can stretch the situation to require a bond.

21 EXECUTIVE OFFICER NORTHROP: We have a hold-
22 harmless.

23 MR. GRIMES: There is a hold-harmless clause
24 in there, an obligation to defend the State --

25 EXECUTIVE OFFICER NORTHROP: And insurance

1 as well.

2 MR. GRIMES: -- insurance.

3 COMMISSIONER MORGAN: Isn't this a little
4 unusual? Do we do this often?

5 MR. GRIMES: No.

6 EXECUTIVE OFFICER NORTHROP: We do it. Go ahead.

7 MR. GRIMES: This is a little unusual in that
8 it's a cross between a recreational pier permit and a
9 recreational use permit.

10 COMMISSIONER MORGAN: And the attorneys, the
11 staff attorneys say it's all right?

12 MR. HIGHT: Yes. This is okay. It would
13 eliminate -- 92 recreational pier permits would be the
14 other alternative. And this combines it all in one package
15 and makes it a little neater.

16 ACTING CHAIRPERSON ACKERMAN: We still have
17 92 boat slips --

18 MR. HIGHT: Correct.

19 ACTING CHAIRPERSON ACKERMAN: -- whether it's
20 done one by one or --

21 EXECUTIVE OFFICER NORTHROP: Or as a group.

22 ACTING CHAIRPERSON ACKERMAN: If they were
23 done one by one, would there still be a cost consideration?

24 EXECUTIVE OFFICER NORTHROP: It would be --
25 it would balance the same. What are we looking at, Les,

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1 50 apiece?

2 MR. HIGHT: It would be rent-free under that.

3 EXECUTIVE OFFICER NORTHROP: It would be rent-
4 free under --

5 MR. GRIMES: Yeah. It would be 92 documents
6 to process and no rent.

7 ACTING CHAIRPERSON ACKERMAN: So, you convinced
8 them to do it together, and you can charge them rent?

9 MR. GRIMES: A little bit, yes.

10 EXECUTIVE OFFICER NORTHROP: At least get the
11 processing worked out.

12 ACTING CHAIRPERSON ACKERMAN: Okay.

13 COMMISSIONER MORGAN: What about the comment
14 that this would help on their loan?

15 EXECUTIVE OFFICER NORTHROP: Pardon me?

16 COMMISSIONER MORGAN: There was a comment
17 someplace that this would help secure a loan. Is that
18 for this item?

19 ACTING CHAIRPERSON ACKERMAN: If I understand
20 it right, the places down in Huntington Harbor aren't
21 worth too much money unless you've got a pier to go along
22 with it. That's why people buy -- isn't that correct?

23 EXECUTIVE OFFICER NORTHROP: That's true. Too
24 much, maybe. It certainly enhances their value when they
25 get one.

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1 ACTING CHAIRPERSON ACKERMAN: I mean, that's
2 really why people --

3 EXECUTIVE OFFICER NORTHROP: Right. It's the
4 ocean front.

5 ACTING CHAIRPERSON ACKERMAN: -- purchase down
6 there.

7 MR. GRIMES: Yes. The association would like
8 to have the ability to have those piers in place for the
9 ten-year period. That helps them get a loan on a house,
10 I guess.

11 ACTING CHAIRPERSON ACKERMAN: I have just one
12 question, just on recreational piers in general. Like
13 in Huntington Harbor, that's getting to be a more and
14 more congested area all the time. Does the staff
15 disapprove? Or in my recent memory, I don't recall the
16 Commission turning down requests for recreational piers.
17 Have we gotten into this, like inspection or anything?

18 EXECUTIVE OFFICER NORTHROP: We did a cumulative
19 EIR at the time we issued the first permit about two years
20 ago, as I recall. Bob just reminded me.

21 Jim, do you want to comment on that? You'd
22 better. Jim Trout, the Assistant Executive Officer.

23 MR. TROUT: Because we saw this -- because
24 we saw this -- I'll talk without it. Because we saw the
25 problem of the total buildout in Huntington Harbor, Orange

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1 County and our staff processed a cumulative EIR which
2 considered total buildout in Huntington Harbor. And the
3 finding was that because this was a totally ripped-up,
4 dredged area already that it would not be detrimental.
5 There are other areas, such as the existing Seal Beach
6 Net Depot and others that would require it, but we did
7 consider that. And this is consistent with that EIR.

8 ACTING CHAIRPERSON ACKERMAN: Does any other
9 governmental agency have to approve pier permits as well?
10 Are we the only one that passes on it?

11 MR. TROUT: Well, the City of Huntington Beach,
12 I believe, issues construction permits for the piers.

13 ACTING CHAIRPERSON ACKERMAN: So, even if we
14 go ahead and approve the permit, they still have to go
15 to the local agency to get construction permits to go
16 ahead and actually build the pier?

17 MR. TROUT: Right. And either the city or
18 the county, which ever one is appropriate, was on the
19 cumulative EIR. So, it's still covered under the same
20 thing.

21 ACTING CHAIRPERSON ACKERMAN: That answers
22 all my questions. John, do you have any?

23 COMMISSIONER JERVIS: No, I don't.

24 ACTING CHAIRPERSON ACKERMAN: Sue?

25 COMMISSIONER MORGAN: I'll move approval.

1 ACTING CHAIRPERSON ACKERMAN: Okay. Is there
2 anyone, by the way, in the audience on Item 42 that wishes
3 to address the Commission?

4 (No response.)

5 ACTING CHAIRPERSON ACKERMAN: Okay. I have
6 a motion to approve the item. Seeing no objection, Item
7 42 will be approved.

8 All right. Item 43 is off calendar. We will
9 go into energy and mineral resource development, Item
10 44, Shell Oil Company.

11 EXECUTIVE OFFICER NORTHROP: Mr. Chairman,
12 this is an approval of a lease underlying approximately
13 52 acres of the bed of the Sacramento River. The total
14 rental on this is \$20 per acre plus a royalty of 30 percent.

15 In this particular area, the Applicant has
16 leased all of the surrounding area. And we have the option
17 of either leasing it to them or attempting to drill it
18 ourselves. However, in attempting to drill it ourselves,
19 we find that we really do not have a site from which to
20 drill. So, we really have -- if we were to put it out
21 for a bid, we would be faced with leasing property and
22 the lessee having no place to -- no place to stand while
23 he dug his hole, so to speak.

24 ACTING CHAIRPERSON ACKERMAN: Uh-huh.

25 EXECUTIVE OFFICER NORTHROP: So, we now are

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1 faced with this flat-rate royalty on a negotiated subsurface
2 lease. As you know, it has not been the policy to use
3 this kind of a lease save in these kinds of circumstances.
4 And I think in this kind of circumstance we have very --
5 we have little alternative. We have no alternative but
6 to go with this type of lease or we'll wind up being drained.

7 ACTING CHAIRPERSON ACKERMAN: How long has
8 Shell Oil had a leasehold on the surrounding property?

9 EXECUTIVE OFFICER NORTHROP: I don't know.
10 It's been a considerable period of time. They've done
11 a lot of work in that area and have for the last decade
12 in securing the property surrounding the river in that
13 particular area.

14 ACTING CHAIRPERSON ACKERMAN: Any questions
15 from the Commissioners? Susie?

16 COMMISSIONER MORGAN: Yes. The 30 percent
17 is a standard rate?

18 EXECUTIVE OFFICER NORTHROP: No. It's difficult
19 to say what the standard rate was -- is. If you were
20 a propertyowner in the area and had a hundred acres, the
21 usual royalty is a one-sixth or a one-eighth royalty.
22 This is considerably higher than that. But still, when
23 you compare it to our leases, for example, offshore in
24 Long Beach where we get a 95 percent royalty, it's
25 considerably less than that.

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1 But for this kind of a royalty, the industry
2 has been surprisingly uniform in their offers to landowners.
3 So, they would consider this a generous offer. I consider
4 it an average-type offer.

5 COMMISSIONER MORGAN: How will we know which
6 oil is ours and which is not?

7 EXECUTIVE OFFICER NORTHROP: There is a
8 considerable amount of geological work done to get some
9 feeling as to the formation, of what it looks like. And
10 there are standard, accepted procedures in the industry
11 for unit formation and division by sand count and
12 permeability and porosity to throw a couple words out
13 that might impress Bruce Thompson. And studies are done,
14 and it's arrived at generally on a routine -- in a routine
15 manner in the industry.

16 COMMISSIONER MORGAN: And the records are
17 audited?

18 EXECUTIVE OFFICER NORTHROP: Yes.

19 COMMISSIONER MORGAN: Okay. Thank you.

20 ACTING CHAIRPERSON ACKERMAN: Are those records
21 available right now? Simply because we do currently have
22 an interest in the land, is Shell Oil required --

23 EXECUTIVE OFFICER NORTHROP: I don't know.
24 Don, where are we on the unit agreement on that?

25 MR. EVERITTS: We have not entered into --

1 we have not entered into a unit agreement at this point.
2 We might not want to. We have to decide. We might want
3 to wait and found out what the production is like.

4 There's just a time thing. Sometimes you enter
5 into a unit before, and sometimes you don't. There's
6 no real geologic data. This is an exploratory well.

7 EXECUTIVE OFFICER NORTHROP: Right. But, of
8 course -- thank you.

9 ACTING CHAIRPERSON ACKERMAN: In other words,
10 Shell Oil may already be siphoning off?

11 EXECUTIVE OFFICER NORTHROP: Don said this
12 is exploratory, so there is no production in the area.

13 ACTING CHAIRPERSON ACKERMAN: Okay.

14 COMMISSIONER MORGAN: Thank you.

15 ACTING CHAIRPERSON ACKERMAN: This is really
16 a way to protect our interests as well.

17 EXECUTIVE OFFICER NORTHROP: Yes.

18 ACTING CHAIRPERSON ACKERMAN: Is there any
19 question on Item 4?

20 COMMISSIONER MORGAN: The approval would be
21 to authorize the Executive Officer to negotiate a lease?

22 EXECUTIVE OFFICER NORTHROP: No, we have the
23 lease in front of us.

24 COMMISSIONER MORGAN: But we're approving that
25 for purchase.

1 ACTING CHAIRPERSON ACKERMAN: It would be to
2 approve a rental of \$20 per acre and a flat royalty of
3 30 percent.

4 COMMISSIONER MORGAN: Right.

5 ACTING CHAIRPERSON ACKERMAN: Is there anyone
6 in the audience on Item 44?

7 (No response.)

8 ACTING CHAIRPERSON ACKERMAN: Without objection,
9 then, Item 44 will be approved.

10 Item 45, Union Oil of California.

11 EXECUTIVE OFFICER NORTHROP: Mr. Chairman,
12 this is to approve, in principal, the preparation of a
13 site for drilling four wells in Sonoma County for
14 geothermal.

15 ACTING CHAIRPERSON ACKERMAN: Do you have a
16 question?

17 COMMISSIONER MORGAN: No.

18 ACTING CHAIRPERSON ACKERMAN: Is there anyone
19 in the audience on Item 45? Any questions from
20 Commissioners?

21 (No response.)

22 ACTING CHAIRPERSON ACKERMAN: Item 45 will
23 be deemed approved without objection.

24 Item 46, Tosco Corporation, applicant for a
25 dredging permit.

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1 EXECUTIVE OFFICER NORTHROP: Mr. Chairman,
2 this is to dredge approximately 25,000 cubic yards in
3 Suisun Bay to allow Tosco to have a navigable depth wharf.

4 ACTING CHAIRPERSON ACKERMAN: I don't have
5 any problem with that.

6 COMMISSIONER MORGAN: That's all right.

7 ACTING CHAIRPERSON ACKERMAN: Anyone in the
8 audience on Item 46? Questions?

9 (No response.)

10 ACTING CHAIRPERSON ACKERMAN: Without objection,
11 Item 46 will be approved.

12 Item 47, Chevron U.S.A.?

13 EXECUTIVE OFFICER NORTHROP: Mr. Chairman,
14 Chevron U.S.A. has had some problem in getting a drill
15 ship in position to handle the drilling requirements on
16 one of their leases. The shortage of drill ships because
17 of OCS leases is not -- is common at this particular time.
18 And so, for that reason, they've asked for a one-month
19 extension in their -- as a deferment.

20 ACTING CHAIRPERSON ACKERMAN: Okay. Is there --

21 COMMISSIONER MORGAN: Do they think -- excuse
22 me.

23 ACTING CHAIRPERSON ACKERMAN: Go ahead.

24 COMMISSIONER MORGAN: Do they think one month
25 is enough?

1 EXECUTIVE OFFICER NORTHROP: Yes. They think
2 they can probably do it within the time frame given, but
3 there may be a glitch. And if there is, they don't want
4 to lose it for a week or two. So, a month will handle
5 it.

6 ACTING CHAIRPERSON ACKERMAN: This is just
7 because of technical problems in getting the equipment?

8 EXECUTIVE OFFICER NORTHROP: That's right.

9 ACTING CHAIRPERSON ACKERMAN: Any questions
10 on Item 47? Anyone in the audience?

11 (No response.)

12 ACTING CHAIRPERSON ACKERMAN: Then Item 47
13 will be deemed approved without objection.

14 Item 48, State Lands Commission.

15 EXECUTIVE OFFICER NORTHROP: This is an offer.
16 The Executive Officer would like to go out and have a
17 competitive bid for some gravel in the Suisun Bay. After
18 the bids come in, we'll return to the Commission with
19 the bids and discuss them at that time.

20 ACTING CHAIRPERSON ACKERMAN: What is going
21 to be done with the gravel?

22 EXECUTIVE OFFICER NORTHROP: Probably
23 construction.

24 ACTING CHAIRPERSON ACKERMAN: Okay. And there
25 is a market out there for it right now?

1 EXECUTIVE OFFICER NORTHROP: Yes. A big
2 aggregate market. And if the AMEX goes, all the gravel
3 in the United States is going to be needed.

4 (Laughter.)

5 ACTING CHAIRPERSON ACKERMAN: Are there any
6 questions on Item 48? Anyone in the audience?

7 (No response.)

8 COMMISSIONER MORGAN: We'll see what the bids
9 look like, Bill.

10 EXECUTIVE OFFICER NORTHROP: We'll bring them
11 back. If it looks like the AMEX is going to go, we may
12 want to wait.

13 ACTING CHAIRPERSON ACKERMAN: Item 48, then,
14 will be approved without objection.

15 Item 49 on Geothermal Kinetics, Incorporated.

16 EXECUTIVE OFFICER NORTHROP: Mr. Chairman,
17 we have a lessee by the name of Geothermal Kinetics that
18 has had some difficulty in obtaining permits in Lake County.
19 Staff would like you to be aware of this problem, and
20 we would like to take some time to meet with the Applicant
21 and discuss the problem which Lake County.

22 ACTING CHAIRPERSON ACKERMAN: How long has
23 this been going on? Hasn't this been kind of a long-
24 standing dispute?

25 EXECUTIVE OFFICER NORTHROP: This has been

1 a long-standing program we started. You may recall we
2 did an EIR, and maybe not, almost five years ago. How
3 long ago was it, Don, we did that EIR, we started the
4 joint hearing on the EIR?

5 MR. EVERITTS: It was about four years.

6 EXECUTIVE OFFICER NORTHROP: About four years
7 ago, very early, very early on. I think perhaps before
8 your term. We did a unique thing in which the State and
9 the county got together with a joint EIR, which was well-
10 received at the time. And since that nearly four-year
11 time, approximate four-year time frame, some things have
12 changed. The Applicant came in for an approval, and the
13 county said, "It's been so long since you did an EIR,
14 you really ought to do a supplemental," or words to that
15 effect.

16 The Applicant went out and did a supplemental
17 and has submitted it. And the response from that time
18 to Lake County, we think, requires the staff to do some --
19 have some discussions with Lake County of the problem
20 there, because we feel our --

21 ACTING CHAIRPERSON ACKERMAN: Well, you held
22 public hearings, I believe, up in Lake County as well;
23 didn't you?

24 EXECUTIVE OFFICER NORTHROP: We held a series
25 of public hearings. We've taken it before the public;

1 in Lake County, held I would say a number of hearings,
2 more than three and probably less than seven, but it's
3 been a number.

4 ACTING CHAIRPERSON ACKERMAN: I think probably
5 in all fairness to the Applicant a little motion is needed,
6 at least to get some resolution of mutual agreement between
7 the parties.

8 EXECUTIVE OFFICER NORTHROP: Right. We would
9 like to have that authority, or at least we'd like the
10 Commission to be aware of it. And when the staff attempts
11 to make these overtures that we -- that they are not done
12 without the advice of the Commission as a staff matter
13 but rather as a policy matter of the Commission.

14 ACTING CHAIRPERSON ACKERMAN: I think my personal
15 feeling, then, I think would be that if the Commissioners
16 would concur -- and I'll ask for comments -- maybe to
17 direct the staff to at least meet with Geothermal Kinetics
18 and the city and county in order to try and at least get
19 some agreement on this matter and just pursue it to some
20 final resolution.

21 EXECUTIVE OFFICER NORTHROP: Thank you. We'll
22 take that step.

23 ACTING CHAIRPERSON ACKERMAN: Any comments
24 at this point or concurrence from the Commission?

25 COMMISSIONER MORGAN: I've never been very

1 comfortable when the State involves itself in local
2 operations, but I do think that the need for energy is
3 important enough to everybody, not just to Lake County,
4 that it warrants doing something now.

5 EXECUTIVE OFFICER NORTHROP: Thank you very
6 kindly.

7 ACTING CHAIRPERSON ACKERMAN: Mr. Jervis?

8 COMMISSIONER JERVIS: (Shakes head.)

9 ACTING CHAIRPERSON ACKERMAN: If there is no
10 objection, the staff will be directed to meet with Lake
11 County in an effort to pursue this matter to a final
12 resolution. Mr. Maullin?

13 EXECUTIVE OFFICER NORTHROP: Quit while you're
14 ahead.

15 ACTING CHAIRPERSON ACKERMAN: Welcome.

16 MR. MAULLIN: Mr. Chairman, I just wanted to
17 raise one matter. And I think the motion of the proposal
18 to the staff is very welcome on behalf of Geothermal
19 Kinetics.

20 The Lake County is holding a proceeding in
21 which the position of the State Lands Commission would
22 be important to have expressed. And I would hope that
23 the motion would be sufficient to allow the staff to express
24 the views of the Commission regarding the Lake County
25 permit matter which is before them September 2nd.

1 ACTING CHAIRPERSON ACKERMAN: Are you
2 representing --

3 MR. MAULLIN: Geothermal Kinetics, yes.

4 ACTING CHAIRPERSON ACKERMAN: -- Geothermal
5 Kinetics? Mr. Northrop, do you have any problems with
6 Mr. Maullin's suggestion?

7 EXECUTIVE OFFICER NORTHROP: Well, I felt the
8 Commission's instructions included what Mr. Maullin has
9 suggested.

10 ACTING CHAIRPERSON ACKERMAN: I would think
11 our direction would be fairly liberal in allowing the
12 Commission staff the latitude to pursue whatever resolution
13 is necessary in the case. Thank you. You've put up with
14 a great deal of red tape. I think it's been about four
15 years now.

16 MR. MAULLIN: Let me just say thank you to
17 the State Lands Commission for helping us in this matter.

18 ACTING CHAIRPERSON ACKERMAN: Our pleasure.

19 COMMISSIONER MORGAN: Is there anything specific
20 that you would like us to do?

21 MR. MAULLIN: No. With that clarification,
22 I'm sure Mr. Northrop and the rest of the staff will be
23 able to help us considerably. Thank you.

24 ACTING CHAIRPERSON ACKERMAN: Thank you. Is
25 there anyone else in the audience on Item 49 that wishes

1 to be heard?

2 (No response.)

3 ACTING CHAIRPERSON ACKERMAN: Then without
4 objection, the staff will be directed to meet with
5 Geothermal Kinetics and Lake County to try and come up
6 with some kind of resolution. And you have whatever
7 latitude is necessary from the Commission.

8 EXECUTIVE OFFICER NORTHROP: Thank you very
9 kindly.

10 ACTING CHAIRPERSON ACKERMAN: Item 50, beginning
11 the Long Beach operations.

12 EXECUTIVE OFFICER NORTHROP: Mr. Chairman,
13 I'd like to have Mr. Thompson come forward to present
14 Items 50 through 55.

15 ACTING CHAIRPERSON ACKERMAN: Do you want to
16 take them either together or separately?

17 EXECUTIVE OFFICER NORTHROP: I think probably
18 separately as we go through them.

19 ACTING CHAIRPERSON ACKERMAN: Okay.

20 MR. THOMPSON: We might -- we'll take them
21 separately, but since there's about five calendar items
22 that involve Long Beach Unit, it might be well to review
23 the oil rate performance of the Unit.

24 As you can see from this graph on the right
25 up there, (indicating), the oil rate for the Long Beach

1 Unit is shown in red there. And you can see the flattening
2 of the decline rate starting about mid-1977. This is
3 the result of the increased levels of expenditures approved
4 by the Commission after the Federal Government started
5 removing some of the pricing inequities against California
6 crude oil in their Department of Energy regulations. And
7 there were numerous budget augmentations, and their
8 attitudes toward spending money has resulted in that type
9 of flattening there.

10 The Commission staff is committed to a subzone
11 redevelopment in the Ranger and Terminal Zones of the
12 Long Beach Unit for both injection and production wells.
13 And we believe that this investment now for additional
14 wells and facilities will be returned several fold over
15 because of increased ultimate recovery and also lowered
16 operating costs for each barrel of reserve recovered.

17 Right now, our budget's running about \$140
18 to \$150 million a year compared to our levels back at
19 one time of \$60 or \$70 million when we were under these
20 price constraints by the Federal Government. So, this
21 is the result of your particular actions. And you see
22 we are flattening out the oil right there.

23 All right. Now, the first modification --

24 ACTING CHAIRPERSON ACKERMAN: Moose, do you
25 estimate that that line would continue out at a pretty

1 flat level?

2 MR. THOMPSON: To a degree. If you will notice,
3 in the past when you start doing some work you tend to
4 flatten it out. And then, it begins to resume some kind
5 of decline again. Hopefully, we'd like to keep it flat
6 as long as we can, but there is going to be an eventual
7 decline that will set in. It's just part of the thing.
8 There's only so many physical barrels down there. And
9 when you take them out, there's just fewer left. And
10 it just has to decline. But we're going to try to maximize
11 the ultimate recovery and keep the oil rate up as high
12 as we can.

13 ACTING CHAIRPERSON ACKERMAN: Do you have an
14 overall life expectancy of the Long Beach oil revenues?

15 MR. THOMPSON: The California oil fields are
16 very, very long lived. The Wilmington Field was discovered
17 in 1937. So, it has already been producing 40 some years.
18 And it's part of the field that probably will still be
19 producing in 25, 30 years from now at a lowered oil rate,
20 and then we'll come to the economic limits, and that will
21 close it down, but not the fact that you just stop
22 producing oil. It's just that you get to the economic
23 limits. You can't afford to keep on producing.

24 COMMISSIONER JERVIS: At what point do you
25 think it might go under 50,000 barrels a day?

1 MR. THOMPSON: Just guessing, I would hope
2 not for a couple years. You can see that climb rate there.
3 What we're trying to do is stay above 60,000 by the end
4 of 1981. That's our present goal right there. And we're
5 doing this.

6 We're actually going to add another drilling
7 rig here. Along about in October, we will have another
8 new drilling rig for the unit that will be delivered at
9 that time. We put another rig in service about three
10 months ago. And again, we're trying to develop reservoirs
11 and small fault blocks that we couldn't do before under the
12 economic constraints.

13 COMMISSIONER MORGAN: I need some clarification.
14 Whose budget are you talking about?

15 MR. THOMPSON: I'm talking about the Long Beach
16 Unit budget. Under Chapter 138, the State Lands Commission
17 has the final approval of the budget for the Long Beach
18 Unit. This comprises the offshore Long Beach tidal parcel,
19 a State Public Resource parcel, which is known as Tract
20 2, and also the downtown portion of the City of Long Beach.
21 And we don't have a good map to show you.

22 EXECUTIVE OFFICER NORTHROP: Behind Dave there
23 is a map that gives part of it.

24 MR. THOMPSON: But in general, then, about --
25 I believe the number is about 10,000 different small parcels

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1 in the downtown portion of Long Beach. David, you can
2 point out about where Ocean Boulevard is there, north,
3 a little further north. In the downtown part right there,
4 that's Ocean Boulevard. Then to the north of that is
5 part of the town lot portion of the City of -- of the
6 Long Beach Unit.

7 EXECUTIVE OFFICER NORTHROP: It is a very large
8 triangle of single homes, single-family R-1's.

9 COMMISSIONER MORGAN: So, the significance
10 to the state of this \$9.9 million adjustment is that we
11 give up \$9.9 million in revenues in the hope of getting
12 more revenues later?

13 MR. THOMPSON: The State of California is in
14 business here. We are making business decisions. You're
15 investing money to make money.

16 EXECUTIVE OFFICER NORTHROP: So, it's really --

17 COMMISSIONER MORGAN: Is that the answer?

18 (Laughter.)

19 EXECUTIVE OFFICER NORTHROP: I think the answer
20 is -- the answer to your question is yes.

21 COMMISSIONER MORGAN: Thank you.

22 MR. THOMPSON: All right. Now, when you talk
23 about the first modification, you start talking about
24 then we have a normal water flooding process going on
25 here which we call secondary recovery. And then, we get

1 into the little more exotic things we call tertiary oil
2 recovery. And these involve high risk, because we had
3 inherent problems in transferring these laboratory recovery
4 processes into the actual oil field operations. And often,
5 it's not a question of whether we can produce more oil,
6 which practically all of these techniques will do, but
7 it's a question of whether we can economically produce
8 this additional oil.

9 To provide some incentive for these tertiary
10 projects, the Department of Energy allows operators to
11 receive -- recover a part of their project cost by getting
12 uncontrolled price for uncontrolled oil -- for controlled
13 oil that they produce. In other words, most operators
14 are producing a mix of controlled and uncontrolled oil.
15 To help this front-end loading on these, you're allowed
16 to receive uncontrolled price for the controlled portion
17 of your oil, because there is a heavy front-end loading
18 on this. All oil is to be decontrolled by October 1st,
19 1981, so they also have a provision that if you can prepay
20 certain costs in these tertiary projects, you can recover
21 it out of that particular controlled oil up to October 1st.
22 So, that's the gist of this. What we are doing
23 here is we want to prepay for about the \$10 million, \$10
24 million worth of chemicals we will use in the balance
25 of this project which will run through 1986. We want

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1 to pay for them this year, so that we can use these control
2 barrels up to -- through September, 1981.

3 So, in essence, what we're doing here is we
4 are spending \$10 million, but by the DOE regulations we
5 will be able to recover about 75 percent of that in higher
6 oil prices. So, really, our exposure is only about \$3
7 million.

8 ACTING CHAIRPERSON ACKERMAN: Over what period
9 of time do you expect that 75 percent?

10 MR. THOMPSON: We have to recover that by
11 September of 1981, because at that time all oil would
12 be decontrolled.

13 ACTING CHAIRPERSON ACKERMAN: Okay.

14 MR. THOMPSON: So, we will have that prepayment
15 and be able to recover that. We have sufficient oil.

16 ACTING CHAIRPERSON ACKERMAN: And the balance
17 of 25 percent?

18 EXECUTIVE OFFICER NORTHROP: As it stands today,
19 Mr. Chairman, it will be decontrolled. There are distressing
20 noises coming from places within the industry, surprisingly,
21 that would like to see controls continue. So, I am not
22 optimistic that oil would be decontrolled. That's an
23 aside.

24 MR. THOMPSON: Now, this basic project itself
25 is a caustic flood in Ranger VII of the Long Beach Unit.

1 And it's that project area you see to be flowing there.
2 It involves -- the injection wells are those heavier lines
3 across there. And then, they also influence the wells
4 north and south of that.

5 The oil performance curve now for that particular
6 block is the next curve we'll show you behind this. This
7 actually is the way the block is performing against the
8 water flood prediction, which is the secondary recovery.
9 So, we would like Commission approval to go ahead and
10 do this prepurchase of these chemicals. This will allow
11 us, then, to offset it with the release of this oil.

12 ACTING CHAIRPERSON ACKERMAN: Moose, to what
13 extent are you doing water flood projects in other fields
14 right now?

15 MR. THOMPSON: The complete Long Beach Unit
16 is underwater flood, as are all the Long Beach tidal properties.

17 ACTING CHAIRPERSON ACKERMAN: Okay.

18 EXECUTIVE OFFICER NORTHROP: This comparison,
19 as you can see, has compared it to a base water flood,
20 what would have happened if we hadn't put the caustic
21 in on that straight line. And, David, the wiggly line
22 is what it would be getting. Okay?

23 COMMISSIONER JERVIS: Do you buy the chemicals
24 at today's prices or 1985 prices; or how does that work?

25 MR. THOMPSON: There are certain things in

1 the contract for transportation and inflation that we'll
2 have to put up with, but we actually will sign the contracts
3 now and pay a major part of the money now. And then,
4 there will be adjustments in time as we need these and
5 go through it. So, the main investment will be paid now
6 with the adjustments in future time, because we really
7 don't know what the inflation cost will be or transportation
8 costs at that time.

9 COMMISSIONER MORGAN: Does this have any direct
10 impact on the cost estimates that our chairman had a press
11 conference about yesterday?

12 EXECUTIVE OFFICER NORTHROP: No. These were
13 taken into consideration before we took a look at the
14 non -- at the new prices. Of course, it would have an
15 effect on any estimate, because it is cost. But these
16 were costs that we had planned to make for some time.
17 So, it -- well, it would affect the cost estimate, of
18 course, any time we spend money it would affect that type
19 of a cost estimate.

20 MR. THOMPSON: To give you a perspective on
21 this, this is approximately \$3 million out of about \$150
22 million budget, plus the fact we already have in the budget
23 about \$2 million of chemicals that we already put in the
24 budget for use this year. So, that \$3 million is just
25 about in the swing of estimating.

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1 ACTING CHAIRPERSON ACKERMAN: Do you have any
2 other questions?

3 COMMISSIONER JERVIS: No.

4 ACTING CHAIRPERSON ACKERMAN: Is there anyone
5 in the audience who wishes to comment on Item 50?

6 (No response.)

7 ACTING CHAIRPERSON ACKERMAN: I will entertain
8 a motion.

9 COMMISSIONER MORGAN: I'll move.

10 ACTING CHAIRPERSON ACKERMAN: Moved that Item
11 50 be approved. I second the motion. Without objection,
12 Item 50, first modification, will be approved.

13 Item 51?

14 MR. THOMPSON: This is a second modification.
15 And here we want to modify the plan and transfer funds
16 within the budget. There will be no budget augmentation
17 here.

18 It involves the purchase of some more efficient
19 converters to change alternating current to direct current
20 on two of our drilling rigs. And this will make all of
21 our drilling rigs equipped that way. We use direct-current
22 electric motors on all of our rigs. So, we -- standard
23 electricity would come in. The power is alternating current,
24 and we would have to convert that to direct current.

25 ACTING CHAIRPERSON ACKERMAN: Then it's simply

1 a shift between budget items?

2 MR. THOMPSON: Yes. And actually, we save
3 money by doing this, because it's more efficient. That's
4 why we have transferred the funds from drilling funds
5 into this particular account, because we actually will have
6 reduced drilling costs. Same way with the brine plants
7 for making brine for kill fluids. And the painting of the
8 derricks, which was highlighted when we painted one, why
9 then like when you paint one wall in a room, why then
10 the rest of the walls don't look so good. So, we painted
11 one, and the other three, now, we have to paint those
12 to keep them up. And this, again, will transfer funds
13 out of leasehold maintenance into environmental control.
14 So, there will be no budget augmentation on this.

15 COMMISSIONER MORGAN: I will move approval.

16 ACTING CHAIRPERSON ACKERMAN: Okay. John,
17 any questions?

18 COMMISSIONER JERVIS: No.

19 ACTING CHAIRPERSON ACKERMAN: Anyone in the
20 audience on Item 51?

21 (No response.)

22 ACTING CHAIRPERSON ACKERMAN: Without objection,
23 the second modification will be approved.

24 Item 52, Parcel A?

25 MR. THOMPSON: Yes. This is strictly an informal

1 calendar item, but we would like some action on it. All
2 we're doing is telling you that we got more revenue than
3 we had earlier forecast a year ago, because primarily
4 that federal action and decontrolling heavy oil made the
5 difference whether you were getting \$4 for your oil or
6 20-some dollars.

7 Now, we were instructed in the past to report
8 back on this every six months in an information way. We
9 are now incorporating all of this into a semi-annual revenue
10 reporting for all the properties. So, we'd like your
11 approval to stop this reporting, because it's incorporated
12 in the other one. And that's the revenue projections
13 that you'll see back on Item 58, I believe it is.
14 Parcel "A" now is one component of that.

15 COMMISSIONER MORGAN: Is this within the
16 Commission's discretion?

17 MR. THOMPSON: The order was --

18 EXECUTIVE OFFICER NORTHROP: The Commission
19 asked us to every six months give them a report. And
20 it's what we are attempting to do, but we are now semi-
21 annually -- does that mean twice a year -- reporting the
22 revenues.

23 MR. THOMPSON: Under the budget language.

24 EXECUTIVE OFFICER NORTHROP: So, we include
25 Parcel "A" in the revenues. So, it's just a bookkeeping

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1 duplication.

2 COMMISSIONER MORGAN: I assume anytime we wanted
3 to know what the revenues were you could tell us.

4 EXECUTIVE OFFICER NORTHROP: Anytime you want
5 to know, we'll let you know what the revenues are.

6 COMMISSIONER MORGAN: Okay. Fine.

7 ACTING CHAIRPERSON ACKERMAN: Again, this is
8 just on Parcel "A" as well as including the

9 EXECUTIVE OFFICER NORTHROP: And normally,
10 I think it's important, Commissioner Morgan, that we,
11 for the record, state that we update these as soon as
12 we find there's a change. In other words, if there is
13 a crude price increase, we immediately recompute and
14 communicate that. However, the problem we've had lately
15 is we haven't had a price to recompute on. So, I thought
16 it was time we recomputed Item 58 saying, "Whoops. It's
17 not progressing like it should." We haven't had anything
18 to recompute lately. So, it's time to recompute. So,
19 that's what 58 would be about.

20 COMMISSIONER MORGAN: I didn't understand that.

21 EXECUTIVE OFFICER NORTHROP: Pardon?

22 COMMISSIONER MORGAN: No. Thank you.

23 ACTING CHAIRPERSON ACKERMAN: And again, the
24 revenue estimates that we'll get to in Item 58 take the
25 modifications from Item 50 and 51 into account in

1 forecasting.

2 EXECUTIVE OFFICER NORTHROP: That's correct.
3 Fifty-one it wouldn't affect, but it does take 50 into
4 account.

5 ACTING CHAIRPERSON ACKERMAN: Okay. We aren't
6 required to take any action, then, on Item 52; is that
7 what you're telling me? - Do we need to take action on
8 it?

9 MR. THOMPSON: We would like to have you tell
10 us not to continue doing this.

11 ACTING CHAIRPERSON ACKERMAN: I'll entertain
12 that motion.

13 COMMISSIONER MORGAN: I'll make the motion.

14 ACTING CHAIRPERSON ACKERMAN: That means there
15 is one budget position, and you can deal with that next
16 year, right?

17 EXECUTIVE OFFICER NORTHROP: Yeah, right.

18 (Laughter.)

19 ACTING CHAIRPERSON ACKERMAN: Okay. Without
20 objection, Item 52 will be approved.

21 EXECUTIVE OFFICER NORTHROP: If the Personnel
22 Board doesn't do something pretty soon about salaries,
23 we're going to have a lot of positions.

24 ACTING CHAIRPERSON ACKERMAN: Item 53, closing
25 an account of Westside Industrial Park.

1 MR. THOMPSON: All right. This is the final
2 closing of the subsidence cost involved in a storm drain
3 project that had to be replaced because of subsidence.
4 In other words, you have to have a normal drainage in
5 these. And as the land subsides, you lose that particular
6 draining gradient. So, it has to be replaced. And this
7 is the final closing on that.

8 The final numbers are included in the Schedule A,
9 which shows that the allowable subsidence cost in this
10 was \$702,195 plus. And the city had deducted to date
11 \$696,000. So, they have a credit due them of almost
12 \$6,000. This will close this out.

13 ACTING CHAIRPERSON ACKERMAN: Is the city
14 satisfied with the final count?

15 MR. THOMPSON: Mr. Peterson nods his head yes.

16 COMMISSIONER MORGAN: Fine.

17 ACTING CHAIRPERSON ACKERMAN: Any question
18 from the Commissioners?

19 (No response.)

20 ACTING CHAIRPERSON ACKERMAN: Then Item 53
21 will be deemed approved without objection.

22 Item 54 is the problem we had with the Los
23 Angeles County Assessor.

24 MR. THOMPSON: Yes. This is a continuation
25 of our problem. We would like the Commission's approval

1 to appeal the Los Angeles County Assessor's assessment
2 for 1980-81. The Assessor has increased the valuation
3 for the Long Beach Unit by over 350 percent. The magnitude
4 of this can be seen on this graph he has right here.
5 (Indicating.)

6 This shows the assessed valuation by the County
7 Assessor in yellow. And that yellow tab has folded there
8 on the righthand side. So, if you want to show that --

9 EXECUTIVE OFFICER NORTHROP: Put it up there,
10 Dave, so it gets up to the top. Now you can see a real
11 significance.

12 MR. THOMPSON: This is the -- the yellow is
13 the Los Angeles County Assessor's. The red or orange
14 there is the State Lands Commission staff valuation at
15 the same time. You can see that the base year there is
16 1975, which is the Prop 13 base year. You can see where
17 that, after 1978, that adjustment came back, so that the
18 1979-78 adjustment was the same. There was no question
19 that year.

20 Then, we started to have questions again and
21 differences in '79. And you approved our appealing that.

22 COMMISSIONER MORGAN: That's an omen.

23 MR. THOMPSON: That's it. Think positively.

24 (Laughter.)

25 MR. THOMPSON: All right. So, now the Assessor

1 we think has really done us in this time. And part of
2 this comes from the Prop 13 is still being interpreted
3 through the courts. And the Board of Equalization has
4 a rule which is called 468, in which if you produce more
5 oil because of changed economic conditions this comes
6 under the language in Prop 13 of new construction. If
7 you want to get into it we have Mr. Hager here from the
8 Attorney General's Office.

9 Actually, I believe the Board of Equalization
10 will be in court very soon on this issue, along with the
11 County Assessor, to determine the constitutionality of
12 that. The Attorney General's Office has already issued
13 an opinion that it's not constitutional on that.

14 Allen, do you have any questions on this?

15 ACTING CHAIRPERSON ACKERMAN: We are not the
16 only ones, are we, that are facing this treatment by the
17 L.A. County Assessor? Are we standing alone?

18 EXECUTIVE OFFICER NORTHROP: Most all of them.
19 Most all of them.

20 MR. THOMPSON: This is the standard practice
21 of the Los Angeles County Assessor against all oil
22 properties, I believe.

23 ACTING CHAIRPERSON ACKERMAN: So, we're not
24 all by ourselves, then.

25 EXECUTIVE OFFICER NORTHROP: All oil producers

1 are in about the same rate which --

2 MR. THOMPSON: And it's the same situation
3 almost statewide on this thing. Now, to give you an example
4 of what they're doing, they're taking an escalating oil
5 price at 16 percent per year for a five-year period, which
6 means they say that five years from now our oil price
7 is going to be about \$50. Well, the fallacy of this comes
8 up -- Dave, show them the curve on actually what's happened
9 to oil prices here.

10 Now, when I say they are escalating the oil
11 price, I mean they're escalating the controlled oil price,
12 and that's shown in blue. They said that that was going
13 to increase it 16 percent per year for five years, which
14 would be about \$50 oil. But, in reality, we haven't had
15 a price increase since December of last year. So, here
16 we are about nine months already into this period. In
17 fact, we have had a crude oil price decrease of about
18 15 cents a barrel in this period of time.

19 They are really off in their thinking, because
20 they escalate oil prices 16 percent and yet turn around
21 and say that cost would only go up eight percent. And
22 I don't think those two things happen in our economic
23 society. I don't think we would have oil prices taking
24 off in one case and costs going in another direction.
25 I don't think that tracks.

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1 They are also doing things like we are taxed
2 here because of the possessor interest concept through
3 the contract. Well, the contract only goes to the year
4 2000. They've run their particular reserves out to the
5 year 2021. So, they're actually taxing those possessor
6 interests 21 years beyond the life of the contract.

7 Then, the basic issue of whether Rule 468 is
8 constitutional. They also then -- these valuations are
9 established by taking a cash flow and then discounting
10 those. They use a discount rate of capitalization rate
11 of about 16 percent. And that's supposed to take into
12 account two percent for their own taxes plus interest
13 costs plus risk. And we don't think that is reasonable at all.

14 So, there are a number of reasons these are
15 covered in the calendar item, and we'd like the Commission's
16 approval to appeal this decision. Now, again, appealing
17 is not going to get us out from the taxes, because they
18 are just now getting around to -- no they are not. They
19 just announced that they expect to process to last of
20 the 1978 appeals, in 1981. We have a 1977 appeal that
21 we don't even know whether we are going to have that
22 approved this year or not.

23 So, we'll have to go ahead and pay the taxes
24 and move back to you for budget augmentation probably
25 in November for an extra \$6 or \$7 million in taxes to

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1 be paid.

2 EXECUTIVE OFFICER NORTHROP: That will come
3 out of the projections.

4 ACTING CHAIRPERSON ACKERMAN: What kind of
5 money are we really talking about now from the point that
6 we originally disagreed with the Assessor's approach?

7 MR. THOMPSON: Well, the taxes this year on
8 my actual Long Beach Unit are going to be roughly about
9 \$11 or \$12 million, compared to what we thought would
10 be closer to maybe two and a half to three million dollars.

11 ACTING CHAIRPERSON ACKERMAN: So, we're talking
12 about \$7 to \$8 million in additional taxes per year?

13 MR. THOMPSON: Yes. Yes. We still have the
14 same issue of a large amount of money back in 1977.

15 EXECUTIVE OFFICER NORTHROP: And it should
16 be understood that this money is paid to the county by
17 the contractor, and we have lost use of the money.

18 ACTING CHAIRPERSON ACKERMAN: Now, in that
19 settlement, we get paid interest if we win?

20 EXECUTIVE OFFICER NORTHROP: Would the county
21 pay us the interest?

22 MR. THOMPSON: No, I don't think so.

23 EXECUTIVE OFFICER NORTHROP: I don't think
24 so.

25 MR. THOMPSON: I don't think a taxing agency

1 has ever paid that. You have a newspaper article there
2 in part of your stack I gave you. And the Long Beach
3 Unit now is about one-eighth the assessment for the whole
4 city of Long Beach with this type of inflation. And their
5 assessed valuation increased about double the rate of
6 the rest of the county.

7 ACTING CHAIRPERSON ACKERMAN: It's really to
8 the advantage of L.A. County to drag their feet, then,
9 because they're getting free use of the six, seven million
10 dollars a year, on an average, over the last three years.

11 EXECUTIVE OFFICER NORTHROP: That's true.

12 MR. THOMPSON: Plus the fact they have thousands
13 and thousands of appeals down there on Prop 13.

14 ACTING CHAIRPERSON ACKERMAN: Conveniently,
15 they can just kind of put us down there at the bottom
16 of the list, then.

17 MR. THOMPSON: Well, we're held up in the 1977
18 because we're still in the courts, in the appeal courts.

19 ACTING CHAIRPERSON ACKERMAN: We don't have
20 any option because we have appealed that one of not paying
21 the total tax amount?

22 EXECUTIVE OFFICER NORTHROP: The tax falls
23 to the contractor, not to the State. And the contractor
24 is under direction to pay it. And we have agreed on the
25 contract to reimburse him for that.

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1 MR. THOMPSON: I suggested before not to pay
2 the taxes, and then we'd go to a tax sales for the title
3 of properties, but I don't think that's really the way
4 to go. We'll pay under protest and go through the courts.

5 COMMISSIONER JERVIS: What about other private
6 producers in Los Angeles County; what are they doing?
7 Are they protesting as well?

8 MR. THOMPSON: I believe so. I think that --
9 I know the independent producers are filing a suit on
10 this, the Board of Equalization Rule 468 interpretation.
11 I think that's going to involve the Kern County Assessor?

12 MR. HAGER: Yes.

13 MR. THOMPSON: And also I think that isn't
14 it strange enough that the Sacramento County Assessor
15 is filing a suit against the Board of Equalization on
16 the same rule?

17 MR. HAGER: On the same rule, but he has a
18 different cause for complaint against it.

19 MR. THOMPSON: So, it's -- again, it's just
20 like recently they got part of Prop 13 resolved for the
21 one year on how to handle unsecured property, which rates
22 to use on that. The Supreme Court just finally ruled
23 on that about a week or so ago. So, this, again, will
24 have to go through the courts and get a final result.

25 ACTING CHAIRPERSON ACKERMAN: So, we may have

1 to wait until 1981 to get any kind of a feeling on this?

2 EXECUTIVE OFFICER NORTHROP: Yeah. At least
3 for '77, the appeal of '77, maybe!

4 MR. THOMPSON: We would hope by the first of
5 1981 we would get 1977 resolved. We would hope we would
6 get '79 resolved maybe in '82. And I don't know when.

7 ACTING CHAIRPERSON ACKERMAN: Why does it --
8 maybe I'm --

9 MR. THOMPSON: Although it might be speeded
10 up if we do get court action on Rule 468.

11 ACTING CHAIRPERSON ACKERMAN: Again, maybe
12 I'm just missing something here, but it seems if we get
13 the '77 resolved that establishes some kind of a precedent
14 to take the other years, I would think.

15 MR. THOMPSON: No. Seventy-seven is a before
16 Prop 13 issue. That is just on some other issues. Then,
17 after that, you get into some of the same issues plus
18 the Prop 13 interpretation.

19 EXECUTIVE OFFICER NORTHROP: As you can see
20 by the chart, our '77 was a little higher than usual.

21 ACTING CHAIRPERSON ACKERMAN: Does that tell
22 me that the county can come back every year and make the
23 same claim, and we'd have to go through an appeals process
24 every single year?

25 MR. THOMPSON: The assessor prepares the

1 assessment rolls.

2 EXECUTIVE OFFICER NORTHROP: They can vary
3 assessment rolls, and if they vary anything -- and they
4 usually do vary --

5 ACTING CHAIRPERSON ACKERMAN: You mean this
6 is the way they could get \$6 or \$7 million of State money
7 to use tax free for as long as it takes us to fight an
8 appeal?

9 EXECUTIVE OFFICER NORTHROP: You have to remember
10 also that we are only about ten -- a little over ten percent
11 of the entire state production. So, you would multiply
12 that by over nine or ten.

13 ACTING CHAIRPERSON ACKERMAN: So, you're talking
14 about \$80 million.

15 EXECUTIVE OFFICER NORTHROP: And that's just
16 the disputed amount. As a matter of fact, for this year,
17 for example, we feel that number should be somewhere around
18 two and a half to three. And we are at 12. So, that's
19 \$10 million for this year. It compounds.

20 ACTING CHAIRPERSON ACKERMAN: It seems to me
21 we ought to explore some state legislation.

22 EXECUTIVE OFFICER NORTHROP: Mr. Chairman,
23 staff has felt for some time the argument is getting stronger
24 and stronger for an ad valorem tax in this area -- or
25 severance tax, I'm sorry, in this area where the State

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1 collects the money, and it's distributed to the county
2 on a barrels-produced basis.

3 ACTING CHAIRPERSON ACKERMAN: Then the shoe
4 is on the other foot.

5 EXECUTIVE OFFICER NORTHROP: It's what?

6 ACTING CHAIRPERSON ACKERMAN: Then the shoe
7 is on the other foot.

8 EXECUTIVE OFFICER NORTHROP: We do it with
9 sales tax. It seems the reasonable thing to do.

10 COMMISSIONER MORGAN: Well, we're too late
11 for legislation for this session.

12 ACTING CHAIRPERSON ACKERMAN: Perhaps.

13 EXECUTIVE OFFICER NORTHROP: There was a piece
14 of legislation carried this year, and the industry was
15 mixed on it. I think one more year like this, and they
16 may be convinced that it may be a better way to go.

17 ACTING CHAIRPERSON ACKERMAN: Maybe the staff
18 could explore at least what legislative remedies would
19 exist and what options, whether it's severance tax or
20 whether something be allowed that when settlement is given
21 maybe the interest be provided, something to where someone
22 doesn't have -- the local government doesn't have just
23 free use of the State's money by just forcing us through
24 the appeal situation. That just -- I don't think that's
25 right.

1 EXECUTIVE OFFICER NORTHROP: We will take those
2 steps, Mr. Chairman, and report back to you.

3 ACTING CHAIRPERSON ACKERMAN: Is there anyone
4 here from Los Angeles County?

5 (Laughter.)

6 COMMISSIONER MORGAN: That wants to speak?

7 ACTING CHAIRPERSON ACKERMAN: They wanted to
8 stay away today.

9 (Laughter.)

10 EXECUTIVE OFFICER NORTHROP: The City of Long
11 Beach is a benefactor here as well.

12 ACTING CHAIRPERSON ACKERMAN: Well, I would
13 be happy to entertain a motion to support the appeal of
14 the assessment. Do I have a motion?

15 COMMISSIONER MORGAN: So moved.

16 ACTING CHAIRPERSON ACKERMAN: Okay. We have
17 a motion. Without objection, Item 54 will be approved.

18 MR. THOMPSON: Thank you.

19 ACTING CHAIRPERSON ACKERMAN: Item 55?

20 MR. THOMPSON: This is an information calendar
21 item just showing you the performance of the Micellar
22 Project, another tertiary project that we have over in
23 the prior development there. He'll put up a performance
24 curve here very soon, and you'll see how the field is
25 doing. It's actually performing like the laboratory

1 prediction. Again, it's a question of economics.

2 We need the performance curve, Dave.

3 MR. HAYWARD: All right. Okay. It's down
4 here.

5 EXECUTIVE OFFICER NORTHROP: We out-charted
6 ourselves today.

7 MR. HAYWARD: Here we are.

8 MR. THOMPSON: As you can see, this project was
9 at the economic limit. It wasn't able to produce an
10 economic amount of oil. The oil rate is shown in green
11 at the bottom. The water rate is shown in blue at the
12 top. And you can see that our oil rate has started to
13 increase, and the water rate has come down. So that actually
14 this shows the process works. You can recover additional
15 oil. The only problem is that right now we are just
16 producing enough oil to meet our current operating costs.

17 ACTING CHAIRPERSON ACKERMAN: That's the first
18 time that's happened; isn't it?

19 MR. THOMPSON: Yes. And we have a little decrease
20 there in oil rate right now, because we have some well
21 downtime. But we hope that will come back up. So that
22 the crux of it is how long will that green curve continue
23 to rise there, and how long will it last? And that's
24 the purpose of the field test.

25 ACTING CHAIRPERSON ACKERMAN: How much longer

1 do you expect this project to continue?

2 MR. THOMPSON: Actually, it probably should
3 have about another three-year life, but we will get a
4 strong indication if that oil curve ever starts to turn
5 over. Then further handwriting is on the wall.

6 ACTING CHAIRPERSON ACKERMAN: This is a --
7 if I understand right, this is a pilot project that the
8 Commission has undertaken, and private industry is not
9 doing anything like this?

10 MR. THOMPSON: No. This actually is also a
11 contract agreement with the Department of Energy. They
12 actually are sharing 50 percent of the cost up to the
13 first seven to eight million dollars.

14 EXECUTIVE OFFICER NORTHROP: I think there
15 is one other project in the United States, and it also
16 is a pilot project undertaken by industry and DOE together.

17 ACTING CHAIRPERSON ACKERMAN: So, really, you're
18 looking at another two to three years before you get the
19 final, bottom line as to how this can apply in regards
20 to what?

21 MR. THOMPSON: We have an indication right
22 now, because right now what you're looking at is by the
23 time you take the crude oil and take a gas/oil cut out
24 of it, add the other things back into it, you're almost
25 looking currently at a \$40 to \$50 product to put back

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1 into the ground to get \$25 oil.

2 We actually put in \$2 million worth of micellar
3 materials in here in about two months. You can put money
4 underground so fast it's scary.

5 ACTING CHAIRPERSON ACKERMAN: What happened
6 in January, 1980, where there was that --

7 MR. THOMPSON: That, in effect, is where you're
8 seeing the result of this micellar material actually going
9 in and beginning to move additional oil in the reservoir
10 to the producing wells. In other words, that period of
11 time it was moving oil through the reservoir, that's the
12 time it reached the producing wells. And that's why the
13 material was put in.

14 The question is: Can we do it economically?
15 We can move oil. We know we can recover additional oil.
16 That's not the issue.

17 ACTING CHAIRPERSON ACKERMAN: It's just the
18 economics?

19 MR. THOMPSON: Just the economics.

20 COMMISSIONER MORGAN: How much longer are we
21 going to attempt it; three years?

22 MR. THOMPSON: We are going to take this process
23 to its end here. And again, how fast that curve goes
24 up or down will depend. Right now, we're just barely
25 looking at mean operating costs. We are under a commitment,

1 since the Federal Government backed part of this, to take
2 it to its economic limit.

3 EXECUTIVE OFFICER NORTHROP: When we get there,
4 we shan't run the line any farther, just run to the Nine.

5 COMMISSIONER MORGAN: What is the economic
6 limit?

7 EXECUTIVE OFFICER NORTHROP: Pardon?

8 COMMISSIONER MORGAN: What's the economic limit?

9 MR. THOMPSON: The economic limit was unavailable
10 the day we started the project. You cannot make money
11 off of pilot projects, because you have too much overhead,
12 too much research, too much lab work in front of it.

13 EXECUTIVE OFFICER NORTHROP: It's too much
14 money. The Federal Government participated in this for
15 the first, what, seven million?

16 MR. THOMPSON: Yes.

17 EXECUTIVE OFFICER NORTHROP: The first \$7 million
18 was total federal money.

19 MR. THOMPSON: But from this you hope to get
20 the information to see whether you can go on and make
21 a full-scale commercial project.

22 EXECUTIVE OFFICER NORTHROP: That's right.
23 And without the federal assistance, we would have needed
24 \$27 oil.

25 We're getting now to the point where we're

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1 experimenting -- no question about it -- as to whether
2 it will work, if it holds promise. And what is the acreage
3 on that area up there?

4 MR. THOMPSON: Well, let's throw the other
5 curve there and show the increased recovery on one of
6 those other curves behind you.

7 EXECUTIVE OFFICER NORTHROP: I want to make
8 a point on this.

9 MR. THOMPSON: Well, this is a very small one.
10 This is only ten acres.

11 EXECUTIVE OFFICER NORTHROP: This is a ten-
12 acre plot. And if it works, as you saw today and you'll
13 see later the vast acreage we have, it could be -- it
14 could be a very -- could be --

15 MR. THOMPSON: Dave, show them that curve behind
16 the performance curve there. Behind the performance curve.
17 This now shows the ultimate recovery you can get in a
18 lab. You see the very sharp bend up to the right there,
19 up at the end of the curve? That's additional recovery.
20 And that is about -- you're almost doubling your recovery
21 there. That's the potential. There is a large potential.
22 It's a question of whether it's an economic potential.

23 EXECUTIVE OFFICER NORTHROP: That's the laboratory
24 curve.

25 ACTING CHAIRPERSON ACKERMAN: I think Susanne's

1 point was since it's a pilot project, at what point do
2 we realize the result of it, where our intent here is
3 to prove it's economically feasible, not necessarily to
4 produce oil? In other words, has this become a producing
5 well, then, using that technique, or --

6 EXECUTIVE OFFICER NORTHROP: Excuse me, Moose.
7 We're using -- don't cover that up, Dave. We are using
8 that chart as indicative of what should happen. And when
9 it deviates substantially from that chart, if it deviates
10 substantially from that chart to the left, which is the
11 optimum we can expect, when it deviates from that
12 substantially on the downward side, then we know it has
13 not been successful.

14 MR. THOMPSON: We have to have a stable factor
15 to go from laboratory data to field application. If we
16 start this project down earlier with higher oil saturation,
17 then it would work. The question is whether we have those
18 type of locations available and whether we would have
19 to cap them, because you could talk about putting a --
20 for a full-scale list, you could talk about putting a
21 billion dollars' worth of material underground. The numbers
22 pile up very fast.

23 COMMISSIONER MORGAN: I don't want to put a
24 billion dollars into the ground.

25 MR. THOMPSON: Well, but again, if you could

1 make three billion, that's the name of the game. But,
2 if we can't say we can make three billion, then that's
3 not the name of the game.

4 COMMISSIONER MORGAN: Every time this comes
5 up, I'll ask you how much longer we're going to pour money
6 into the ground before we realize something.

7 MR. THOMPSON: We'll watch that green line
8 and see how much longer it goes up.

9 COMMISSIONER MORGAN: Okay.

10 EXECUTIVE OFFICER NORTHROP: The green line
11 is indicative of what we can do.

12 ACTING CHAIRPERSON ACKERMAN: Are we expecting
13 at some point in time to achieve a break even on this
14 one?

15 MR. THOMPSON: No.

16 EXECUTIVE OFFICER NORTHROP: No.

17 COMMISSIONER MORGAN: We will never see it.

18 EXECUTIVE OFFICER NORTHROP: It may well be,
19 as we construct the ten-acre tract from the information
20 that we have, and while we continue with it, it well may
21 be that this ten acres, while it's got a terrible overhead
22 burden on it now, translated to five hundred acres --

23 ACTING CHAIRPERSON ACKERMAN: Might work.

24 EXECUTIVE OFFICER NORTHROP: -- it makes all
25 kinds of economics.

1 ACTING CHAIRPERSON ACKERMAN: And it might
2 work, even over a short period of time.

3 EXECUTIVE OFFICER NORTHROP: But we have to
4 know. We have to know what it looks like on ten acres.
5 If ten acres is a loser, when we start translating it
6 into a much larger area, the economies of scale may make
7 it a winner.

8 MR. THOMPSON: If we could find some thicker
9 sand that had higher oil saturation, where instead of
10 going from 50 barrels of oil up to 175 we're talking about
11 being able to go initially from 500 to three or four
12 thousand, then we have a chance of doing something.

13 ACTING CHAIRPERSON ACKERMAN: Okay. Thank
14 you. We now move into areas of legal concern. Item 56,
15 settlement of a dispute with the Ventura Port District
16 versus the State of California. Mr. Hight?

17 MR. HIGHT: Yes, Mr. Chairman. This is the item
18 that we had before the Commission last month. This
19 amendment will approve minor technical changes to the
20 amendment.

21 The Port District's bond counsel wanted the
22 amendment changed slightly. So, in order to help him
23 out with some bonding -- and this also leases back the
24 area that we acquired from the Port District for a 49-
25 year term.

1 ACTING CHAIRPERSON ACKERMAN: Okay. I don't
2 have any problems with that item. Any questions from
3 Commissioners or anyone in the audience on Item 56?

4 (No response.)

5 ACTING CHAIRPERSON ACKERMAN: Item 56 will
6 be deemed approved without objection.

7 Item 57, Matheson versus State of California?

8 MR. HIGHT: Yes, Mr. Chairman. This is a
9 settlement of an existing lawsuit to which the Commission
10 is a party. The Commission will take \$32,500 for it as
11 compensation for the value of the land that it has within
12 the parcel.

13 ACTING CHAIRPERSON ACKERMAN: Okay. I think
14 in this case it was nice not to have to go to litigation
15 with a small party for a small settlement.

16 MR. HIGHT: Yes, sir.

17 ACTING CHAIRPERSON ACKERMAN: Okay. Without
18 objection, Item 57 -- anyone in the audience on this item?

19 (No response.)

20 ACTING CHAIRPERSON ACKERMAN: Without objection,
21 Item 57 will be deemed approved.

22 COMMISSIONER MORGAN: Mr. Chairman?

23 ACTING CHAIRPERSON ACKERMAN: Yes?

24 COMMISSIONER MORGAN: Before we move into
25 administration, what about Item 33 or 31?

1 ACTING CHAIRPERSON ACKERMAN: Thirty-one.

2 EXECUTIVE OFFICER NORTHROP: Mr. Chairman,
3 I believe on Item 31 the County of Orange Environmental
4 Department and Mr. Willard have come to some kind of
5 agreement. Would the two of you care to come to the podium
6 and tell us what you want?

7 ACTING CHAIRPERSON ACKERMAN: We'll take up
8 Item 31, then?

9 EXECUTIVE OFFICER NORTHROP: Is that what you
10 want?

11 ACTING CHAIRPERSON ACKERMAN: That would be
12 fine. Mr. Dalquist?

13 MR. DALQUIST: Mr. Willard, the County of Orange
14 and myself have come to an agreement. The county would
15 like to amend the letter that we submitted to you under
16 county letterhead. We would like to remove our concern
17 number one, which states "include the State Department
18 of Parks and Recreation as coapplicant." We have worked
19 out and resolved our problems for concern number two.

20 ACTING CHAIRPERSON ACKERMAN: Do you have a
21 change on your request on number two?

22 MR. DALQUIST: There is no change for that,
23 no.

24 ACTING CHAIRPERSON ACKERMAN: Mr. Hight or
25 Mr. Northrop, is there agreement from the Commission staff

1 to these suggested changes?

2 EXECUTIVE OFFICER NORTHROP: Yes. You're willing
3 to withdraw two?

4 MR. WILLARD: Yes, number two will be withdrawn.

5 ACTING CHAIRPERSON ACKERMAN: So, you're
6 withdrawing number two?

7 EXECUTIVE OFFICER NORTHROP: You're going to
8 cave on that? You're going to cave on two?

9 MR. WILLARD: Well, we're sticking with the
10 stock language in our form of permit which states that
11 the State reserves the right to assess a royalty of
12 25 cents per cubic yard for material placed on private
13 property or used for any private or commercial benefit.
14 This protects the State. The material is intended to
15 be placed upon state-owned land, that is Parks and
16 Recreation land.

17 EXECUTIVE OFFICER NORTHROP: Right. This is
18 Northstar Range.

19 ACTING CHAIRPERSON ACKERMAN: Is this consistent
20 with your recommendation, Mr. Northrop?

21 EXECUTIVE OFFICER NORTHROP: Uh, I think we're
22 waiving the 25 cents?

23 MR. WILLARD: No. Well, the material --
24 originally, there is no intention of assessing a royalty
25 for the material that was going to be returned to state

1 land, that is on Parks and Recreation land.

2 EXECUTIVE OFFICER NORTHROP: They had no problem,
3 if they pay the 25 cents if they put it on private land.

4 MR. WILLARD: If it goes on private land. You're
5 in agreement, then?

6 MR. DALQUIST: Yes, we are.

7 EXECUTIVE OFFICER NORTHROP: So, what I hear
8 you saying is that you -- if you withdraw one and two,
9 you have withdrawn your letter; is that correct?

10 MR. DALQUIST: No. No. That's not correct.
11 We are withdrawing number one. Number two, I'd like to
12 have that for the record.

13 COMMISSIONER MORGAN: You would like to have
14 that language withdrawn from the --

15 MR. DALQUIST: The language, yes. The new
16 language has been withdrawn. Our concern with number
17 two is it's ambiguous, the word "anytime" and "to the
18 State's best interest." We have revised that wording
19 as Mr. Willard has just read to you to become more definite.
20 And there is no ambiguity in this wording.

21 EXECUTIVE OFFICER NORTHROP: I have no problem
22 with that, Mr. Chairman.

23 ACTING CHAIRPERSON ACKERMAN: Okay. Then we
24 will simply -- what you're asking us is to approve Calendar
25 Item 31 with one change, and that's to eliminate the wording

1 that you suggest in your letter, that the State reserve
2 the right at anytime to assess a royalty if the Commission
3 finds such action to be in the State's best interest.
4 That will be stricken from the permit with your wording.

5 MR. WILLARD: That's correct. The resolution
6 stands as written in the calendar item.

7 ACTING CHAIRPERSON ACKERMAN: Okay. Then
8 without objection that will be the action of the Commission.

9 COMMISSIONER MORGAN: Fine.

10 ACTING CHAIRPERSON ACKERMAN: Okay. Thank
11 you. I'm glad we could work that out so smoothly.

12 Okay. Let's pick up with the last item on
13 the agenda, which is -- which are the administrative items.
14 Go to Item 58, which is more than just administrative,
15 I think.

16 EXECUTIVE OFFICER NORTHROP: Yes, I believe
17 so. Mr. Chairman, we have heard from Mr. Thompson and
18 will again on this item. However, I'd like to introduce
19 Bob Paul from our statewide operations, who is going to
20 take the heat for these numbers as well as Mr. Thompson
21 and myself. So, Bob, do you want to come up with Moose
22 and lay out where you're coming from? I'm sick and tired
23 of catching it all the time.

24 MR. THOMPSON: All right. I'll speak here.
25 And if Bob disagrees with me, why he will grab the mike

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1 from me and go from here. The previous projections we
2 were faced with the same thing that we have, variations
3 in oil rate and other factors, but when it comes down
4 to it the most important thing is oil pricing. So,
5 therefore, we took oil rates and set those, and then we
6 ran variations of cases in which we escalated oil prices
7 starting in December of 1979 with no escalation, five
8 percent per year escalation, and ten percent per year
9 escalation.

10 As you look at the oil price curves that you
11 see on the left here -- we've gone through that -- that
12 in effect we have zero price escalation. And, of course,
13 now when we can escalate like this, we also compound.
14 So, by the time you get out any period of time, you not
15 only have ten percent per year if you use that, but you
16 have ten percent compounded. So, this builds up.

17 Now, the gist of this is that on the average
18 by the time we get to the '81-82 year the difference between
19 zero escalation and ten percent escalation is about \$4
20 a barrel. And this, then, can add up to the amount of
21 oil we have been involved with would be \$100 million.
22 And that's just exactly where we are. The revenue estimates
23 you see now are taken down towards the -- what we take as
24 a conservative view on crude oil price escalation in which
25 we've held them constant through the 1980-81 period. And

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1 then, we start escalating them, so that by the end of
2 '81-82 year we have escalated up to ten percent.

3 ACTING CHAIRPERSON ACKERMAN; You're saying
4 we'll be down a hundred million in this current budget?

5 EXECUTIVE OFFICER NORTHROP: Fifty million
6 in this.

7 ACTING CHAIRPERSON ACKERMAN: Fifty million.

8 MR. THOMPSON: We will not be down a hundred
9 million dollars. The oil price, if you looked at a ten
10 percent escalation, would be a hundred million dollars
11 plus or minus.

12 Now, you could have oil prices that could take
13 off and do that. But when you talk about the difference
14 between a zero escalation and a ten percent escalation
15 in a revenue estimate for a year, that could be \$100 million.
16 What the final revenue is going to be is going to be
17 whatever it is that year, depending on what happened to
18 the crude oil price. We could sit here, and we could
19 estimate and say we're going to get revenue until it's
20 coming out of our ears, but if the crude oil price, which
21 we have no control over -- it's particularly controlled
22 by the OPEC countries and federal policies to a degree
23 on control -- that's just where we are.

24 COMMISSIONER MORGAN: How does ten percent
25 equate to a million dollars?

1 EXECUTIVE OFFICER NORTHROP: Pardon me?

2 COMMISSIONER MORGAN: Does ten percent equate
3 to four dollars per barrel?

4 MR. THOMPSON: Yes. Over that period of time,
5 you take two years there. We start escalation -- in these
6 earlier projections, we started escalating at a monthly
7 rate equal to either zero, five or ten percent per year
8 compounded. By the time you get out and look at the average
9 oil price for '81-82, if you use a ten percent versus
10 a zero escalation, that will be about four dollars a barrel,
11 because you're going through two timing periods.

12 EXECUTIVE OFFICER NORTHROP: It's the -- it's
13 the cumulative effect of the ten percent compounded.

14 MR. THOMPSON: Because you started in December.

15 COMMISSIONER MORGAN: Eighty-one, eighty-two?

16 EXECUTIVE OFFICER NORTHROP: Yeah. Because
17 you will have compounded it from a previous time level,
18 right?

19 MR. THOMPSON: Starting from December, '79.
20 So, it's actually an extra period of time there going
21 back to the previous budget year.

22 EXECUTIVE OFFICER NORTHROP: And you think
23 only lawyers get off statements.

24 MR. THOMPSON: So, if someone will tell us
25 exactly what crude oil prices will be in '81-82, we'll

1 come out with a revenue estimate that will be very close.

2 EXECUTIVE OFFICER NORTHROP: We're -- it's
3 one of those things.

4 MR. THOMPSON: So, the red actually shows that
5 for the '78 -- for the '79-80 year, that it was forecast
6 to be I think three ten. I think it was actually 307.
7 And you'll see it running a little less for the next year,
8 because the escalation factor having caught up. By now,
9 again, if you look again, if you want to compare I guess
10 a ten percent range, then this is where that \$100 million
11 may enter, or you could say it's above the zero escalation
12 range.

13 ACTING CHAIRPERSON ACKERMAN: Really, what
14 you're saying is that's how much money will come in if
15 these certain assumptions hold true.

16 EXECUTIVE OFFICER NORTHROP: In the calendar
17 item, we list -- we list nine assumptions and A, B, C,
18 D, E, F caveats to those. So, it's a --

19 ACTING CHAIRPERSON ACKERMAN: Did you develop
20 a matrix that goes along with this that -- so you could
21 take a variety of those assumptions and then equate out
22 to a different revenue figure, based upon which assumption
23 you used?

24 MR. THOMPSON: Yes. By the time you get through,
25 the overriding matrix is the crude oil price. There are

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1 other factors that could come in.

2 ACTING CHAIRPERSON ACKERMAN: But they don't
3 weigh that much.

4 EXECUTIVE OFFICER NORTHROP: No.

5 MR. THOMPSON: Again, we take an optimistic
6 and a pessimistic. We take an optimistic in the fact
7 we say that the exemption for windfall profits tax will
8 be resolved. If that isn't, then we are out of whack
9 another \$100 million a year there. Well, but again, you
10 don't know how much further, on oil property, that thing
11 could go.

12 EXECUTIVE OFFICER NORTHROP: And again, as
13 I have mentioned this morning, if the entitlements program
14 or some of entitlements is put into place, we really don't
15 know what happens on that. And there is a great feeling
16 now that there may well be some entitlement.

17 MR. THOMPSON: In these estimates, we've actually
18 put back in about \$9 million in windfall profits tax that
19 was collected last year. And we assume that the windfall
20 profits tax that we're being paid right now of almost
21 \$6 million a month, five to six million a month, will
22 be resolved this year and cycled back as revenue. But
23 that, again, is in the hands of the Federal Government.

24 ACTING CHAIRPERSON ACKERMAN: If that doesn't
25 go, that's another \$100 million?

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1 EXECUTIVE OFFICER NORTHROP: Seventy.

2 MR. THOMPSON: Not quite. It would be about
3 \$70 million.

4 EXECUTIVE OFFICER NORTHROP: We'll get a better
5 handle on that. We're due in Washington a week from
6 tomorrow to have some discussion, which is a good time
7 to raise this. You had indicated that it would be well
8 to discuss our problem with a tax specialist. I have
9 an appointment with a city attorney of Long Beach and
10 Alan Hager a week from Thursday morning in Washington
11 at nine o'clock with a Mr. Martin Ginsburg, who is a
12 professor of economics at George Washington University
13 and a prominent tax lawyer, formerly a prominent tax lawyer
14 in New York City and now teaches in Washington and does
15 some consulting work. We have a meeting with them to
16 at least go over the steps we've taken so far regarding
17 our appeals with the windfall profits tax problem.

18 ACTING CHAIRPERSON ACKERMAN: In other words,
19 you're going to have to make a decision, then, what
20 revenue figure you use when the Department of Finance
21 puts together the budget.

22 EXECUTIVE OFFICER NORTHROP: We feel relatively
23 certain at this time. Alan Hager, do you want to give
24 me a number? Ninety percent?

25 MR. HAGER: No.

1 EXECUTIVE OFFICER NORTHROP: Eighty-five?

2 MR. THOMPSON: We've taken a very optimistic
3 viewpoint on that.

4 EXECUTIVE OFFICER NORTHROP: We're very optimistic
5 in viewpoint, and you say "no"? I'm going to get you
6 and Everitts and put you in the same bag. I sit down
7 and talk to you, and you get to a meeting and you talk
8 different.

9 (Laughter.)

10 MR. THOMPSON: We have a -- next year we have
11 been very conservative on oil pricing, and yet we are
12 optimistic on the windfall profits tax. And that's the
13 blend of it all.

14 EXECUTIVE OFFICER NORTHROP: But we are
15 optimistic on this. We feel -- (inaudible.)

16 ACTING CHAIRPERSON ACKERMAN: The cookie jar
17 is gone; isn't it?

18 MR. THOMPSON: Well, maybe the cookie jar never
19 really existed.

20 ACTING CHAIRPERSON ACKERMAN: That's a better
21 statement.

22 EXECUTIVE OFFICER NORTHROP: It is.

23 ACTING CHAIRPERSON ACKERMAN: You can tell
24 your legislators that.

25 EXECUTIVE OFFICER NORTHROP: This is --

1 MR. THOMPSON: Or if the cookie jar existed,
2 maybe it wasn't that full.

3 EXECUTIVE OFFICER NORTHROP: Incidentally,
4 I think it would be well, Bob, to comment on the geothermal,
5 because this revenue now becomes very significant. In
6 the past, geothermal revenue had been in a suspense file,
7 and I believe this is the first time we're showing it
8 as a revenue income item.

9 MR. PAUL: It is. That is a fact.

10 EXECUTIVE OFFICER NORTHROP: And it --

11 ACTING CHAIRPERSON ACKERMAN: What percent
12 is geothermal, roughly?

13 MR. PAUL: Geothermal, at this time relative
14 number is quite long, but as a percentage it's small.
15 I would say it's like one percent of that total amount
16 on there.

17 ACTING CHAIRPERSON ACKERMAN: What's the dollar?

18 EXECUTIVE OFFICER NORTHROP: About four to
19 five million a year. In the past, it had been very --
20 in fact, it had been zero, because for the last four or
21 five years -- is that right -- it had been in litigation,
22 and the money had been, by order of the court, in a passbook
23 account at the Hibernia Bank in San Francisco. We are
24 now taking steps to put those, that money, pending additional
25 court action that there may well be --

1 ACTING CHAIRPERSON ACKERMAN: It wasn't one
2 of those accounts where they couldn't find the owner of
3 the account; was it?

4 EXECUTIVE OFFICER NORTHROP: No. But, boy,
5 it was a big number when you paid five and three-quarters
6 percent, particularly in days when short-term bills are
7 paying at 15 percent and the pooled money investment paying
8 at least that much. So, we're now moving that money,
9 as we can, into certificates so it does earn some interest.

10 ACTING CHAIRPERSON ACKERMAN: Okay.

11 EXECUTIVE OFFICER NORTHROP: But it was not
12 poor stewardship on our part. It was the court had placed
13 it there. I'm copping a self-serving plea.

14 ACTING CHAIRPERSON ACKERMAN: The revenue
15 estimates are now to be done on six-month intervals; is
16 that correct?

17 EXECUTIVE OFFICER NORTHROP: At least six
18 months.

19 ACTING CHAIRPERSON ACKERMAN: Now, the releasing
20 of the figures yesterday formally, was that one of those
21 six-month intervals now?

22 EXECUTIVE OFFICER NORTHROP: Yes. You have
23 now, in your calendar on page 96 revised, the estimated
24 revenue as reflected by the Chairman's discussion yesterday
25 in an attempt to get some money which will be in a bill

1 for secondary recovery pointing to the need for secondary
2 recovery to give incentive for more oil producing.

3 ACTING CHAIRPERSON ACKERMAN: So, really, your
4 next watershed date on this will be from May revised figures
5 in late May.

6 EXECUTIVE OFFICER NORTHROP: Yes. Unless there
7 is some kind of crude price or something extraneous happens
8 in the meantime, and then we'll run the computer and see
9 what it says.

10 MR. THOMPSON: There are two different things
11 here. We're required by the budget language to report
12 semi-annually to the Governor's Office and to the
13 Legislature. But, as Mr. Northrop says, any time that
14 we see a significant change, why, we will redo our
15 estimates.

16 ACTING CHAIRPERSON ACKERMAN: Okay. Thank you.

17 EXECUTIVE OFFICER NORTHROP: This one happened
18 to be a significant unchanged. We expected raises and
19 didn't get it.

20 COMMISSIONER MORGAN: Other than the Chairman
21 having a press conference, will we be transmitting this
22 to the Legislature informally?

23 EXECUTIVE OFFICER NORTHROP: This will be
24 transmitted to the Legislature formally after the Commission
25 reviews it.

1 COMMISSIONER MORGAN: Okay.

2 ACTING CHAIRPERSON ACKERMAN: It might be helpful
3 to the legislators, not just the Legislature, but to the
4 legislators, to tell us, possibly either a letter from
5 the Chairman or from you, Mr. Northrop, whichever would
6 be appropriate. But, you know, last year --

7 EXECUTIVE OFFICER NORTHROP: You mean
8 individually?

9 ACTING CHAIRPERSON ACKERMAN: Individually.
10 I think last year tidelands oil revenue was viewed by
11 each legislator as being something they could get their
12 hands on for projects in their districts. And I think
13 that unless that feeling is turned around a little bit,
14 they are still looking at it the same way -- the Chairman's
15 press conference notwithstanding. And I think you need
16 to bring them down to a little reality.

17 I know Susie's got some problems with a lot
18 of spending bills that are going to be considered this
19 week that the Governor's going to have to take action
20 on.

21 EXECUTIVE OFFICER NORTHROP: As we've said
22 and you, thank God, have supported us on the fact that
23 a year ago, six months ago, when Danforth was sending
24 out that California was going to get \$30 billion in the
25 next ten years -- was that the number, Jim?

1 MR. TROUT: Something close to that, yes.
2 EXECUTIVE OFFICER NORTHROP: Thirty billion
3 dollars in the next ten years. And your staff kept saying
4 it can't happen. It just can't happen. And it's not
5 happening. And the figure that we gave of six billion
6 for a ten-year period may well have been very, very
7 optimistic.

8 ACTING CHAIRPERSON ACKERMAN: As I recall,
9 I think I was a little on the high side of those figures,
10 too. So, I was guilty. Okay. Any other questions on
11 Item 58?

12 (No response.)

13 ACTING CHAIRPERSON ACKERMAN: Okay. We will
14 go to Item 59, annexation of tidelands and submerged lands.

15 EXECUTIVE OFFICER NORTHROP: Mr. Chairman,
16 Mr. Hight will discuss this.

17 MR. HIGHT: Yes, Mr. Chairman. The City of
18 Oxnard wishes to annex a small portion of tidelands and
19 disapproves a legal sufficiency of the description. Any
20 annexation will have to go to LAFCO and then go to a vote.

21 ACTING CHAIRPERSON ACKERMAN: Okay. Anyone
22 in the audience on this item? Any questions from the
23 Commissioners?

24 (No response.)

25 ACTING CHAIRPERSON ACKERMAN: The item, then,

1 will be approved without objection.

2 Item 60, revision of your geothermal regulations?

3 EXECUTIVE OFFICER NORTHROP: Mr. Chairman,
4 we did, as you know, some new geothermal regulations.
5 We need to do some cleanup on those. And so, what I'm
6 asking is authorization to have public comment on the
7 revisions, and we'll bring them back to you after that.

8 ACTING CHAIRPERSON ACKERMAN: I don't have
9 any problem with that. Any questions from the Commissioners?
10 Anyone in the audience on Item 60?

11 (No response.)

12 ACTING CHAIRPERSON ACKERMAN: That will be
13 deemed approved, then, without objection.

14 Item 61, the City of Capitola.

15 EXECUTIVE OFFICER NORTHROP: Mr. Chairman,
16 the City of Capitola has done a very nice job with their
17 grant and would like to reconstruct their wharf. And
18 the staff finds that this is consistent with their Grant
19 Statute and feels that \$250,000 probably would be well
20 spent in Capitola.

21 ACTING CHAIRPERSON ACKERMAN: And the staff
22 concurs?

23 EXECUTIVE OFFICER NORTHROP: That's correct,
24 sir.

25 ACTING CHAIRPERSON ACKERMAN: Anyone in the

1 audience on Item 61? Any questions from the Commissioners?

2 COMMISSIONER MORGAN: It sounds like a good
3 idea. The city came to the Coastal Conservancy to try
4 to get some money, which the Conservancy could not give
5 them in support of related projects. So, I'm happy to
6 see that they are going to go ahead.

7 ACTING CHAIRPERSON ACKERMAN: Without objection,
8 then, Item 61 will be deemed approved.

9 That completes the regular calendar items.
10 Are there any other items that anyone in the audience
11 wishes to bring before the Commission?

12 (No response.)

13 ACTING CHAIRPERSON ACKERMAN: If not, the
14 Commission meeting will stand adjourned.

15 (Thereupon the business meeting
16 before the State Lands Commission was
17 adjourned at 11:45 a.m.)

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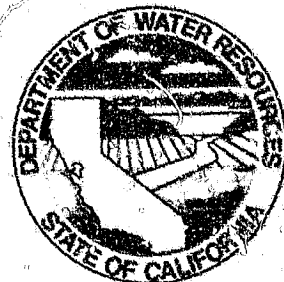
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