

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

MEETING
STATE OF CALIFORNIA
STATE LANDS COMMISSION

State Capitol Building
Room 2170
Sacramento, California

ORIGINAL

Tuesday, December 16, 1980
10:00 a.m.

Sydney Conarroe
Shorthand Reporter

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

COMMISSIONERS PRESENT

Kenneth Cory, State Controller, Chairman
Susanne Morgan, Representing the Director of Finance

STAFF PRESENT

William F. Northrop, Executive Officer
R. C. Hight
Mr. Trout
Jan Stevens

I N D E X

	<u>Page</u>
1	
2	
3	1
4	1
5	
6	2
7	
8	3
9	
10	
11	4
12	
13	5
14	
15	6
16	6
17	7
18	
19	7
20	
21	
22	9
23	9
24	
25	9

PETERS SHORTHAND REPORTING CORPORATION

700 COLLEGE TOWN DRIVE, SUITE 209
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601

1	Item 34 - COUNTY OF FRESNO DEPARTMENT OF PUBLIC	
2	WORKS - 5-Year Dredging Permit	10
3	Item 35 - UNION OIL COMPANY OF CALIFORNIA - 10-Year	
4	Dredging Permit	10
5	Item 37 - SHELL OIL COMPANY - Resumption of Drilling	
6	Operations, Lease PRC 2920.1, Molino Area	10
7	Item 39 - GEOTHERMAL KINETICS, INC. - Permit Extension	12
8	Item 40 - ADOPTION OF REGULATIONS - Geothermal	
9	Development on State Lands	13
10	Item 41 - ECONOMIC REGULATORY ADMINISTRATION,	
11	DEPARTMENT OF ENERGY PROPOSAL TO MODIFY	
12	MANDATORY PETROLEUM ALLOCATION REGULATIONS	13
13	Item 42 - PILOT-SCALE DEMONSTRATION OF CAUSTIC	
14	WATERFLOODING TECHNIQUES FOR ENHANCED	
15	OIL RECOVERY, LONG BEACH UNIT	14
16	Item 43 - FOURTH MODIFICATION 1980-81 PLAN OF	
17	DEVELOPMENT, LONG BEACH UNIT	19
18	Item 44 - FIFTH MODIFICATION 1980-81 PLAN OF	
19	DEVELOPMENT, LONG BEACH UNIT	23
20	Item 45 - SIXTH MODIFICATION 1980-81 PLAN OF	
21	DEVELOPMENT, LONG BEACH UNIT	23
22	Item 46 - COUNTY OF ORANGE - Litigation Dana Point	
23	Grant	33
24	Item 47 - <u>AMIGOS DE BOLSA CHICA, et al v. SIGNAL</u>	
25	<u>PROPERTIES, INC., et al.</u>	34

PETERS SHORTHAND REPORTING CORPORATION

7700 COLLEGE TOWN DRIVE, SUITE 209
 SACRAMENTO, CALIFORNIA 95826
 TELEPHONE (916) 363-3601

		v
1	Item 48 - VALLEY NITROGEN PRODUCERS, INC.	
2	Settlement of Suit in Bankruptcy	34
3	Item 49 - CESSION OF CONCURRENT CRIMINAL	
4	JURISDICTION - Moffett Naval Air Station	35
5	Item 50 - <u>SIGNAL HILL REDEVELOPMENT AGENCY v.</u>	
6	<u>SHELL OIL COMPANY, et al.</u> Disclaimer	35
7	Item 51 - MARTIN GINSBURG - Amendment to Consultant	35
8	Item 36 - ARCO OIL AND GAS COMPANY - Amendment of	
9	Royalty Terms	37
10	Attorney General's Report	41
11	Adjournment	44
12	Certificate of Reporter	45
13		
14		
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25		

PETERS SHORTHAND REPORTING CORPORATION

7700 COLLEGE TOWN DRIVE, SUITE 200
 SACRAMENTO, CALIFORNIA 95826
 TELEPHONE (916) 383-3601

P R O C E E D I N G S

--oOo--

1
2
3 CHAIRMAN CORY: We'll call the meeting to order.
4 The staff has informed me that Mr. Ackerman is ill this
5 morning, and so we will probably not have a representative
6 from the Lt. Governor's Office because of his illness. We'll
7 try to proceed. If we disagree, it isn't going to get done.

8 COMMISSIONER MORGAN: Right.

9 CHAIRMAN CORY: Are there any corrections or
10 additions to the Minutes of the meetings of October 30th
11 and November 17th?

12 COMMISSIONER MORGAN: I don't have any.

13 CHAIRMAN CORY: Without objection, they will be
14 approved as presented.

15 The Executive Officer wants to make a report.

16 EXECUTIVE OFFICER NORTHROP: No. I won't make
17 a report. It will probably be covered with the Attorney
18 General's Report on litigation at the end of the meeting.

19 CHAIRMAN CORY: Okay. And Mr. Bowman is at the
20 Coastal Commission, so we do not have a Coastal Commission
21 report.

22 EXECUTIVE OFFICER NORTHROP: That's correct,
23 Mr. Chairman.

24 CHAIRMAN CORY: Okay. The next items on the agenda
25 are the Consent Calendar items. For those in the audience,

2

1 those are the agenda items C1 through C23.

2 EXECUTIVE OFFICER NORTHROP: Fourteen is off, Mr.
3 Chairman.

4 CHAIRMAN CORY: Item 14 has been removed from the
5 calendar, so we're talking about C1 through 23, excluding
6 14. If there's anyone in the audience who disagrees with
7 the proposed action of the staff on those items, would they
8 please let their displeasure be known now because we plan
9 on taking these up all on one motion and approving them if
10 there are no objections.

11 (No audible response.)

12 CHAIRMAN CORY: No objections?

13 COMMISSIONER MORGAN: None.

14 CHAIRMAN CORY: The Consent Calendar will be
15 approved as presented -- Items C1 through C23, excluding
16 C14.

17 Item 24 --

18 EXECUTIVE OFFICER NORTHROP: Mr. Chairman, Item
19 26 is off calendar, and with the indulgence of the Commission
20 we'd like to move Item 36 to the end of the calendar.

21 CHAIRMAN CORY: Well, okay. You want to move Item
22 36 to the end?

23 EXECUTIVE OFFICER NORTHROP: Yes. They're still
24 negotiating.

25 CHAIRMAN CORY: And I want to move 38 to the front.

PETERS SHORTHAND REPORTING CORPORATION

7700 COLLEGE TOWN DRIVE, SUITE 209
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601

1 COMMISSIONER MORGAN: Fine.

2 EXECUTIVE OFFICER NORTHROP: Fine.

3 CHAIRMAN CORY: So, we'll trade. We'll take Item
4 38 up first so that Mr. Iander can get to coffee.

5 EXECUTIVE OFFICER NORTHROP: Mr. Chairman, this
6 is a proposal to authorize the staff to hold a hearing to
7 consider pollution and subsidence control required by
8 Section 6873.2 of the Public Resource Code. The applicant
9 is C. F. Braun and Company.

10 CHAIRMAN CORY: The public hearing is -- that
11 doesn't really explain to me. You're going to have a hearing
12 on pollution and subsidence?

13 EXECUTIVE OFFICER NORTHROP: Right.

14 CHAIRMAN CORY: For what activity?

15 EXECUTIVE OFFICER NORTHROP: On the proposed oil
16 and gas lease under the Sacramento River at Freeport,

17 COMMISSIONER MORGAN: Is this the beginning of
18 the environmental impact process?

19 EXECUTIVE OFFICER NORTHROP: This will be the initial
20 phase of the environmental impact process. After that's
21 complete, we will then come back to the Commission and
22 discuss the lease itself. But before we get that far in,
23 we want to handle these two items first.

24 COMMISSIONER MORGAN: Okay.

25 CHAIRMAN CORY: Okay. Is there anybody in the

PETERS SHORTHAND REPORTING CORPORATION

7700 COLLEGE TOWN DRIVE, SUITE 209
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601

1 audience on Item 38?

2 (No audible response.)

3 CHAIRMAN CORY: Without objection, we will authorize
4 the staff to proceed with the public hearings on subsidence
5 and pollution.

6 EXECUTIVE OFFICER NORTHROP: Thank you, Mr. Chairman.

7 CHAIRMAN CORY: Item 24?

8 EXECUTIVE OFFICER NORTHROP: Mr. Chairman, Mr.
9 Trout will address Item 24.

10 MR. TROUT: For several years the Fish and Wildlife
11 Service has been funding some additional staff for the
12 Commission to make studies in areas of priority and concern
13 to them, one of these being the Tijuana Estuary. The Fish
14 and Wildlife Service is acquiring property for a wildlife
15 habitat and preserve from the Helix Corporation, and they
16 are, at the same time, requesting a release from the
17 Commission for the Commission's interest in that area, a
18 66-year lease. The item before you will establish the extent
19 of the state's ownership within the property surrounded by
20 Helix, and it will authorize the issuance of a 66-year lease
21 to the Fish and Wildlife Service.

22 The boundary will not be a permanent boundary but
23 will be a moving boundary because of the natural condition
24 of the area. Representatives of Helix and the Fish and
25 Wildlife Service are here. However, there is no dispute,

PETERS SHORTHAND REPORTING CORPORATION

7700 COLLEGE TOWN DRIVE, SUITE 209
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601

1 and the staff does support the solution and recommends your
2 approval.

3 CHAIRMAN CORY: Is there anyone in the audience
4 that wishes to be heard on this item?

5 (No audible response.)

6 COMMISSIONER MORGAN: This is the boundary between
7 jurisdictions of governments -- the federal government and
8 ours, is that right?

9 MR. TROUT: That's the result, yes. That's
10 correct.

11 COMMISSIONER MORGAN: There's no disagreement with
12 the government of Mexico?

13 MR. TROUT: No. This is separated from the
14 boundaries of the Republic of Mexico by some intervening
15 property, including Border State Park.

16 COMMISSIONER MORGAN: Okay.

17 CHAIRMAN CORY: Without objection, Item 24 will
18 be approved as presented.

19 Item 25 -- this is the request for authorization
20 of the Executive Officer to enter into a cooperative agreement
21 with the U. S. Fish and Wildlife Service for \$75,000 per
22 year boundary determination services within Bodega Bay, Sonoma
23 and Marin Counties, Humboldt Bay, San Francisco Bay, San
24 Diego Bay, Tijuana Estuary, and the Elkhorn Slough in
25 Monterey. Is there anybody in the audience on this item?

PETERS SHORTHAND REPORTING CORPORATION

7700 COLLEGE TOWN DRIVE, SUITE 209
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601

1 (No audible response.)

2 CHAIRMAN CORY: Any questions from Commissioners?

3 COMMISSIONER MORGAN: I have none.

4 CHAIRMAN CORY: Without objection, Item 25 is
5 approved as presented.

6 Item 26 is off calendar.

7 Item 27 -- request for approval of a 10-year
8 general lease for commercial use in Freeport. Is there
9 anybody in the audience on this item?

10 (No audible response.)

11 CHAIRMAN CORY: Any questions from Commissioners?

12 COMMISSIONER MORGAN: No.

13 CHAIRMAN CORY: Without objection, Item 27 is
14 approved.

15 Item 28 -- this is acceptance of a quitclaim
16 from the Grimes. Are we going to award an additional lease,
17 then?

18 EXECUTIVE OFFICER NORTHROP: Yes.

19 CHAIRMAN CORY: To?

20 EXECUTIVE OFFICER NORTHROP: To Mark and Patricia
21 Nugent, Ward's Boat Landing.

22 CHAIRMAN CORY: Anybody in the audience on this
23 item?

24 (No audible response.)

25 CHAIRMAN CORY: Questions from Commissioners?

PETERS SHORTHAND REPORTING CORPORATION

7700 COLLEGE TOWN DRIVE, SUITE 200
SACRAMENTO, CALIFORNIA 95825
TELEPHONE (916) 383-3601

1 COMMISSIONER MORGAN: (Shakes head.)

2 CHAIRMAN CORY: Without objection, Item 28 will
3 be approved as presented.

4 Item 29 is trying to clean up the problems with
5 the leasehold with Anza, is that correct, on liquidation?

6 EXECUTIVE OFFICER NORTHROP: That's correct, Mr.
7 Chairman.

8 CHAIRMAN CORY: We are assigning the interest to
9 a group of individuals who are then leasing back to a
10 proposed parking agency.

11 Standard rental?

12 EXECUTIVE OFFICER NORTHROP: Yes, sir.

13 CHAIRMAN CORY: Anybody in the audience on Item
14 29?

15 (No audible response.)

16 CHAIRMAN CORY: Questions from Commissioners?

17 COMMISSIONER MORGAN: No questions.

18 CHAIRMAN CORY: Without objection, Item 29 is
19 approved as presented.

20 Item 30 -- Peninsula Boating Association. This
21 is a denial, without prejudice, of an application for state-
22 owned property. This is to meet a deadline required by
23 statute. If we don't act, this will be automatically
24 approved.

25 EXECUTIVE OFFICER NORTHROP: That's correct. And

PETERS SHORTHAND REPORTING CORPORATION

7700 COLLEGE TOWN DRIVE, SUITE 209
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601

1 without any prejudice.

2 CHAIRMAN CORY: Anybody in the audience on this
3 item?

4 (No audible response.)

5 CHAIRMAN CORY: Questions from Commissioners?

6 COMMISSIONER MORGAN: Is this the first time we've
7 denied without prejudice?

8 EXECUTIVE OFFICER NORTHROP: No. We have done
9 this on, I would imagine, half-a-dozen occasions.

10 COMMISSIONER MORGAN: I think maybe it's about
11 time we took some real action on it. I mean, how many times
12 can we deny without prejudice?

13 EXECUTIVE OFFICER NORTHROP: No. This is the first
14 time this one has been denied. I thought you meant had we
15 established a precedent of doing it. I'm sorry.

16 COMMISSIONER MORGAN: No. I meant had we done
17 it before.

18 EXECUTIVE OFFICER NORTHROP: What we have here
19 is a failure to communicate.

20 COMMISSIONER MORGAN: I just wanted to make sure
21 that we're not denying without prejudice --

22 EXECUTIVE OFFICER NORTHROP: This is the first
23 time.

24 COMMISSIONER MORGAN: Okay. Thank you.

25 CHAIRMAN CORY: Anybody in the audience?

PETERS SHORTHAND REPORTING CORPORATION

7700 COLLEGE TOWN DRIVE, SUITE 209
SACRAMENTO, CALIFORNIA 95828
TELEPHONE (916) 383-3601

1 (No audible response.)

2 CHAIRMAN CORY: Without objection, the denial is
3 made as requested by the staff in Item 30.

4 Item 31 -- authorization for removal of structures
5 and the relocation and preservation of the Crescent School
6 on Grizzly Island, Solano County. Anybody in the audience
7 on this item?

8 (No audible response.)

9 CHAIRMAN CORY: Commissioners?

10 COMMISSIONER MORGAN: (Shakes head.)

11 CHAIRMAN CORY: Without objection, Item 31 will
12 be approved as presented.

13 Item 32 -- approval of beach erosion project on
14 Granted lands at Santa Cruz. Are there any questions from
15 anybody in the audience on this item?

16 (No audible response.)

17 CHAIRMAN CORY: Commissioners?

18 COMMISSIONER MORGAN: (Shakes head.)

19 CHAIRMAN CORY: Without objection, Item 32 is
20 approved as presented.

21 Item 33 -- City of Carpinteria; approval of finding
22 that a proposed renegotiated lease for an existing pier and
23 submerged lands in Santa Barbara County is consistent with
24 the grant statutes. Is there anybody in the audience on
25 this item?

1 (No audible response.)

CHAIRMAN CORY: Questions from Commissioners?

(No audible response.)

4 CHAIRMAN CORY: Approved as presented.

5 Item 34 -- the County of Fresno wants approval
6 to dredge 100,000 cubic yards out of the San Joaquin River
7 near Mendota. This soil is used for road maintenance and
8 other public projects. Anybody in the audience on this item?

9 (No audible response.)

10 CHAIRMAN CORY: Without objection, Item 34 is
11 approved as presented.

12 Item 35 -- Union Oil is seeking a 10-year dredging
13 permit to dredge 25,000 cubic yards in Humboldt Bay to
14 maintain access to their terminal. Is there anybody in the
15 audience on this?

16 (No audible response.)

17 CHAIRMAN CORY: Questions?

18 COMMISSIONER MORGAN: No questions.

19 CHAIRMAN CORY: Without objection, approved as
20 presented.

21 Item 36 you want at the end?

22 EXECUTIVE OFFICER NORTHROP: Yes, Mr. Chairman.

23 CHAIRMAN CORY: That was the trade-off? I can't
24 double-cross you at this late date.

25 Item 37 -- resumption of drilling operations in

1 the Molino area, Santa Barbara County.

2 EXECUTIVE OFFICER NORTHROP: Mr. Chairman, this
3 item, we've already approved the drilling operations per
4 se, but we've left open the dumping of cuttings and mud.
5 The staff has been negotiating with Shell for several months
6 on this item, and we now feel, in looking at the legislation
7 that was adopted last year and the fact that Fish and Game
8 has filed no objections and that Regional Water Quality will
9 monitor the dumping operations, the staff is recommending
10 at this time that we proceed with the calendar item.

11 CHAIRMAN CORY: Is there anybody in the audience
12 on this?

13 (No audible response.)

14 CHAIRMAN CORY: Any questions?

15 COMMISSIONER MORGAN: I just want to be sure --
16 you told me previously that the environmental impact report
17 had been prepared and hearings had been held.

18 EXECUTIVE OFFICER NORTHROP: That's correct. We
19 held hearings in Santa Barbara, and Mr. Hight handled and
20 conducted those hearings.

21 MR. HIGHT: Yes. The hearings were held, and there
22 were comments on the environmental impact. And I think that
23 apparently those comments have been taken into consideration.
24 We expected someone here today with some opposition, but
25 that apparently didn't happen.

1 COMMISSIONER MORGAN: I guess we should proceed.

2 CHAIRMAN CORY: Okay. Item 37 will be approved
3 as presented.

4 Item 39 - request by Geothermal Kinetics for
5 extension of its permit at Boggs Mountain. They have
6 finally now received their permits?

7 EXECUTIVE OFFICER NORTHROP: Mr. Chairman, as I
8 understand it, they have received all their local permits.
9 They're ready to go, but it means their term is going to
10 have to be extended because it took much longer than we
11 thought.

12 CHAIRMAN CORY: Is there anybody in the audience
13 on Item 39?

14 Yes, sir?

15 MR. BANISTER: Mr. Chairman, I am John Banister
16 with Geothermal Kinetics.

17 CHAIRMAN CORY: Come forward. Are you happy with
18 this proposed extension of time?

19 MR. BANISTER: Yes, sir. Just one question. On
20 page 4 of the calendar items report it indicates that we
21 should pay damages in the amount of \$189,250. That figure
22 should have been corrected to 89,000. I just wanted to be
23 sure that was done.

24 CHAIRMAN CORY: My copy does say \$89,250.

25 MR. BANISTER: Fine. Then I have no objections

PETERS SHORTHAND REPORTING CORPORATION

7700 COLLEGE TOWN DRIVE, SUITE 209
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601

1 at all. Thank you.

2 EXECUTIVE OFFICER NORTHROP: That's correct.
3 Counsel indicates -- they've been working on that -- that
4 that is the correct figure: \$89,000 --

5 CHAIRMAN CORY: That's what all of our records
6 show?

7 EXECUTIVE OFFICER NORTHROP: Yes. I think Mr.
8 Banister may have gotten an earlier copy.

9 CHAIRMAN CORY: Okay. Without objection?

10 COMMISSIONER MORGAN: Okay.

11 CHAIRMAN CORY: Item 39 will be approved as
12 presented.

13 Item 40 -- authorization for the Executive Officer
14 to file the final revisions on geothermal development regs.
15 These relate to surface owners so that they have a better
16 notice time. Rather than extending from the mailed notice,
17 it extends from when they received it or five days. Is there
18 anybody in the audience on this item?

19 (No audible response.)

20 CHAIRMAN CORY: Questions?

21 COMMISSIONER MORGAN: I think it's a good idea.

22 CHAIRMAN CORY: Without objection, Item 40 is
23 approved as presented.

24 Item 41. Item 41 is authorization for the Executive
25 Officer to submit comments to the Department of Energy

1 favoring the continuation of the present Mandatory Petroleum
2 Allocations Regulations Program until controls expire in
3 '81. This is the gradual phaseout --

4 EXECUTIVE OFFICER NORTHROP: This is the
5 continuing phaseout rather than the changing.

6 CHAIRMAN CORY: Is there anybody in the audience
7 on this item?

8 (No audible response.)

9 CHAIRMAN CORY: Any questions from Commissioners?

10 COMMISSIONER MORGAN: This is a continuation?

11 MR. THOMPSON: It's somewhat, more or less, of
12 a control. Really the whole thing is going to -- if they
13 don't get rid of it pretty soon, we're going to have to have
14 reversal entitlement of some kind.

15 EXECUTIVE OFFICER NORTHROP: It no longer
16 accomplishes what it was originally intended to do.

17 CHAIRMAN CORY: Without objection, Item 41 will
18 be approved as presented.

19 Item 42 --

20 EXECUTIVE OFFICER NORTHROP: Mr. Chairman, Mr.
21 Thompson will handle this item.

22 CHAIRMAN CORY: This is like a parody of a
23 Vaudeville magician act. You've got the beautiful lady with
24 the pointer and the ugly magician.

25 (Laughter.)

1 MR. THOMPSON: And it's so close to Christmas.

2 CHAIRMAN CORY: Bad! Humbug! Go ahead.

3 COMMISSIONER MORGAN: I would never have said that.

4 (Laughter.)

5 MR. THOMPSON: All right. This is an informal
6 calendar item on the status of our caustic flood here, and
7 really we have nothing to report because the caustic is just
8 going in now. The positive indications are that we have
9 no bypassing of the alkaline material, and the limiting faults
10 still seem to be holding up. At the present time you can
11 see that we're producing above this particular declining
12 curve. It really has nothing to do with the alkaline material.
13 That was merely to prepare the injection wells and producing
14 wells.

15 The federal government participates 40 percent
16 in this project. They have already put in their 40 percent
17 of the original \$11.6 million. And they, of course, also
18 have the right to be reimbursed out of the incremental oil
19 between those two lines.

20 CHAIRMAN CORY: If the base case waterflood
21 projection is the dotted line, and we did some remedial work
22 relating to injection wells that didn't relate to that, are
23 they going to come in and claim that because we did that
24 remedial work, they get credit?

25 MR. THOMPSON: Yes. Because they actually spent

1 about \$4.5 million of their money doing that work.

2 CHAIRMAN CORY: Okay. Fine.

3 MR. THOMPSON: And they have gotten back about
4 eight or nine hundred thousand dollars to date. By the end
5 of the project time, which will be the end of September of
6 '81, they should get back about one and a half to two million
7 dollars of their four and a half million dollar investment.
8 So in other words, they were merely helping us out.

9 CHAIRMAN CORY: Okay.

10 MR. THOMPSON: We have also prepurchased the
11 chemicals for the rest of this program, extending clear out
12 through 1985, and we're recovering about 75 percent of that
13 particular prepayment under the attrituary provision of the
14 DOE, where under certain attrituary projects you're allowed
15 to take controlled oil and sell it at uncontrolled prices
16 and use that incremental to pay this current enrollment.
17 And this is the one you approved some time back for about
18 \$10 million for prepurchase of chemicals.

19 CHAIRMAN CORY: In terms of cash flow, we've spent
20 10 million this current fiscal year?

21 MR. THOMPSON: The whole project here was committed
22 for an 11.6 commitment by the federal government. On this
23 particular project, we've spent to date probably 20 million
24 counting our prepurchase of chemicals. Because they were
25 only supposed to stay in through '81.

PETERS SHORTHAND REPORTING CORPORATION

7700 COLLEGE TOWN DRIVE, SUITE 209
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-7001

1 CHAIRMAN CORY: But I mean in terms of cash flow,
2 I'm trying to figure out what year we prepaid the chemical
3 purchase.

4 MR. THOMPSON: We prepaid the chemical in, I
5 believe, November -- some in August and some in November --
6 and we'll make another payment in January.

7 CHAIRMAN CORY: So it's all the current fiscal
8 year?

9 MR. THOMPSON: All the current fiscal year. And
10 we will get that back through controlled oil, selling it
11 at uncontrolled price through September of 1981. In other
12 words, you bank the cost, and then each month as you come
13 up in controlled oil, you release that at uncontrolled prices.
14 So you're paying it back monthly.

15 And we'll report on this quarterly as the project
16 goes along.

17 COMMISSIONER MORGAN: Is there a point at which
18 we start making a profit?

19 MR. THOMPSON: Well in effect, we think we have
20 made a profit already. Because in effect, 40 percent of
21 the incremental deal to date is \$900,000. So, 60 percent
22 of that, which is our share, would be somewhere around a
23 million and a half dollars. So at this particular rate,
24 we'll pay back probably in two or three years, which we think
25 is a good pay-back period.

1 COMMISSIONER MORGAN: So you're not taking all
2 the revenues and paying off the loan first. You're splitting?

3 MR. THOMPSON: Each of us splits the money. In
4 other words, of each increment we take 60 percent and the
5 federal government takes 40 percent.

6 COMMISSIONER MORGAN: Okay. Of \$20 million?

7 MR. THOMPSON: 11.6 was their commitment. Anything
8 over that, we have 100 percent. And after September of 1981,
9 we get a hundred percent of the incremental oil, too. So
10 we benefit from the program after September of '81. It
11 accrues to us 100 percent.

12 COMMISSIONER MORGAN: Have we made what we put
13 into it yet?

14 MR. THOMPSON: No. But again, we're looking at
15 this two to three payout time. And these expenditures
16 started back in about mid-'79.

17 COMMISSIONER MORGAN: So at what point do we hit
18 \$20 million -- I guess that's the magic number that represents
19 our expenditures?

20 MR. THOMPSON: I would estimate that would probably
21 be the first part of '83.

22 COMMISSIONER MORGAN: Okay. Thanks.

23 CHAIRMAN CORY: Okay. That completes 42?

24 EXECUTIVE OFFICER NORTHROP: That completes 42,
25 Mr. Chairman.

1 CHAIRMAN CORY: Item 43 -- fourth modification --
2 revision of economic projections.

3 MR. THOMPSON: It might be well if we could see
4 that production curve. Would you put that up there, Dianne?

5 All right. This is the oil rate for the Long
6 Beach unit. And you can see, our trend back in this period
7 of time, we had a very good month in November. And I think
8 that probably for December we will probably make 64,000,
9 which will be about at this point down in here. So you can
10 see we are flattening the oil range curve out -- which again
11 is your answer to where our payout comes.

12 EXECUTIVE OFFICER NORTHROP: This is partially
13 responsible for what we've discussed the past couple of days
14 in the loss of revenue in production. Because this bit
15 here (indicating) cost nearly a 3,000-barrel-a-day loss.
16 As you know, our revenues follow production by about 60 days.
17 So what we have had recently is bad. And as you come out
18 this end of the year, we will pick up additional monies.

19 MR. THOMPSON: Of course, the major reason for
20 our decrease in gross revenue is seen on those two curves
21 on your right over there. You take the top curve up there,
22 the blue line, is the uncontrolled price. We're selling
23 all of our crude now at uncontrolled price because of this
24 prepurchase costing. And you can see that actually for a
25 year now we've had no increase in uncontrolled oil price --

1 actually that's a 15 cent decrease since the first of the
2 year. And the impact, of course, you see on the curve just
3 below that. The line with a slope on it was the dollars
4 per barrel we thought we would get from revenue. There's
5 a slope to it. And actually, you can see that this has been
6 flat. The reason for this is, of course, the estimates were
7 made last March, and we anticipated at that time a continuing
8 crude oil price increase that hasn't materialized. So of
9 course, that reflects back into then the difference between
10 the gross revenue on the left there and the top one we
11 projected originally and the one below.

12 CHAIRMAN CORY: What has historically been the
13 relationship between uncontrolled domestic oil prices and
14 what the scoundrels at OPEC are doing?

15 EXECUTIVE OFFICER NORTHROP: It depends on
16 another -- there's another factor that comes into it, and
17 that is the production volumes that OPEC has been using.
18 If the Saudis cut back, I would imagine our price increase
19 would reflect within about 60 days. But if they don't,
20 historically -- everything being equal -- we're four to six
21 months behind them on increases.

22 MR. THOMPSON: There was no response at all to
23 the \$2 increase in Saudi crude about three or four months
24 ago.

25 EXECUTIVE OFFICER NORTHROP: We haven't gotten

1 anything on that yet, but volume stayed up.

2 MR. THOMPSON: And again, Saudi crude is not
3 imported into California as such. So again, it's kind of
4 a retroeffect you get. Indonesian crude is the main crude
5 we get in here, and any excess is shipped by. We get a kind
6 of tipple effect on prices from that.

7 CHAIRMAN CORY: Okay.

8 COMMISSIONER MORGAN: If revenues follow production
9 by about 60 days --

10 EXECUTIVE OFFICER NORTHROP: Depending on other
11 factors -- oh, you mean revenues? Yes. By about 60 days.

12 COMMISSIONER MORGAN: -- shouldn't we be able to
13 predict two months ahead of time what the revenues are going
14 to be?

15 EXECUTIVE OFFICER NORTHROP: Yes. As a matter
16 of fact, we've done that on the windfall profits tax
17 obligation and other things.

18 COMMISSIONER MORGAN: Okay.

19 MR. THOMPSON: This is the difference between
20 estimating on a month-by-month basis and trying to estimate
21 for a year.

22 COMMISSIONER MORGAN: Okay.

23 EXECUTIVE OFFICER NORTHROP: I see what you're
24 getting at, though, and the point is well taken. But we
25 felt, to take it the next step further, we felt, additionally,

1 the windfall profits tax would probably overcome our problem
2 and it would not require revision.

3 COMMISSIONER MORGAN: But we still don't know if
4 your annual revenue report requires revision?

5 EXECUTIVE OFFICER NORTHROP: Right.

6 COMMISSIONER MORGAN: But we're below projections?

7 EXECUTIVE OFFICER NORTHROP: We're below
8 projections. And as soon as we have some changes, we'll
9 get them in.

10 COMMISSIONER MORGAN: But your projections were
11 based on higher flow than now.

12 EXECUTIVE OFFICER NORTHROP: Yes. They were based
13 on a higher flow and a higher price. And windfall profits
14 do not affect this.

15 MR. THOMPSON: Are you going back to the August
16 projections or the more recent one?

17 COMMISSIONER MORGAN: No, the more recent one.
18 Why we were surprised.

19 EXECUTIVE OFFICER NORTHROP: And we indicated to
20 Finance staff that there was a problem.

21 CHAIRMAN CORY: Okay. You want approval of the
22 Board's modification?

23 EXECUTIVE OFFICER NORTHROP: Yes.

24 CHAIRMAN CORY: Without objection, the fourth
25 modification is approved. Right away you come back with

1 the fifth one.

2 COMMISSIONER MORGAN: Is this one that costs
3 money?

4 EXECUTIVE OFFICER NORTHROP: This sixth one is
5 where you get hurt.

6 COMMISSIONER MORGAN: I'll watch for that.

7 CHAIRMAN CORY: What are you doing in the fifth?

8 MR. THOMPSON: We want to change the plan to
9 recomplete wells into another zone, and the budget item
10 didn't have the money, so we'd like to get the money for
11 that. What we have is two idle wells in the channel zones.
12 There's no point in going through this, but here's a drawing
13 of one of the wells. One of these wells was originally
14 completed to a depth of about 10,200 feet. It's uncomplete
15 in that zone. And it will now bring it back up and produce
16 at somewhere around 4,000 feet. So it's a question of
17 salvaging. A new well costs us \$400,000, and this way it
18 will be \$150,000 to \$200,000.

19 CHAIRMAN CORY: Okay. The fifth modification is
20 approved as presented.

21 Now for the coup de grace. You want a million,
22 two for toys; right?

23 EXECUTIVE OFFICER NORTHROP: Eleven.

24 COMMISSIONER MORGAN: Eleven.

25 CHAIRMAN CORY: Eleven, two?

PETERS SHORTHAND REPORTING CORPORATION

7700 COLLEGE TOWN DRIVE, SUITE 209
SACRAMENTO, CALIFORNIA 95828
TELEPHONE (916) 383-3501

1 MR. THOMPSON: You have the numbers all right;
2 it's the decimal point we have trouble with.

3 CHAIRMAN CORY: Are we going to have a dog and
4 pony show for this?

5 MR. THOMPSON: We thought we might try to soften
6 it up, having applied for \$11 million.

7 Now the Commission originally authorized the
8 purchase of two drilling rigs, and there are two different
9 styles.

10 --oOo--

11 The most recent one being approved was T-6. And
12 what this is, is we're asking to purchase the drilling
13 equipment that goes inside of the derrick. These derricks
14 are moved by hydraulic grippers that move on tracks, so this
15 whole derrick moves over to the next location.

16 --oOo--

17 One of the main things is the difference in how
18 these rigs are moved. Right here are the hydraulic grippers
19 used to move the derricks. What they do is grip the flange
20 of the rails and hydraulically pull the system. The system
21 moves in two parts.

22 --oOo--

23 This is another version of this hydraulic moving
24 equipment. This is the control panel for it. And right
25 here is the separation from what you saw before. This side

1 would be the mud tanks and pipe racks, and this is the
2 sub-base on the derrick itself.

3 --oOo--

4 And this is an actual shot down -- and you can
5 see the grippers actually gripping different parts. That
6 goes over the flange of these rails, and this hydraulic
7 cylinder extends and actually pushes or pulls the rig along.

8 --oOo--

9 --oOo--

10 Before that, we had purchased this rig, P-5. It's
11 a portable rig. This derrick will actually lay down and
12 move from location to location -- rather from island to
13 island. From location to location, we move this by a rig-
14 moving system, which you can just barely see -- these wheeled
15 things here.

16 --oOo--

17 This is another shot of the same type of derrick.

18 --oOo--

19 --oOo--

20 Now again you can see the moving system -- the
21 large rubber tires. There's a large beam that goes right
22 through a box section of the sub-base. It goes through and
23 when you're ready to move, it actually lifts this whole sub-
24 base and derrick. It lifts the derrick and sub-base on these
25 wheels and moves on to the next location.

PETERS SHORTHAND REPORTING CORPORATION

7700 COLLEGE TOWN DRIVE, SUITE 209
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601

1 CHAIRMAN CORY: What is the cost of that type of
2 rig?

3 MR. THOMPSON: This is the type of rig we're
4 proposing to purchase -- about \$5.5 million each.

5 CHAIRMAN CORY: And the other?

6 MR. THOMPSON: By the time we renovated the derrick
7 and got the mud tanks and everything, about the same amount
8 of money.

9 --oOo--

10 This is a closer view, and if you can see, it takes
11 this rig up and moves it to another location.

12 --oOo--

13 This particular island that this picture was taken
14 on happens to have the same track system that the other
15 derricks have, and these rigs will be flexible enough to
16 be used on two island locations and the pier as well.

17 CHAIRMAN CORY: Are those pneumatic tires?

18 MR. THOMPSON: Yes.

19 --oOo--

20 --oOo--

21 This shot is, again, a closer view.

22 --oOo--

23 Here again you can see how this beam goes right
24 through the sub-base unit and physically jacks it up and
25 takes the weight on there.

PETERS SHORTHAND REPORTING CORPORATION

7700 COLLEGE TOWN DRIVE, SUITE 209
SACRAMENTO, CALIFORNIA 95828
TELEPHONE (916) 383-3801

--oOo--

1
2 Now, the reason we're asking for this extra
3 drilling equipment is two-phased. Actually there's a payout
4 in the purchase of the rigs themselves if we want to stop
5 using contract rigs. We now, at the present time, have two
6 contract rigs. There's a three-year payout if we would have
7 these ourselves. But if we continue the subzoning development
8 we have right now -- for example, there's a colored electric
9 log here, and a lot of our wells are completed in the yellow
10 and green sections. So what we're doing now is we're starting
11 to drill in-fill wells and subzoning to where we will complete
12 the green separately and the yellow separately -- both
13 projection wells and producing wells. And this will give
14 us better coverage, better aerial distribution, and better
15 distribution of our water as we move along up the coast.
16 Then, in some parts of the field, we've actually then
17 included the red section in there. So definitely, this will
18 be another area in which we'll subzone and break out.

19 So this is the reason we're going to need probably
20 from 200 to 500 more wells. And unless we start with a
21 certain finite number of drilling rigs, the drilling program
22 extends out 15 or 20 years, and it's not worth it. So with
23 buying two more rigs, we will have the flexibility at this
24 time they're delivered, which would be 1982, of maintaining
25 ten rigs or cutting back to our present eight rigs by

PETERS SHORTHAND REPORTING CORPORATION

7700 COLLEGE TOWN DRIVE, SUITE 209
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601

1 letting go two contract rigs. We think by that time we will
2 have drilled enough of the subzone wells to see the economics
3 throughout the whole field.

4 CHAIRMAN CORY: How many contract rigs do we have?

5 MR. THOMPSON: Two.

6 COMMISSIONER MORGAN: What's the annual rental?

7 MR. THOMPSON: The annual rental?

8 COMMISSIONER MORGAN: Do you have an annual
9 rental on those?

10 MR. THOMPSON: Actually it comes back to a day
11 rate, and the annual rental on that would be, that type of
12 rig would probably cost, I imagine, about \$100,000 a month.

13 COMMISSIONER MORGAN: So the payback point is --

14 MR. THOMPSON: About three years.

15 COMMISSIONER MORGAN: And you anticipate using
16 these for 15 years?

17 MR. THOMPSON: (Nods head.)

18 COMMISSIONER MORGAN: When is the contract for
19 the field up?

20 MR. THOMPSON: 1990. But then the contract is
21 rebid at that time. The field life is beyond the end of
22 the contract.

23 CHAIRMAN CORY: We pay for all the development
24 costs, so the hardware is ours?

25 MR. THOMPSON: Yes. This is completely unit-owned

PETERS SHORTHAND REPORTING CORPORATION

7700 COLLEGE TOWN DRIVE, SUITE 209
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601

1 equipment. We would have contract crews operate them.

2 CHAIRMAN CORY: Since we're blowing the pool anyway
3 -- the electric log is actually a measurement of what?

4 MR. THOMPSON: The left side is a measurement of
5 the rock character, and the right side is a measurement of
6 the fluid saturation. In other words, as you move to the
7 left, on the left side that indicates sandier, more porous
8 material. And it moves to the right, more dense material,
9 like shale. So what you're looking for is movement to the
10 left, and you're looking for a resistive fluid in there which
11 is oil rather than saltwater. So you're looking for a
12 departure to the right. You're looking for an hourglass
13 effect. So whenever you're seeing things that are moving
14 apart, that would generally tell you that you are in an oil
15 sand -- just in general.

16 CHAIRMAN CORY: Your vertical axis represents the
17 distance down the hole?

18 MR. THOMPSON: There are drill depths on there,
19 and each one of those numbers are a hundred feet apart.

20 CHAIRMAN CORY: And it moves linearly on the
21 vertical axis?

22 MR. THOMPSON: Yes. That is not vertical depth.
23 That's true drill depth. Because these are deviated holes.
24 That section there happens to show all oil-saturated sands.
25 If you look up at the very, very top, you'll see wet sands.

PETERS SHORTHAND REPORTING CORPORATION

7700 COLLEGE TOWN DRIVE, SUITE 209
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601

1 And you can see the departures to the left on the left side,
2 but on the right side, this is not -- starting below that
3 you have oil saturation.

4 COMMISSIONER MORGAN: What is the life span of
5 the rig?

6 MR. THOMPSON: Fifteen to twenty years. There
7 are some rigs in which the basic components, the basic steel
8 in them is still going. The rig base and everything like
9 that, probably for our purposes, has infinite life. It's
10 made out of steel. The main components of the rig probably
11 have considerable life -- 20, 30, 40 years. The moving
12 equipment and some of the other parts have to be replaced.
13 The electric motor might have a life of three to five years.

14 COMMISSIONER MORGAN: Who does the maintenance
15 on the contract rigs?

16 MR. THOMPSON: The contractor himself.

17 COMMISSIONER MORGAN: And they pay for it?

18 MR. THOMPSON: (Nods head.) Under some
19 circumstances. In the end, you usually end up paying for
20 it -- either in the hourly rate or in some particular part
21 of the contract when you have to maintain a certain part
22 of the equipment. There's no free lunch. You're going to
23 pay for it, plus their overhead and their profit.

24 COMMISSIONER MORGAN: In your estimate of costs,
25 this is just the purchase price? You haven't figured any

1 maintenance costs of the rigs?

2 MR. THOMPSON: No. That would come each year in
3 budget. The payoff indicates we would have to put in a
4 certain amount of maintenance costs.

5 COMMISSIONER MORGAN: Maybe I worked the numbers
6 wrong, but I don't get a three-year payback.

7 MR. THOMPSON: Probably because I've given you
8 the wrong monthly rate. I don't have that one right in my
9 head right now.

10 COMMISSIONER MORGAN: But your estimate is that
11 when you compare contracting for a rig with purchasing a
12 rig, you make money after the third year?

13 MR. THOMPSON: Another thing that doesn't indicate
14 in here is the cost of contract rig moving, depending on
15 how far we have to move them. It's anywhere from \$30 to
16 \$60 thousand to move from one location to another, because
17 each rig is not portable.

18 COMMISSIONER MORGAN: The ones we're using.

19 MR. THOMPSON: The two contract rigs we're using.
20 Whereas, with this type of rig, we can move from one
21 location to another in a matter of maybe two or three or
22 four hours, using no cranes or anything like that to speak
23 of. And with that type of rig, we have to lay it down, take
24 the sub-base out, do a lot of crane work and that kind of
25 thing. So it gets expensive. So that's incorporated in

1 the payoff consideration.

2 If you want more detail on this, I'd be happy to
3 get it for you.

4 COMMISSIONER MORGAN: I'd be a little more
5 comfortable if I could see some of the fiscal information
6 for a better understanding of the return on this
7 investment. But I don't want to hold you up if you're at
8 a point where you can move ahead.

9 MR. THOMPSON: We're trying to get these rigs on
10 schedule, so we'll be on with the delivery time and everything.

11 CHAIRMAN CORY: How long will it take to get that
12 information together?

13 COMMISSIONER MORGAN: It depends on how many
14 questions I ask.

15 MR. THOMPSON: That can be telecopied to you
16 probably tomorrow.

17 COMMISSIONER MORGAN: When's the next meeting?

18 EXECUTIVE OFFICER NORTHROP: January.

19 CHAIRMAN CORY: What I was thinking of doing was
20 approving it subject to your being satisfied tomorrow.

21 EXECUTIVE OFFICER NORTHROP: It's not work we have
22 to generate. We have already justified the numbers. We
23 just don't have them with us is the problem.

24 CHAIRMAN CORY: Can we approve it subject to her
25 veto after she sees the backup data?

PETERS SHORTHAND REPORTING CORPORATION

7700 COLLEGE TOWN DRIVE, SUITE 209
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601

1 MR. HIGHT: (Nods head.)

2 CHAIRMAN CORY: And if you don't like it, it's
3 going to be on the calendar next month. If you do like it,
4 then go ahead.

5 COMMISSIONER MORGAN: Fine. That's good. But
6 I do think this is a healthy expenditure, and I'm sure that
7 before you made this proposal you did a cost estimate.

8 EXECUTIVE OFFICER NORTHROP: It's been done three
9 times.

10 COMMISSIONER MORGAN: Okay.

11 MR. THOMPSON: Depending on the size of the pages,
12 I'll make some phone calls, and I'm sure we can get a good
13 part of it up here by express mail by 10:00 in the morning.
14 Because I would like not to have to wait until January.

15 CHAIRMAN CORY: Okay. We will approve Item 45
16 subject to --

17 EXECUTIVE OFFICER NORTHROP: Mr. Chairman, I'd
18 like to have some kind of a firm signoff by Ms. Morgan so
19 we can go ahead on it after we get the information.

20 CHAIRMAN CORY: Okay. You bring it by, and if
21 we've got two members that sign, you're on. Get two
22 signatures rather than one.

23 COMMISSIONER MORGAN: Okay.

24 CHAIRMAN CORY: That's called sharing the guilt.

25 46 -- this is authorization for staff to prepare

1 litigation and litigate on the Dana Point Grant if they're
2 unable to resolve the differences with the County of Orange.
3 That was, I believe, discussed previously in Executive
4 Session. Is there anybody in the audience on this item?

5 (No audible response.)

6 CHAIRMAN CORY: Without objection, Item 46 is
7 approved as presented.

8 Item 47 -- this is to reatify dismissal of three
9 remaining causes of action in Amigos de Bolsa Chica, et al,
10 versus Signal Properties, Inc., et al. Is there anybody
11 in the audience on this item?

12 (No audible response.)

13 CHAIRMAN CORY: Anything from Commissioners?

14 COMMISSIONER MORGAN: No.

15 CHAIRMAN CORY: Without objection, Item 47 is
16 approved as presented.

17 Item 48 -- Valley Nitrogen Producers, in bankruptcy
18 This is settlement of a suit cutting the alleged damages
19 by 50 percent and then putting us in line with the rest of
20 the creditors. We'll probably be getting about 20 cents
21 on the dollar of that half. Is there anybody in the
22 audience on this item?

23 (No audible response.)

24 CHAIRMAN CORY: Without objection, Item 48 will
25 be approved as presented.

1 Item 49 is cession of concurrent jurisdiction at
2 Moffett Naval Air Station. This relates to criminal
3 jurisdiction as opposed to civil. Is there anybody in the
4 audience on this item?

5 (No audible response.)

6 CHAIRMAN CORY: Questions from the Commissioners?

7 COMMISSIONER MORGAN: (Shakes head.)

8 CHAIRMAN CORY: Without objection, Item 49 is
9 approved as presented.

10 Item 50 -- this is disclaimer of any titular
11 interest on redevelopment property on Signal Hill. We have
12 no interest in the property?

13 EXECUTIVE OFFICER NORTHROP: Correct, Mr. Chairman.

14 CHAIRMAN CORY: Anybody in the audience on this
15 item?

16 (No audible response.)

17 CHAIRMAN CORY: Without objection, Item 50 will
18 be approved as presented.

19 Item 51 is an amendment to the contract increasing
20 the fees to our tax expert who is helping us fight the
21 windfall profits tax problem.

22 COMMISSIONER MORGAN: And we're going to obtain
23 an increase in revenue as a result?

24 EXECUTIVE OFFICER NORTHROP: The question answers
25 in the affirmative, because we've already estopped the

PETERS SHORTH AND REPORTING CORPORATION

7700 COLLEGE TOWN DRIVE, SUITE 209
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 303-3601

1 interim calculation, and we have a 90 percent limitation.
2 We already have those two things going for us. Now we're
3 trying to get the total exemption.

4 MR. THOMPSON: We expect a \$13 million adjustment
5 on the first part of that.

6 CHAIRMAN CORY: That deals with the overwithholding
7 in essence; is that not correct? They were requiring us to
8 reserve more than our obligation was if the obligation
9 remains in existence?

10 EXECUTIVE OFFICER NORTHROP: That's true.

11 MR. THOMPSON: It's stopping the use of the interim
12 process for the balance of this month. I expect the
13 adjustment by the January 9th payment, which closes out for
14 the year we're in now.

15 CHAIRMAN CORY: But this does not relate to actual
16 liability. This relates to restoration of cash flow.

17 EXECUTIVE OFFICER NORTHROP: Right. But we do
18 have the interest on the money.

19 MR. THOMPSON: Which the contractors would not
20 do without the ruling.

21 CHAIRMAN CORY: Are there any questions from
22 anybody in the audience on this item?

23 (No audible response.)

24 CHAIRMAN CORY: Without objection, Item 51 is
25 approved as presented.

1 EXECUTIVE OFFICER NORTHROP: Okay. Then Item 36.

2 CHAIRMAN CORY: Item 36.

3 EXECUTIVE OFFICER NORTHROP: Mr. Chairman, the
4 staff indicates -- Mr. Everetts, will you try to explain
5 this item?

6 MR. EVERETTS: Several months ago the Commission
7 approved the resumption of drilling on Rincon Island,
8 Ventura County offshore. The current formula for royalty
9 on that lease is such that it's around 124 barrels a day
10 that pays a hundred percent royalty. The lease currently
11 is being modified for secondary recovery, and it has a
12 royalty percentage of 32.28 percent. The applicant wants
13 to drill a well, a deep well, to 12,000-foot basic depth,
14 10,000-foot true vertical depth. The well is estimating
15 a thousand barrels a day and obviously would not be
16 economical at 100 percent royalty.

17 They've asked for modification in the royalty.
18 And this is permissible according to the Public Resources
19 Code. The staff has reviewed the economics with them and
20 have estimated the cost at \$3.78 million and rising rapidly.
21 When we started talking to them, it was 3.2 million, and
22 just in the last several months the price has gone up. Rig
23 costs alone -- we asked them how much it costs to run a rig,
24 and particularly one that is used here is \$13,000 a day.
25 So rig costs alone for the well will be \$1.3 million. And

1 that's not counting fuel and other costs. So it's a rather
2 expensive operation.

3 We're proposing a conventional sliding-scale
4 royalty that is used on other modern oil leases -- that is,
5 state leases. It's a 16 and two-thirds minimum escalating
6 to 50 percent maximum of 500 barrels a day. And we're also
7 proposing a 50 percent royalty on gas. Our calculations
8 are that with that, if the well is a thousand barrels a day
9 -- which I don't think is going to happen -- but if it is,
10 the well will probably pay out in two to three years, and
11 will be equivalent to about a 15 percent rate of return.

12 CHAIRMAN CORY: That's to the lessee?

13 MR. EVERETTS: To the lessee, yes. If it's a 500-
14 barrel-per-day well, for example, it wouldn't pay out.
15 These are unescalated oil prices, unescalated costs.

16 COMMISSIONER MORGAN: This is different from our
17 usual minimums and maximums.

18 MR. EVERETTS: It's comparable to our modern-day
19 leases. For example, the platform Holly that we've talked
20 about off and on has that particular status.

21 CHAIRMAN CORY: It's a deviation from what they
22 signed up to.

23 MR. EVERETTS: Yes. It's a deviation from the
24 old pre-Cunningham-Shell lease.

25 CHAIRMAN CORY: We are giving them the adjustment

1 because they are trying to -- you're trying to entice them
2 into --

3 MR. EVERETTS: This is only for one well. If they
4 make a discovery, then we'll try to negotiate. I've
5 suggested that we might be interested in the net profit,
6 and they didn't back off.

7 COMMISSIONER MORGAN: What's the minimum on the
8 current contract?

9 MR. EVERETTS: The current contract is 20 percent.

10 CHAIRMAN CORY: And it goes to a hundred percent.

11 MR. EVERETTS: And it goes to a hundred percent.

12 COMMISSIONER MORGAN: Where does it usually fall?

13 MR. EVERETTS: At a hundred percent if we actually
14 did make a hundred percent production. As I say, when we're
15 done modifying for waterflood, we should be able to recover
16 a flat 32.28 percent. This, again, based on a thousand-
17 barrel-a-day well, this sliding scale would average out to
18 a straight average of 32 percent of the gross. However,
19 the gross is about 63 percent of the net, and it's better
20 for the state to have the sliding scale because we're getting
21 50 percent oil up front pretty early. And with the present
22 value situation, we're better off even though an average
23 is 32 percent. Compared to 32.28, the fact we're getting
24 50 percent oil fairly early is better for the state.

25 CHAIRMAN CORY: The difference on the interest

PETERS SHORTHAND REPORTING CORPORATION

7700 COLLEGE TOWN DRIVE, SUITE 209
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 313-3001

1 is what you're talking about?

2 MR. EVERETTS: Yes.

3 COMMISSIONER MORGAN: The average that you've given
4 us is just an arithmetic average. That doesn't mean that's
5 what the return is going to be. In fact, it could be at
6 the minimum for the entire operation.

7 MR. EVERETTS: If it's at the minimum, it will
8 be a mop-up operation. It will take about a year's production,
9 at least right now, to pay for just one well.

10 COMMISSIONER MORGAN: What's the term on the
11 extension for the modification?

12 MR. EVERETTS: Well, this is for one well. We're
13 only suggesting there be a royalty modification for just
14 one well. It will probably take about 90 days to drill the
15 completed well, so we're probably talking about a six-month
16 period overall.

17 COMMISSIONER MORGAN: Is this a good deal, Bill?

18 EXECUTIVE OFFICER NORTHROP: You do that to me.
19 Actually, I'm not sure it's as good a deal as we could get
20 if we argued forever. But I think considering the fact we're
21 going into depth and new horizons, we would all like to see
22 what's there. And if anything is going to be done in
23 California in that area, we're going to have to look at
24 getting close to basement. I mean by that, getting closer
25 into the deep zones rather than forever looking at shallow

PETERS SHORTHAND REPORTING CORPORATION

7700 COLLEGE TOWN DRIVE, SUITE 209
SACRAMENTO, CALIFORNIA 95828
TELEPHONE (916) 383-3601

1 zones. My indications are that if it is there, it's fairly
2 good quality oil. Would you agree with that --

3 MR. HUNDLEY: Yes, Bill. You're right.

4 EXECUTIVE OFFICER NORTHROP: That's Jack Hundley
5 from ARCO. But I wanted to get Jack's concurrence that he
6 thought it was going to be a fairly good quality.

7 MR. HUNDLEY: Correct.

8 COMMISSIONER MORGAN: Okay. Thank you.

9 CHAIRMAN CORY: Okay. The item is approved as
10 presented.

11 Are there any other items to come before the
12 Commission?

13 EXECUTIVE OFFICER NORTHROP: In lieu of his
14 objections about the court, the Attorney General now wants
15 to comment.

16 MR. STEVENS: We just have two items to report,
17 actually. The first is that the high-water boundary
18 litigation was at last submitted to the California Supreme
19 Court last week.

20 CHAIRMAN CORY: And the 90 days is running?

21 MR. STEVENS: I believe it's formally submitted,
22 although no such statement was made. We hope to get
23 clarification on that in the near future.

24 The second item was the Desert Lands Act on which
25 a hearing was held in Federal Court yesterday. For that,

1 we have Mr. Mills in our office, and Messrs. Northrop and
2 Trout if they would like to comment further on the
3 negotiations with the Bureau of Land Management.

4 MR. MILLS: I'd rather do this in Executive
5 Session since the litigation is still ongoing, and we're
6 not going to have a final decision for some time.

7 MR. STEVENS: Why don't you just indicate what
8 happened in court, and if the Chairman desires, we can have
9 a further session. If not, we can end the meeting here.

10 MR. MILLS: Well, we went to court Friday before
11 last, and requested a temporary restraining order to file
12 the complaint. And in that complaint we alleged two basic
13 causes of action. The first one is that BLM gave the State
14 Lands Commission inadequate time to review the proposed plan.
15 The second cause of action was based on the fact that we
16 would not be able to review the final plan until it was
17 implemented. And in effect, we asked for a temporary
18 restraining order to prohibit the Secretary from signing
19 the plan for 60 days. That was denied.

20 We have the hearing on the preliminary injunction
21 yesterday. In the meantime, the staff has been talking to
22 the Bureau of Land Management and the Assistant Secretary
23 of the Interior. And they have worked out a proposed
24 settlement. Unfortunately, we can't get any guarantees from
25 the federal government that it will be put into effect. And

PETERS SHORTHAND REPORTING CORPORATION

7700 COLLEGE TOWN DRIVE, SUITE 209
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601

1 without those guarantees, there's not much to go on.

2 So what we asked the judge yesterday -- the current
3 time frame calls for the Secretary to sign the plan on the
4 19th -- and we asked the judge to delay the matter for a
5 couple of days while we continued discussions, which he did.
6 We have a hearing set Friday morning at 10:00 o'clock --
7 we got a continuance until Friday morning at 10:00 o'clock.

8 There are four parties now seeking to intervene
9 in our lawsuit -- the National Outdoor Coalition, the
10 County of Inyo, the American Motorcycle Association, and
11 the --

12 EXECUTIVE OFFICER NORTHROP: San Bernardino.

13 MR. MILLS: San Bernardino County is not seeking
14 to intervene. The other one is the California Mining
15 Association. In the federal system they have all filed
16 lawsuits, and they've been assigned to four different judges.
17 So we now have, theoretically, five separate lawsuits going
18 on, and they're all asking for temporary restraining orders
19 which will be heard in the next couple of days. They're
20 all trying to get everything thrown into one, big package.

21 CHAIRMAN CORY: That was filed where? In
22 Sacramento?

23 MR. MILLS: That was filed in Los Angeles, at
24 the Federal Court in Los Angeles. It's before Judge Laughlin
25 Waters.

1 MR. STEVENS: So, that's it.

2 COMMISSIONER MORGAN: Do we need any further
3 discussion? Do you need any further direction?

4 MR. STEVENS: No.

5 CHAIRMAN CORY: Okay. Are there any other items
6 to come before us? Is that it? Are we ready to adjourn?

7 EXECUTIVE OFFICER NORTHROP: I have nothing
8 further.

9 CHAIRMAN CORY: We stand adjourned.

10 (Thereupon the meeting of the State
11 Lands Commission was adjourned at
12 11:00 a.m.)

13 --oOo--

14

15

16

17

18

19

20

21

22

23

24

25

PETERS SHORTHAND REPORTING CORPORATION

17700 COLLEGE TOWN DRIVE, SUITE 209
SACRAMENTO, CALIFORNIA 95828
TELEPHONE (916) 353-3001

CERTIFICATE OF SHORTHAND REPORTER


1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

I, SYDNEY CONARROE, a shorthand reporter, do hereby certify:

That I am a disinterested person herein; that the foregoing meeting of the California State Lands Commission was reported in shorthand by me, Sydney Conarroe, and thereafter transcribed into typewriting.

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

IN WITNESS WHEREOF, I have hereunto set my hand this 5th day of January, 1981.


SYDNEY CONARROE
Shorthand Reporter