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SPECIAL MEETING  
STATE OF CALIFORNIA  
STATE LANDS COMMISSION

ORIGINAL

STATE CAPITOL  
ROOM 437  
SACRAMENTO, CALIFORNIA

MONDAY, APRIL 23, 1984  
10:00 A.M.

RONALD J. PETERS  
Certified Shorthand Reporter  
License Number 2780

MEMBERS PRESENT

Ms. Nancy Ordway, Acting Chairperson, Representing  
Mr. Jesse Huff, Director of Finance

Ms. Elizabeth Rasmussen, representing  
Mr. Kenneth Cory, State Controller

Ms. Laura Schlichtmann, representing Mr. Leo T. McCarthy,  
Lieutenant Governor

STAFF PRESENT

Ms. Claire T. Dedrick, Executive Officer

Mr. Robert C. Hight, Chief Counsel

Mr. James F. Trout, Assistant Executive Officer

Mr. W. M. Thompson, Chief, Extractive Development  
Program, Long Beach, California

Ms. Judy Markell, Commission Secretary

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P R O C E E D I N G S

ACTING CHAIRPERSON ORDWAY: The hour of ten having arrived, let us start the State Lands Commission Meeting. We have two items on calendar.

Claire, would you start, please?

EXECUTIVE OFFICER DEDRICK: Yes. The first one is the approval of the Long Beach 1984-'85 Plan and Budget for the Long Beach Unit.

That is statutorily something you need to consider before the end of this month, and Moose Thompson has some facts about what the situation is all about.

MR. THOMPSON: Well, Assuming we can get something put up here, we will see what we have got.

EXECUTIVE OFFICER DEDRICK: Briefly, as you will recall, the good news is that development is up -- production is up about 6,000 barrels a day. That's kind of a result of a variety of measures that have been taken over the years to prevent or to reduce the rate of decline in the field, primarily water flood, and that was what resulted in the increased revenue in this fiscal year, Commissioners, that was reported to you, I think, at the last meeting.

MR. THOMPSON: I think what she has just mentioned here you can see translated into a dollar impact.

This is on a dollar per month revenue curve up here and a dollar per month cost curve here.

1 The same thing is translated over here into  
2 dollars per barrel. So this is our gross revenue per dollar-  
3 barrel, which is right around \$24, \$23.50, and our costs  
4 are running around in the \$8 to \$9 range.

5 The work we have been doing the last few years  
6 is finally beginning to flatten the climb on this and if we  
7 can take one more curve on up here, maybe we will be able  
8 to show that.

9 This is what is known as planning.

10 ACTING CHAIRPERSON ORDWAY: While you are putting  
11 that up, Moose, what is causing the costs to bump around like  
12 that?

13 MR. THOMPSON: The what?

14 EXECUTIVE OFFICER DEDRICK: The cost.

15 ACTING CHAIRPERSON ORDWAY: What is causing the  
16 cost curve to bump around?

17 MR. THOMPSON: Well, various expenditures plus  
18 the fact that you have got two payments in taxes, in April  
19 and December of each year, and since our taxes run a little  
20 less than \$20 million, every time we get a \$10 million  
21 expenditure, it jumps in that magnitude.

22 The others are -- normally you have large  
23 capital expenditures, and these particular times of the year  
24 we were spending a lot of money for cellar expansion and  
25 island expansion. This is now coming down where we can show

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1 you some other curves.

2 For instance, last year for facilities, we  
3 spent \$10 million, next year we are going to spend less  
4 than a million.

5 EXECUTIVE OFFICER DEDRICK: Excuse me, Moose.  
6 The bump between '82 and '83 was the repair to the storm  
7 damage, I think. It's right on the line, the '82-'83 bump.

8 MR. THOMPSON: But these big splashes, see, like  
9 this, are primarily taxes.

10 EXECUTIVE OFFICER DEDRICK: Yes.

11 MR. THOMPSON: This top curve over here is the  
12 oil right in the Long Beach Unit, and you can see we have  
13 had an increasing trend here, and then in the last couple  
14 of months, by increasing growth, we have got the equivalent  
15 of a year's drilling here in just a couple of months here.

16 So this drilling pattern that has been going on  
17 is finally beginning to pay off now with better water flood  
18 efficiency.

19 As far as the expenditure level, we will be  
20 slightly higher estimated this year than last. Part of  
21 this inflation and part of the difference in estimating  
22 between the City and ourselves is that we think there will  
23 be surplus money in drilling, but, again, that can't be  
24 used unless the wells are approved; plus the fact that there  
25 are some other projects in the planning that may need that

1 money.

2 And the one expenditure that very likely will be  
3 higher than budgeted will be for waste disposal. We thought  
4 by now we would have EPA approval, Coastal Commission  
5 approval for the dumping of mud and oil-free cuttings at  
6 sea. We did this about four or five years ago, stopped it,  
7 and now we are trying to get that permit going again.

8 And in Southern California, the disposal of  
9 waste is getting to be a very serious problem. It is very  
10 expensive. We have to truck it a long ways.

11 So we are trying to get this disposal straightened  
12 out. It is going through the EPA now, and as far as we  
13 know, that's no problem there. The Coastal Commission will  
14 make a consistency finding.

15 ACTING CHAIRPERSON ORDWAY: When do you expect  
16 that?

17 MR. THOMPSON: Hopefully in the next month or  
18 two. But, again, for us to implement it, we'll be in the  
19 next budget year so some of the savings we had built in  
20 will not occur until we get that drilling disposal problem  
21 taken care of.

22 So, basically, the trend is good as far as our  
23 future here. We will gradually be reducing our drilling  
24 in the next few years.

25 We have a little difference of opinion with the

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1 language with the City of Long Beach on drilling activity.  
2 We are trying to smooth that through now.

3 We also have a little difference of opinion in  
4 revising a five-year plan they have. But I think we have  
5 got those rough edges knocked out and the City should be  
6 getting a revised plan to us by July 1st.

7 EXECUTIVE OFFICER DEDRICK: Commissioners, over  
8 the last three years, the City and the staff, our staff,  
9 have been trying to get the operator, the contractor, to  
10 go to program budgeting.

11 This is the second year that the new format has  
12 been in use, and it is significantly better than it was  
13 last year, and spectacularly better than it was before the  
14 effort was started. But it still has a substantially long  
15 way to go.

16 The people from the City have really put in a  
17 lot of work on it and we very much appreciate their  
18 cooperation in this.

19 MR. THOMPSON: I personally don't see much  
20 promise in programmatic budget because it's got some  
21 problems of trying to have line item control in the budget  
22 deal, and then we have got the field contractor, who is  
23 completely disinterested in that type of process, and the  
24 City only moderately interested in it. Why, you have three  
25 parties involved that don't quite have all the ingredients

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1 to make this thing really work.

2 But I think by having the five-year plan, we  
3 probably can get some of our policy decisions clarified  
4 a little bit, and that's the main thing.

5 But actually, in changing over to programmatic  
6 change, on the expenditure concern, actually you have lost  
7 some of your control because they have jumbled up now and  
8 you really can't track in past expenditures unless you can  
9 go back almost to the budget items themselves, because  
10 they are allocated between budget items and also for  
11 programs.

12 ACTING CHAIRPERSON ORDWAY: I'd like to announce  
13 the arrival of Laura Schlichtmann for the Lieutenant  
14 Governor's Office. Welcome.

15 EXECUTIVE OFFICER DEDRICK: Are there are any  
16 other questions?

17 COMMISSIONER RASMUSSEN: I have no questions.

18 ACTING CHAIRPERSON ORDWAY: Any other information?

19 MR. THOMPSON: I think there has to be three  
20 words changed in the second part of the recommendation.  
21 We have got some extraneous words that were put in by the  
22 word processor.

23 EXECUTIVE OFFICER DEDRICK: Which recommendation,  
24 Moose, the second one?

25 MR. THOMPSON: Two.

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ASSISTANT EXECUTIVE OFFICER TROUT: On page nine of the Calendar Item Number 1, in the fourth line of the second recommendation, after "1984", the words "plan and budget" should be removed. Something was inserted and it --

EXECUTIVE OFFICER DEDRICK: Didn't get de-inserted.

ASSISTANT EXECUTIVE OFFICER TROUT: Yes. It is a repetition of what is at the end of the sentence.

MR. THOMPSON: That will just clean it up a little.

ACTING CHAIRPERSON ORDWAY: May I have a motion, please?

COMMISSIONER RASMUSSEN: I move approval.

ACTING CHAIRPERSON ORDWAY: Without objection.

Item two.

EXECUTIVE OFFICER DEDRICK: Item 2 is the approval of a report to the Governor and the Legislature pursuant to Section 30404 of the Public Resources Code. That section of the Code requires the Coastal Commission to review programs of, among other agencies, the State Lands Commission, and to make recommendations, if called for, on those programs.

It requires the State Lands Commission to either comply with those recommendations or to report to the Governor and the Legislature within six months.

On October 26 of last year, the Coastal Commission turned down the State's leasing program. We do not agree

1 that the program should be killed and this report details  
2 the reasons why.

3 In addition to that, since the Coastal Commission  
4 never made any formal findings, and since they have a legal  
5 requirement to make formal findings, but they have no time  
6 in which they must do them, and the six months for the  
7 State Lands Commission was running, so we did our best to  
8 glean from the comments of the Commissioners what their  
9 problems were with the proposed lease sale.

10 As you recall, they voted for the lease sale in  
11 August and, without a change of facts, voted against it  
12 in October. We did our best, then, to respond to those  
13 kinds of comments.

14 One of the primary reasons for going forward  
15 with the lease sale, of course, is the rapid pace of  
16 exploration and development on the federal lands immediately  
17 adjacent to the state lands that are proposed for lease.  
18 There is a substantial revenue impact.

19 And we also felt that we had met, through the  
20 negotiations primarily of the Lieutenant Governor last  
21 summer, the substantive concerns of all the parties  
22 connected to the Coastal Commission as well as the  
23 Commissioners themselves.

24 Therefore, it's timely to approve a report  
25 like this and get it to the Legislature.

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I think that several Commissioners had some corrections. I am afraid that in the process of living with this for the last three years, we can't see the forest for the trees, and we know the story, but we didn't get it across very well. So, if you have some comments, we would appreciate them.

COMMISSIONER RASMUSSEN: Yes, I have a few comments. I think the report is very very well done and very helpful, and most of my comments are more to clarify some points.

I would like to see added into the summary a discussion of the urgency, why we are doing that and what it means to the State, because I think it's very important that we are not only losing revenues on a daily basis, but we are losing the potential for revenues because of the federal drilling activities, as you just mentioned, Claire.

I'd like to see that incorporated into the report.

EXECUTIVE OFFICER DEDRICK: All right.

COMMISSIONER RASMUSSEN: And in connection with that, a map or something, showing that

EXECUTIVE OFFICER DEDRICK: Yes. We had intended to give you an exhibit which we have, which we can easily put together in time to add to this report for the

1 Legislature.

2 COMMISSIONER RASMUSSEN: Okay.

3 Also, along those lines, your comments that  
4 we needed to respond within six months, I think, should be  
5 brought out in your report.

6 EXECUTIVE OFFICER DEDRICK: Yes.

7 ACTING CHAIRPERSON ORDWAY: And you may even want  
8 to mention that the Coastal Commission has no clock  
9 running.

10 EXECUTIVE OFFICER DEDRICK: All right.

11 COMMISSIONER SCHLICHTMANN: Yes.

12 COMMISSIONER RASMUSSEN: In addition, I think  
13 it would be helpful, I think, because this is a very  
14 confusing series of events, at least from my point of view,  
15 following what has happened, that explanation of the process  
16 that was discussed and agreed to with the Coastal  
17 Commission, would be helpful, I think.

18 EXECUTIVE OFFICER DEDRICK: Yes.

19 COMMISSIONER RASMUSSEN: And one other question  
20 I had was -- actually, it's a clarification -- on page 13  
21 when you were discussing the permit, I think it would be  
22 helpful to explain why the permit was returned unsigned.

23 EXECUTIVE OFFICER DEDRICK: Yes. That was --

24 COMMISSIONER RASMUSSEN: It says that we approved  
25 it but --

1 EXECUTIVE OFFICER DEDRICK: That's where we  
2 really had forgotten that everybody in the world doesn't  
3 pay as close attention to this process as the staff does,  
4 but I am very sorry that we did not make that clear.

5 COMMISSIONER RASMUSSEN: But I thought it was  
6 a very good report, and one, I think, which is very helpful  
7 to understanding the whole situation. And I hope we can  
8 get some guidance and some clarification from the  
9 Legislature.

10 EXECUTIVE OFFICER DEDRICK: Thank you,  
11 Commissioner. We appreciate it.

12 ACTING CHAIRPERSON ORDWAY: Any other corrections  
13 or additions to the report?

14 I assume we will see this before you transmit  
15 it?

16 EXECUTIVE OFFICER DEDRICK: Yes.

17 What I would propose, Madam Chairman, is that  
18 we do the corrections, get copies of the completed report  
19 to you by Wednesday, and contact you by telephone to see  
20 if or make sure that you are happy with it before we submit  
21 it to the Legislature and the Governor on Thursday.

22 Okay?

23 ACTING CHAIRPERSON ORDWAY: Any other questions  
24 or comments?

25 I will accept a motion.

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1 COMMISSIONER RASMUSSEN: I will move approval  
2 with the amendments as suggested.

3 ACTING CHAIRPERSON ORDWAY: Without objection.

4 Any other business?

5 EXECUTIVE OFFICER DEDRICK: None.

6 ACTING CHAIRPERSON ORDWAY: The meeting is  
7 adjourned.

8 (Thereupon the April 23rd, 1984 Special  
9 Meeting of the State Lands Commission was  
10 adjourned at 10:15 a.m.)  
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CERTIFICATE OF SHORTHAND REPORTER

I, RONALD J. PETERS, a Certified Shorthand Reporter of the State of California, do hereby certify:

That I am a disinterested person herein; that the foregoing meeting of the State Lands Commission was reported in shorthand by me, Ronald J. Peters, a Certified Shorthand Reporter of the State of California, and thereafter transcribed into typewriting.

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

IN WITNESS WHEREOF, I have hereunto set my hand this 14<sup>th</sup> day of May, 1984.



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