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SPECIAL MEETING  
STATE LANDS COMMISSION  
STATE OF CALIFORNIA

STATE CAPITOL  
ROOM 447  
SACRAMENTO, CALIFORNIA

THURSDAY, NOVEMBER 21, 1985

10:40 A.M.

ORIGINAL

Reported by:

Cathleen Slocum, C.S.R.  
License No. 2822

1                                 MEMBERS PRESENT

2             Kenneth Cory, State Controller, Chairperson

3             Jesse R. Huff, Director of Finance  
4             Laura Schlichtmann, representing Leo T. McCarthy,  
              Lieutenant Governor

5                                 MEMBERS ABSENT

6             NONE

7                                 STAFF PRESENT

8  
9             Claire Dedrick, Executive Officer

10            Robert Hight, Chief Counsel

11            James Trout, Assistant Executive Officer

12            Frederick Ludlow, Staff Counsel

13            Lance Kiley

14            Moose Thompson

15            Jane Smith, Secretary

16  
17                                 ALSO PRESENT

18  
19            Dave Judson, Deputy Attorney General

I N D E X

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2  
3 CHAIRPERSON CORY: Reccnvene the special meeting of  
4 State Lands, and we have one item before us and that is the  
5 UNOCAL request for the parcel of land for the pipeline lease  
6 corridor and permit.

7 The staff has, as I understand it, been negotiating  
8 with UNOCAL and has come up to at least what you think is  
9 something that the Commission and staff can live with, and it  
10 may or may not be anything that UNOCAL can live with. Is  
11 that where we are?

12 MR. HIGHT: That is correct, Mr. Chairman. After  
13 the Commission staff and UNOCAL came to a loggerhead, staff  
14 independently attempted to draft language which hopefully all  
15 parties could agree to, and we have done that and it is that  
16 language that is before you today.

17 CHAIRPERSON CORY: That is in the Calendar Item A  
18 and it is commencing on Page 9.

19 MR. HIGHT: That is correct, Mr. Chairman. The  
20 recommendations are starting at Page 9.

21 CHAIRPERSON CORY: And ending on Page 14?

22 MR. HIGHT: Yes.

23 CHAIRPERSON CORY: Okay. Mr. Snyder, do you wish  
24 to -- have you had a chance to --

25 MR. SNYDER: I received this early this morning, Mr.

1 Chairman, for the first time which is the first language the  
2 staff has furnished us with during this entire period except  
3 for one brief paragraph prepared by Mr. LaMont, and that is  
4 the only language we have received from the staff during this  
5 period.

6 And I have looked at this and I must say that our  
7 month of hard work, and your people did work hard, I must be  
8 a complete failure as a communicator because this in no way,  
9 shape or form corresponds to the things that we said we would  
10 do.

11 CHAIRPERSON CORY: I don't think they wish to imply  
12 that you --

13 MR. SNYDER: In certain items they say we have  
14 agreed in principle, Mr. Chairman. Their language, we did  
15 allude to these matters, but the language which, as I say, is  
16 the first time I have seen the language, misses the mark by a  
17 wide margin.

18 There were things that we did discuss but the  
19 language which they said we have agreed in principle, and I  
20 do not join the issue with the fact that the subjects were  
21 discussed, and we said that we thought we could work  
22 something out. But this language is far beyond what we  
23 contemplated.

24 CHAIRPERSON CORY: Would it serve any useful purpose  
25 for you to go through and, starting on Page 9, and list those

1 things which you find that are nonobjectionable and those  
2 which are objectionable?

3 MR. SNYDER: I'm at your complete disposal.

4 CHAIRPERSON CORY: If you can live with the staff  
5 recommendation, I think you might --

6 MR. SNYDER: Your pagination may be different from  
7 my pagination.

8 MR. HIGHT: They're all the same, Mr. Snyder.

9 MR. SNYDER: Starting on Page 9?

10 MR. LUDLOW: Nine is where the findings are.

11 MR. SNYDER: I'm down to my notes now.

12 CHAIRPERSON CORY: If we have disagreements I think  
13 it might be helpful that we at least identify what those are.  
14 So my thought was if you could, starting with that and read,  
15 I guess, Roman Numeral I and just indicate to us whether you  
16 agree, disagree or don't know and we can sort of then  
17 categorize at least where we are.

18 MR. SNYDER: All right, I will. Roman Numeral I, I  
19 have no problem with.

20 The findings as Exhibit E in connection with the  
21 project and compliance with -- I assume that is all right.  
22 That is technical and isn't the things we were negotiating.

23 III is fine. IV, V, V is fine. VI is fine.

24 Coming down to VII, Item A as far as the pipeline  
25 from the platform to the processing facility we had never

1 argued about that being a common carrier facility.

2 Item B, there may be a little worry with the  
3 nomenclature. We did tell the state that the facility would  
4 be operated as a common facility available to all, the extent  
5 of capacity, and that we would cooperate with the state with  
6 providing access to the facility site if an additional one  
7 had to be built.

8 Now whether this language goes beyond that to the  
9 extent of a guarantee that we can furnish any kind of a  
10 facility site the state needs, I don't know. But in  
11 principle I would say that we have no problem, that we did  
12 agree to that type of cooperation.

13 CHAIRPERSON CORY: Bob, to you and the staff, is  
14 there a meeting of the minds of what Mr. Snyder said on that  
15 point?

16 MR. HIGHT: There is a meeting of the minds on that  
17 point.

18 MR. SNYDER: I furnished the language.

19 I will apologize because I haven't had time to  
20 massage the language and think of it.

21 CHAIRPERSON CORY: B appears to be okay and there is  
22 a meeting of the minds.

23 MR. HIGHT: Yes. Don't you think, Mr. Chairman,  
24 that it might be helpful to Mr. Snyder to understand that the  
25 way these findings are organized, the ones he's looking at

1 now are the principles that will be governing the pipeline  
2 corridor. So they may be somewhat different than what might  
3 appear specific language in your lease.

4 MR. SNYDER: I just wanted it to be no  
5 misunderstanding that our commitment was a best efforts  
6 commitment, not a guarantee.

7 CHAIRPERSON CORY: Okay. That's the way it's  
8 drafted as far as you know, Bob?

9 MR. HIGHT: Yes.

10 MR. SNYDER: Item C, I think everyone understands  
11 that that is where we have a problem. As I have explained --

12 CHAIRPERSON CORY: We need not get into what it is.

13 MR. SNYDER: I would like to.

14 CHAIRPERSON CORY: Can we come back to it?

15 MR. SNYDER: Yes, sir.

16 CHAIRPERSON CORY: Could we just go through so we  
17 can see what we have to deal with first? Because I think if  
18 we start on the substantive discussion, we might forget to  
19 get through the rest of it. That's what I'm worried about.

20 MR. SNYDER: All right, sir.

21 Item D, our people do not remember, and I was not a  
22 party to these discussions, that we agreed to move the  
23 pipeline. We agreed to work out the best possible  
24 cooperation for the development of the state lands for  
25 cooperation. I don't remember an absolute statement that it



1 would be removed or moved. Our technical people are ready to  
2 address that at any time again.

3 CHAIRPERSON CORY: There's a possible language  
4 problem in D in terms of what each is offering to the other?

5 MR. SNYDER: Yes. Item E we certainly made the  
6 statement that we would consider an impact payment of a  
7 modest amount not to exceed the cent a barrel. As I read  
8 this whole package, I find not only a cent a barrel but a  
9 cent a mcf. Well, gas doesn't have the same kind of an  
10 impact and that is a very disproportionate charge on gas when  
11 you consider it on any kind of an evaluation basis. It is a  
12 magnitude of the greed here that gets us more than the  
13 agreement in principle.

14 CHAIRPERSON CORY: Okay. So there's a question on  
15 E particularly as it relates to one cent per mcf?

16 MR. SNYDER: Yes. Now, I'll have to go through --  
17 Well, F I don't think I need to address because that is a  
18 re-statement of the above, and to the extent that I disagreed  
19 with the above, I disagree with F.

20 Coming to Page 12, I don't think we in any way  
21 quarrel with the specified rental. I guess that is  
22 calculated appropriately, at least I don't worry with the  
23 mathematics. If somebody would kick me if that was wrong,  
24 but I assume that is in line with the guidelines.

25 CHAIRPERSON CORY: Staff, can you so represent to us

1 that that's the way it is?

2 MR. LUDLOW: Definitely.

3 CHAIRPERSON CORY: That it is, according to one of  
4 the existing, valid proposed guidelines for calculation?

5 MR. HIGHT: Yes, it is, Mr. Chairman.

6 CHAIRPERSON CORY: I just put it in the record.

7 MR. SNYDER: B, we have no problem with the  
8 principle as stated. As I mentioned before, we have always  
9 said that the proposed pipeline would be a common carrier  
10 pipeline. I haven't had time to enjoy the language here in  
11 some of its aspects, but I don't see anything that really  
12 drives me up the wall in that one.

13 C is ridiculous, bordering on the ludicrous. We  
14 agreed to put in T's and we will do those things that are  
15 reasonably done by a common carrier pipeline in the same line  
16 of service, but this UNOCAL at UNOCAL's expense, shall  
17 provide pumps, tankage and other facilities, we will provide  
18 those things normally provided by a common carrier pipeline  
19 and we did agree, and I think I'm correct, the only thing we  
20 agreed to was T's at points selected by the state and those  
21 facilities that are normal and common to a common carrier,  
22 but not at its expense.

23 D I guess we pass again. Same with E.

24 F again is the question of the relocation of the  
25 pipeline. G, greed again bothers me, particularly on the

1 gas. We did mention the cent a barrel. That may be a little  
2 high. Now, there was one other.

3 EXECUTIVE OFFICER DEDRICK: I think you got a  
4 problem were E.

5 MR. SNYDER: What?

6 EXECUTIVE OFFICER DEDRICK: What did you say on E?

7 CHAIRPERSON CORY: It's a problem is what I have  
8 down.

9 MR. SNYDER: There was one, and you'll have to  
10 pardon me because I didn't have time to do my usual indexing.  
11 If I could go back to Page 5, Roman VII refers to an addition  
12 to the impact funds, the joining of what I will call one of  
13 the contingency containment groups. We're a member of this  
14 and are ready, and I do not want it to be a duplicate in  
15 addition to what we are already doing and required to do as a  
16 federal lessee.

17 We will agree to cooperate if the state proposes to  
18 have a separate one for state leases. But the first three  
19 lines don't bother me because this is part of the normal  
20 thing that we do is being in this. But when it comes down to  
21 being so specific referring to the commissions for the state  
22 leases, we are already doing such a thing and perhaps an  
23 accommodation could be worked out in language, but I do think  
24 it should be pointed out.

25 MR. LUDLOW: The purpose of reciting the material

1 in Item VII on Page 5 was, just to give a brief description  
2 of the calendar item, what we had been talking about is in  
3 terms of goals. The final product is in the findings. And  
4 it changed somewhat.

5 MR. SNYDER: I wanted to read that because the  
6 language is, if I'd had time to abstract the language and  
7 digest it and distill it to its essential essence, I wouldn't  
8 be bringing some of these things up perhaps and I will ask  
9 your indulgence for that.

10 EXECUTIVE OFFICER DEDRICK: I may be able to  
11 clarify that. As part of the mitigation package based on the  
12 lease proposal, there are oil spill containment costs  
13 involved in that mitigation package. So I think that VII is  
14 part of VI and would come out of that cent a barrel. Is that  
15 correct, Rick?

16 MR. LUDLOW: They're both basically related, yes.

17 EXECUTIVE OFFICER DEDRICK: It's not an additional  
18 charge. It would be part of the environmental mitigation  
19 package?

20 MR. HIGHT: Right. The cent a barrel wouldn't,  
21 there wouldn't be anything in addition to the cent a barrel.

22 MR. SNYDER: All right.

23 EXECUTIVE OFFICER DEDRICK: And it would be the  
24 co-op in that area.

25 MR. SNYDER: It might be duplicate of something

1 we're required to do under the federal lease and we would  
2 have to do it twice.

3 EXECUTIVE OFFICER DEDRICK: No. It would be the  
4 co-op proposal for that area of the lease area.

5 MR. SNYDER: All right.

6 CHAIRPERSON CORY: I don't think --Jess was  
7 commenting that it is not our intent to try to negotiate on  
8 the spur of the moment specific language at this juncture.  
9 If there is -- there appear to be some substantive issues --

10 MR. SNYDER: Yes, sir.

11 CHAIRPERSON CORY: --that do not relate to language  
12 and as long as we know what those substantive issues are, if  
13 there is any way that could in fact, those could be resolved  
14 or you have some ideas of, that you could state this is what  
15 you can live with, this is what you can't, I, for one, those  
16 areas where you have a problem -- I have a problem as a  
17 member of this Commission having the responsibility of  
18 maximizing our position on our oil reserves and the federal  
19 government making clear that there is only going to be one  
20 pipeline aboard across their property, I do not want a lease  
21 which we grant to be used to diminish the value of our  
22 assets.

23 I realize that puts some problems upon you. But  
24 given the unique nature of the industry here in California  
25 and the lack of common carrier pipelines to get our oil and

1 our lessee's oil out of the area, that appears to be the  
2 basic substantive issue that we have not yet resolved.

3 MR. SNYDER: Yes, sir.

4 CHAIRPERSON CORY: If we can shift that burden to  
5 you, then I'm willing to grant it as the staff recommended  
6 and figuring that a lot of the language could be lessened.  
7 If that's something that is unacceptable to you, I'm not sure  
8 what to do about it because to do otherwise would be granting  
9 in my opinion to UNOCAL a monopoly position using, one, the  
10 lease of the State Lands Commission which you have requested,  
11 and two, the position of the Air Force working in conjunction  
12 to create a monopolistic position for UNOCAL which would  
13 diminish the value of our assets and I cannot in good  
14 conscience do that.

15 MR. SNYDER: May I address myself to that?

16 CHAIRPERSON CORY: Please do.

17 MR. SNYDER: We're talking about a problem in my  
18 opinion that's de minimis. Union proposed without  
19 equivocation, one, that it would see that the state's royalty  
20 oil got to market. It didn't say that it would buy or it  
21 didn't say it would exchange it. It said it would get to  
22 market without equivocation.

23 We also said that if the economics justified it, and  
24 we're talking about a very small amount of money, Union would  
25 see that a common carrier pipeline was built from Lompoc to

1 intertie with the common carrier system. There was no  
2 equivocation except the small question of economics.

3 Now, if the state doesn't have much oil, it doesn't  
4 have much to worry about. If there's enough oil there, and  
5 it doesn't take much, we're literally talking about an amount  
6 of money that may be less than what Union will loose, Union  
7 and Associates will loose by missing this particular window  
8 for an intertie with a common carrier system.

9 We examined the language proposed by your Washington  
10 counsel, Mr. LaMont, and we communicated that that language  
11 was satisfactory to us. Additionally, we noticed that the  
12 state has raised the possibility, probability or whatever  
13 that the pipeline that exists is a common carrier line. We  
14 are willing to litigate that issue. If they feel that  
15 strongly, they have additional protection.

16 Now, the pipeline that we are talking about, the  
17 Union pipeline gets you to market and that's the only place  
18 it gets you to. There's a bottleneck in markets and you go  
19 into Union's refinery, and as I have explained to the staff,  
20 the line going from Union's Santa Maria refinery to San  
21 Francisco is an internal refinery line.

22 The Santa Maria refinery is not in effect a  
23 refinery. We did not treat it as a refinery under various  
24 government programs. It is a part and parcel of the San  
25 Francisco refinery. That line is in inter-refinery service

1 or it's an interior refinery line.

2 We do not solve the problem of the state by Union  
3 moving on up. We have gone a long way by stating that if  
4 there is oil there that makes it economical and we're willing  
5 to work to finetone the language or set Mr. LaMont's  
6 language. Mr. LaMont and his associates spent considerable  
7 time with me discussing what type of language, what type of  
8 conditions would trigger the obligation to see that the  
9 pipeline was there.

10 We are, as I have told the Executive Officer and the  
11 staff, we think we have walked the Biblical extra mile and  
12 even turned the other cheek in offering to --those are  
13 ecclesiastical terms.

14 MR. TROUT: Some state employees know about those  
15 things.

16 MR. SNYDER: And we're not unmindful of what the  
17 Chairman's statements are and what his concerns are and we  
18 think that short of giving the store away, we have come a  
19 long way. But we will not, and that is, there is no  
20 equivocation, unequivocally dedicate that pipeline to common  
21 carrier service for the state and its lessees and purchasers.  
22 That we will not do.

23 There is a form if someone thinks it should be and  
24 I'm sure the Chairman is fully aware that there has been a  
25 dormant show cause order before the body charged with that



1 sort of thing, the CPUC, for (some ten years now.

2 CHAIRPERSON CORY: The staff addressed some of the  
3 questions that's been raised, the question of one cent per  
4 barrel and the one cent per thousand mcf in terms of whether  
5 or not those are economic equivalents if you will.

6 EXECUTIVE OFFICER DEDRICK: Mr. Chairman, I think  
7 that on the one cent an mcf that that really is worth looking  
8 into again. The cent a barrel doesn't appear to be a  
9 problem.

10 CHAIRPERSON CORY: It seems to be on a high side for  
11 Mr. Snyder.

12 MR. SNYDER: We mentioned not more than a cent a  
13 barrel knowing full well that greed will drive people to that  
14 number. It is on the high side, but I'm not arguing about  
15 that.

16 CHAIRPERSON CORY: I did not want the record left,  
17 because what I heard you say did not say you had agreed to  
18 you thought that was the absolute upper limit that you  
19 thought it should be considered and I wanted the record kept  
20 tidy in that regard.

21 MR. SNYDER: Yes.

22 CHAIRPERSON CORY: But we are here to take action  
23 and I need a suggestion from the staff as to, because my own  
24 reaction is probably the cent per thousand mcf does seem  
25 disproportionately high to gas given just --

1 MR. SNYDER: Simple--

2 CHAIRPERSON CORY: -- economic value --

3 MR. SNYDER: And if it's an environmental impact  
4 your chances of having a problem for gas, it's very easy to  
5 clean up a gas spill.

6 EXECUTIVE OFFICER DEDRICK: I think Mr. Snyder's  
7 point is a sound one. I'd suggest that we draft some  
8 language that allows some flexibility there where staff  
9 should look at the differences in damage, environmental  
10 damage possibly done by gas as opposed to oil which clearly  
11 is much lower and come up with a number which we could bring  
12 back to you for your approval.

13 In regard to the one cent a barrel --

14 CHAIRPERSON CORY: I don't think we have that kind  
15 of time. I think we're going to take action today on  
16 something. It's either going to go up or down. And if it  
17 happens to go up, it seems to me we ought to have something  
18 in there that people can live with.

19 MR. HIGHT: Mr. Chairman, could we perhaps ask Mr.  
20 Snyder what he thinks is reasonable?

21 MR. SNYDER: --of gas which was very, very, like  
22 .002 or something.

23 MR. LUDLOW: We'd like to know what you would  
24 suggest, Mr. Snyder.

25 MR. SNYDER: Nothing on gas and the cent a barrel

1 for oil would be fine.

2 CHAIRPERSON CORY: Okay. Jess suggests that maybe  
3 we try to lay out some areas where I think something should  
4 be done with and then perhaps adjourn and over lunch the  
5 staff and people from UNOCAL can at least explore whether  
6 some of these minor differences can be dealt with and then  
7 we'll come back at like 2:00 and deal with the fundamental  
8 substantive issue as to what we're going to do.

9 COMMISSIONER HUFF: Mr. Chairman, I mean, I just  
10 don't think it's possible to sit here and ask a man to read  
11 something for the first time and negotiate it in the same  
12 breath and I don't know if we can negotiate this quite  
13 frankly. But if Union Oil and stair are willing to sit down  
14 at the same table, let's let them do it and let's let us --

15 CHAIRPERSON CORY: I would like to just go through a  
16 couple of things. I think the one cent is too high. I don't  
17 know what the number is, but I think staff ought to sit down  
18 and look at some of the past performances of ratios,  
19 equivalents and the environmental degradation probabilities.  
20 I don't know whether it's zero or whether it's a million or  
21 what it is, but someone ought to see where those are so we  
22 can try to minimize that difficulty.

23 EXECUTIVE OFFICER DEDRICK: We'll do that.

24 MR. HIGHT: For the record, Mr. Chairman, I think  
25 Mr. Snyder's offer was to go to five cents on oil and nothing

1 on gas. That's what I thought I heard you say and I wanted  
2 to make sure.

3 MR. SNYDER: I said one cent on oil and nothing on  
4 gas.

5 MR. HIGHT: I thought I heard five cents and I was  
6 about to cut a deal.

7 MR. SNYDER: I am a very poor communicator as  
8 evidenced by what you put out here.

9 CHAIRPERSON CORY: Okay. The other language that I  
10 would like people of UNOCAL to think about in terms of the  
11 economic consideration for those who are far more  
12 knowledgeable in the oil business than those of us who toil  
13 in the vineyards of good government, those of you who toil in  
14 the oil patch all the time are much better able to say, well,  
15 gee, that's a de minimis problem. If it's a de minimis  
16 problem, my reaction is fine, you can take it. But I  
17 understand what you're saying and what I'm suggesting is a  
18 possibility would be to provide that the economic burden of  
19 what we're trying to accomplish for our lessees and us  
20 together perhaps the first, if there is a cost to that --

21 MR. SNYDER: Mr. Chairman.

22 CHAIRPERSON CORY: Let me just finish what I say.  
23 That I would be willing to put at risk for that economic  
24 de minimis cost the entire amount of our rental proceeds on  
25 this. And if that doesn't cover it, then and only then does

1 Union bear any economic adversity from helping us out of our  
2 problem.

3 But that may not be acceptable to you. I just  
4 suggest that to you so you can think about it over lunch.

5 The other question that I think you raised that  
6 intrigued me was the question of how much of the burden when  
7 you made reference to on Page 12, Item C, the T's only as  
8 opposed to pumps and the tankage. I don't think I have any  
9 great quarrel with your position on that provided that there  
10 is the capacity at our expense to provide the other  
11 mechanisms without there being any blockage.

12 I mean that maybe we're going to have to rent some  
13 property from you to put the tanks up and you couldn't charge  
14 for the tanks in the rates. Those may be an area where that  
15 might be a reasonable thing to tighten that up and not put  
16 that --

17 MR. SNYDER: I think the staff may have just found  
18 this particular language in an old Kern County Land Company  
19 lease.

20 CHAIRPERSON CORY: So, I mean, that is an area where  
21 I think you struck a responsive cord at least with me that  
22 you don't want to be buying a pig in a poke.

23 COMMISSIONER HUFF: Grandest looking terminal on  
24 this side of --

25 CHAIRPERSON CORY: Yeah. All the things that Finance

1 wouldn't approve would be on that.

2 MR. HIGHT: We've been looking for a new office  
3 building and --

4 CHAIRPERSON CORY: If you addressed it that way, Mr.  
5 Snyder, this is an in-group joke, but I just wonder how Bob  
6 Hight was going to justify a boat for that that he's never  
7 been able to get approved.

8 The other question in terms of actual language, I'm  
9 just wondering if on Page 10, Roman Numeral VII, where it  
10 gets down on the actual language: "In order to protect and  
11 facilitate commerce, navigation and fisheries..." whether or  
12 not there should be further language inserted there which  
13 would reflect the public trust doctrine which I think that is  
14 lifted from.

15 MR. HIGHT: Yes, Mr. Chairman, I think that we can  
16 add additional language to clarify that point.

17 CHAIRPERSON CORY: You should just let Mr. Snyder  
18 know what that is, but the first part of that appears to be  
19 shorthand of the trust language.

20 MR. HIGHT: Yes.

21 CHAIRPERSON CORY: But if you could go over that and  
22 then the bottom line question comes down as to who's going to  
23 take this de minimis risk which we can deal with at 2:00.  
24 Okay.

25 MR. SNYDER: Let me make one statement on that right

1 now. We have never asked the state to take that risk. We  
2 were willing to protect the state as the state. But we are  
3 not willing to underwrite our competitors who will be the  
4 bidders on your lease. Now, when you put your lessees in  
5 there, I realize that this is an enhancement of your property  
6 by doing this, but you're also putting us at a disadvantage  
7 with our competitors and this we will not do.

8 CHAIRPERSON CORY: Mr. Snyder, let me put  
9 specifically to you why I have trouble realizing why we  
10 can't get to an agreement because I hear that language and it  
11 seems to me that our way out of that would be to decide that  
12 we are not going to do any bidding on a royalty bid, but  
13 we'll do it all on a net profits bid and then transfer title  
14 to the oil at the refinery and we remain owners of it and  
15 then you would be obligated under what you propose to  
16 transport all of the oil and --

17 MR. SNYDER: I agreed to take that risk with your  
18 staff. If you propose to try to sell leases like that, I  
19 propose that we would take that risk. I agreed to that. I  
20 told them I wouldn't put saving language in. If you wanted  
21 load to lease with royalty and if you want to convert it  
22 entirely to net profits, just try to sell it. But we will  
23 not underwrite our competitors.

24 You have already changed it and I realize exactly  
25 what you're saying, Mr. Chairman, and I agreed with the staff

1 that that was a possibility, that you were master of your own  
2 fate in that regard and we would take that risk.

3 CHAIRPERSON CORY: So as long as we have title to  
4 the oil, you'll take it all and get it to market for us?

5 MR. SNYDER: That's what I said. If it's the  
6 state's royalty oil, it's the --

7 CHAIRPERSON CORY: Not if it's royalty. If we've  
8 never given it as royalty --

9 MR. SNYDER: If it's the state's oil and it's  
10 purely the state's oil, if you're the operator out there.  
11 But if you sell it, exchange it or engage in any of these  
12 nefarious things that oil traders engage in, I will be onto  
13 you. And particularly if you have a three cut exchange, I  
14 will really get you.

15 CHAIRPERSON CORY: I can assure you that we will go  
16 on to the newer evolution, not the three cut. For those in  
17 the audience who don't understand that, that's an ongoing,  
18 what, 15-year discussion we've been having.

19 MR. SNYDER: At least.

20 CHAIRPERSON CORY: That's worth pursuing over lunch  
21 so that there's a clear understanding of what we can do. And  
22 I guess what concerns me is to at this point tie our hands as  
23 to how we must develop our property in terms of how we do not  
24 mislead or engage in some form of chicanery to get our oil to  
25 market to you. There may be a way around that at lunch.



1 MR. SNYDER: We also have the problem that we have a  
2 limited size pipeline to our refinery that meets our needs.  
3 Right now we're not even sure that the other people coming  
4 ashore are not going to get the pipeline built. But we do  
5 not want a lease, an agreement that will be more of a  
6 dedication than we now have of that facility as a  
7 nonproprietary facility.

8 CHAIRPERSON CORY: Please understand, if we can  
9 solve our fundamental economic interest problem, it need not  
10 be solved as far as this one vote is concerned by dedication  
11 and common carrier mechanism. If there is a way to solve our  
12 problem and if there's a pipeline bottleneck, if it is to  
13 Avila and the terminal there and we have to go by barge,  
14 those things are worth considering.

15 I think we probably at least had enough of an  
16 exchange it's worthwhile for people to have lunch and we'll  
17 be back here at 2:00. Is that okay?

18 MR. SNYDER: That's fine.

19 (Thereupon the lunch recess was taken.)  
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AFTERNOON SESSION

1  
2 CHAIRPERSON CORY: Call the meeting back to order  
3 from our noon recess and I wish to thank both Mr. Snyder and  
4 the people at UNOCAL and the staff for having worked. There  
5 have been I think some serious attempts on both sides to try  
6 to get around our differences and at this point there does  
7 not appear to be a solution that is clearly doable. What I  
8 propose at this point is there are a couple of possibilities  
9 that language lawyers have some concerns about.

10 We will at least at our side of the table with the  
11 representatives of UNOCAL continue to look at that and try to  
12 see if we can't resolve, Sam, your last counter offer to get  
13 that to where we could live with it or find what changes  
14 would have to be in there to make it and communicate that  
15 back with you regardless of what happens henceforth. We will  
16 notice meetings so that they are noticed and we can reconvene  
17 if that eventuality should come to pass realizing that  
18 everybody has to pursue their own self interest in other  
19 forums to protect what they think they need to do.

20 So there were some items which you raised on the  
21 proposed staff thing which is on the calendar item which I  
22 think need to be addressed, and if staff could step through  
23 those with those amendments before we take action on that  
24 item because I am sort of prepared to move and vote for with  
25 no prejudice. If we solve the other problem, we'll come back

1 and undo it the other way if we can eventually agree on  
2 something. But if not, we'll at least have accomplished this  
3 much today.

4 If we start on Page 10, is that --

5 EXECUTIVE OFFICER DEDRICK: I think --

6 CHAIRPERSON CORY: On Page 9 --

7 MR. HIGHT: No changes that I know of Mr. Chairman  
8 on Page 9.

9 CHAIRPERSON CORY: It seems to me that on Page 10,  
10 Item VII --

11 MR. HIGHT: The --

12 EXECUTIVE OFFICER DEDRICK: It's actually Item E  
13 under VII I think, isn't it?

14 MR. HIGHT: Item VII we have some language to  
15 insert.

16 CHAIRPERSON CORY: In order to protect and  
17 facilitate commerce, navigation and fisheries.

18 MR. HIGHT: "And exercising the Commission's powers  
19 as trustee for these purposes," would be inserted after the  
20 word "fisheries".

21 CHAIRPERSON CORY: Okay.

22 MR. HIGHT: On D.

23 MR. TROUT: On Item D on Page 11 then the standard  
24 lease of the Commission does not require that pipelines be  
25 moved and it's the conclusion of the engineers that a

1 platform could be constructed in the area without necessity  
2 to move the pipeline. So the last part, the last sentence of  
3 D would be removed.

4 CHAIRPERSON CORY: So that portion which is being  
5 removed of D on Page 11 is "such pipelines will be moved to  
6 preclude such interference," that is eliminated?

7 MR. TROUT: Yes, sir.

8 EXECUTIVE OFFICER DEDRICK: Yes. "If necessary,  
9 such pipelines will be moved to preclude such interference."

10 CHAIRPERSON CORY: If necessary.

11 MR. TROUT: Union proposes under E that the  
12 Environmental Mitigation Fund be funded, their share of it,  
13 be funded from a one cent per barrel of oil assessment and  
14 that there be no assessment on gas. The reason for that is  
15 that gas is more difficult to account for and rather than  
16 reduce the one cent and add something to gas, from our  
17 standpoint, staff's standpoint anyway, we think that would be  
18 okay. Then we would --

19 CHAIRPERSON CORY: So we're striking the one cent  
20 per thousand mcf of gas period.

21 MR. TROUT: And that same thing would occur later  
22 on.

23 EXECUTIVE OFFICER DEDRICK: The other reason for  
24 that, Mr. Chairman, is that in fact moving gas doesn't really  
25 have much of an environmental impact. So it's not nearly as

1 justified as the oil charge.

2 CHAIRPERSON CORY: Okay. Then there is a --

3 MR. HIGHT: Page 12 C.

4 MR. TROUT: Moose and the engineers and Don is here,  
5 but we've reached, they have reached an agreement with Union  
6 on the connections and the first line after "shall provide"  
7 strike "pumps" and insert "connections" and strike "tankage  
8 and other facilities". So it would read: "Shall provide  
9 connections necessary for access to these oil and gas  
10 pipelines". And there is agreement on the location of those  
11 access connections.

12 CHAIRPERSON CORY: Okay.

13 EXECUTIVE OFFICER DEDRICK: Is it acceptable to say  
14 connections and not to connections? Is that something that's  
15 happened since I was last involved?

16 MR. HIGHT: That's okay.

17 EXECUTIVE OFFICER DEDRICK: Okay.

18 MR. HIGHT: On G on Page 13, one cent per thousand  
19 mcf --

20 CHAIRPERSON CORY: And one cent.

21 MR. HIGHT: --comes out.

22 MR. TROUT: In F there the "If necessary, pipeline  
23 shall be moved" needs to come out, too, just above there.

24 EXECUTIVE OFFICER DEDRICK: And that is it.

25 CHAIRPERSON CORY: Without objection, those

1 amendments to the proposed staff calendar item will be  
2 adopted, and the record should clearly indicate that Union  
3 still has substantive problems with this proposal as it is  
4 before us. Is that a correct statement?

5 MR. SNYDER: That is a correct statement.

6 CHAIRPERSON CORY: I would accept a motion to adopt  
7 the staff's recommendation as amended.

8 COMMISSIONER SCHLICHTMANN: Second.

9 CHAIRPERSON CORY: Moved, I second such a motion.  
10 Is there any discussion of the motion?

11 COMMISSIONER HUFF: I really am disappointed that we  
12 don't have, because I don't think that adopting this really  
13 accomplishes a thing. So I'm going to be voting against it.  
14 I think that the incentive to negotiate is when this is  
15 unfinished business not when there is the appearance of  
16 business being finished even though it isn't.

17 CHAIRPERSON CORY: All those in favor, signify by  
18 saying aye. Aye.

19 Opposed.

20 COMMISSIONER HUFF: No.

21 CHAIRPERSON CORY: The motion is carried. And I  
22 understand Jess' comments and we will, at our side of the  
23 table I will continue to urge the staff and I will talk with  
24 some of the staff lawyers to see if we can't continue the  
25 dialogue realizing that there is an agenda somewhere else

1 that people tomorrow need to deal with.

2 Is there anything else to come before the Commission  
3 at this point?

4 EXECUTIVE OFFICER DEDRICK: No, sir.

5 MR. HIGHT: I would, just procedurally, Mr.  
6 Chairman, if you adjourned this meeting so we can still yet  
7 reconvene today in the event that we could --

8 CHAIRPERSON CORY: In case you and Sam come up with  
9 some solution. If you can find us around the building --

10 COMMISSIONER HUFF: I'll be easy to find.

11 CHAIRPERSON CORY: Okay. But you've got my home  
12 number if I'm not here and, if not, we'll have to have Jess  
13 out to, God forbid, ARCO arena this evening at the basketball  
14 game.

15 COMMISSIONER HUFF: I turned down tickets to that  
16 game.

17 CHAIRPERSON CORY: When a good team comes to town we  
18 ought to go look at them and see how the game is supposed to  
19 be played. I will be available. We'll talk about the Lakers  
20 later.

21 We stand in recess subject to the call of the Chair  
22 sometime before midnight which is not likely unless all  
23 parties have agreed to some solution that they all agree to.

24 Thank you. We stand in recess and we will adjourn  
25 at midnight tonight if we have not been reconvened.

(Thereupon the Hearing of the State Lands  
Commission was recessed at 4:10 p.m.)

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CERTIFICATE OF SHORTHAND REPORTER

I, Cathleen Slocum, 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 by me, Cathleen Slocum, and hereinafter 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 herein set my hand this 23 day of November, 1985.

*Cathleen Slocum*

Cathleen Slocum  
Certified Shorthand Reporter  
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