MEETING
STATE LANDS COMMISSION

Capitol Building
Room 6028
Sacramento, California

THURSDAY, JUNE 24, 1976
10:00 A.M.

C.S.R. License No. 3067
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MEMBERS PRESENT

Hon. Kenneth Cory, Controller, Chairman
Mr. Walter D. McGuire, representing Mervyn M. Dymally
Mr. Sid McCausland, representing Roy M. Bell

MEMBERS ABSENT

Hon. Mervyn M. Dymally, Lieutenant Governor
Hon. Roy M. Bell, Director of Finance

STAFF PRESENT

Mr. William F. Northrop, Executive Officer, State Lands Commission
Mr. James F. Trout, Manager, Long Beach Operations
Mr. Robert C. Hight, Staff Counsel, State Lands Commission
Mr. R. S. Golden, Assistant Executive Officer, State Lands Commission
Mr. D. J. Everitts, Manager, Energy and Mineral Resources Development
Mr. Denny Goldstein
Mr. William Hayter
Ms. Diane Jones, Secretary

ALSO PRESENT

Mr. Gregory Taylor, Deputy Attorney General

PETERS SHORTHAND REPORTING CORPORATION
26 NESS COURT
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601
CHAIRMAN CORY: Will the meeting come to order, please?

Are there any corrections or additions to the Minutes of the previous meeting by any members?

Without objection, we will confirm those as presented.

Mr. Northrop, your report.

EXECUTIVE OFFICER NORTHROP: Mr. Chairman. The Coastal Commission bill is being heard today in the Legislature.

When Proposition 20 was passed by the electorate in 1972, the people of California declared that the California coastal zone is a distinct and valuable natural resource belonging to all the people. The California Coastal Zone Conservation Act of 1972, Proposition 20's official title, also declared that it is the policy of the State to preserve, protect, and where possible, to restore the resources of the coastal zone.

CHAIRMAN CORY: Do you have some prognosis as to what's going to happen?

EXECUTIVE OFFICER NORTHROP: Legislatively, it is failed — the Bielenson bill failed in Senate Finance, I believe. And it's now been amended into a bill that's
been through the Senate and back to the Assembly, which
means it's probably going to have to go back for at least
concurrence, if it passes out of the Assembly. So, the
position of the bill is in doubt, to say the least.

CHAIRMAN CORY: I'm trying to move things along.
Is there anything we can do should that legislation fail
to try to carry out the wishes of the people in that regard
in the interim?

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, Counsel
tells me, staff tells me, that most of the area that is
within the high tide line of the three-mile limit is
currently within purview, and we probably have legislative
mandate to cover much of this area. But, previous
Commissions have not done it administratively.

CHAIRMAN CORY: Could the staff look into what
it would take in terms of our Regulations should that
legislation fail, in essence, carrying out the policies
and bring those policies to this Commission, that we could,
in essence, maybe implement that?

MR. McCausland: I would support that.

MR. McGuire: Sure.

EXECUTIVE OFFICER NORTHROP: Okay, fine,
Mr. Chairman. We will take the necessary steps to carry
that out.

The next item, Mr. Chairman, in my report is the
On June 8, 1976, staff submitted to members of the Commission a draft of a study which responds to the Commission's inquiries relative to the proposed or probable disposition of Alaskan oil and gas resources. Staff has focused on the major issues facing this Commission and other State decision makers on existing and anticipated projects resulting from the anticipated importation of such resources to the Lower 48. In addition, this report sets forth information and issues yet to be addressed. We believe this report is a comprehensive compilation of industry and government data and proposals. As such, the study, if accepted, would be useful to other planning and regulatory agencies within the State.

I've discussed this informally with the representatives of some of the Commissioners, and they have indicated the report seems to be acceptable.

CHAIRMAN CORY: Do you have any question about that?

MR. McCausland: I have one comment not directly relevant to that, Mr. Chairman.

But, the report points out, if anything, the lack of an overview of what the future energy requirements of California are and what the impacts of pending decisions will be on the future. I think it would be appropriate to
explore having an informal work session between this Commission and the Energy Commission relatively soon to discuss lead role responsibilities and who's going to fill the voids. Because, while there are a few biases in the report that don't have to be there, the overwhelming preponderance of evidence suggests we don't know where we're going or how we are getting there. And I think we should be talking about this.

CHAIRMAN CORY: Can you talk to someone on the Energy Commission and possibly get a work session together?

EXECUTIVE OFFICER NORTHROP: The staff will take the lead on that, Mr. Chairman.

CHAIRMAN CORY: Is there some way we can, in essence, accept and release this report subject to any revisions? It's a rather lengthy document, and there could be errors and misstatements just in the normal process of human frailty.

MR. McCausland: I so move, Mr. Chairman, that we publish it as a working draft?

MR. McGuire: Sure. I second that.

CHAIRMAN CORY: Any problems with that from the staff?

EXECUTIVE OFFICER NORTHROP: No, that's fine.

CHAIRMAN CORY: As long as everyone knows it's a draft and it's being made available, and if there are
revisions because of lack of information because they
misunderstood a question, they have the draft and they
can then come back and respond to, and maybe we can tidy
up some of what appears to be conflicting information.

EXECUTIVE OFFICER NORTHROP: Yes. Thank you
very kindly, we'll do that.

CHAIRMAN CORY: Without objection, such will be
the order.

EXECUTIVE OFFICER NORTHROP: As we discussed last
meeting, I appeared before the rule-making body of the
Federal Energy Administration in Los Angeles. I once again
reported the adverse effects on California production by
the continued shortsightedness of the Federal Energy
Administration in failing to understand that the continua-
tion of the heavy gravity penalty for California crude oil
will result in economic limitations that make recovery of
the maximum amount of oil impossible. At a hearing in
Washington, D.C. the City of Long Beach again presented
this same position which is congruent with our position.

That completes my report, Mr. Chairman.

CHAIRMAN CORY: Any comments from Commissioners?
Okay. Anything on the Consent Calendar that
anyone on the Commission wishes to have removed or discussed?

Anybody in the audience who wishes to address
themselves to the Consent Calendar Items which are C-1
revisions because of lack of information because they misunderstood a question, they have the draft and they can then come back and respond to, and maybe we can tidy up some of what appears to be conflicting information.

EXECUTIVE OFFICER NORTHROP: Yes. Thank you very kindly, we'll do that.

CHAIRMAN CORY: Without objection, such will be the order.

EXECUTIVE OFFICER NORTHROP: As we discussed last meeting, I appeared before the rule-making body of the Federal Energy Administration in Los Angeles. I once again reported the adverse effects on California production by the continued shortsightedness of the Federal Energy Administration in failing to understand that the continuation of the heavy gravity penalty for California crude oil will result in economic limitations that make recovery of the maximum amount of oil impossible. At a hearing in Washington, D.C. the City of Long Beach again presented this same position which is congruent with our position.

That completes my report, Mr. Chairman.

CHAIRMAN CORY: Any comments from Commissioners?

Okay. Anything on the Consent Calendar that anyone on the Commission wishes to have removed or discussed?

Anybody in the audience who wishes to address themselves to the Consent Calendar Items which are C-1
through C-12?

Without objection, then, we will approve the first 12 items of the Consent Calendar as presented.

Let the record show that Mr. McGuire has abstained from voting on Item C-3.

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, on Item C-3 --

CHAIRMAN CORY: That's fine.

EXECUTIVE OFFICER NORTHROP: Okay.

CHAIRMAN CORY: Item 13, construction and maintenance of a pipeline for a reclaimed water distribution system in Contra Costa County.

EXECUTIVE OFFICER NORTHROP: That's right. All other agency permits are in on this one, Mr. Chairman.

CHAIRMAN CORY: Anything from any members of the audience on Item 13 on the Agenda?

Without objection, it will be approved as presented.

Item 14.

EXECUTIVE OFFICER NORTHROP: It's an Industrial Lease for a parking lot, Mr. Chairman, a release on previously filled tideland.

CHAIRMAN CORY: Any questions from Commissioners? Anybody from the audience who wishes to address the Commission on Item 14?
Item 14 will be approved as presented.

Item 15, Southern Cal Edison.

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, two additional lines of rent were reflected in the additional line amount.

CHAIRMAN CORY: Okay. Any questions from Members? Any questions or comments from the audience? Without objection, 15 will be approved as presented.

Item 16. Dart Resorts wants to give something to Tahoe Donner Association.

EXECUTIVE OFFICER NORTHROP: That's correct.

CHAIRMAN CORY: What is it that they are giving?

EXECUTIVE OFFICER NORTHROP: Mr. Hight will discuss this.

MR. HIGHT: Mr. Chairman, this is an Assignment from Dart to the Homeowners Association of their boat ramp and docking facilities on Donner Lake.

CHAIRMAN CORY: And consideration remains constant?

MR. HIGHT: Yes.

CHAIRMAN CORY: Any questions?

Anybody in the audience?

It's nice to have something from Donner that's noncontroversial.

Item 16 approved as presented.
Item 17.

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, this is a Quitclaim Deed for a lease and a release to the Dorman, Garcia, Witttinen principals.

CHAIRMAN CORY: This is, in essence, just a new lease replacing the old lease, new additional members coming in?

EXECUTIVE OFFICER NORTHROP: Additional principals.

CHAIRMAN CORY: Any questions from Members? Anybody in the audience who wishes to speak to Item 17?

Without objection, 17 will be approved as presented.

Item 18, Agate Bay Properties.

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, this is an annual rental revision from some $600 to over $8,000 for rental for a Commercial Lease.

CHAIRMAN CORY: Anybody who wishes to address themselves on Item 18?

Any questions from Commissioners? Without objection, Item 18 will be approved as presented.

Item 19.

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, the counsel for Lloyd Korth has requested that this item be
withdrawn from the Agenda.

CHAIRMAN CORY: Did we see this one before?

EXECUTIVE OFFICER NORTHROP: The request was last month to withdraw it, again.

Perhaps Counsel would care to speak to this matter.

MR. HIGHT: Yes, Mr. Chairman. We have attempted to negotiate this lease revision with Mr. Korth, and he has advised us that he would have an appraisal so we could have something to discuss. At this point he does not have an appraisal that he would like to discuss with us.

CHAIRMAN CORY: Pardon me, sir, you are --

MR. ALLEN: Mr. Chairman, I am Bruce Allen, attorney for Mr. Korth.

We just hired an appraiser two weeks ago, and if you are familiar with how busy they are, I just don't think we can have an appraisal report back until at least the next meeting or possibly the next meeting after that.

CHAIRMAN CORY: You know, this has been hanging fire for quite awhile.

MR. ALLEN: Mr. Chairman, we didn't get notice of this until just before the last meeting. We received notice just nine days before the last meeting, both of our rent increase and of the hearing.

CHAIRMAN CORY: Staff, is that correct?
MR. ALLEN: May 13th.

MR. TROUT: I don't have the files with me. I don't know if that's true or not.

MR. ALLEN: I would ask that it go over to 30 days.

I might say that I am as anxious as you are. I represent some other Marina owners in that area who also have negotiations going on. We're having one appraiser do the appraisal of all these properties. It will save us costs and at the same time will expedite your whole program.

MR. HIGHT: Mr. Chairman, I believe that on April 27th, the lease provided that the Commission was to notify the applicant. And I'm sure that that notification was given at that time on or about the 27th of April.

MR. ALLEN: Let me say we got a notice saying that our rent had been raised. We had no notice of the hearing until the actual date -- the date of your notice to us was May 13, and I have that notice that we received.

EXECUTIVE OFFICER NORTHROP: That was normal notice of the normal Commission meeting.

MR. ALLEN: We had notice of the rent increase two days before it was to be effective.

CHAIRMAN CORY: The purpose of the appraisal that you are seeking is what, to argue whether or not our
MR. ALLEN: Well, the rental as based by your own Regulation is based on a capitalization of the values of the adjoining property. And we have -- you placed a value on the property of some 3,000 or more per acre higher than -- at least what the County Assessor just appraised it for.

CHAIRMAN CORY: And so, the purpose of us waiting on you is for you to argue with us?

MR. ALLEN: To argue with you -- to present our appraisal report for you to look at. Actually, we'd be arguing with the staff, is what we'd do, hopefully.

CHAIRMAN CORY: I hope that you do.

Given the question of notice, we will let it go over 30 days?

MR. MCGUIRE: Yes. I'd sure like to hear it next month.

MR. ALLEN: We will make every effort.

CHAIRMAN CORY: Can you put it on the top of the pile?

MR. ALLEN: Okay.

CHAIRMAN CORY: Thank you, sir.

Without objection, Item 19 will be put over to the next meeting.

Item 20, Squaw Creek Investment Company, Geothermal
Resources; 200 acres of school land in the Geyser area of Sonoma.

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, we have a presentation on this. Mr. Everitts, do you have the maps available?

This is approximately 200 acres that is surrounded by a much larger parcel.

MR. EVERITTS: This particular permit involves this area in red (indicating), and we have really a better map here.

The problem is that between here are two producing leases. The royalty from these leases is about $200,000 per month.

CHAIRMAN CORY: Is that periodically?

MR. EVERITTS: Periodically.

Roughly, $2.6 or 2.7 million dollars in escrow right now on royalties that will be given to one party or another. They've asked for a prospecting permit for these 200 acres.

CHAIRMAN CORY: Pardon me for interrupting, but Mr. Northrop, if you're going to have guys hang maps, why don't you get guys that are the same size?

(Laughter.)

MR. EVERITTS: If there is a question of whether or not this should be granted, the problem is whether this
is a known geothermal resource area or it is not a known geothermal resource area. If it was a known geothermal resource area we could bid on it. Just a mile and a half south Union paid $478 per acre for a Federal lease. Just southeast they paid $478 per acre for a Federal lease. So, if this were, in fact, a KGRA maybe it might be worth $500 per acre. So, maybe it's worth $100,000 in bonuses.

The problem is that the closest producing geothermal well is approximately two, three miles from it; there's been two unsuccessful geothermal wells drilled between this Prospecting Permit Application in a productive area.

Under current legislation, we cannot go to bid on it. We've been trying to get some stuff through the OPR. We've had complete lack of success. That would allow us to go to bid on it. We have a legislative proposal that would allow us to go to bid on this.

Yes. We think it's an excellent opportunity to prove up all of this State land.

EXECUTIVE OFFICER NORTHPROP: All of that cross-hatched area.

MR. EVERITTS: This cross-hatched area (indicating). This is the same problem we have down here.

CHAIRMAN CORY: Okay, but the two Signal Oil, Wildhorse and Union --
MR. EVERITTS: This has been drilled and abandoned. This has been drilled and suspended. It was an uncommercial well. I don't even know exactly -- 10,000 barrels per hour, something like that -- a very unsuccessful well. We absolutely have no scientific, engineering or geological reason to classify it as a KGRA. We will require that the well be drilled within one year. If, in fact, we make a discovery, we feel we will have the basic geological reasoning to declare the rest of the surrounding area KGRA, and we can go to bid. It's a good way to develop the land.

CHAIRMAN CORY: Without objection, then, we will approve Item 20 as presented.

Item 21.

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, this is an application of mineral extraction by Peter J. Gambetta for dredging of approximately 25,000 cubic yards.

CHAIRMAN CORY: $0.25 per cubic yard?

EXECUTIVE OFFICER NORTHROP: Yes, Mr. Chairman.

CHAIRMAN CORY: Anybody in the audience who wishes to address this item?

Questions of the Commissioners?

Without objection, Item 21 is approved as presented.

Item 22, Dolphin Cove Marina.
EXECUTIVE OFFICER NORTHROP: Item 22, this is a Dredging Permit to improve the Marina conditions and also allow them to have dredging material properly sold.

CHAIRMAN CORY: Anybody in the audience on 22? If not, Item 22 will be approved as presented.

Item 23, City of Morro Bay, Dredging Permit for Public Agency, public benefit. No fee. Any comments from anybody in the audience?

MR. MCGUIRE: I have one comment. In the briefing I understood that the last time we did this Morro Bay ended up selling the dredgings or using them in a commercial manner. Is there any way that we can assure that although they spoil it now that they don't, six months from now, turn around and sell it?

CHAIRMAN CORY: If you stockpile it first, you can steal it, is that what you are saying?

MR. HIGHT: Mr. Chairman, this is a small Application of only 500 yards. It is possible that we can attach a condition to this in the event they use it for commercial usage, they pay us a yardage figure.

CHAIRMAN CORY: Without objection, that will be the order with the amendment.

MR. HIGHT: Okay.

CHAIRMAN CORY: Item 24, Dames & Moore.

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, this
is a ratification of a verbal request made at the last
Commission meeting for coring to be done for the SOHIO
pipeline crossing the Colorado River.

CHAIRMAN CORY: Any questions by anybody in the
audience on this item?

Without objection, approved as presented.

Item 25, approval of Eighth Modification.

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, this
modification indicates that it will probably have an
additional -- in the area of $3 million revenue in the
short range. However, we will maintain the estimates given
to Mr. Bell and probably increase them slightly. However,
next year's estimates that we're preparing now are very
pessimistic if we don't give some relief in gravity
differential.

CHAIRMAN CORY: Any questions by Members?

MR. McGUIRE: No.

MR. McCausland: Do we know what the outlook is
for gravity differential?

EXECUTIVE OFFICER NORTHROP: Mr. McCausland, we
have been fighting this battle with FEA and its predecessor,
Cost of Living Council, for about four years. There seems
to be ample evidence that the price of heavy California
crude oil has been unofficially depressed and controlled
by the major oil companies for some time. We are now
discussing that problem with FEA, and that seems to be the crux of the problem.

They would like to make a decision in our favor, I think. But, then the current administration would be in a position of deciding that the oil companies had done something untold toward the State of California. That's an element, and it's compounding our problem. The answer to your question is simply no.

CHAIRMAN CORY: November, we'll know what the answer is going to be, and we'll get it sometime in January or February.

The project review on Long Beach subsidence, Item 26.

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, under Chapter 138, this is a proposed study that we must do, and this is the final approval.

CHAIRMAN CORY: Two hundred eighty thousand dollars for subsidence. Any questions by Members?

MR. McCausland: No.

CHAIRMAN CORY: Approved as presented.

Item 27, 45,000.

EXECUTIVE OFFICER NORTHROP: This is to do some remedial work on subsidence as outlined also in Chapter 138. Staff is taking critical looks at this particular subsidence item as justified. However, we are still working on many
things, subsidence items with Long Beach. There is some
disagreement, but on this Calendar Item we have agreement.

CHAIRMAN CORY: Any questions by Members?

Without objection, 27 will be approved as
presented.

Item 28, contract with Haskell for removal at
Ellwood.

EXECUTIVE OFFICER NORTHROP: Yes. This is a
mandate from the Legislature last year to proceed in an
orderly fashion in clearing some of the -- prior to
probably 1920 oil abandonments that had been abandoned,
that we are now trying to get these pipes and stuff out
of the surf and off the beach as the sand erodes away and
exposes our position.

CHAIRMAN CORY: Any questions by Members?

Anybody from the audience who wishes to speak
on Item 28?

Without objection, Item 28 will be approved as
presented.

Item 29, Conflict of Interest Code.

EXECUTIVE OFFICER NORTHROP: Mr. Hight.

MR. HIGHT: Mr. Chairman, this is the adoption
by the Commission of the Conflict of Interest Code required
by the Fair Political Practices Commission. After your
adoption, it will be reviewed by them.
CHAIRMAN CORY: Do we have the Code itself?

MR. HIGHT: The Code is not reproduced yet. But, we have a copy, here.

CHAIRMAN CORY: Have you gone over that with the staff, the Fair Political Practices Commission's findings and decisions -- or lack thereof -- on the previous --

MR. HIGHT: Our Code will be reviewed by them starting sometime around July 10th.

CHAIRMAN CORY: No. They have made some decisions with respect to -- or in the process of making decisions -- on their guinea pigs, Equalization --

MR. HAYTER: Franchise Tax Board.

CHAIRMAN CORY: Franchise Tax Board --

MR. HAYTER: And the Attorney General's Office.

CHAIRMAN CORY: And the Attorney General's Office.

MR. HAYTER: Mr. Chairman, my name is William Hayter, staff member of the Division.

We have been working informally with the Fair Political Practices Commission and have, in fact, submitted a review copy of our Code to them on April 15th. And we are keeping abreast with each of these decisions that they are making on the quote "guinea pigs" or the first of the Conflict of Interest Codes to be submitted to them, and we are incorporating any changes that they so direct that would benefit our Code.
CHAIRMAN CORY: In terms of the level of staff that is covered, it seems to me, as I recall the argument that Franchise Tax Board and Board of Equalization staff was arguing about and the Commission's staff was arguing or suggesting another one, where is our Code vis-a-vis that concept, because I don't see approving something that doesn't go as deep as we are going to have to go.

MR. HAYTER: That's correct. I spoke to the Commission this week, and understood from their Commission Chairman that they do not intend to revise the currently existing standards as to quote "a designated employee" until probably next year after all of the initial Codes have been submitted. They feel that the Guidelines they presently have, although they had contemplated going back and reconsidering them at their July meeting, they have now made the decision not. They want to maintain the present standards that they have.

CHAIRMAN CORY: Have we conformed to those standards?

MR. HAYTER: Yes, we have, and they are a part of our Codes.

MR. HIGHT: Mr. Chairman, our Code goes down very far in the organization, excluding only clerks and lower secretaries.

CHAIRMAN CORY: Okay. And that is in the Land
Division?

MR. HIGHT: That is in the entire operation.
CHAIRMAN CORY: Entire operation.
MR. MCGUIRE: What we are approving is the present state. The changes will have to be --
EXECUTIVE OFFICER NORTHROP: We'll have to be coming back to the drawing board.

CHAIRMAN CORY: Does staff have any comments they wish to make before us before we proceed?

Were they afforded the opportunity?

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, we've had the --

MR. HAYTER: We've had public hearings -- first of all, we had informal sessions with our employees both in the Long Beach Office and here in Sacramento. We had three sessions in each of the two offices. Then, in compliance with the Administrative Procedures Act we had public hearings both in Sacramento and in Long Beach.

CHAIRMAN CORY: Employees were given time to attend those?

MR. HAYTER: That's correct.
CHAIRMAN CORY: And were they notified of this meeting and given time if they wanted to come over here?
MR. HAYTER: We complied with the 30-day notice requirement.
CHAIRMAN CORY: Are there any employees who wish to address themselves to the Commission? Are there any unresolved arguments with the employees?

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, apparently one or two of the employee organizations are going to make a united effort in this program, and some of our employees, particularly in the Long Beach Office, are participating in that effort and probably will join with the employee organization in the overall report on that, but not individually, agencies or Commissions.

CHAIRMAN CORY: Okay. I just -- again, I want to reiterate, if there are any employees -- that we're sure that we notified them that this meeting was going to be here, because I don't want them to have missed an opportunity, if there is something unjust or unfair here, that we're willing and we want to hear from them. I'm somewhat apprehensive, if they think they can make the appeal somewhere down the line where somebody is going to give them a Catch 22, that they've missed this stop and they can't get on the train.

MR. McCausland: Mr. Chairman, I have one additional concern, and that comes in some part from despite some lack of total knowledge about the Political Reform Act of 1974.
What happens to the employee who is, essentially, an annuitant of an industry retirement fund with stock participation rights and other things, who, after working in the private sector came to State service? I assume that the Act requires him to disclose his interests, but is he going to be required to divest himself to remain an active employee of the Division?

MR. HAYTER: Mr. McCausland, the Fair Political Practices Commission, they have determined that an employee has a prior vested interest in a pension fund from the private sector, and he subsequently joins State or other governmental employment, that is not to be considered a disclosable interest. It's an interest that -- he's going to receive it whether or not he performs his official function. He's already entitled to that interest, and they feel there is not a potential conflict there.

The previous employer is going to be required to make that payment regardless of his performance in his official function here.

CHAIRMAN CORY: They are giving him service credit for the time he is working here.

(Laughter.)

MR. McCausLAND: With that amendment, I'll move it out.

CHAIRMAN CORY: We have a motion.
MR. McGUIRE: So moved.

CHAIRMAN CORY: Without objection, such will be the order. Thank you.

Item 30.

EXECUTIVE OFFICER NORTHRUP: Item 30, in consultation with staff of other boards and commissions, and realizing again, I think, it may go back to Mr. McCausland's comments on our report, the fact that movement of energy state-wide is a state-wide interest and should be -- the decision making on that area should remain with a State agency on the final decisions. And this particular Calendar Item relates to the City of Oxnard in a liquefied gas facility that well may be mandated there by the Federal Power Commission. However, we feel that all negotiations on that should be done at the State level and state-wide rather than done at the local area.

This was manifest also in the proposal that came before the Commission several months ago in the SOHIO project for crude oil in that we pointed out to the Commission that the Commission advised us that it, at least, if we didn't become a lead agency that we would attempt to influence the lead agency, which we did, and the Public Utility Commission is not co-lead agency of Long Beach.

And this is again in the natural gas area, and we're asking the Commission to find that when a lease is
on sovereign land, that the Lessee deal directly with the
State of California.

CHAIRMAN CORY: Staff is asking for a finding
of fact that it is of state-wide interest, which would
cause all negotiators to deal directly with the State
agencies as opposed to any local agencies?

EXECUTIVE OFFICER NORTHROP: That's correct.

CHAIRMAN CORY: We have a request from Mr. Elmore,
if he wishes to address himself.

Mr. Elmore is Assistant Manager of the Oxnard
Harbor District, is that correct?

MR. ELMORE: Yes.

My name is John Elmore, and I'm here this morning
representing Oxnard Harbor District.

We appreciate your previous postponement of this
matter that is contained in your Agenda Item 30 this
morning, and we're happy to be represented here today.

The Oxnard Harbor District is a special district
in that it is administered and governed by a Board of five
Harbor Commissioners who are elected at large from through-
out the District. They represent about one-half of the
Ventura County area.

We do not, frankly, quite understand what Agenda
Item 30 is saying or what it is trying to do, but we did
feel it would be well to come here. And I have a very short
position paper which I would want to present to you.

CHAIRMAN CORY: Fine.

MR. ELMORE: And this is presented on behalf of our Board of Harbor Commissioners.

The Oxnard Harbor District, first, is convinced that there is a need to provide adequate facilities in California for the importation of liquefied natural gas. You had a number of agencies who testified both local and State at the FEA hearings last month who said the same thing, essentially, that we need the LNG to keep the environment clean, and that President Ford's proposed limitations on the importation of LNG should not be imposed.

So, we feel that this importation will require the construction of at least one LNG terminal in the Southern California area and possibly more than one. The Oxnard Harbor District has not taken a position at this time with regard to the issues of environmental health and safety ramifications in the construction of a LNG plant at the Ormond Beach area, or any other location for that matter, since very comprehensive and adequate Regulations exist for the consideration of such matters and the environmental analysis is not yet completed.

Much time and money has been spent to provide detailed analysis of these latter issues for consideration by diversity of State, local and Federal agencies who are
intimately involved in such matters as their assigned missions and functions so dictate.

In accordance with the District's conviction of a need for LNG importation facilities, the Board of Harbor Commissioners commenced working with the Southern California Gas Company as early as 1971, and we worked subsequently with them. We signed a Letter of Intent with the Western LNG Terminal Company to finance and construct the terminal, and related onshore facilities up to and interfacing with the LNG gasification plant itself. In other words, this is in consistency with the Harbor's response. The ocean terminal and trestle and the storage for the cargo --

CHAIRMAN CORY: You've signed a Letter of Intent to provide those facilities?

MR. ELMORE: Yes, contingent upon the hearing of the environmental issues and the granting of necessary permits, et cetera, you know, it's a conditional.

CHAIRMAN CORY: Well, okay. I'm glad the conditional is out, but doesn't -- it seems to be --

MR. ELMORE: No. We are quite aware of what you are concerned with. It is quite conditional, and I'm going into that in just a second.

CHAIRMAN CORY: Okay. I'm sorry.

MR. ELMORE: Such construction would, of course, be dependent upon the attainment of necessary permits and
approvals and would be undertaken only after detailed studies now being completed to prove that the environmental project would be environmentally sound. The construction of a LNG plant at Ormond Beach would certainly entail the commitment of public resources and would, accordingly, be an impact upon the State of California, the County of Ventura and the local community adjacent to Ormond Beach. The District accordingly feels that any such terminal should be operated as a public terminal.

The Oxnard Harbor District was formed by an Act of the State Legislature in 1937 for the purpose of developing the harbor at the Port of Hueneme and the subsequent improvement and operation of that harbor. The District is empowered by its authorizing statute to acquire, construct, own, operate, control or develop any and all harbor works or facilities within the limits of its established boundaries.

The District initially envisioned the utilization of the existing Port of Hueneme as a LNG terminal, but subsequently we participated in studies which led to the selection of the Ormond Beach area which is located approximately two miles from the entrance to the existing basin. And this was determined to be the best possible site for the terminal, again, on this tentative basis that I did explain.
In November, 1973, we, in fact, requested approval of you gentlemen for the -- approval of the annexed boundary description, which was subsequently approved by you in February.

We have conducted members of this staff on a tour of the proposed site, and we've been working with them. But we'll not, of course, submit any formal application until all environmental matters have been thoroughly considered and favorably acted upon by the responsible agencies.

Based upon all these facts and considerations, the Oxnard Harbor District believes that any offshore terminal should be developed, constructed and operated as a public port. We further believe that the existing port authorities are best equipped to provide the facilities and the expertise in connection with their normal mission to operate these facilities. The lease of State lands directly to a private corporation for the operation of an ocean terminal does not appear to be in the public's best interest in this case, and we would accordingly oppose any such action.

I would like to make a statement. Again, I don't really know exactly the intent of this Agenda Item, but I would like to say that it was never our intent to profit from the lease of the State leased lands, of course. Our
only intent is to construct the terminal at the price of
some $30 million and the related storage facility, that's
probably another $60 million, and to pass on whatever the
price or rental rate to the leased lands dollar for dollar
to the company -- to the utility customers we're talking
about.

CHAIRMAN CORY: Mr. Elmore, I think the question
here is one whether it be a public or private facility,
not anything we are addressing ourselves to, but a question
of -- there is a staff recommendation and I'm inclined to
agree unless there is some evidence to the contrary, that
there is some overriding interest here that is of state-wide
significance, and that whether it be placed at Oxnard or
Newport Beach or Atascadero or some place else, impacts
upon the energy needs of the entire State. And that by
having this finding of fact, I would think that it puts
it into an arena rather than having whoever is dealing with
us having to go through and deal with all of these, then
they would have to come to the State level and deal with
us, we would try and cut it down. And if Oxnard is the
best place to have this facility, we would assume that your
District would be involved and you would be involved in
the process.

Greg, do you have some comment?

MR. TAYLOR: In addition to the one you mentioned
concerning the overall concern of siting throughout the
State is the fact that the property in which the District
is negotiating with the company on is not District
property. It's property under the jurisdiction of the
Lands Commission.

CHAIRMAN CORY: Oh.

MR. TAYLOR: And the Lands Commission has never
been involved in any negotiations directly with the company.
Under our Regulations, which we operate, the normal leasing
procedure that would be followed would be for the company
to come to the State Lands Commission and work directly
with the State Lands Commission in working out a lease.

What has happened is that the District is assuming
that it will successfully obtain a lease from the State
Lands Commission and it will sublet this lease to the
company, private company. And I believe it's the staff's
intent to present to the Commission in the purpose of
the resolution, to put both the District and the company
on notice that there is a lease that's going to be required,
and the staff's recommendation to the Commission that that
lease be directly with the State Lands Commission and the
operator. The port District property does not extend in
this area, and I believe that's the message that was trying
to be conveyed to the Commission and to the District and
to the Pacific Lighting Subsidy Company. And we have not
been involved in negotiations, and that normally, for any
other offsite area, it is customary for the private party
to come in and negotiate a lease with us.

MR. ELMORE: May I speak to that, please?

CHAIRMAN CORY: Yes.

MR. ELMORE: Of course, we have discussed this
with your staff, and I would like to point out that this
is a typical harbor situation in that, as I say, we're
going to build the facilities and pay for them. They're
going to be our facilities, we're going to own them. And
I'd like to make that clear.

CHAIRMAN CORY: What about the question, Mr. Taylor
says you are talking about leasing some facilities that
you don't own.

MR. ELMORE: This is what we discussed --

CHAIRMAN CORY: I think what they're saying to
you -- and I'm coming in here in the middle of the movie --
what they're trying to tell you is that maybe you haven't
been listening when you've been talking to the staff, that
they're saying, "Hey, this is a piece of property owned
by State Lands, and if that's going to be rented, State
Lands is going to rent it."

MR. ELMORE: I'm sure that's true. We've never
thought any other way.

CHAIRMAN CORY: So, your ability to build
something, if we don't want to participate, it isn't going
to fly.

MR. ELMORE: But, sir, what is the relevancy if
you don't want to participate it is not going to fly, of
course, in either direction, regardless of who you deal
with. And I'm having trouble understanding also the
relevancy of the state-wide significance and the environ-
mental problems related to whether you deal with the Harbor
District, the public agency or whether you deal with the
Western LNG Terminal Company.

And incidentally, the trestle itself would be
a preferential berth assignment and not a lease. We would
own it, in other words, and it would be a preferential
berth assignment to the gas company, as to others also,
you know, if the need does occur, if the need arises.

CHAIRMAN CORY: Greg?

MR. TAYLOR: Normally, a preferential berth
assignment is made of land which a port has within its
jurisdiction. The State has not transferred any sovereign
jurisdiction to this port.

And I think what the staff is saying is that
it does not want the port to be the middleman in the
negotiations with the LNG Company, that we want to make
our own deal with the LNG Company for the leasing of
State lands. This trestle, at least a good portion of the
trestle, and the actual terminal facility offshore will be located on lands under the jurisdiction of the State Lands Commission. The State Lands Commission has customarily made these leases.

Your last item on the Calendar today is for an identical situation in the Carquinez Straits. There are other leases in Carquinez Straits. The Pacific Lighting Company has made applications to Lands Commission and the Lands Commission has granted them permits for exploratory studies for an alternate site if the Ormond Beach one is not recommended as a result of the present studies at Point Conception. The Pacific Lighting Company is dealing with us directly for that site.

You have a similar situation in Santa Monica, the Redondo Beach facilities of Standard Oil of Southern California. We have four offshore terminal facilities in that location. There are a number of others.

What I'm trying to say is we customarily make these kinds of leases in these areas. What the port District is trying to do through a lease is to get this within its jurisdiction and for it to make a separate total package situation with the LNG Company. And the staff is saying that isn't the way we normally go on this kind of situation.

CHAIRMAN CORY: Why should we go your way, sir?

MR. ELMORE: Here's the thing. We feel that it
should be a public terminal. We feel that it is a port facility, and, unfortunately, we don't have the State tideland grants or the leases that existed in other ports where they do in such an arrangement. We would ask your cooperation in allowing us to proceed in this manner. We don't want to be foreclosed by a policy decision by you gentlemen at this time.

As I say, we have spent a lot of time and effort on this thing, over four years. And again, we've had this previous discussion with your staff, and I'm very disappointed that frankly such an item came up.

MR. McGUIRE: This does not foreclose it. Am I wrong in saying that this is really an expression of intent, this is of state-wide importance that negotiations should involve the State since we own --

MR. TAYLOR: Well, it also says we want the Lighting Company to talk to us directly about the areas that would be under State lease.

MR. McGUIRE: So, I don't think it forecloses you. I think it is putting everybody on notice of who the interested parties are.

MR. TAYLOR: In terms of the State Lands program this would be a very significant lease, in terms of revenue.

EXECUTIVE OFFICER NORTHROP: Also, the development
of LNG --

CHAIRMAN CORY: I'm a ways back from where maybe Mr. Taylor and Mr. Northrop are.

I'm not so sure -- maybe I'm convinced -- I'm yet to be convinced that LNG is anything I want to approve. And I just want everybody to clearly understand that out front, that there is a case that this has not yet been proven that we even ought to be fiddling around with liquefied natural gas anywhere. And until that issue is resolved, I'm not prepared to allow anybody on my behalf as my agent, which might imply that I'm going to approve such a lease, and I don't know what the other Commissioners think about it, but I don't want to get blind-sided on the late '70's and '80's, you know, another Santa Barbara Channel fiasco.

I want to know what's there and that's where I'm coming from. Maybe I'm for it and maybe there will be revenues. But, somebody's got to talk to me about whether it should exist at all and whether it should be Oxnard or Newport Beach.

MR. ELMORE: I think we certainly share that same feeling. As I say, we've -- you must understand that we have proceeded up to a point, and we must proceed and study and report.

CHAIRMAN CORY: And what we're saying, I believe,
by this action is that we're a principal in this, that we are the landowner, and therefore, we are going to act as a landowner, and we're not authorizing you to be our agent.

MR. McCausland: If I may, Mr. Chairman?

From your perspective, you're one of many strong autonomous port districts in the State of California. Over the years I've worked with several of them and appreciate the spirit under which they operate. But, there are many of them. In addition, there are many energy companies in this country, in California. Pacific Lighting is a particular interest in this situation, because we are going to be discussing whether or not we really want to abandon the El Paso natural gas line. Because, if we do abandon that line, it is clear that you have made the commitment to LNG.

You don't have to talk to Pacific Lighting about the El Paso natural gas line, we don't have any jurisdiction over the El Paso natural gas line per se, but we clearly have an interest in discussing that line with Pacific Lighting in the context of the LNG proposal at Oxnard. And as a Commission we would not be doing our duty to the people of California if we foreclosed those options by saying you are our broker.

MR. Elmore: I understand that. And again, I
don't honestly understand your intent, but I certainly understand your concerns, and we share them. And we're looking at them like a number of other people. But, I'm really asking that you not foreclose our building and owning a port facility in that location with the related onshore storage tanks.

MR. MCGUIRE: We're not doing that.

CHAIRMAN CORY: I don't think it's been foreclosed. It may be that in the process the question will have to be dealt with whether you should be the tenant and sublease or whether or not the principal should be the tenant and --

MR. ELMORE: I guess what I'm really asking you is who do you feel the tenant is in this case?

CHAIRMAN CORY: We don't know, we don't know.

MR. ELMORE: Okay.

CHAIRMAN CORY: We don't even know if we want a tenant. So, we don't want to get started down that road until we answer that question.

MR. MCGUIRE: Do you disagree that this is of something of state-wide --

MR. ELMORE: Oh gosh, no.

MR. MCGUIRE: Then, I think we are in agreement about this.

MR. ELMORE: Let me say something. We had a meeting with the State Energy Commission yesterday in
Los Angeles. We had meetings with the FEA and Bill Press' Planning and Research Office. I mean, there are a number of State agencies that, as you know, are involved in this. And Assemblyman Goggin says there are four hearings scheduled next month.

And our Board is a public board. They have an obligation to all the people within the District, and they're not about to proceed on this thing until it has been well researched and we're convinced it's the thing to do.

I again -- I hope you understand, all I'm asking is -- I just want to point out we have spent -- taken that amount of effort over a period of time that we would hate to see the idea of a public terminal foreclosed, and we really don't understand the intent.

MR. TAYLOR: Mr. Chairman, I think maybe we ought to clarify what is before the Commission.

The first item, as I said, is the overall planning the Commission has expressed that on numerous occasions, and mentioned this one -- and this is reaffirmation of your interest in this area -- this item is not intended as a commitment or approval of that irrevocable decision that we will lease. It says that we will be involved in the process. But, I think it is to put the LNG Company on notice that this is land under the jurisdiction of the
State Lands Commission, and that the assumption made by the port District to date and the company's ignoring the State Lands Commission's interest may not be one which is correct if it is ultimately decided it was a point to put the facility. And at that point, it will be necessary to work out an arrangement which will be satisfactory to the Commission and to the staff of the Commission with regard to what the arrangement will be.

But, that arrangement traditionally has not been what the port authority has assumed would be the case for this facility and the port.

I think the point of this Calendar Item is to put the port on notice that the State Lands Commission has never entered an arrangement in the past but has felt it has the staff confidence to handle that kind of arrangement separate and apart from the port facility. It may be that a joint venture or some other lease, sublease, with adequate financial participation by the State if all of the other conditions and reservations that you've expressed have been satisfied, would be the ultimate way of going about this.

EXECUTIVE OFFICER NORTHRUP: In concert with the state-wide --

MR. McCUSAULD: I move adoption of a statement of Commission intent.

MR. MCGUIRE: I second.
MR. TYLER: Mr. Chairman, may I ask a question before you so move?

CHAIRMAN CORY: Yes, sir. Would you come up and identify yourself?

MR. TYLER: My name is Winston Tyler, Deputy City Attorney, City of Los Angeles, Harbor Department.

We have no position with respect to this Agenda Item. However, there was a little ambiguity in our mind as to whether the second portion of the recommendation was intended to apply to granted tidelands as distinguished from lands that remain under direct control of the Commission.

MR. TAYLOR: I beg your pardon?

CHAIRMAN CORY: The question was whether or not it includes granted tidelands.

MR. TAYLOR: The State Lands Commission certainly has authority to oversee and report on the activities of all its grantees if reports have been mandated from time to time by the Legislature. And there is a section of the Lands Commission that monitors and calls to the Legislature's attention concerns they have about port operations or grantee operations. Certainly, it's appropriate under the general authority of the Lands Commission. It's an appropriate area for concern.

The administration of the trust is vested in the
grantee, and within the scope of their trust they do have power to act. But, all retained power, all the beneficial interest in the trust is held by the Lands Commission. And they certainly do, at least, have the authority to monitor and report, and in appropriate instances if we thought the grantee had crossed the line, to take appropriate action in violation of terms of their grant --

CHAIRMAN CORY: So, the answer to him is that as long as you remain within the terms of your grant and consistent with the trust that you hold that you can proceed. But, you should clearly be apprised that we -- it should come as no surprise to you -- we have the option, if we think you are violating the terms of the grant, the conditions of the trust, to intercede.

MR. TAYLOR: In addition to that, Mr. Chairman, you have the ability to make reports and to monitor the activities of the grantee even if they are within the terms of their grant and to make recommendations to the Legislature with regard to that, and the Legislature has requested that from time to time. So, you have an additional duty over and above what you expressed, Mr. Chairman.

MR. TYLER: No question about that aspect.

The question was the resolution is, as I understand it, directs the interested parties to deal directly with the Lands Commission on leasing of LNG sites or any site,
none specific. And the question really is, does that
direction apply to granted lands where the grant -- scope
of the grant is broad enough to permit that to it, the
grantee.

CHAIRMAN CORY: Okay. Greg, his very specific
question is, as I understand it, in terms of the finding
in the resolution proposed in Item 30, are we contemplating
any fundamental change in the grant of lands, grantees?

MR. TAYLOR: I'm reading the Calendar Item now,
and it says, "at Oxnard".

MR. TYLER: "or other site". And that's the
concern we have.

MR. TAYLOR: We do not have the leasing authority
in a granted area at the present time. But, we do have
several sites that would be on State lands in addition to
that. But, we can certainly comment upon the City of
Los Angeles, Port of Long Beach or any other port, wants
to go and make appropriate report, you know, to monitor --
we have the right to inspect records.

CHAIRMAN CORY: Is there anyone else who wishes
to address themselves on this Item 30 on Calendar?

There is a motion and a second, as I recall.

Without objection, Item 30 will be approved as
presented.

Item 31, authorization to execute settlement
agreement in People v. Magcon Estates, Limited.

Are there any questions by members of the Commission?

Does anyone wish to address themselves on this Item 31?

Mr. Taylor, you've negotiated the settlement and you like it?

MR. TAYLOR: Yes, and the staff appears to be satisfied.

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

Item 32 is a Quitclaim Deed coupled with Item 33 authorizing the staff to go out and see if they can make some money on it.

EXECUTIVE OFFICER NORTHROP: That's correct.

CHAIRMAN CORY: Does anybody in the audience wish to address themselves on what, the Airport Club?

EXECUTIVE OFFICER NORTHROP: It used to be the Airport Club, that was back a long time ago.

CHAIRMAN CORY: I should disclose that I went to school with a guy that owns part of that fiasco, I did at one time.

MR. TAYLOR: He's quitclaimed to our lessee, so he has no further interest.

CHAIRMAN CORY: Any objection to Item 32 or 33?
Without objection, we will approve both items as presented.

Item 34, report to the Controller of the money you actually got. It's about time you did that.

(Laughter.)

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, these are subvention revenues that are generated by contiguous beaches through oil production.

CHAIRMAN CORY: Where are we with respect to the discrepancy in the Orange County area?

EXECUTIVE OFFICER NORTHROP: We're still working on that, Mr. Chairman. It's not included in this area. It's corrected in this one here --

CHAIRMAN CORY: We've gone retroactive?

EXECUTIVE OFFICER NORTHROP: That's correct.

CHAIRMAN CORY: Have you notified the County of their problem?

EXECUTIVE OFFICER NORTHROP: Counsel is working on that at the present time.

CHAIRMAN CORY: Any questions? Any questions from anybody in the audience?

Without objection, Item 34 will be approved as presented.

Item 35, amendment and assignment of lease. We have somebody who is going to talk to us about that.
EXECUTIVE OFFICER NORTHROP: Denny Goldstein from
the Commission will give you a brief lead-up to this
Calendar Item.

MR. GOLDSTEIN: Mr. Chairman, Mr. McCausland
and Mr. McGuire. This final item is an amendment and
assignment of Lease PRC 3414.1, which is a lease for a
wharf site and appurtenant pipeline facilities in Contra
Costa County.

The situation arose out of a 1965 lease to an
outfit which subsequently has merged into the Gulf Oil
Corporation. And in 1965 --

CHAIRMAN CORY: Pontiac Western?

MR. GOLDSTEIN: Beg your pardon?

CHAIRMAN CORY: Is that Pontiac Western?

MR. GOLDSTEIN: No, I believe it was Sequoia
Refining Corporation.

Apparently, the parties were unable to agree
upon a firm rental. We therefore set a $10,000 interim
rental, and the agreement provided, the lease provided
that they would subsequently agree upon a firm rental.
And the firm rental would have retroactive effect to the
day to which it was signed, which was 1965. Subsequently,
Gulf, a wholly owned subsidiary --

CHAIRMAN CORY: The retroactive portion goes
back to 1965?
MR. GOLDSTEIN: Yes, it does. Ten thousand dollars a year was to be paid to the State for every year as an interim rental 'til the firm rental had been established. At, say, $10,000 a year there would have been owing $20,000.

CHAIRMAN CORY: Yeah, I understand all of that. But, 1965 and we're still --

MR. GOLDSTEIN: I understand there have been negotiations going on over the years. I believe that in 1973 and '74 there were some negotiations between the staff and between the lessee. And there was a recommendation before the prior State Lands Commission to finalize the rent, but it was rejected, I believe, before you sat on the Commission in the last meeting of '74 calendar year. So, negotiations again commenced recently, and here we are.

CHAIRMAN CORY: Okay. Go ahead.

MR. GOLDSTEIN: Subsequent to all of this, Gulf Company, which is a wholly owned subsidiary of Coastal States Gas Corporation, came to the Commission and indicated that they would like to have Gulf assign this lease to this wholly owned subsidiary, Coastal States Gas, that company specifically a refining company.

Accordingly, the staff and myself and the Office of the Attorney General entered into a proposed agreement which we're recommending to you today with Gulf and with
Pacific Refining Company. And that agreement, approved by
the Commission, will do the following things. By the way,
it's in a whole series of documents, four or five and not
one, as that is relevant, I'll mention that they are
separate documents.

The agreement would set a rent for the future,
that is to say from the effective date of the amendment
and assignment which will be in August, 1976, and it will
extend the primary term of the lease for five years. It
will not extend the total lease time. It will merely
extend the time upon which they will have to come back
and ask for a renewal.

This agreement will finally settle the back rent
problem. There will be a retroactive adjustment of all
back rent due. It will assign, finally, the lease
PRC 3414.1 to Pacific Refining Company, and it will also
release Gulf from all obligations as lessee arising out
of this lease.

Now, the future rental we have is a result of
considerable negotiations between the State and Pacific.
It is set up on a schedule based upon a volume of commodities
passing over the State's land. The schedule goes like
this: One cent for the first 3.25 million barrels, hydro-
carbon commodities in this case, passing over the State
lands, that this will bring the lessee up to the point where
he will have paid the minimum rental under this lease, which happens to be $32,500.

It is one mill per barrel due for the next seven million barrels to pass over the State lands. Thereafter, three mills for the next 20 million; six mills for the next 20 million; and finally nine mills for anything reached in excess up to that point.

Since the assignment and amendment will be effective on August 18, 1976, which is the first day of the fourth quarter of the lease accounting year, the agreement provides for a prorated rental for the fourth quarter of this year on the same schedule that I have just given you on an annual basis.

Finally, they have asked me to ask the Commission to authorize the Executive Officer to issue them a letter of policy assuring them that in the event there's litigation over the State's right to charge volumetric rents, and all rents will be put into a special deposit account into the Treasury and returned to them if it's finally determined in the Court that the Commission may not charge such rentals.

The final language has to be worked out with this letter, but they have reached agreement with the concept. The letter will not be an amendment to the lease, and it will expressly state that it is not a waiver of any of the rights of Pacific or the State regarding any litigation.
that might arise concerning the lease or concerning the State's right to charge volumetric rentals.

Finally, a considerable number of hours has gone into this. The staff has reviewed all of the documents and papers, and it is their opinion that this agreement is in the best interests of the State.

CHAIRMAN CORY: Has Pacific agreed to this?
MR. GOLDSTEIN: I believe there's a representative of Pacific here today.

CHAIRMAN CORY: Mr. Fowler?
MR. FOWLER: Yes. My name is John W. Fowler. I'm appearing here today as an attorney on behalf of Pacific Refining Company who will be the lessee under the proposed amended lease and who will be assigned to the existing lease.

Now, with one important exception, Pacific is in agreement with the proposed agreement as outlined by Mr. Goldstein and with the proposed Consent to Assignment and other documents.

The provision of the amendment to which we strongly object is the imposition of any volumetric rental charge based on the number of barrels of crude oil or its products and derivatives passing over the State's land. We believe that application of the volumetric charge to Pacific is in violation both of State law and the United
First, we think that Section 6503 of the Public Resources Code provides that rentals are to be based upon the appraised value of the land involved. Now, although the staff has represented to us that the minimum rent of $32,500 is within an appraised value they have, the volumetric charges in this lease have nothing to do with the appraised value of the land and thus exceed the Commission's authority.

CHAIRMAN CORY: Pardon me, Mr. Fowler.

MR. FOWLER: Yes.

CHAIRMAN CORY: I thought the document I read in going over this indicated that there was a single charge that was made which was a volumetric charge, and that there was a minimum applied to that, and that's all.

MR. GOLDSTEIN: That's the way the rental is now set up, Mr. Chairman.

CHAIRMAN CORY: Are we talking about the same document?

MR. FOWLER: We are, we are.

CHAIRMAN CORY: So, there is a volumetric charge —

MR. FOWLER: A charge of $32,500 must be paid.

CHAIRMAN CORY: That's a minimum.

MR. FOWLER: Yeah, that's right, whether or not there is that much, it must be paid.
CHAIRMAN CORY: Oh, okay.

MR. FOWLER: It is our view that, although according to the staff representation that it's within what they feel is an appraised rental obtained or an appraised value they have obtained, it is our view that the volumetric charges have no relationship to appraised value. Therefore, we think that it exceeds the Commission's authority.

I have a brief statement, and I will continue, and it will perhaps answer some of your questions.

CHAIRMAN CORY: Go ahead.

MR. FOWLER: Second, since the volumetric charge is applied to a wharf and pipeline connected to ships and barges, such a charge would have the effect of imposing a duty on tonnage, which is forbidden by the Federal Constitution.

Third, the volumetric charge applied to Pacific Refining would result in an unconstitutional burden on interstate commerce.

Therefore, we urge the Commission to approve the Amendment of Lease and Consent but without the volumetric charge exceeding $32,500. In its place, we recommend that the Commission fix a firm rental no higher than the $32,500 specified as a minimum rental figure in the Proposed Amendment to the Lease. This figure is more than three times the amount paid annually under the existing
lease previously.

Now, without use of the wharf and pipeline Pacific cannot operate its upland refinery. We, therefore, hope that the Commission will not take unfair advantage of the grossly unequal bargaining position in this matter and impose a volumetric charge. If, in spite of these reasons and the clear illegality of the volumetric charges, the Commission insists on imposing the volumetric rental formula in this lease, Pacific has authorized us to state that it would be compelled by the circumstances to sign the agreement recommended by the staff, and as outlined by Mr. Goldstein, provided that the Executive Officer issues the proposed statement regarding deposit and possible refund of volumetric rents, as Mr. Goldstein indicated. It is our view that by signing under these circumstances Pacific would not be waiving any rights to contest the illegal features of the amended lease.

We believe that Pacific Refining will be a valuable new tenant for the State, and will provide substantial employment by reviving a shut-down refinery. It also strikes us as ironic that in a period of economic difficulty for California, the Commission should penalize this desirable new business with so onerous a burden. We also feel it is somewhat in the face of the recent announcement of a very substantial State budgetary surplus,
to insist on what amounts to a new tax which can only
discourage the development of new industry and the new
jobs it will bring to the State.

I have also talked to Counsel from Gulf, and
they have advised me that Gulf, if the Commission adopts
the staff's recommendation, will also sign those documents,
the Consent to Assignment and whatever else it is Gulf is
going to be signing in this transaction.

MR. GOLDSTEIN: Mr. Commissioner, I have a couple
of comments.

I just want to make it clear to the Commission,
on behalf of the State and the Commission staff, that I
do not concur in Mr. Fowler's statement that his client
has not waived any rights to perhaps challenge the agreement
by virtue of signing any of the contemplated documents.
It may be that his client has waived such rights, and I
want the record to show that it is a unilateral statement.

MR. FOWLER: Yes. I disagree on that, yes.

CHAIRMAN CORY: I've got some hesitancy of whether
or not we should proceed with Mr. Fowler's position of his
client. Is your client operating the refinery, now?

MR. FOWLER: I believe it is.

CHAIRMAN CORY: Because let me tell you where
I think we are, that the State of California has some
property which, in essence, it owns, and as a landowner it
has certain rights to do or not to do with that property.
And you keep wanting to talk about taxation, a series of
taxations as opposed to rental property that we own. And
if we aren't even in agreement as to who owns the property,
maybe we ought to go litigate that to deal with the
question about whether or not it's at issue, and in the
meantime, we'll hold it in abeyance, and we will try to
exercise our rights to keep you from trespassing on our
property or something like that.

MR. FOWLER: No, no. The State doesn't own the
refinery that's being operated.

MR. GOLDSTEIN: Mr. Chairman --
CHAIRMAN CORY: I'm not contending that. I'm
contending that you have some improvements on our property.

MR. FOWLER: No. We don't own those improvements
on your property.

MR. GOLDSTEIN: The dispute is not over what the
State owns and what it does not own.

CHAIRMAN CORY: Mr. Goldstein, I think you are
mistaken, because he just told me that he was saying that
this was not a lease charge but a tax. And if you aren't
willing to concede that this is a lease charge, but we're
trying to impose a tax, I don't think we have anything
to talk about.

MR. FOWLER: I didn't expect that you would agree
with my request that you withdraw the volumetric charges under the proposed lease. And if this is the decision of the Commission, I've been instructed that my client will sign the proposed agreements which include such volumetric charges.

CHAIRMAN CORY: My problem is my private counsel tells me that in my business affairs that it doesn't do anybody any good to start entering into a contract which you know from the beginning each side isn't prepared to live with. Now, from the very beginning you are of the opinion that we're trying to impose a tax on you when we're sitting here thinking we're trying to rent some property that we own and that it's a lease at the same time. We're a long ways apart. And if there's not some expressing that, in fact, we're renting some property and there's a lease payment, I don't know whether or not we should proceed.

Now, I've tried to be fair with you --

MR. FOWLER: There's definitely going to be a lease payment. It's going to be paid in accordance with the provision --

CHAIRMAN CORY: You said something about an unconstitutional tax, and I just wanted to get that beside us, behind us, that really what we're talking about is a lease payment and not a tax.

MR. GOLDSTEIN: Maybe Mr. Fowler can expand on
that a bit and whether or not he's arguing that the tax is based on the State's ownership of land or the contention that maybe the State does not own -- maybe he can clarify.

CHAIRMAN CORY: What I'm concerned about --

MR. FOWLER: I see what you are saying.

CHAIRMAN CORY: If you think it's --

MR. FOWLER: You've heard this argument before, Mr. Cory, and it's been presented in memorandum.

It's simply that it's the argument that a volumetric charge, which is measured solely by the amount of product going over is a tax on that product, and that's the context in which I meant to use that phrase. I'm not saying you are taxing the land, I didn't intend that.

CHAIRMAN CORY: No. But, I hope that you and your client clearly understand that the document we are talking about that's before us is a lease of some property.

MR. FOWLER: Yes, it is.

CHAIRMAN CORY: And we're talking about the lease payment for that property. I don't want to have somebody come back and say, "You misled us, we thought that was just a tax." I want you to clearly understand that it is my position, and I believe the other Commissioners' position, that we aren't taxing anybody, we're charging a lease payment.

MR. GOLDSTEIN: A rental.
MR. FOWLER: I clearly see your position.
Mr. Goldstein has expressed that position to me many, many times, and he's a very good advocate for you.

MR. MCGUIRE: He also referred to it as a penalty.

MR. FOWLER: In the economic sense, we're making another run at it hoping you'll change your mind, but I think that's only fair that those who feel we are being singled out for special treatment may have that reaction.
We're a new business coming to the State, and it makes it awfully tough when we're faced with a new and much greater kind of rental charge than anyone else has experienced.
And we're very concerned that we're the only people paying it, and it is a penalty in that sense, economically.

MR. GOLDSTEIN: I have one more comment, Mr. Chairman.
I'd like to point out that the Executive Officer's letter has a provision in it.

MR. FOWLER: Yes.

MR. GOLDSTEIN: The original lease said that in the event that the parties could not agree upon a firm rental, the State could serve upon the lessee a 60-day notice which would attempt to establish such rental. If the lessee did not agree with that within the 60-day period, in effect, the lease would be terminated -- a few other things would happen but I don't want to focus on that. That
would be the end of the lease. There would be no more
said about it.

Now, after discussions, there's a possibility come
up that some party, perhaps the lessee and perhaps not the
lessee, perhaps another party, may challenge in a judicial
proceeding the State's right to charge rentals. It is the
lessee who is to challenge the State's rights, under State's
right to challenge volumetric rentals. It is my best
judgment, now, that the way the document is written, that
60-day notice that I just referred to, that provision would
still be in effect upon our return of the rentals to Pacific
if the State's position were not sustained in Court.

On the other hand, if it were not the lessee --

CHAIRMAN CORY: Mr. Fowler has nodded affirmatively?

MR. FOWLER: That's his position, correct.

CHAIRMAN CORY: You agree that is his position
or you agree with his position?

MR. FOWLER: If you let him finish I think he's
describing for you the details of another portion of the
settlement.

MR. GOLDSMITH: If it is not Pacific, if it is
another party that sues, and if the State's position is not
sustained in Court, and therefore, the State were to return
rentals given to the State by the lessee under the terms
of the Executive Officer's letter, the letter of the
Executive Officer expressly says that it is understood that that 60-day provision is applicable. So, I think there is no doubt that it's applicable in the latter situation, and in my best judgment it is applicable in the prior situation.

It is my opinion of the Commission that if the State's position on charging volumetric rentals is not sustained in Court, we then have another go-around with the lessee. We can serve upon them a 60-day notice provision, and if they do not agree with the rental contained in that provision the lease terminates.

CHAIRMAN CORY: Now, again, I put the question to you, do you and your client agree with that or do you agree that that's the Attorney General's position?

MR. FOWLER: Mr. Goldstein has accurately described the contents of the letter. There may be some minor details, to the effect that it's his position that in the event it is discharged, is stricken, in a manner in which Pacific is a party, we can go back to the old lease which has a provision for the 60-day notice for termination. And that in the event we're not a party that's stricken, that we do agree in that event, we're back to the old lease which has a 60-day notice provision in it.

CHAIRMAN CORY: Did I miss some small turn of the
MR. GOLDSTEIN: Mr. Chairman, I think what he's saying is Pacific is reserving its right to perhaps make an argument on what I said was my best judgment may be incorrect. I'm not troubled by that. I think my judgment is correct. And with regard to the specifics of it, if you'd like to explore the state's position on that matter, I recommend that it be done in Executive Session rather than here.

CHAIRMAN CORY: Can I ask some questions about the structure of Coastal States, because one of the things that we're doing is letting Gulf off of the hook for some undetermined back accrual amounts. Is Pacific Refining a wholly owned subsidiary of Coastal States?

MR. FOWLER: Of a CIC. I'm afraid your --

MR. GOLDSTEIN: I think I can clarify this.

Coastal States Gas is a wholly owned CIC Industries Corporation, which in its term, wholly owns Pacific Refining Company.

MR. FOWLER: That is correct.

CHAIRMAN CORY: Where are we in terms of -- let's assume the worst -- that for some reason Pacific Refining can't get crude oil and goes belly. It's a separate corporation. If there's some lease money rentals that are accruing in the process that haven't gotten paid, are we
just looking at Pacific Refining or do we have anything
back to Coastal States or --

MR. FOWLER: Well, Pacific Refining does own a
$26 million refinery.

CHAIRMAN CORY: And if you appraise that in
capitalized earnings over the last two years, it's not
much.

MR. FOWLER: It was a new corporation formed
for operating this refinery. But, I think the structure
of the lease protects you on that. You get out front --
out front you get $32,500, and then quarterly there are
payments based upon the volume coming through.

CHAIRMAN CORY: You guys are confident that they
weren't going to get --

MR. GOLDSTEIN: Mr. Chairman, I'm not exactly
sure what your question is. If the company were to go
belly up, presumably it would not be operating. What would
the harm at that point be to the State?

CHAIRMAN CORY: The 32,500 is up front?

MR. FOWLER: Just like it is -- meaning each
year, that's correct.

CHAIRMAN CORY: I just wanted to know where we
were in terms of a new corporation if something went wrong.
The other question is, how long is it going to
take to actually get this thing signed, or are we -- I'd
like not to, in essence, have an offer out on the street in perpetuity. Can this be done in two weeks?

MR. GOLDSTEIN: On my part, sure.

MR. FOWLER: It's my expectation -- I can't speak for Gulf, but they don't have an awful lot to fuss about this.

CHAIRMAN CORY: If we put a stipulation in here that this thing get signed this way within two weeks, do you think you could live with that?

MR. FOWLER: Hopefully, it wouldn't be an absolute limit, but that is my expectation. We will work very hard to keep that date. My client is in Houston and, of course, we have to send these back and forth. And we have been able to hammer out specific language with Mr. Goldstein in short periods of time. I think we could get it within two weeks.

MR. GOLDSTEIN: I think two weeks is fine.

CHAIRMAN CORY: You don't have any vacation plans?

MR. GOLDSTEIN: No. We have most of the papers between the respective clients worked out. There's a few papers hanging out from Gulf, and that's not a very sensitive area in this particular transaction.

MR. McGUIRE: Do you want to make that stipulation?

CHAIRMAN CORY: I'd like to have some time limit on it. It's been hanging fire since '65.
MR. GOLDSTEIN: Let's do it two weeks.

CHAIRMAN CORY: I'm talking more to my staff --
three weeks? There is a holiday weekend on the 4th.

MR. FOWLER: If you are going to pick a specific
deadline, I think we better go to three weeks, then.

MR. GOLDSTEIN: Three weeks, okay.

MR. FOWLER: I don't want to ruin your family life.

MR. McCUSAULD: So moved.

MR. MCGUIRE: Second.

CHAIRMAN CORY: Three weeks stipulation. Second
by Mr. McGuire.

All those in favor say aye.

(Ayes.)

EXECUTIVE OFFICER NORTHROP: Before you close,
Mr. Chairman, Mr. Taylor from the Attorney General's Office
has indicated that he would like to discuss with you
briefly the litigation the Attorney General's Office is
working on.

MR. TAYLOR: Mr. Chairman, we have with me today
a new member of the Land Office Section. Part of it is
somewhat contingent, I have a half a position. I hope by
the time the half a position runs out, we will be successful
in negotiations to take care of that problem.

Jan Stevens is here today. Jan, would you like
to stand up?
He's a Assistant Attorney General. He was in charge of the legislative program for the Attorney General's Office for the past several years. And at his request a few years ago he asked to be removed from those responsibilities, and the Attorney General prevailed on him to stay and finally he granted his request.

MR. McCausland: It always takes two years to get something out of your office too, Jan.

(Laughter.)

MR. Taylor: Jan will either be working out of the Sacramento or San Francisco offices, depending on how he works out some personal plans. I'm not too sure he's happy with what the arrangement of his new assignment was. On his first inspection of property, the asserted landowner swore out a warrant for his arrest. On the second one, he was assured that he would not be arrested, because the gentleman on the 22nd parcel, the one with the problem, believes in self-help rather than calling the local law enforcement authorities, and has a shotgun.

So, after a couple of more experiences with the State Lands Commission he may decide the legislative process was far more simple. We are very pleased to have Jan as a member of the Land Law Section.

There are two other items. The Pariana case begins next month. The Pariana case is a case where the
question is who owns the geothermal -- whether the mineral reservation carries with it the ownership of geothermal resources. This trial will be in San Francisco. There's already been a trial concluded in Sonoma County, I believe, which came down with a ruling that geothermal resources were a mineral reserved by a property owner who reserves the mineral rights.

There is a Federal tax court case that says that geothermal resources are a mineral. There is another case which is on appeal before the Ninth Circuit Court where the Court went the other way.

As Mr. Everitts has indicated to you, there's been a substantial amount of money pending in a trust account on the outcome of this lawsuit, and with the price of natural gas going so high, it will geometrically increase.

We have received a letter from Mr. Destino of the firm of McCutchen, Black, Verleger & Shea who appeared before the Commission last month --

CHAIRMAN CORY: They just left, didn't they?

MR. TAYLOR: That was another member of the firm. This is the member that represents the Western Oil and Gas Association. They asked for a clarification of the Commission's action with regard to a hearing on throughput regulations. We have responded and copies of our response and copies of Mr. Destino's letter have been distributed
to you prior to this meeting.

But, I think it should be made clear for the record that the Commission's granting of a hearing on whether the regulations should be repealed in no way indicated any thoughts of the reconsideration of the staff or the Commission, that all legal requirements for the adoption of the regulations had been met. And we affirmed this to them, that we believed that all regulations had been met, but if there were any arguments over the question of notice, that question should be mooted by the holding of a meeting in July at which time the Commission will decide whether to appeal the regulations adopted in April. There was a letter personally delivered to him last Tuesday answering his letter of June 1st to the Commission.

In Oregon v. Corvalis Sand and Gravel the Supreme Court again denied a request for us to present oral argument. We have worked out an agreement with the State of Oregon where they will concede some time to us, and we're in the process of finalizing that agreement. Therefore, we will be able to argue, but we will not be able to argue at our own independent time. We will have to use the time of the State of Oregon.

I believe that concludes all of the active matters before the Commission as far as litigation.

CHAIRMAN CORY: Any questions from the Commissioners?
Any other items to come before the Commission?

The final item, I guess, is the confirmation of the July 22nd meeting, Department of Agriculture, 10:00 a.m.

If not, we stand adjourned.

(Thereupon the State Lands Commission Meeting held on Thursday, June 24, 1976, was adjourned at 11:30 A.M.)

---00---
State of California ) ss.
County of Placer )

I, DIANE LYNN WALTON, a Notary Public in and for the County of Placer, State of California, duly appointed and commissioned to administer oaths, do hereby certify:

That I am a disinterested person herein; that the foregoing State and Ad's Commission Meeting was reported in shorthand by me, Diane Lynn Walton, 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 and affixed my seal of office this 13th day of July, 1976.

Diane Lynn Walton
Notary Public in and for the County of Placer, State of California
C.S.R. License No. 3067