MEETING
STATE LANDS COMMISSION

ROOM 2117
STATE CAPITOL
SACRAMENTO, CALIFORNIA

THURSDAY, AUGUST 25, 1977
10:10 A.M.

Reported by: DIANE PATTIG, C.S.R., 3692
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MEMBERS PRESENT

Mr. Roy Bell, Acting Chairman, Director of Finance
Ms. Betty Jo Smith, Commission Alternate, Representative for Lt. Gov. Mervyn Dymally
Mr. Keith Seegmiller, Commission Alternate, Representative for Chairman Kenneth Cory

MEMBERS ABSENT

Mr. Kenneth Cory, State Controller, Chairman
Mr. Mervyn M. Dymally, Lieutenant Governor, Commission

STAFF PRESENT

Ms. Diane Jones, Secretary
Mr. William Northrop, Executive Officer
Mr. Robert Hight
Mr. Jan Stevens, Assistant Attorney General
Mr. William Thompson, Manager, Long Beach Operations
Mr. Wes Pace
Mr. William J. Lamont, Special Counsel
Mr. James Trout, Manager, Land Operations

ALSO PRESENT

Mr. Peter Lingle, City Attorney for the City of Long Beach
PROCEEDINGS

--0:30--

ACTING CHAIRMAN BELL: Good morning, ladies and gentlemen. I'd like to get the meeting started.

Mr. Northrop, may I have the roll call?

EXECUTIVE OFFICER NORTHROP: Chairman Cory?

Lieutenant Governor Dymally?

MS. SMITH: Betty Smith sitting in.

EXECUTIVE OFFICER NORTHROP: Ms. Smith.

Secretary of finance, Mr. Roy Bell?

ACTING CHAIRMAN BELL: See, I'm the secretary --

EXECUTIVE OFFICER NORTHROP: The Director of Finance.

ACTING CHAIRMAN BELL: I'm elevated.

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, I think counsel wants to make a statement.

MR. HIGHT: If I can do a little housekeeping for a moment, Mr. Seegmiller is sitting in for Mr. Cory in a non-voting capacity this morning.

ACTING CHAIRMAN BELL: I wondered if we could have two. But anyway, we have two legal votes sitting here on the left.

MR. HIGHT: That is correct.

ACTING CHAIRMAN BELL: On your right. We do have a quorum present.
We have confirmation of minutes of the meeting of July 26th which are before you with your calendar and agenda. Do I have any corrections or other comments on those?

If not, they'll be deemed approved.

The report of the Executive Officer.

EXECUTIVE OFFICER NORTHROP: Thank you very kindly, Mr. Chairman. Mr. Chairman and members, during the week of July 31st through August 4th, California hosted the Western States Land Commissioners conference in San Diego. All 19 western states were represented. That 19 includes Louisiana, which they are just slightly east of west, I guess.

The State of Wisconsin attended on a fact-finding mission. Wisconsin sent the State Treasurer and the Lieutenant Governor from Wisconsin.

The meeting was particularly constructive, at least instructive, in that the Bureau of Land Management held a meeting of all its state directors at the same time and place. We enjoyed several joint sessions, and we discussed on-going problems of the state with regard to the federally-administrated programs by the Bureau.

Features speakers included both Chairman Cory and Governor Dymally and Undersecretary of Interior Guy Martin. I was elected President of the organization for
'77-'78.

ACTING CHAIRMAN BELL: I hope it does not involve any out-of-state travel?

EXECUTIVE OFFICER NORTHROP: No. We tried to hold it down. However, Louisiana was selected as the host for the next meeting, and as President, I do think I have to go.

MR. SEEGERMILLER: It wouldn't be in the State of California two years running.

EXECUTIVE OFFICER NORTHROP: Yes, that's right. But it's in the summer, and that's really not all that much fun, I guess. It will be held in either Baton Rouge or New Orleans.

Each commissioner has been sent a copy of the land consolidation report, with the expressed caveat that the commission might make significant changes. The draft has also been furnished to the State Office of the Bureau of Land Management for preliminary evaluation. The draft report covers four basic areas of commission concern:

One is the satisfaction of remaining entitlements, entitled lands, unsurveyed lands, and so forth we have coming to us; and a classification of high quality lands for indemnity selection.

The third area is priority in the BLM staff exchanges, including additional federal staff if necessary. The fourth is further grants of public lands.
A briefing on the report will be calendared at a subsequent meeting. We plan on it for next time -- for next meeting at this time. However, the initial federal reaction is that the state should not expect any early reaction.

I think the federal government is looking at maybe a time frame of at least ten years until the inventory required by the Federal Land Policy and Management Act is done. The Bureau of Land Management feels they have been directed to go slow or not act at all on any transfers from federal ownership. This includes indemnity selections and exchanges.

However, we have noticed in other meetings that the Southern Pacific Railroad and other private entities are getting much better service than the state is.

Further, it was made very clear at San Diego that state exchanges have a low priority and state help during the budget hearings will be necessary for any change in this priority. It was quite evident that BLM was going to look to us for help in their budget. I think they were kind of holding us up for budget help before they would give us any exchanges. That was very clear in the comments that they made.

Another issue is whether exchanges benefiting other state agencies, Fish and Game, or Parks, will have to be processed first. BLM seemingly would like to make the
exchanges and exchange our land and Parks and Fish and Game land so that they can get two for the price of one. I'll keep you briefed on how this is going.

The hazard removal program, the next subject:
The accomplishments of the hazard removal task force to date have been quite satisfactory. Three area projects have been established, and they are: The Lake Tahoe hazard removal program; the American River hazard removal program; and the Upper Sacramento River hazard removal program.

The Tahoe removal program is currently the most advanced. A contract has been made with the Corps of Engineers to administer and oversee the removal program at Lake Tahoe. They are presently advertising for the job.

Additionally, all hazards have been identified, mapped, and shoreline access for their removal to upland locations has been identified, which was a considerable program. Removal operations will begin about September 12th and as indicated in Item 26 on today's agenda, the initial cost will be about $200,000.

The Division will soon enter into a $25,000 contract with Sacramento County for removal of hazards in the Lower American River. All of these hazards have been identified and mapped, as I've discussed. Operation will commence once the Sacramento County Board of Supervisors approves the contract later this month.
The Division has just recently initiated a third hazard removal program in the Upper Sacramento River. Hazards have been identified and are currently being mapped.

In addition, initial contacts have been made with local and state agencies to determine whether it would be feasible to contract with them for hazard removal. The Division proposes to begin operation in the Sacramento River at Keswick Dam and proceed south until the funds are expended.

On August the 11th, the Executive Officer conducted a public hearing for the purpose of gathering evidence to serve as a basis for your determination of the reasonable market value for royalty purposes of natural gas deliveries by Chevron from certain Northern California gas fields.

As you will recall, the Commission on September 30th of 1976 approved for a period of six months commencing July 1, 1976, letter modifications to gas sales agreements between Chevron and Pacific Gas and Electric. Such approval was subject to the right of the state at the end of the six-month period to make a determination of the reasonable market value of the gas deliveries by Chevron to PG&E.

Testimony at the hearing was presented by the Commission's staff, a representative of the Office of the Attorney General, a consultant retained by staff, Chevron, Pacific Gas and Electric, and the Public Utilities Commission. The hearing is being held open for further written rebuttal.
to the statements made at that meeting through August the
26th, tomorrow.

Upon conclusion of the hearing, staff will
analyze all testimony and present recommendations for the
establishment of the reasonable market value of the gas
produced from January 1st, 1977, through June 30th, 1978,
the term of the modified sales contracts. After June 30th,
1978, the question will again be open as to the reasonable
market value applicable to Chevron's royalty payments to the
state.

ACTING CHAIRMAN BELL: Is this the item that the
Public Utilities Commissioners keep reminding me is the
tail that wags the dog? Our little old tiny two percent
or less is in effect, when we try to make a nice profit for
the state on our little bit, the consumers of Northern
California get ripped off.

EXECUTIVE OFFICER NORTHROP: That has been the
position, Mr. Chairman --

ACTING CHAIRMAN BELL: By the way, that's not
my position. I'm merely quoting some people who have
commented to me.

EXECUTIVE OFFICER NORTHROP: How ar, we did have
a comment from one of the Public Utilities Commissioners
encouraging us to proceed with our hearings and get a
fair price for it. However, there's one interesting point
that came from the hearing.

That's that Standard Oil Company, who has been our negotiator, who is the lessee --

ACTING CHAIRMAN BELL: Yes.

EXECUTIVE OFFICER NORTHROP: -- is a negative gas producer. In other words, they are buying gas. And while we are looking at a price considerably less than two dollars, Standard is paying a price considerably in excess of two dollars per MCF for gas.

So I wonder if that tail wagging the dog concept --

ACTING CHAIRMAN BELL: Who are they buying from?

EXECUTIVE OFFICER NORTHROP: PG&E, of course.

So that's an interesting concept, Mr. Bell.

Staff has taken some preliminary steps to initiate sell-offs of the 12 1/2 percent of the Contractors' oil in the Long Beach unit.

ACTING CHAIRMAN BELL: This is crude oil?

EXECUTIVE OFFICER NORTHROP: Yes, as outlined in Chapter 138.

MR. SEEGMILLER: When was the last sell-off?

EXECUTIVE OFFICER NORTHROP: The last sell-off, I believe, initiated in 1972.

MR. SEEGMILLER: Are these periodic or required annually or --

ACTING CHAIRMAN BELL: It's option --
EXECUTIVE OFFICER NORTHROP: We are going to have a discussion on that in a few minutes, Mr. Seegmiller.

MR. SEEGMILLER: Okay. Fine.

EXECUTIVE OFFICER NORTHROP: And part of it we can sell off, and staff has agreed that those that we can, we're going to take the necessary steps. Staff has had a meeting in Sacramento in which Counsel for the City of Long Beach was present and they're in agreement. There seems to be general agreement that we should proceed where we can.

Now, FEA has put some road blocks in our way, and we have got to solve these FEA problems before we can fully go ahead. The picture is very unclear.

I've asked John Lamont and Mr. Thompson and Mr. Pace -- Mr. Thompson and Mr. Pace from our Long Beach operations to at this time come forward and we'll discuss this in some kind of a round table panel as to our problems and what we're looking at in the way of crude oil processing.

So if Mr. Lamont and Mr. Pace and Mr. Thompson will come up here right now, I'd like to discuss this with the Commission.

While they are coming up here, we additionally have been cited by the FEA for a probable violation of the FEA regulations and some of the contracts we let at the time Mr. Seegmiller. We are taking the necessary steps to contest these violations and contest the citation. We'll keep you...
abreast of where we are going in that particular area.

Do you gentlemen want to come down here?

MR. LAMONT: Thank you, Mr. Northrop. It's very
difficult to explain in any very simple terms exactly what's
happening. We are running into a situation in which we have
a confrontation building up between some rather complex
state statutes, administrative regulations, and contract
procedure, and some FEA regulations which are sufficiently
complex that they are quite probably the most complex
regulations that have ever been put together in i.e. history
of mankind.

Briefly, the problem is that in the '71-'72
series of sell-off contracts, it's not exactly clear whether
we are an initial seller or a reseller or -- excuse me.
Whether the contracts were initial sales by the state for
the state or if they were sales by private persons at the
state's direction and for the state's account or if they
are in fact resales by the private person for their own
account to achieve the general competitive purposes.

Please, do not shoot the bringer of bad news.

He didn't create the complexity. But that's it.

At the same time, we have this to confront:
The problem comes along that the FEA regulations are in the
process of continual flux and change. They have just
issued a full series of new regulations relating one, to the
reseller crude oil purchaser, regulation of which goes clear back to 1974, which continues crude oil purchaser-reseller relationships notwithstanding the termination of the basic contracts.

In other words, even though the basic contracts which we have with purchasers -- if it is a reseller contract, that those contracts may have expired by virtue of the FEA regulations are continued in force indefinitely. Those regulations are also in the process of change.

One of the reasons why -- in fact, I think after two full days of conference and discussion with all of the other lawyers who have any part of this on the state side, we agreed that we have to go into this notice of probable violation proceeding if we are ever under any circumstances to be able to go forward with the necessary resell -- with the necessary sell-off contracts. We are in a rather unusual situation.

The federal government, in fact, is trying the state for a violation of administrative regulations. It raises federal questions that are extremely complicated. But we have to bow our heads and go straight through the complexities of that proceeding if we are to get a judgment as to exactly what our status is under those regulations, assuming that those regulations continue to apply to us.
At the same time, the Executive Officer will be discussing with the Governor and with the Governor's people the possibility that we might conceivably receive an exemption under the National Energy Program legislation that is pending, an exemption from some of the more burdensome federal regulations.

EXECUTIVE OFFICER NORTHROP: Okay. The notice of probable violation, I've asked Mr. Lingle, Counsel for the City of Long Beach -- and he's worked very closely with us -- to join us. Do you have any additional thoughts on this?

MR. LINGLE: No. I think John has explained how I'm as confused as you probably are, but not from John's explanation. We have worked closely and there is no conflict between us.

EXECUTIVE OFFICER NORTHROP: So we're going out on the NOPV as it's called, and we are appealing it, and we have written the necessary letters, and we are now awaiting a hearing. That hearing will be -- we submitted -- I would just say in excess of 1,000 pages of testimony and information. Is that number correct, John?

MR. LAMONT: I would say about 35 pounds, and let it go at that.

EXECUTIVE OFFICER NORTHROP: We've given them about 35 pounds of substantiating information, and they are now going through it. When they've reviewed it, they will
return it to us for a hearing in which we can explain to them what they have read. That is to be coming.

I think in line with this, I think Mr. Thompson and Mr. Pace really should give us an up-date as to where we are dollar-wise. And that doesn't mean much. But at least, if it's any comfort to know, the only reason I'm giving it to you -- if it's any comfort to know -- we're trying to stay on top of it. So Mr. Thompson, if you'll give the Commission some kind of indication of what the revenues look like, and what the oil production looks like, I think we'd appreciate it.

MR. THOMPSON: What we can give you is a little less negative approach here. The FEA has announced they are going to have hearings on some crude oil price increases for the months of September, October, and November. This is a break out from the freeze that's been on since June of 1976.

The increases aren't very overwhelming. For lower tier, they are going to be seven cents a barrel in three months; for upper tier, they'll be 74 cents a barrel, which sounds good on the surface except that really, when you take away the 65 cents rollback that occurred a few months back, really 65 cents really means that you are going to get a nine cent increase on this compared to rollback. Again, they are having hearings on this.
As far as lower tier, we still don't know that if they raised the ceiling price by even the seven cents, whether we would be paid it or not because the ceiling price is still 60 cents above the price we're currently being paid. The entitlements program doesn't, according to the refiners, allow the ceiling price to be paid. So we're still a part of the program and John will probably comment on that later on.

MR. SEEGMILLER: Where are we today?

MR. THOMPSON: Four dollars 31 cents a barrel. We're allowed 60 cents more in the ceiling price, but that is not being posted or paid for lower tier oil even though we have another seven cents per barrel increase that might be an increase in the ceiling and we don't know that we actually would be paid that or not until the 1st of September when these increases come on.

MR. NORTHRUP: And the reason now, according to the book, is why at this time we're going for the sell-off and have not done it before, according to the book, is why at this time we're going for the sell-off and have not done it before, is before we were enjoying the maximum legal price for the oil. We are now 58 cents or so below the maximum ceiling price allowed, so we feel -- I have had and I'm sure all the Commissioners here have had calls from people who would like to obtain the oil at the maximum ceiling
So with that kind of interest, we're moving now as fast as we can to set up a sell-off that would at least insure us that 60 cents or 58 cents difference.

MR. SEEGMILLER: That could be just shy of five bucks maximum?

MR. THOMPSON: Actually when you look at it, lower tier oil since December of 1973 has had 20 cents a barrel increase if you include the seven cents. That is less than one percent per year, which leads us to another problem that we have a little trouble in understanding what's really going on in the FEA because under the federal law passed in February of '76, they mandated a composite price for all domestic crude oil. This is where the seven million barrels of domestic crude oil shall fit, the average price shall follow this.

This first program here was modified later to say there is an allowable ten percent per year increase in this composite, under which then we thought the first of the year that a deal was made by the FEA that crude oil prices would be kept then on controlled oil -- which is upper and lower tier -- in constant 1976 dollars.

In other words, that means that you start back at the start of this federal program, crude oil prices would go up at the rate of inflation, on the natural...
deflator. Actual costs are lots of times in the neighborhood of one and a half to two and a half times of that deflator by the time you get the ripple effect in the cost.

The FEA, by having some bum numbers overpaid here, and they went into a price freeze in June of '76. So they are now proposing to break this price freeze from here.

But this overpayment here has certainly been more than then paid back by this. And actually, by the time they get through with this small price increase, they will still be on the average about 60 cents per barrel below the composite. This is what Congress intended.

You equate that 60 cents a barrel times the seven million barrels a day provided by the domestic producers, the domestic producers are being shortchanged over four million dollars a day.

MR. SEEGMILLER: The foreign crude oil doesn't come into this at all on that chart?

MR. THOMPSON: No. And I think the consumer sees his consumer prices going up all the time even though we're not even allowed this inflation. And how FEA receives this mandate to not give this, in effect put a whole year's inflation back from producer, we completely miss the point of this. And we'll probably comment on that in these hearings coming up.

That's all I have. As far as revenue of the
state, I wish I could tell you because I don't know what the prices will be and whether we would pay.

MR. SEEGERMILLER: I would just like to ask some illustrative questions. Foreign oil is not under any of this price control?

MR. THOMPSON: Right.

MR. SEEGERMILLER: We receive — as I understand in Long Beach Harbor now there is probably some Saudi Arabian or Indonesian oil coming in?

MR. THOMPSON: Probably quite a bit of it.

MR. SEEGERMILLER: What's the landed cost of that oil?

MR. THOMPSON: Roughly $14.

MR. SEEGERMILLER: $14 a barrel. That oil floats in in supertankers about Long Beach Harbor, right? And if we won't drill oil out of our oil wells, the consumer in this country will pay 14 bucks to Saudi Arabia and four bucks to us?

MR. THOMPSON: That's right.

MR. SEEGERMILLER: 4.31 a barrel.

MR. THOMPSON: Not on that, but if you take this particular graph here which shows a little bit on entitle-
ments, the period of times for every barrel of foreign crude that comes in, the refiner gets a credit of $2.36 to refine that oil.
This is only one of a few cases I know of where we subsidize a foreign industry.

MR. SEEGERMILLER: We get paid money to make it cheaper for him to buy higher-price oil and we can't sell our oil.

MR. THOMPSON: He doesn't do that. He gets a credit for what he runs, that barrel of foreign crude. And in the end, it's the consumer --

MR. HIGHT: He actually gets paid it out of the refiners' pool, as a matter of fact.

MR. THOMPSON: But it's all passed on to the consumer.

MR. PACE: Which reduces his cost of that foreign crude by the 2.36.

MR. NORTHRUP: Which brings us to another problem which this Commission has got to face or at least be aware of, that is, the Alaskan oil is coming in much the same manner.

MR. LAMONT: At the same price.

EXECUTIVE OFFICER NORTHRUP: At the same price, and we can't use the foreign argument except the fact it's going to enrich some foreign countries who own a good share of it. But that's another problem, and that could well make our oil not only uneconomic, but undesirable, given the present refining techniques.
MR. SEEGMILLER: So we have oil out there at $4 a barrel they are going to shunt in and we are going to pay 14 for it?

EXECUTIVE OFFICER NORTHROP: Yes.

ACTING CHAIRMAN BELL: What is Alaskan going to cost?

EXECUTIVE OFFICER NORTHROP: Mr. Lamont?

MR. LAMONT: It's going to cost --

MR. PACE: 13.50 laid down.

MR. LAMONT: About 13.50 laid down here.

The ceiling price on -- well-head ceiling price will be the regular upper tier ceiling price. But I think it will all be -- it's all plus the transportation and they are too enormous --

MR. THOMPSON: However, every refiner that burns Alaskan North Slop crude will also get the comparable entitlement credit that foreign crude gets.

MR. LAMONT: No. The issuance of the order on the Alaskan crude oil entitlements is really rather mysterious. It was issued two weeks or a week and a half after Congress had gone home for the purpose of -- I mean, together with about four other orders. It has received very little publicity, and very little consideration.

But what it means, according to the FEA's own press release, is the payment of $3 a barrel for each barrel
of taps crude, the Arctic North Slope crude.

This means that there are three companies which will be collecting additional subsidization of $3 a barrel. Since that crude oil is a fairly heavy crude, it's 27 degrees of gravity, it will occupy, require for its refining exactly the same refining capacity that is available for the heavy California crude. And it either -- it makes it out or in more familiar economic terms, it will require a cut in the price of the California crude in order to stay there.

Moreover, while I believe they had it in mind that this $3 entitlement advantage would ship the stuff into Districts one through four across the Rocky Mountains, that's a two to two and a quarter a barrel shipment cost with the kind of equipment they have available for immediate shipment. And it may well be that a number of those -- some of those three companies involved may well say, instead of encouraging two to two and a half to ship it to the Gulf Coast, we'll simply take a dollar to a dollar and a half less and keep it here.

It's an inexplicable blunder, I think, and it's something that has to be reversed or has to be balanced in some way or the California lower tier crude is in for some extremely difficult times.

EXECUTIVE OFFICER NORTHRUP: Mr. Chairman, that completes our very cheery report today.
ACTING CHAIRMAN BELL: You left out the part about what the LA assessor is doing to us.

EXECUTIVE OFFICER NORTHRUP: We have a calendar item on it, but we'll be happy to talk about it now because that fits in the same program.

ACTING CHAIRMAN BELL: Just adds to it.

MR. SEEGMILLER: You're talking about backing out of production of California crude, shutting wells, the proceeds of which the State of California now uses for higher education and water development projects, so we're going to lose the source of money for those very necessary projects because of these shenanigans going on in Washington?

EXECUTIVE OFFICER NORTHRUP: Well, you have to understand this, Mr. Seegmiller. The FEA in conferences that I've had with the Director, Mr. --

MR. LAMONT: John O'Leary.

EXECUTIVE OFFICER NORTHRUP: John O'Leary. He said he could see no difference between the State of California and Exxon. I hastily pointed out he had had four auditors in my office for nearly two years, and he hadn't done that for Exxon yet.

MR. SEEGMILLER: How many irrigation canals and schools has Exxon built lately?

EXECUTIVE OFFICER NORTHRUP: I really don't know.
MR. LAMONT: None here, but some in Venezuela and a number in Saudi Arabia.

(Laughter.)

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

Mr. Chairman, the Assistant Executive Officer is on vacation.

ACTING CHAIRMAN BELL: I have a question.

MS. SMITH: You've given us this report. What do you suggest as a solution to this problem?

MR. NORTHROP: Well, I think Mr. Lamont and some of our lawyers might be able to draft a successionist bill that would stand. I don't know.

(Laughter.)

MR. SEEGLMILLER: Cut off the Pacific Coast Highway and join OPEC, right?

ACTING CHAIRMAN BELL: I tried that with NASA on solar deal, and it didn't work.

(Laughter.)

MR. LAMONT: Well, I think one of the things that's important, Ms. Smith, is the fact that the Executive Officer and the Chairman have made a considerable amount of overtures to the California congressional delegation, both House and Senate, pushing very, very hard for the recognition of the rather peculiar situation in which we
have been put. If that delegation works and works reasonably hard, considering that President Carter's energy program has not yet passed the Senate, there is a possibility that we can get some kind of relief if we are lucky and the wind holds.

EXECUTIVE OFFICER NORTHROP: The Governor's office has arranged a meeting this coming week with Mr. Beeman to pass this problem on again to the delegation. And we're encouraged by the fact that we've been joined in this through the Western States Lands Commissioners and the work we've done in Texas, Louisiana. Louisiana particularly understands our problem and has agreed -- one of their Senators has agreed to do what he can to get some help for us on that because he happens to be on the committee concerned.

So we are doing some political moves, but it moves very slowly.

MR. SEEGMILLER: You've got all these legal hearings the violations thing.

ACTING CHAIRMAN BELL: You've got to go through these administrative --

EXECUTIVE OFFICER NORTHROP: We have to exhaust the administrative --

MR. LAMONT: We have no alternative but to go through the administrative hearings. They have put more administrative hearings than just one, because -- one thing
that I forgot to mention is that Mr. O'Leary also told
Senator Johnson in the hearing on August the 4th that at
the same time they were thinking of this Alaskan entitlement
advantage, the adjustment of the California lower tier
 crude oil price which had been the subject of hearings
before, he believed had to be put over for still further
 hearing.

I think, now, that will be about the fifth. But
we can't default.

EXECUTIVE OFFICER NORTHP: And we also have
support, Mr. Chairman, I think it's important for the
record, from the Interstate Oil Compact Commission on this
concept because they understand the problem.

ACTING CHAIRMAN BELL: Okay. I guess thank you
for your report.

The report of the Assistant Executive Officer.

EXECUTIVE OFFICER NORTHP: Mr. Chairman, the
Assistant Executive Officer is on vacation this week and I
believe you will have his report next time.

ACTING CHAIRMAN BELL: All right. Fine. We now
go to the consent calendar which I believe is item C-1
 through C-24, is that correct?

Are there any persons in the audience who wish
to appear or comment or have pulled off the calendar any
of the items C-1 through 24 which are generally pretty routine?
EXECUTIVE OFFICER NORTHPROP: Go ahead.

ACTING CHAIRMAN BELL: If not --

MS. SMITH: I move the adoption of the consent calendar.

ACTING CHAIRMAN BELL: All right. Without objection, then, items C-1 through 24 of the consent calendar are approved.

We now go to page 1x. We now go to the regular calendar.

Item 25 is California Blue Valley, trustee.

EXECUTIVE OFFICER NORTHPROP: Mr. Chairman, Mr. Trout will make the presentation on this. Mr. Trout.

MR. TROUT: Mr. Chairman, in 1974 the Commission authorized a temporary pipeline for fire flow protection in Donner Lake. After a number of six-month extensions, the Commission rather vigorously said that the people up there should get their act together or the Commission would grant no further extensions. The staff was directed to work with the people in the area to see if a permanent solution couldn't be arrived at.

As a result of some very good work on the part of our staff, we now have an application from the Donner Lake Utility Company to take the temporary pipeline, to bury it beneath the sand or the beach at Donner Lake, and to use that pipeline one, for continued fire protection for that
northwest corner of Donner Lake; and second to use it in
place of an existing diversion that the company now has from
Donner Lake.

The Donner Lake Utility Company has filed a
notice of diversion, and indication of a water right with
the State Water Rights Board. The pipeline was initially
put in in 1910, as I understand it, which preexists the
Water Rights Board's formation in 1914.

Now, as we got close to this calendar, we
thought we were ready to go with it. However, there are some
environmental technicalities of the California Environmental
Equality Act. The new pipeline has the potential under
certain conditions for allowing increased growth and
expansion in the area. The present pipeline now serves the
domestic potable water needs of the residents and the houses
in the west end of Donner Lake. The new line will have
slightly more capacity because they need three to six
thousand gallons per minute for fire protection. That's
I guess, to reach the top of three-story and multi-story
condominiums and other buildings.

Because of the technicalities of the Environmental
Equality Act, and working some of these things out with the
Office of the Attorney General and the Applicants, we have
come back to you for a further six-month extension. However,
we believe that prior to the running of that six months, we
will have a permanent solution to bring to the Commission
for approval.

I think the item before you then for the six-month
extension is supported by the Applicant, by California Blue
Valley, the Donner Lake Utility Company, and by your staff.
However, Terry Roach, who is an attorney from Nevada City
and represents the trustee, I believe, who is now in
effect the owner of the property, would just like to briefly
address the Commission to give you a very brief overview of
their point of view.

What they're really trying to do is to be able
to sell some condominiums that they have been foreclosed
from selling for some period of time.

So, Mr. Roach.

MR. ROACH: I'm Terry A. Roach, and I'm the
attorney for California Blue Valley, Inc., who is the
trustee who holds title to easements, and pumping facilities
at the Donner Village -- well, which are the subject matter
of these proceedings.

We have entered into a contract with Donner Lake
Utility Company whereby we will transfer subject to approval
of this body, the facilities that have been in the lake --
again, which are the subject matter of these proceedings --
since approximately 1974.

I also am here today speaking on behalf of IDS,
Investors Diversified Services, who owns Donner Village as a result of foreclosures, and also First National City Bank, which is a party in interest with regard to Donner Pines West, also served by these facilities.

It's my understanding in discussions with the staff -- and it's my purpose, basically, to be sure that I understand the staff's position so that we can comply with their wishes -- that the objections, the possible environmental objections arise out of the hooking up of this system for potable water service to the Donner Lake area.

It's my further understanding -- and again, I'm subject to being corrected on this -- that you have no basic objections with regard to permanent installation for fire flow purposes.

Now, does that fairly state --

MR. TROUT: The staff would recommend approval of a lease for the permanent installation of the pipeline for fire flow.

ACTING CHAIRMAN BELL: The answer, I think, was yes.

MR. TROUT: And the second point was that the application which we have before us -- which the staff has, but is not before you today -- is really to change the point of diversion of the domestic -- not fire flow -- but the domestic water supply. It is that area that the Attorney
General's Office has expressed some concern as to whether we have technically met the requirements of the California Water Quality Act in allowing people who might be affected by the ability to draw further water from Donner Lake, that those people have an opportunity to comment on the proposal and that the use of the pipeline is a discretionary act on the part of the Commission.

So, thus the reason for the further extension while we get the environmental data which the Applicant has promised, and which we will then circulate for public comment and see. It looks like there may well be simply an environmental assessment and a negative declaration, but it does appear that the public is entitled and should have the opportunity to comment on the capability.

That doesn't mean that the utility company would supply any more customers. It just means that they have the greater capacity to do that.

MR. NORTHRUP: Mr. Chairman, I might add in buttress to what Mr. Trout has said, I'm sure the staff would feel that we want to look at the cord before we comment with any conclusion at this time. So from what we have seen before us, I think Mr. Trout was indicating we have drawn some preliminary conclusions, but certainly they are far from final.

MR. TROUT: On the fire flow, right.
MR. ROACH: Do I understand now that you're saying that the fire flow -- you're making no final conclusions as to the fire flow either. Is that --

MR. NORTHROP: We have given you our indication at the present time, but to I think largely the package, the staff would like to see the entire package.

MR. ROACH: I'd also like to make one or two minor corrections here. The total flow that this system can provide is 1350 gallons per minute. I believe the statement is made 32 -- well, it says 2000 here and I think Mr. Trout indicated it was substantially more than that.

MR. NORTHROP: Page 82, Mr. Chairman.

MR. ROACH: And the fire flow requirements in that area are 2000 gallons per minute. This system plus other existing systems owned by Donner Lake Utility Company combine to provide the 2000 gallon flow.

ACTING CHAIRMAN BELL: I see. So it just isn't this one?

MR. NORTHROP: Page 82, it should read 1350, is that correct Mr. Trout?

MR. TROUT: That is correct.

MR. ROACH: Thank you very much.

MR. STEVENS: Mr. Chairman, I think that's basically a fair statement. The project is capable of
causing an effect on the environment. Basically, we're required to follow the steps of the Environmental Quality Act, and I think that's the only purpose.

ACTING CHAIRMAN BELL: Okay. A six-month extension.

All right. Without objections. Without objection, item 25 for the six-month extension is approved.

The next item, number 26, PG&E.

MR. NORTHROP: Mr. Chairman, this is a finalization of a contract with Pacific Gas and Electric for the use of the McDonald Island Gas Field as a storage area. We have negotiated some new rents and a new biometric through put on it.

ACTING CHAIRMAN BELL: All right. Without objection item 26 is approved.

Item 27.

MR. NORTHROP: Mr. Chairman, item 27 is an application by Union Oil Company for some make up wells for a power unit at the geyser. It will consist of four wells and in an area that has been used for that purpose now. We have done the environmental work that has to be done.

ACTING CHAIRMAN BELL: Union and Magma?

MR. NORTHROP: Union and Magma. To make up the necessary wells to allow an electrical producing unit to have
the adequate steam to produce at capacity.

ACTING CHAIRMAN BELL: Okay. Well --

MS. SMITH: Am I correct in understanding that this produces an additional income to the state of $200,000?

MR. NORTHROP: Yes, that's correct. Our contract calls for the steam when it's marketed, so now we'll be able to market not only this, but steam from other wells.

ACTING CHAIRMAN BELL: All right. Without objection, item 27 is approved.

Item 28.

MR. NORTHROP: Mr. Chairman, excuse me.

ACTING CHAIRMAN BELL: Well, a noncontroversial subject in a noncontroversial area.

MR. NORTHROP: Well, this is really rather noncontroversial. We have issued -- it's an assignment of a permit to drill some core holes in the Point Conception area, 20 holes of 120 foot depth. And Western LNG Terminal Company is assigning it to Western LNG Terminal Associates.

ACTING CHAIRMAN BELL: Yes. Actually, we're not doing anything but finding out what the geologic strata of Point Conception is. We're not doing any damage to anybody. We're not making any decisions as to whether LNG is going to be anywhere or whether Point Conception is going to be anything.
MR. NORTHROP: I think preliminarily it may well turn out that these tests could show that -- have the potential of showing that maybe Point Conception does not have the necessary base rock bed, etc., that would allow a trestle to be built there. So we have to find out.

ACTING CHAIRMAN BELL: May or may not. Well, it's certainly of advantage to have that basic data, isn't it?

MR. NORTHROP: Yes.

ACTING CHAIRMAN BELL: Okay. Is there anyone who wishes to speak on item 28 in this regard?

If not, item 28 is approved.

Item 29.

MR. NORTHROP: Mr. Chairman, at the last meeting in the Executive Officer's report, we discussed the problem we were having with the taxation of the Long Beach Field. And if you've read the papers, particularly in the Los Angeles area, you realize that there has been considerable upheaval in the Tax Assessor's Office there with the resignation of the Tax Assessor, the filing of tax appeals by the Assessor himself or his representatives, and so we have been unsuccessful in making some contact.

So we are asking with this calendar item to authorize the Executive Officer and the Attorney General to take the necessary steps and appropriate action to affect
a timely filing of an application for the reduction of the 1977-78 assessment of the Long Beach unit with the Los Angeles County Assessment Appeals Board.

I might add parenthetically that we have communication with the City of Long Beach to affect the same, to affect some of the same problems. And I think Mr. Thompson has --

ACTING CHAIRMAN BELL: Do we have a friend in court in terms of the City of Long Beach? Or I should say, a joint interest in this.

MR. NORTHROP: Yes, I believe you are prepared to speak to that.

MR. LINGLE: In our conversations, though, I think we are going to cooperate with you fully.

MR. NORTHROP: That's been the indication -- those have been the indications that I have gotten.

MR. LINGLE: Realize that we can't help but flinch when our property tax rates go up a little.

ACTING CHAIRMAN BELL: I realize that you have an adverse stake in this to some extent. But we are asking Long Beach to cooperate with us in reducing the amount of taxes they get --

MR. NORTHROP: That is correct, Mr. Chairman.

ACTING CHAIRMAN BELL: From the State of California.
MR. NORTHROP: And the deadline for the application is, as I understand it, September the 15th.

ACTING CHAIRMAN BELL: September 15th?

MR. NORTHROP: Right.

ACTING CHAIRMAN BELL: Okay. Now, who was going to put it together? The Attorney General and who else?

MR. NORTHROP: The Attorney General and our staff will put it together, Mr. Chairman.

ACTING CHAIRMAN BELL: Okay. I also wondered who -- you know, a property owner usually is a guy who goes in and appeals his assessment to the Assessment Appeals Board, and I always wondered what the State of California did about that.

MR. NORTHROP: Surprisingly, when I made my initial contact, in attempting to get to Assessor Watson, I was told to take it up with the State Board of Equalization. (Laughter.)

MR. NORTHROP: So the contents --

MR. THOMPSON: In essence, Mr. Bell, you're correct that actually this appeal will be made by the field contractor unless all the participants in the Long Beach unit -- actually those people who are taxed. We're an affected party, but rather than go through the definition of what an affected party is, why, those who actually are taxed.
ACTING CHAIRMAN BELL: In effect it's a joint action?

MR. THOMPSON: In other words, the assessor taxes the field contractor through a possessory interest concept.

ACTING CHAIRMAN BELL: Which we end up paying.

MR. THOMPSON: And your problem then, of course, is that you're trying to decide as to whether taxes collected by the local entity are of more importance than money brought up and used for state-wide. And that's really the issue as far as the commission is concerned.

Admittedly, the local taxing agencies will have to collect more taxes to make up if we were to win the appeal, but that same money then could come for state-wide use. This particular money then would actually be going into capital outlay for higher education.

ACTING CHAIRMAN BELL: Well, it does also involve the Carter Energy Plan, doesn't it?

MR. THOMPSON: Well, this is part of our concern on actually the appraised value of the unit.

ACTING CHAIRMAN BELL: Part of our appeal process.

MR. NORTHROP: Right. And the assumptions made, I think, by the LA County Assessor as to future pricing are -- you know, we are at a loss --

ACTING CHAIRMAN BELL: What the amount of that possessory interest is.
MR. NORTHROP: We are at a loss to figure out what information he had on the first Monday in March that led him to believe this kind of for a tax.

MR. THOMPSON: Actually, for a little background on this, the appraised value for the Long Beach unit as of March 1st, 1977, was set at $675 million. And this is about a 40% increase over the March 1st, 1976, appraised value of $485 million.

ACTING CHAIRMAN BELL: That's a depreciation in the figure.

MR. THOMPSON: That's a fair market value, supposedly, of what it's going to be. However, an increase is justified. I'll get to that in just a minute.

Now, the State Board of Equalization as part of their inter-county equalization program, goes through and samples properties in each of these counties and does their own appraisal. Their appraisal for the Long Beach unit as of March 1st, 1976, was $347 million compared to the $485 million the assessor had for the same year.

And this graph over here, in the broken red line are the assessed values for the past years. You can also see the blue line then is the remaining research item, and that broken green line now is the Board of Equalization's assessment as to the Long Beach unit as of the same point in time as the county assessment. And that's the difference
between the 347 and the 485.

ACTING CHAIRMAN BELL: Okay.

MR. THOMPSON: Now, admittedly there should be an increase in market value for the Long Beach unit between the two years because the FEA gave us a reinterpretation of the property. So our composite crude oil price increased about 20% as of September 1st, but we don't believe that the 20% increase in crude oil price quite relates to an over 40% increase in assessed valuation.

This increase in oil price more than offsets the amount of oil that you produce during the first year, plus some added value. But we think that extra amount is a little high.

Now, since you really don't buy and sell oil properties like this, to get it at the appraised value, you take and run a future revenue period.

ACTING CHAIRMAN BELL: It's an income stream approach.

MR. THOMPSON: Right, and discountage. Now, the big difference we have here is in the oil price, and the discount rate, because we are in effect using the same oil product rate and the same expenses.

The assessor went through and escalated oil prices in the future. We don't think he has any basis for doing this, and especially it's very strange that he
escalated to $11.45 by 1984.

But at the same time, he got some pretty high escalations. What we show herein, we believe is the impact of the program that's now in front of Congress. That's the Crude Oil Equalization Tax, in which the refinery is to collect an amount of money over and above what is paid to the producer up to a certain level.

If this were to pass, as we understand it now, the red area would be the Crude Oil Equalization Tax, which would be collected by the refinery and sent to the federal government. It appears to us that the assessor is crediting the unit with revenue that in effect is going to be collected at the refinery in a tax. And this to us seems to be a very one of the anomalies we see in this part.

MR. NORTHRUP: We are paying tax on a federal tax, is what it amounts to.

MR. THOMPSON: Now, the impact on this --

ACTING CHAIRMAN BELL: This would be one of the things that would create that 40% versus 20%?

MR. THOMPSON: That's the reason, because in effect that's the crude oil price in use for future years.

Our initial crude price is only 5.34 as of lien date, and then he increased that up to $11.45. So in effect, he's creating revenue that we don't know.

We also think that the discount rate should
probably be higher because this in effect is an offshore operation. You have more environmental risk and hazard involved in offshore operation.

And the impact on this, if that assessed evaluation were to stay as shown on the other graph there, this large increase, this would be about $4 million to the State of California.

ACTING CHAIRMAN BELL: Over what period?

MR. THOMPSON: The ad valorem tax for that year will be $4 million.

ACTING CHAIRMAN BELL: One year.

MR. THOMPSON: One year, for the next year.

The total taxes of the Long Beach unit -- ad valorem tax for the Long Beach unit, would be about $17 million under this. And this equates to about almost 60¢ a barrel, which is about 11% of the gross.

This also seems to be a little high on the taxation ratio, to take almost 11% of the gross as tax.

Now, I believe it was mentioned before we must file an appeal by September 15th if we want to keep this issue open. So this in effect, we are asking you for permission to file this particular appeal.

You have in front of you a newspaper clipping which relates the Board of Equalization's ruling on the adjustment, and this particular adjustment by the Board of
Equalization in its dropping from 25% to 24 1/2% as mandated, would be in excess of $300,000. So there's every reason, I think, for us to file at least for that.

Then, I think that the people should look at it and the lawyers and everyone like that, to see what we wanted to do after that.

ACTING CHAIRMAN BELL: Well, at least we had better make our appeal date.

Without objection, then -- I assume that is item 29?

MR. NORTHROP: Yes, sir.

ACTING CHAIRMAN BELL: In effect if we approve item 29, that authorizes you to go ahead.

MR. THOMPSON: And file that appeal. And we'll be reporting back to you as to the action we would take under this appeal at any previous meetings.

ACTING CHAIRMAN BELL: All right.

MR. THOMPSON: This is merely to file the appeal.

ACTING CHAIRMAN BELL: All right.

MR. THOMPSON: This is merely to file the appeal.

ACTING CHAIRMAN BELL: All right. Fine.

Motion and second. Without objection, item 29 will then be approved.

Item 30, Long Beach operation.

MR. NORTHROP: Mr. Chairman, item 30 is approval
of a modification that among other things would allow the City Manager to delegate some of the permitting operations as outlined in Chapter 138 to a Deputy City Manager.

MR. THOMPSON: This is merely a delegation of authority.

ACTING CHAIRMAN BELL: Delegation of authority?

MR. NORTHROP: Right.

ACTING CHAIRMAN BELL: No problem. Without objection, item 30 is approved.

Item 31.

MR. NORTHROP: Mr. Chairman, item 31 will be handled by Mr. Thompson.

MR. THOMPSON: This is merely reporting on an enhanced recovery demonstration in prior development.

MR. NORTHROP: 31.

ACTING CHAIRMAN BELL: 31. Closing AFE.

MR. THOMPSON: This is merely a sewer line that, because we had 10 feet of fill, had to be emplaced on top of the line and had to be abandoned, so we had to abandon the line and put a new one in. And the final closing costs of this are $66,000, of which there are another $24,000 to be put to the city.

ACTING CHAIRMAN BELL: No problem. Item 31 is approved.

Item 32 is informative.
MR. NORTHROP: Mr. Chairman, Mr. Thompson is still on center stage with his new problem of flood. He would like just for a few minutes to tell us where we are.

MR. THOMPSON: Yes. We are back with this again. This is where we are running a demonstration with the federal government. Our main concern to date has been the fact of whether we could manufacture this material that we inject out of our own crude there. And we have been running tests on this. They look favorable at this time. So because this looks favorable, we took this next step of drilling this one well, as reported here, and coring, and we are running saturations on the particular cores there.

At the present time we are running behind schedule, but it looks promising now as far as the preliminary approach. We reevaluated the configuration of the way the program will be run underground in the flooding pattern, but everything is on, still going down the track.

ACTING CHAIRMAN BELL: Is this one of our pilot tertiary --

MR. NORTHROP: Right. Which ERDA had given us.

ACTING CHAIRMAN BELL: This isn't what I call the detergent one?

MR. NORTHROP: No. That's the one Long Beach had.

ACTING CHAIRMAN BELL: Any questions?

Without objection, then, item 32 is approved.
Item 33, Bolsa Chica.

MR. NORTHROP: Mr. Chairman, the state Legislature has approved an expenditure of some $4,600,000 in excess of that for the acquisition of Bolsa Chica area in Orange County. We have had an appraisal of a somewhat lesser figure. What we're possibly asking for in this calendar item is the authority to negotiate with the owners of that area in an attempt to come to some kind of agreement.

ACTING CHAIRMAN BELL: Okay. This is strictly negotiation?

MR. NORTHROP: Strictly negotiation.

ACTING CHAIRMAN BELL: No objection to that negotiation. Item 33 is approved.

Item 34, boundary line agreement.

MR. NORTHROP: Mr. Chairman, Mr. Hight, staff counsel, will discuss that.

MR. HIGHT: Yes, Mr. Chairman, this is the authorization to execute a boundary line agreement between the Commission and Cliffside Properties. This is part of the Golden Gate National Seashore, and this sets the boundary between the public and private ownership.

ACTING CHAIRMAN BELL: Okay. Okay. All right. Without objection, then, that item is approved.

The next item is called compromise settlement, item 35.
MR. NORTHROP: Mr. Chairman, that will be handled by Mr. Hight.

MR. HIGHT: Mr. Chairman, the federal government is attempting to set up a South San Francisco Bay Federal Wildlife Refuge. Part of the land which will be encompassed by that refuge is currently state land.

This is a settlement of those disputes and a lease to them for 66 years for the interest that we will have. This will only become effective upon the federal government acquiring the other land within the area.

ACTING CHAIRMAN BELL: All right. All right. Without objection, then, item 35 is approved.

Item 36, Lake Tahoe hazard removal which we talked about.

MR. NORTHROP: Mr. Chairman, that's what I was talking about earlier. The Commission authorized me to spend up to $100,000. However, the first contact was for $200,000.

As in my report earlier, I outlined how we are going to spend the entire half million. I think we are going to get a great deal of work done for that half million dollars, considering Lake Tahoe, Donner, American, and the Upper Sacramento. I think we have had a lot of cooperation with the Corps of Engineers. We are getting exceptionally good cooperation from the County of Sacramento, and all the
areas are really doing everything they can to help us in getting a full value for the money we have spent.

ACTING CHAIRMAN BELL: Is this $200,000 the last of the Lake Tahoe part?

MR. NORTHROP: This will wrap up the Lake Tahoe part.

ACTING CHAIRMAN BELL: The rest goes down?

MR. NORTHROP: The rest will go on the other side. The Corps of Engineers has been very helpful.

As a matter of fact, they are going to handle the bids. We are very pleased. We are very pleased at the way not only the federal but the state agencies and local agencies have really cooperated on this effort and done a real fine job so far.

ACTING CHAIRMAN BELL: Item 36 is approved.

Litigation, item 37.

MR. NORTHROP: Mr. Chairman, we would suggest that items 37 and 38 be taken together, as they are represented by a common counsel. Mr. Hight will address that.

ACTING CHAIRMAN BELL: All right. Fine.

MR. HIGHT: Yes, Mr. Chairman. This is the settlement of some litigation authorized by you as the new Lands Commission. This is two people on the Sacramento River who maintained that they did not have to apply or get a
permit for recreation up here on the river.

We would like one change to be made in the resolution. On number 4 on page 100, the resolution currently reads, "authorize the staff to settle litigation and execute a nonprejudicial dismissal of People v. Stanley Gale," etc.

We would like to take out the word, "nonprejudicial," to make it a dismissal. They will be a dismissal with prejudice as to back rent only.

MS. SMITH: As to back rent?

MR. HIGHT: As to back rent.

MS. SMITH: Okay. And what was your settlement agreement on back rent?

MR. HIGHT: There wasn't any. That's why we are agreeing to this.

MS. SMITH: You're not collecting any back rent?

MR. HIGHT: No.

MS. SMITH: What are you receiving for forgiving the debt?

MR. HIGHT: The lease and a boundary line agreement.

ACTING CHAIRMAN BELL: Oh, thank you. I understand that we are just about to get a bill that says that recreational piers, etc., etc.

MR. NORTHROP: I hope we don't get that bill,
Mr. Chairman. We have written a letter asking the Governor to veto it. We will probably have it transmitted today.

MR. HIGHT: Excuse me. I misspoke when I said, "boundary line agreement." The lease will provide for a high water boundary as the consideration.

That same amendment would be done to both 37 and 38, taking out the word, "nonprejudicial," with regard to back rent only.

ACTING CHAIRMAN BELL: Okay. That changes the items on page 111 and 109?

MR. HIGHT: Yes.

ACTING CHAIRMAN BELL: Okay. Without objection --

MS. SMITH: No objection.

ACTING CHAIRMAN BELL: Without objection, we'll approve item 37, and I guess we'll approve item 38 at the same time.

MR. NORTHROP: Yes, we do, sir.

ACTING CHAIRMAN BELL: We have made the change as amended on both of those items as amended.

MR. HIGHT: Yes, sir.

ACTING CHAIRMAN BELL: Item 39.

MR. NORTHROP: Mr. Chairman, item 39 is a request by the staff for the authorization of the Attorney General or our State Lands Commission staff to take the necessary steps, including litigation, to eliminate a trespass on the
claim at the Klamath River.

ACTING CHAIRMAN BELL: Who is Roy Rook?

MR. HIGHT: He is a private land owner who has a small marina.

ACTING CHAIRMAN BELL: Oh, this is the marina?

MR. NORTHROP: Yes.

MR. HIGHT: Yes.

ACTING CHAIRMAN BELL: Just curious. Without objection, item 39 is approved.

Going to retrocession of concurrent jurisdiction -- which is a fascinating word -- we have items 40 and 41.

MR. NORTHROP: Item number 40, Mr. Chairman, is a retrocession which really will give jurisdiction back to the local agent, share it with the local agency, as well as the federal government in a list of military hospitals and cemeteries that you have in front of you.

ACTING CHAIRMAN BELL: Primarily Veterans Administration?

MR. NORTHROP: Right. The bulk of the Veterans Administration hospitals and cemeteries.

ACTING CHAIRMAN BELL: Okay. Now, there's no problem on this with the local sheriffs?

MR. NORTHROP: No. The local sheriffs --

ACTING CHAIRMAN BELL: They just objected to the --

MR. NORTHROP: To the giving up of that authority.
The retrocession is where we had the problem with the sheriffs.

MS. SMITH: No objection.

ACTING CHAIRMAN BELL: All right. Then as far as we are concerned item 40 is approved.

Item 41.

MR. NORTHROP: Mr. Chairman, as we commented off the record earlier, we are asking for permission to conduct public hearings to amend our Administrative Code as it applies to recreational piers. As we have discussed earlier, the Attorney General had given us an opinion that the recreational pier without costs per se was unconstitutional.

We are now, after consultation with some of the Senators -- some of the Legislators representing the areas affected, we have worked out, we hope, an agreement with them to change our regulations providing for -- that under certain conditions, piers could be rent free.

And those conditions would be that the builders or owners of the piers do certain public service features. For example, provide piers with fire extinguishers, and life rings, and those kinds of things that would be of public service. Those piers would be rent free, with the exception I should assume, that we should not bear the obligation of financing the preparation of the necessary papers.

ACTING CHAIRMAN BELL: Yes. I was going to say
not a rental charge, but at least a permit fee or something.

   MR. NORTHROP: A permit preparation fee, just whatever it costs us, because we are running -- the preparation runs several hundred dollars just to process. Just a processing fee.

   ACTING CHAIRMAN BELL: Yes. A $200 processing fee might be fair. We could skip the $4 rental fee if we got a $200 processing fee.

   MR. NORTHROP: The staff will be recommending to the Governor a veto of the particular bill involved.

   MS. SMITH: That's not the way the regulation reads to my understanding, the proposed regulation. It wouldn't be a processing fee, it would be a rental charge.

   MR. NORTHROP: A rental charge, where the processing fee would be provided in the bill. I'm sorry. We're talking about two separate areas.

   MS. SMITH: What do you propose to do should the Governor decide not to veto SB 349?

   MR. NORTHROP: In that case -- if he decides not to veto 349? In that case, we would probably have to go with the law of the land and say it's the law, and we would require a processing fee.

   ACTING CHAIRMAN BELL: Then what would happen on item 41?

   MR. NORTHROP: Item 41 would probably be moot.
MS. SMITH: Is that correct, Mr. Stevens?

MR. STEVENS: Well, Mr. Chairman, Ms. Smith, I believe it would be possible nevertheless to adopt some regulations. But if the bill in question were signed into law, then we would have to reexamine the situation because the Legislature in effect would have made a finding that these piers constituted a public purpose. And Legislative findings certainly deserve more consideration than administrative or even executive ones.

So it may moot the matter, but I really couldn't say that definitely.

MS. SMITH: Do you have a date in mind for an administrative hearing?

MR. HIGHT: Sometime within the next month, we would hope.

ACTING CHAIRMAN BELL: Since the bill is down to the Governor, we would assume that you would wait to find out whether he vetos or signs it before you had public hearings?

MR. NORTHROP: Certainly as soon as we got some indication. We would at least wait that far to find out what the feeling on it is, Mr. Bell, yes.

MS. SMITH: I would agree to approve or to give you the authorization on the condition that should the Governor approve SB 349, that you come back to the Commission.
for reconsideration.

ACTING CHAIRMAN BELL: Our action then would be
moot. They would have to come back.


ACTING CHAIRMAN BELL: Okay. Did we get the
change on that one, then?

MR. NORTHRUP: Yes.

ACTING CHAIRMAN BELL: In effect we are
authorizing this subject --

MR. HIGHT: Subject change.

MR. NORTHRUP: Subject to the Governor's veto,
and if the Governor does not veto, we'll come back.

ACTING CHAIRMAN BELL: If the Governor signs the
bill, this recommendation is moot and you'll have to come
back.

MR. NORTHRUP: We'll come back to the Commission.

ACTING CHAIRMAN BELL: All right. Approval on
item 41 as amended.

Status of major litigation.

MR. STEVENS: Mr. Chairman, Ms. Smith, we have
just received a Superior Court ruling in the case of
Post versus State Lands Commission. This was a ruling in
effect that the statute which gives the owner of geothermal
property a right of first refusal in bidding situations is
constitutional, not a denial of equal protection or of due
process. We don't know whether there will be an appeal or not.

We have met with the special master in California versus Nevada, and set forth some tentative ground rules for our litigation concerning the interstate boundary north of Lake Tahoe. We expect to have hearings within about three to four months after the completion of research and discovery on that question.

We had an extended hearing last week in the litigation over the high water boundary of Lake Tahoe, Fogarty versus State of California, which lasted some two hours and was submitted in Superior Court in Placer County. A similar hearing will take place in Nevada County with respect to Donner Lake on September 16th.

We have filed a petition with the California Supreme Court for a hearing in the Exxon case in which the Court of Appeals here in Sacramento held in effect that the Commission was bound by negotiations and representations made with respect to a lease entered into under the prior Commission membership period.

We think there is a significant question of law, and we hope that the higher court will accept it and reverse the decision of the Court of Appeals.

MR. NORTHROP: That completes it.

ACTING CHAIRMAN BELL: Very good. Now, if I have
the right page, the next item is confirmation date, time, and place, of next Commission meeting, tentatively set for Thursday, September 29th, 1977 in Sacramento at 10:00 a.m., is that correct?

MR. NORTHROP: That is correct, Mr. Chairman.

ACTING CHAIRMAN BELL: All right. Is there any other business to come before the Board?

All right. If not, we are adjourned.

(Thereupon at the hour of 10:20 o'clock a.m. the meeting of the State Lands Commission was adjourned.;--00o--
I, DIANE FATTIG, a Notary Public in and for
the County of Sacramento, State of California, duly appointed
and commissioned to administer oaths, do hereby certify:
That I am a disinterested person herein; that
the foregoing State Lands Commission hearing was reported
in shorthand by me, Diane Fattig, a shorthand reporter,
and thereafter transcribed into typewriting.
I further certify that I am not of counsel or
attorney for any of the parties to said hearing, nor in
any way interested in the outcome of said hearing.
IN WITNESS WHEREOF, I have hereunto set my hand
and affixed my seal of office this 25th day of September,
1977.

DIANE FATTIG
Notary Public in and for the
County of Sacramento,
State of California

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