MEETING
STATE LANDS COMMISSION

ROOM 2170
STATE CAPITOL
SACRAMENTO, CALIFORNIA

ORIGINAL

WEDNESDAY, SEPTEMBER 27, 1978
10:00 A.M.

CATHLEEN SLOCUM
C.S.R. License No. 2822

PETERS SHORTHAND REPORTING CORPORATION
7 COLLEGE TOWN DRIVE SUITE 211
SACRAMENTO, CALIFORNIA 95826
TELEPHONE: (916) 383-3600
MEMBERS PRESENT

Mr. Sid McCausland, Acting Chairperson, representing Roy M. Bell, Director of Finance, Commissioner

Ms. Betty Jo Smith, representing Mervyn M. Dymally, Lieutenant Governor, Commissioner

MEMBERS ABSENT

Mr. Kenneth Cory, State Controller, Chairman

STAFF PRESENT

Mr. William Northrop, Executive Officer, State Lands Commission

Mr. R. S. Golden, Assistant Executive Officer, State Lands Commission

Mr. James F. Trout, Manager, Land Operations, State Lands Commission

Mr. Robert C. Hight, Staff Counsel, State Lands Commission

Mr. W. M. Thompson, Manager, Long Beach Operations, State Lands Commission

Ms. Diane Jones, Secretary, State Lands Commission

ALSO PRESENT

Jan Stevens, Assistant Attorney General
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PETERS SHORTHAND REPORTING CORPORATION
7700 COLLEGE TOWN DRIVE SUITE 213
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 333-3501
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ACTING CHAIRPERSON McCausland: The meeting of the State Lands Commission will please come to order.

Chairman Cory couldn't be with us this morning, so I am sitting in his chair. I'm Sidney McCausland, Deputy Director of Finance, and joined by Betty Jo Smith of the Lieutenant Governor's staff.

This meeting will go fairly rapidly. So if you have a desire to testify, please make certain that you've completed one of the little cards which are available I believe from the lady in the back of the room. I will go by the agenda items in rapid order if I don't realize ahead of time that you want to testify. So if you do, please fill out one of the request forms.

Are there any additions or corrections to the minutes of August 31st, 1978?

MS. SMITH: None.

ACTING CHAIRPERSON McCausland: If not, the minutes are deemed confirmed as submitted.

Report of the Executive Officer, Mr. Northrop.

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, there is no report of the Executive Officer.

ACTING CHAIRPERSON McCausland: That's about the finest report you have ever given.
EXECUTIVE OFFICER NORTHROP: That's the good news. Now, the bad news is the Assistant Executive Officer has a report.

(Laughter.)

ACTING CHAIRPERSON McCausland: I notice that Mr. Golden's reports are getting longer and longer and now he has totally usurped your time.

(Laughter.)

EXECUTIVE OFFICER NORTHROP: Yes.

ACTING CHAIRPERSON McCausland: Mr. Golden.

MR. GOLDEN: Thank you, Mr. Chairman.

This report summarizes and presents significant accomplishments and items of concern regarding the State Lands Commission staff's interaction with the Coastal Commission and the San Francisco Bay Conservation and Development Commission.

Under the Coastal Commission we have received the draft EIS for Department of Interior Lease Sale 48 for review. Comments are due at the Resources Agency on September 30. Additionally, the Port of Hueneme and Port of Los Angeles Master Plans are being reviewed by staff. Both plans are intended for submission to the Coastal Commission pursuant to the Coastal Act of 1976. Formal comments to the Resources Agency on the Port of...
Hueneme Master Plan are due on October 30th, 1978. The Port of Los Angeles Master Plan is being submitted for informal review only at this time.

Under BCDC matters, Pickleweed Associates, in my report to you last month I discussed this 92 housing unit project proposed in Mill Valley, Marin County. The application involves the construction of four bridges which, according to maps dated 1895, 1899, and 1949 appear to cross historical slough bed areas.

Although staff has not completed its review of State titles within the project, our title investigation to date indicates that the project parcel is traversed by a tidal/navigable slough which has been cut off and partially filled. The title evidence indicates that it is likely that the State is the owner of the fee title to the area within the slough bed. And based on the Applicant's map, at least the two center bridges are located within the slough bed. The westerly bridge may also be within the slough shown by the Applicant. We have no reason to believe any of the bridges will be found to fall outside the slough bed after further placement review by our staff.

We have informed BCDC staff of the above findings. Based on this information, it is doubtful that the BCDC permit can be approved.
ACTING CHAIRPERSON McCausland: Mr. Golden.

MR. GOLDEN: Yes.

ACTING CHAIRPERSON McCausland: A few questions on this particular project since you and I both serve on BCDC.

MR. GOLDEN: Right.

ACTING CHAIRPERSON McCausland: This project has been before the local government, the Planning Commissions for approval for several years. It includes a number of features that have been considered to be extremely valuable, if not innovative, to those jurisdictions and quite a few people in the area. Is there any circumstances under which that project could be allowed to proceed and the State's sovereign interest protected or mitigated?

MR. GOLDEN: Yes. I believe right at this particular time, though, it would not be in a position to be approved until this title question would be cleared up. What would probably be required would be some type of an exchange agreement with us before this could proceed. It seems to be the indication --

ACTING CHAIRPERSON McCausland: So we could handle this project as one similar to the land near Alviso that's also --

MR. GOLDEN: I don't believe this is going to be necessarily -- it will hold it up a little bit.
ACTING CHAIRPERSON McCausLAND: Thank you.

MR. GOLDEN: It's unfortunate.

Land dedication-acceptance by the State Lands Commission. Recently, BCDC approved an application to construct a house directly adjacent to the shoreline in the City of Benicia. The project area includes an underwater portion encumbered with the public trust. BCDC, in its administration of the application and its trust responsibilities, required the Applicant to permanently guarantee that those areas of the Applicant's property now subject to tidal action shall remain in its present natural state. As indicated in the adopted and approved minutes, both the BCDC staff and the Applicant agreed that the area would go to the State Lands Commission. Staff is expected to draft up conveyance documents and/or proper deed restrictions with BCDC staff.

That concludes my report, Mr. Chairman.

ACTING CHAIRPERSON McCausLAND: Thank you. Are there any questions?

MS. SMITH: No.

ACTING CHAIRPERSON McCausLAND: The next group of items on the calendar are known as the Consent Calendar. They will be taken up on one motion. So does anyone have any desire to testify on Items C1 through C20? Are there any questions?
MS. SMITH: No.

ACTING CHAIRPERSON McCausland: There being no objections, Items Cl through C20 will be approved as submitted by staff.

Item 21 is an authorization for the Executive Officer to issue a letter permitting the Southern California Motorcycle Club to conduct a race on October 22nd on school lands in Inyo County. Mr. Northrop.

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, I have a telegram here from the Sierra Club Legal Defense Fund, and I'll read it for the record.

"It has become commonplace occurrence for the Bureau of Land Management to seek, on extremely short notice, the approval of State Lands Commission regarding major off-road vehicle events crossing State lands. We understand that once again the approval of this Commission is being requested on just such short notice. At this time in connection with a motorcycle race traversing State lands in the Olancho area of Inyo County. We strongly object to this Commission's approval of the use of State lands for ORV events of this magnitude without compliance with the provisions of the California Environmental Quality Act and without..."
adequate knowledge concerning the resources of the lands to be traversed. We, therefore, urge the Commission to deny its permission for the use of the State lands for the 1978 Olancho Open Area Hare and Hound Race. We request that this telegram be included in the record of your proceedings on the matter."

It's signed by Laurens H. Silver and Deborah S. Reames from the Sierra Legal Defense Fund from San Francisco.

Mr. Chairman, this event is a 65 plus or minus mile event of which approximately two miles of it crosses two corners of an area of State school lands. Jan Stevens, Counsel, would like to also address the Commission on possible alternatives on this action. Jan.

MR. STEVENS: Mr. Chairman, this project was reviewed by the Federal agency, the BLM, and a Negative Declaration was prepared. In order to meet the requirements of the California Environmental Quality Act, it would be necessary for the Lands Commission to circulate the Negative Declaration independently and give the public a reasonable opportunity to comment on it. So what alternative the Commission may wish to consider is to authorize the Executive Officer to issue a letter of permission for the activity conditioned upon compliance with the California Environmental Quality Act and his finding that there will
be no significant impact on the environment that would require an EIR.

ACTING CHAIRPERSON McCUSAUALD: Do you have any objections to amending the staff recommendation to require a 15-day circulation of the Negative Declaration prior to his release of the letter authorizing this?

MS. SMITH: No, I have no objection.

ACTING CHAIRPERSON McCUSAUALD: What would be the action of the Executive Officer in the event that during the period that the Negative Declaration was being circulated, interested members of the public chose to comment on the appropriateness of the proposed activity?

MR. STEVENS: He would have to evaluate the comments and find out whether -- make a judgment as to whether there would be a significant impact on the environment based on whatever comments he received. It would be still possible to reject these comments on the basis there would be no significant impact on the school lands section involved and proceed to issue the letter. But if he decides there would be such an impact based on these comments, then he would decline to issue the letter.

MS. SMITH: I have a question. Is that determination that the Executive Officer makes, or is that one that the Commission makes?

MR. STEVENS: It's one which I believe the
Commission could delegate to the Executive Officer. Ordinarily it would rest with the Commission.

ACTING CHAIRPERSON McCausland: Our next regularly scheduled meeting would fall on the 26th, which is after the date of the race. So I assume that we would either have to have a special meeting to consider those comments or delegate the responsibility to him.

Ms. Smith: What about consideration of the matter on October the 11th? Would that provide you with enough time to circulate the BLM's Negative Declaration?

Mr. Stevens: It would be close.

Mr. Trout: It would be awfully close if we got it in tomorrow.

Executive Officer Northrop: At least we could discuss at that time the reaction that we'd have. I would imagine if we were going to get significant reaction, we would have it by that time.

ACTING CHAIRPERSON McCausland: Would you prefer to have a special meeting?

Ms. Smith: Yes.

ACTING CHAIRPERSON McCausland: All right. Let us amend then Calendar Item 21 to include the first finding which is a finding that the EIR has not been prepared for this project, but that a Negative Declaration equivalent has been prepared by the Bureau of Land
Management. Let us include finding two to certify that the Commission has reviewed and considered the information contained in the Environmental Summary. Let us delete finding three; and the deletion will be the determination that the race will not have a significant effect on the environment. Let us delete finding four which would authorize -- no. What about leaving the authorization for the Executive Officer to execute a letter if there has been no -- let me back up for a minute.

Let us insert a new finding or instruction three to circulate the Negative Declaration for the required 15-day period for public comment, and then amend finding four to authorize the Executive Officer to execute a letter permitting the use of State lands in the event that there are no substantial public comments offered, and insert an item five which would call upon the Executive Officer to convene a special meeting of the Commission to hear testimony or review the comments if there were, in fact, substantial concerns regarding this proposed authorization.

MS. SMITH: That's fine.

ACTING CHAIRPERSON McCausland: Is that all right with staff?

EXECUTIVE OFFICER NORTHROP: Fine.

ACTING CHAIRPERSON McCausland: It's all right with my fellow Commissioner. So without objection, Calendar
Item 21 has been amended substantially and will be adopted as amended.

Item 22 is a commercial lease to the Marina Racquetball Club for sovereign land in Seal Beach, Orange County. This item has been before the Commission earlier. We were determining the appropriate use for that sovereign land.

Do you have any questions or comments on that item?

MS. SMITH: Yes, I have one question. And that is whether or not the parties to the contract have agreed to assign their interest to the corporation that is --

MR. HIGHT: Yes, they have.

MS. SMITH: I would then move for adoption of this calendar item subject to that condition, that the interest be assigned.

ACTING CHAIRPERSON McCausland: Without objection, the staff recommendation as amended will be deemed adopted.

Item 23 is authorizing the sale of a perpetual easement to the Bureau of Land Management for road purposes. Without objection --

MS. SMITH: No objection.

ACTING CHAIRPERSON McCausland: -- Item 23 is adopted as submitted by staff.

Item 24 is approving the continuation of three
holdover tenancies on land in Santa Cruz County.

MS. SMITH: No objection.

ACTING CHAIRPERSON McCausLAND: Without objection, Item 24 is adopted.

Item 25 is off calendar.

Item 26 regards a compromise settlement on a parcel in the vicinity of Alviso in Santa Clara County in exchange for a conveyance to the State of an interest in Brown's Island, Contra Costa County. Are there any questions on Item 26?

MS. SMITH: No questions; no objections.

ACTING CHAIRPERSON McCausLAND: Without objection, Item 26 is adopted as submitted.

Item 27 would authorize the Attorney General to file appropriate legal actions against Lassen County to set aside the approval of a negative declaration for a subdivision proposal known as Eagle Lake Estates. Any questions on Item 27?

MS. SMITH: Yes. It's my understanding that the State Lands Commission is not the lead agency in this action; am I correct?

MR. STEVENS: Yes, Miss Smith. The Resources Agency has already made such a request of the Attorney General. As I understand, the Lands Commission is part of an interagency task force which also has an independent
interest in the matter and, therefore, is concurring with
the Resources Agency action.

MS. SMITH: So we would not be filing an
independent action?

MR. STEVENS: No.

MS. SMITH: We would just be joining the other
parties in the action --

MR. STEVENS: That's correct.

MS. SMITH: -- that will be filed.

ACTING CHAIRPERSON McCausland: Is that the way
the staff recommendation reads?

MS. SMITH: No, it is not.

ACTING CHAIRPERSON McCausland: Would you like
to amend the staff recommendation?

MS. SMITH: I move that the staff recommendation
be amended to stipulate that the State Lands Commission
will join as a party to any action that is filed by the
Attorney General against the County of Lassen to set aside
the approval of the negative declaration for the subdivision
proposal known as Eagle Lake Estates.

ACTING CHAIRPERSON McCausland: Without objection,
Item 27 will be adopted as amended.

Item 28 is an authorization for litigation
concerning structures in Lake Tahoe near Carnelian Bay
Subdivision. Questions or objections?
MS. SMITH: No.

ACTING CHAIRPERSON McCausland: Without objection, Item 28 is adopted as submitted.

Item 29 is approving a maximum of $10,000 in costs for General Subsidence Maintenance and Repair Work and conditionally approving the Emergency Subsidence Remedial Work in the Long Beach Harbor District. Any questions or objections?

MS. SMITH: No.

ACTING CHAIRPERSON McCausland: Item 29 will be adopted as submitted.

Item 30 is approving specifications and forms for the Notice Inviting Bids for the sale of 4-1/2 percent of the crude oil in the Long Beach Harbor Department Tidelands Parcel. Questions or objections?

MS. SMITH: No objections.

ACTING CHAIRPERSON McCausland: Without objection, Item 30 is approved as submitted.

Item 31 regards an agreement and assignment to provide for partition of the Chevron-Atlantic Richfield jointly held ten percent nonoperating contractors' interests in Tract 1, Long Beach Unit; agreement and assignment of the resulting five percent Atlantic Richfield Tract 1 interest and Atlantic Richfield's Tract 2 interest in the Long Beach Unit to Century Resources Development, Inc.;
and agreement and assignment of Century's interests in Tracts 1 and 2 to Petro-Lewis Corporation. Mr. Northrop.

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, we have placed on the board, we've tried to graphically display how this program would take over. But in order to complete the chart, we have drawn several lines by inference and not by any direct documents. We still need, mainly, an executed agreement between Century and Petro-Lewis including the statement that Petro-Lewis will pay one million, twenty-two thousand, three hundred dollars to Century to pay Arco. We also need some kind of a statement that there are no other side letters, agreements or financial arrangements between Century Petroleum and Petro-Lewis and/or their subsidiaries, a statement of fact that there are none of those.

There is a problem, and we've discussed this with Arco. We feel this is not serious, but we should certainly have it as part of the package, a waiver of the one percent water cut requirements for the Four Corners Pipe Line; and, three, crude oil purchase agreements between Coastal Refiners and Century Resources. We need copies -- again, these are things that we should have in our package before we can make a meaningful recommendation to the Commission -- side agreements to Coastal-Century, including exchange agreements. The fifth thing we feel we should have is a
consent and assumption agreement between Partnership Properties Company and Century for Tract 2; and, B, the Partnership Properties and Century and the City as to Tract 1 must be modified to assure that the ten cents per barrel bonus payment is not run through the profits account.

In addition to that, not included in the package that we have, I have received this morning a letter from Macmillan Ring Free Oil Company that indicates a willingness to stand in Century's stead should something untoward happen to Century financially.

I have a letter from CIPA, California Independent Producers Association, signed by Doctor Morris Frankel, President, in which he supports this proposed transfer. In addition, I have some other documents from Morris Hodges from Century regarding a review program.

I think at this time, with the Commission's permission, I would like to have Alan Hager and Mr. Thompson, who worked extensively trying to put this package together, to perhaps go over the details as we see them now and as we tried to graphically display on the board and have it reduced in your package.

ACTING CHAIRPERSON McCausland: Fine.

MR. THOMPSON: Part of our problem, of course, is we received many of these documents this last Friday and
we're still trying to analyze them.

One change that should be made in this calendar item is in the third paragraph it talks about an assignment from Century to Petro-Lewis Corporation, and this should be changed to Partnership Properties Company, also referred to as PPC. They would be substituted and they would be the nonoperating contractor in Tracts 1 and 2 if this assignment were approved.

Now, to explain the substitution, I'll try and give you our analysis of what the interrelationship is between Petro-Lewis and Partnership Properties Company. Partnership Properties Company is a general partnership formed by certain officers of Petro-Lewis Corporation to be a nominee to hold title to all the properties owned by Petro-Lewis Producing Company, Roman Numeral Number I, which is a limited partnership in which Petro-Lewis Funds, Incorporated is a general partnership, and they hold 20 percent plus of the general partnership and four percent plus of the limited partnerships in Petro-Lewis Funds, Inc. This Petro-Lewis Funds, Inc. is a subsidiary of Petro-Lewis Corporation which owns 75 percent of the Class A voting common stock and a hundred percent of the Class B nonvoting stock in Petro-Lewis Funds, Inc. They're the operator for all these partnerships.

Now, as an incentive for approving this assignment
which isn't in the calendar item, Partnership Properties Company is proposing to pay a bonus of ten cents for each barrel of oil allocated to these two properties. Now, again, as part of this assignment, there are crude oil purchase agreements between Partnership Properties Company, which would be the nonoperating contractor for five percent of Tract 1 and for Tract 2, and Century Resources Development Company. This is the one that has the first assignment from Arco. These then are subject to additional crude oil purchase agreements. For Tract 1 for a six-month period Arco would take from Century Resources Development this oil, and then it would go to Coastal Petroleum Refiners of Bakersfield. For Tract 2 then, Century Resources Development would sell 2,000 barrels per day to Macmillan Refining Company.

Again, most of these documents, again, we've gotten various documents again this morning which extend Macmillan's desire to take this oil from -- Properties Producing Company is assigning crude oil purchased to Century Resources Development. They also have a desire to take all of that oil and would take it through the year 2000.

I think right now we have tried to diagram this up here as we understand it. About all we can say is there are certain parts of the agreement we think the language has to be improved, and we're a little bit under a time bind in this situation.
ACTING CHAIRPERSON McCausland: What is the time bind, Mr. Thompson?

MR. THOMPSON: The original assignment from Arco to Century Resources Development terminates October 15th. I don't know whether that can be extended or not. It's my understanding from the letters we've seen from Arco that they do not want to extend that and also they have answered, I think, the question the Commission had before of whether they would guarantee any of the performance. They have answered in the negative, they would not guarantee. They're here and they can speak for themselves, I think, on that issue.

ACTING CHAIRPERSON McCausland: So in all fairness to Century Resources, we should say yes or no to this sometime next week?

MR. THOMPSON: Yes, I think because they have an agreement that will terminate on October 15th. What you're looking at here is a situation where if the present situation continues, you'll have a very stable situation. You have in Tract 1 Atlantic and Chevron as partners in ten percent. The net profits percent of that is, 99.771 percent goes to the City who are partitioned. Then 99.542 percent on the net profit would go to the City on that.

In Tract 2 there's 96.25 percent of the net profits go to the State. So at the present time you have a
very stable situation with a high net profit percent. Of course, on the other side now you're offered a bonus that would go through the life of this. You would get ten cents a barrel for each barrel that we're allocated on this. This is a considerable sum of money.

So, again, it's a question of the continuity of this, and I think this is what the Commission has to evaluate going from a very stable situation you have now to a situation where you have additional financial advantage but potentially with a little more risk.

ACTING CHAIRPERSON McCausland: What is the role of the City in the approval of this relationship?

MR. THOMPSON: They also would have to approve it.

ACTING CHAIRPERSON McCausland: And what is their schedule for consideration?

MR. THOMPSON: This would come up before a City Council meeting and they normally meet on Tuesday. I think this has to be on their agenda by the previous Wednesday. There are people here from the City that could answer that question better than I could.

MR. PARKIN: October the 10th.

ACTING CHAIRPERSON McCausland: Can they act on it before we act on it?

MR. THOMPSON: Yes, I don't think there's any
requirement that we act before or after the City as far as I'm concerned.

MR. PARKIN: We could.

ACTING CHAIRPERSON McCausland: We've already seriously considered having a meeting on the 11th if we couldn't come to resolution of these things today. It sounds to me, well, let me find out. It sounds to me like you're describing a number of technical difficulties in the documents that you would like clarified before you make a firm recommendation to the Commission for adoption. Is it your belief that those are technical clarifications or is there truly a substantive problem here that leads you to believe that you're going to have serious problems with this? Because I'm inclined to believe that all parties have entered into an agreement and it doesn't look like a bad agreement to me if we could iron out the details. Do you see it as a detail problem or as a substantive problem?

EXECUTIVE OFFICER NORTHROP: As far as we know, Mr. Chairman, it is a detail problem unless there are side letters or agreements that we're not aware of. That becomes substantive. So I think, to answer your question, basically it's technical problems that we're trying to iron out at the present time.

ACTING CHAIRPERSON McCausland: Is there anyone here -- I think we have quite a few people who came on this
-- is there anyone today who would like to discuss this proposal with us and also to make sure you understand what it is that the staff is looking for clarification on?

MR. THOMPSON: One issue you might point to is I know they're referring to using this oil to burn under boilers for steam. I think the DOE has had a hearing on this and I think they have cleared the nonrefining use of crude oil in this particular case.

ACTING CHAIRPERSON McCUSLAND: You think they have cleared it?

MR. THOMPSON: I think they have, but I'm not sure.

ACTING CHAIRPERSON McCUSLAND: That's something that requires a little research.

MR. THOMPSON: Yes.

MR. PENDERGRAFT: My name is Jeff Pendergraft. I'm an attorney for Atlantic Richfield Company.

I had come here today with the idea of making a formal presentation addressed to the substantive issues of approval. It occurs to me that if, in fact, all we're dealing with is some technical problems that the staff needs additional information on, that we'd certainly be willing to cooperate and provide that information in contemplation of making a formal presentation at the next hearing. If that's what we're directed, I'll defer any formal comments at this time. I'm pleased to answer any
questions you might have.

ACTING CHAIRPERSON McCausland: If you are able to come back, your formal presentation would be most beneficial at that time.

MR. PENDERGRAFT: Right.

ACTING CHAIRPERSON McCausland: Perhaps there are some questions that we should deal with today.

MR. PENDERGRAFT: Let me go on to talk about just for a minute this October 15th deadline. We have an October 15th deadline in both the assignment between Atlantic Richfield and Chevron and in the assignment between Atlantic Richfield and Century Resources Development, and then by reference in the subsequent assignments. The agreement would not become effective in any event until November 1st because they become effective on the 1st of the month following approval. I don't know when the Commission scheduled their next meeting, but really what we'd like to do -- there's a long history of this and it's been going on for almost a year or two years -- what we'd like to do is point towards some resolution. We're really looking forward to an effective date of November 1.

Speaking for Atlantic Richfield, if the Commission is not going to meet before October 15th, but October 19th or 20th or something like that instead, I don't think that that would be a problem in changing the date and the contract. It's a matter of paper work we'd rather avoid.
if we could. I don't know when your next meeting is scheduled.

ACTING CHAIRPERSON McCAUSLAND: Well, let me make a proposal to you. Sometimes it's best for us to all work under pressure. Let us assume that we will meet on October 11th and that the City of Long Beach will meet on October the 10th. Barring serious problems, you will be able to close your package on October the 15th.

MR. PENDERGRAFT: That sounds entirely satisfactory to me, and we'll be in here on the 11th to provide a formal presentation and answer any questions you have and work with the staff in the meantime on any information they may need.

ACTING CHAIRPERSON McCAUSLAND: Is that agreeable to everyone?

One of the things we do have on the record, and let me make certain that I heard it correctly. If we do find that we have some serious problems and the 15th slips away, you're still very interested in the November 1st date, but your feet have not been set in concrete on the October 15th date?

MR. PENDERGRAFT: Well, a couple of things. I'm speaking only for Atlantic Richfield. Our feet are set in concrete because we've entered into these agreements with various parties and those parties have entered into agreements with others, all keyed to this October 15th date.
So it requires everybody agreeing to extend it. All I'm saying is I don't think Atlantic Richfield Company would have any problem in extending it so long as we're still working toward a November 1 effective date. So that means extending it for no more than 15 days. But there is a lot of difficulty just in terms of paper work, amending all these documents.

ACTING CHAIRPERSON McCausland: Knowing how much paper work we can generate, I have some small hint of how much paper work you can generate. So let me try and stick with the October 15th date.

MR. PENDERGRAFT: Thank you.

ACTING CHAIRPERSON McCausland: Does anyone else wish to address this item at this time?

MR. WATSON: Yes, sir. My name is Bill Watson. I'm an attorney representing Petro-Lewis Corporation.

First, we were here today hoping we could answer any questions about the suitable economic stature of Petro-Lewis and its affiliates who take part in this transaction. Looking to a delay, I assume that the Commission is not necessarily interested in hearing that whole presentation today.

ACTING CHAIRPERSON McCausland: I'm not certain. I'd like staff to address that. This may be a perfect opportunity for you and staff to enter into a dialogue that
will get on the record some of the questions that we were seeking answers for.

MR. WATSON: If I could defer, I'm not the appropriate witness for that, but we do have a Vice-President of the corporation present who would be capable to supplement the reported financial data that's been submitted to the Commission and the staff.

One thing I wanted to mention that did not come up in the summary and I think is relatively important to the factors we're representing to adequately protect the State is that although P.P.Co. would be the title holder or, I've been told by the staff several times that title may not be the right word. They would be the contracting party. There has been what I would characterize as an unlimited guarantee by Petro-Lewis Corporation of the obligations of P.P.Co. delivered together with the other documents for approval. So that I hope that your staff and legal advisors will tell you that it is the credit of Petro-Lewis Corporation that is to be considered rather than the relatively insubstantial credit of P.P.Co.

We are geared to go forward in whatever timetable is appropriate to hopefully obtain approval. I'm a little concerned about relying on representations that it appears that the timing problems can be worked out. We've had, I think, some substantial difficulties keeping this deal
together and I've been very concerned that we will lose
the entire transaction by missing the October 15th date.
If you'll excuse me for being paranoid, I'm not convinced
that the deal will stay together until we have that
amendment in writing if we cannot make the October 15th
date.

One point I also would suggest that we need
some clarification from -- I hope it's not too important --
is the request that we give assurances that we have no
other transactions with Century group. In one sense that
is not true. Petro-wis is constantly engaged in the
process of acquiring oil and gas properties and related
properties and we are in fact discussing other acquisitions
with Century in considering other deals. So we cannot
give a cosmic representation because there are other things
pending. I think we can make a response that there's
nothing that we see as relevant to this transaction that
has not been presented to the staff. We are talking about
other properties in California. If they have anything
else for sale in California or elsewhere, we will be talking
to them if they make it known to us because we are in the
business of buying properties. But I believe that it would
be accurate and fair for us to say that everything that's
relevant to this particular transaction, to the extent we
know anyway, has been either submitted to the staff or is
here today to hand to them.

ACTING CHAIRPERSON McCausland: Ms. Smith.

Ms. Smith: Perhaps the staff should clarify exactly what information they're seeking.

EXECUTIVE OFFICER Northrop: Thank you. Ms. Smith, Chairman, if there wasn't any, we wouldn't ask the question. But the problem is, I want to make sure that on this agreement here, and that's all I'm speaking to, staff wants to be sure there is not some side letter agreements which we have not seen or have not been made available to us. If both Century and Petro-Lewis say that this deal stands on its own and there is no quid pro quo, I think the lawyers say, in other deals for this deal, then we would be satisfied. But we want to make sure because it affects our eventual pricing on the entire Long Beach Unit. Any agreement that comes between the two of them, any additional moneys, affects the price that we see for our crude oil on the entire Long Beach Unit. So if there are additional moneys, we would like to know that because it not only affects this, but it has a direct bearing on everything that is produced in that Unit because of the contracts, the other contracts we have with the other producer.

Secondly, I would like to address the fact that Friday afternoon at 3:06 p.m. I received in the Long Beach
office two and a half to three inches of documents that we have worked on Friday and most of the weekend and Monday. In addition, we still do not have documents that we feel are important. So I think we have been working under a time constraint that has really not been fair for me. I've pressed the staff and they have responded very well, but to attempt to put together something on paper, diagrams that complicated, I just don't think it's fair to ask us -- for me to ask the staff to come up today with a recommendation. I think the 11th which you have discussed previously is perhaps a timely date and it makes us work very hard to get that together in that length of time.

ACTING CHAIRPERSON McCausland: What would you like to get on the record today?

EXECUTIVE OFFICER NORTHROP: There's several things, the admission -- the reference to the financial capabilities of Century that was just made. So I don't have to draw that inference. It's already been drawn.

MR. WATSON: Excuse me. I don't believe I said anything about Century, sir.

EXECUTIVE OFFICER NORTHROP: I beg your pardon. I think it would be important that we might consider some sort of a -- we might like some kind of assurance that if, for whatever reason, the State's money
was not paid very, very promptly, we would consider that a default and proceed on default in that area. Is there anything else you'd like to add on that, Alan, questions that you'd like to raise?

MR. HAGER: On that point, that particular point, no, but on a few other things.

ACTING CHAIRPERSON McCausland: Let me stay with that point for a minute and then we'll go on with Mr. Hager's line of thought.

What do you mean by very, very promptly? Default is a fairly serious course to pursue, and very, very promptly is a little bit of an ambiguous way to move into it.

EXECUTIVE OFFICER Northrop: I think really what I was trying to imply was I would like to see the cure for a default be the revocation of a contract, for the State to take the oil back itself. From that point of view, if the payment is not made promptly because we have a 50-day float period, we're more than -- we're in a bill on the 10th day, pay on the 20th. So we're on a 50-day float as it is now. Once that float gets out of hand and it exceeds, our indications now, it exceeds anything that Century has put up or whoever is putting the money up.

ACTING CHAIRPERSON McCausland: So you're saying the amount of the float exceeds the total --
EXECUTIVE OFFICER NORTHROP: The one million
invested, correct.

MR. THOMPSON: The one thing I'd like to clear
up also is the question that CRD has a right to come back
in and cure a default of this other program. We're not
too sure that that is a -- might not be an impediment
rather than a help. We'd like to get that whole point
clarified so we don't have another party coming in to cure
the default and that might interrupt our ability to be
the first in line.

MS. SMITH: That was my basic question, is
whether or not the Applicant had proposed a means of
curing the defaults. I'd like for you to explain exactly
how they would propose to do that. Perhaps the attorney
can address that issue and satisfy us that the party who
would --

MR. WATSON: We have not proposed any changes
in the existing contract for the handling of this field.
We hope that we have presented evidence. Unfortunately,
I'm not sufficiently versed in accounting to quote figures.
I believe the annual reports that have been submitted and
I think I would ask perhaps we defer to Mr. Blancett to
describe the economic stability of Petro-Lewis Corporation.
Although these are substantial payments, they are not
unusual for the company. I believe the company has a good
credit rating. I've never asked for a formal report on it. The discussion, although I recognize the State's concern, it seems rather strange to be approaching this with the question of how we cure a default. The procedure exists in the contract for dealing with the defaults by any contracting party, be it Petro-Lewis or Arco. We think we've submitted sufficient data to show that the company has the financial stability and magnitude to deal with the amount of payments that are involved. We are unaware of any outstanding allegations that the company doesn't pay its bills on time.

ACTING CHAIRPERSON McCausland: Go ahead.

MS. SMITH: What does the contract term provide for curing of defaults or the action that we can take in the event of default?

MR. HAGER: There is a period, and I'm trying to think exactly. It's like 20 days or 30 days in which the contractor has a right to cure a default.

MS. SMITH: Have the Applicants suggested amending that provision?

MR. HAGER: No.

EXECUTIVE OFFICER NORTHERN: Staff has been working under the impression that perhaps we'll be replacing Arco and the substantial bidders with a company not generally considered a major oil company, and I have
no belief one way or another for major oil companies for this discussion. But the financial substance of an Arco and a Chevron, that's who you're replacing, with someone of Century or Petro-Lewis may well be something that staff may in conversations with them in the very near future want to make a change in that part of the contract or at least suggest to the Commission that perhaps it would be well to consider making a change in that portion of the contract for Petro-Lewis or Century, whomever winds up as responsible from that area. That was what prompted the question.

ACTING CHAIRPERSON McCausland: First of all, let me say that I thought you carried water for the independent segment of the industry on most occasions and so your statements today are enlightening.

EXECUTIVE OFFICER NORTHROP: I qualified it with a caveat.

ACTING CHAIRPERSON McCausland: It sounds to me like there may be another agenda here that is of interest to the Commission. That is that if you do have an opportunity to change the default provisions of this contract or any contract, you're interested in doing so because I think I hear you saying the State might want to be in a position of taking back virtually all of its oil if the opportunity presented itself. You don't want too many outs in the
default provisions of the contract because rather than have third, fourth or fifth and sixth parties step in to save a contract, you think maybe the State would be better reclaiming the oil itself.

EXECUTIVE OFFICER NORTHROP: That is an alternative I think we should present to the Commission, yes.

ACTING CHAIRPERSON McCausland: So that it's not necessarily relevant to just say that a relationship between Century and Petro-Lewis is the issue here. The fundamental issue is what rights does the State want to retain under any default circumstances.

EXECUTIVE OFFICER NORTHROP: Right.

MR. WATSON: Sir, may I point out that the provision that they're referring to in our agreement with Century does not have any provision for Century becoming a party to the contract. We negotiated that originally at some length and Century insisted upon it to protect their position and be able to purchase the oil. The only relationship that this proceeding would create between Century and the State would be that the money would come from Century. I understand the staff's concern, and perhaps if it is a goal of the State to restructure these contracts so that the deal can be more easily broken, this is a possibility. But the only thing that Century has insisted upon is that if we are not paying bills which, again, is an
event I don't really like to discuss because nobody suggested why we shouldn't or that we aren't capable of it, but they insisted to protect themselves that if for some reason green dollars are not flowing appropriately from Petro-Lewis to the State, Century could step in and put its own dollars forward. There is no requirement in that that the State recognize any different owners or that the State set forward any different standards for default than already exist. So it seems to me this is not a complication any more than if someone else decided to step forward and pay all Petro-Lewis' bills as a gift.

ACTING CHAIRPERSON McCausland: Does the staff want any guidance from the Commission in this matter or shall we move on?

MR. THOMPSON: I think we're discussing this Item 3 that's a point on this.

One other point that we might want to bring up is the question that the Petro-Lewis Fund now will be committing money to in effect purchase this interest. I believe we, Mr. Alan Hager and I, discussed this before, was the fact that in our interpretation now you would not have a mineral interest in these properties. Therefore, if you're going to pledge money against them, it would be our interpretation -- I think the lawyer could perhaps speak to this -- that you do not have a mineral interest,
you have a producing right, but not a mineral interest.

MR. WATSON: I have been corrected several times for speaking to transactions in terms of more common to the standard lease. I apologize for using the wrong words if I have on occasion. We are buying whatever that contract creates, and whatever it should be called we will buy it by that name.

ACTING CHAIRPERSON McCausland: Let us make certain that we understand what it is that you're buying before we all sign the documents because I would prefer to have us come to that sense of mutuality here rather than in a courtroom.

MR. WATSON: Yes, sir.

ACTING CHAIRPERSON McCausland: Do you understand what it is that we're selling?

MR. WATSON: Yes, sir.

ACTING CHAIRPERSON McCausland: And we understand what it is you're buying.

MR. WATSON: We're not buying anything from the State, sir. We're buying an interest indirectly from Arco and Chevron. We have described it in all of our conveyance documents by reference to the document which creates the original rights. I think that Mr. Thompson has been very helpful in making us, perhaps beating us over the head from time to time to make sure that we understand.
ACTING CHAIRPERSON McCausland: We call him Moose around here.

(Laughter.)

Mr. Watson: It has been made clear to us that this is not a standard oil and gas lease. As I said, I have mental lapses and may have from time to time referred to it in terms that are more appropriate for a standard oil and gas lease. We are relying entirely upon the documents we have submitted in writing, all of which are references to the original contract.

If I might, before I suggest that if you're interested Mr. Blancett might be an appropriate witness, I would like to go back and perhaps put in my own testimony on the question of arrangements or other transactions. I would speak only from what I have reviewed because I am not an officer of the company, but I have not reviewed any documents or seen any evidence of any other documents other than those that have been submitted to the staff and made known to the staff. Apparently the staff has not seen the main purchase agreement between Petro-Lewis and Century. But with that caveat, as far as I understand it, I have not reviewed or been involved in the preparation of any document that involves consideration relating to this transaction. I have not been involved in the preparation or review of any document that has any other pricing...
provisions for oil to be produced or sold in relation to these properties, nor have I been involved in preparing or reviewing any documents which is contingent upon the approval of this transaction other than those that have been submitted to staff.

Finally, Petro-Lewis Corporation is not one of the seven sisters, but it is a nationally listed company, full reporting to the SEC and I believe is recognized in the country as one of the largest independent producers.

ACTING CHAIRPERSON McCausland: Yes, sir. Would it be appropriate for Mr. Blancett to --

MR. THOMPSON: I think it would be well because, of course, we have people from the City of Long Beach here and they're hearing on this the same way as we are on the first time and they'll have to consider the same thing before the next council meeting.

ACTING CHAIRPERSON McCausland: Well, let me ask if the representative from the City would care to join us here at the table and participate in clarifying any questions you may have in your mind, if that's all right with you, sir.

MR. THOMPSON: This is John Parkin with the Department of Oil Properties, City of Long Beach.

MR. BLANCETT: My name is Ken Blancett. I'm a Senior Vice-President of Property Acquisition at Petro-Lewis.
ACTING CHAIRPERSON McCausland: Would you like to make any opening comments on the basis of the discussion you've heard thus far?

Mr. Blancett: Yes, something about Petro-Lewis. Petro-Lewis is an independent company that was formed ten years ago. We have grown from nothing to about 15,000 barrels a day production to this point. Our main method of growth is through our oil income program which we sell to the public and have raised money to buy producing properties which have very little risk. By the same token, a relatively low, stable rate of return on the order of ten or twelve percent. This is a method that Petro-Lewis has grown and has offered the service both to the public and to companies that wish to sell property. The way that we buy property is to have the engineering work done by a third party consultant so that we know what we're getting. Then we finance the acquisition with about 40 percent bank loans so that it gives a better rate of return to our investor. So far these programs have been very successful and have made money for our countless investors that number over 10,000.

We plan to put this property into three programs which are '78-1, 2 and 3, which have a total value of approximately $45 million. This would be a minor part of the property that is in those programs.
ACTING CHAIRPERSON McCausland: Would you spend just a moment describing the programs for us in a little bit more detail. Are these closed partnerships?

MR. BLANCETT: We form a partnership each month and it's registered in all 50 states, sold in California. The amount of money varies that's raised from each partnership, varies from month to month, but it's approximately eight to twelve million dollars, eight to twelve million dollars a month. Using this money, we leverage it with 40 percent, say, so that we can buy maybe $20 million worth of property per month. This property being just over a million dollars will constitute a small percentage of what goes into the partnership to determine what the income is from those partnerships. We like to do several acquisitions, put several acquisitions into each partnership so that we have a diversity. It protects our investors so that if one property for some reason falls on its face, the others can pick up the slack. Historically, it has proven to be a sound method of investing for the public.

ACTING CHAIRPERSON McCausland: They buy a general partnership interest?

MR. BLANCETT: Yes. They buy general partnership interest and then that interest is allocated to each investor and he is paid each quarter with the proceeds from
the income from the properties, limited partnership interest.

ACTING CHAIRPERSON McCausland: It's not a
general partnership?

MR. BLANCETT: No. Petro-Lewis is a general
partner and then the investor is a limited partner.

ACTING CHAIRPERSON McCausland: Thank you. I
appreciate that.

MR. BLANCETT: I might say one other thing to
give you an idea of the financial background of Petro-
Lewis. Our lead bank is the Security Pacific in Los
Angeles. Our other banks are over the country, including
the Bank of Montreal and the Continental in Illinois which at the
present time, with our 15,000 barrels per day or so
production, we are in the range, Petro-Lewis and its
associates, over a hundred million dollar company. Last
year our oil income program raised and purchased about
a hundred and thirty million dollars' worth of property.
That gives you the size of our activities.

We do have currently approximately 1,500 barrels
per day production in California from the Sacramento Valley
down to Redondo Beach.

ACTING CHAIRPERSON McCausland: Are you the
operator?

MR. BLANCETT: Yes.

ACTING CHAIRPERSON McCausland: Would you be
willing to give us a general overview of the question raised by Mr. Northrop concerning other arrangements between Petro-Lewis and Century Resources?

MR. BLANCETT: Yes. I'm an officer of Petro-Lewis, and it is my responsibility to buy producing properties and to sign the deals that we have with various companies. I can say that we have no side letters of any kind with Century pertaining to this property that we haven't given the Commission.

ACTING CHAIRPERSON McCausland: Questions?

MS. SMITH: I understood the question to be whether or not you had any side letters with any parties.

MR. BLANCETT: We have no side letters with any parties.

ACTING CHAIRPERSON McCausland: Do you want to narrow that down to any parties --

MR. BLANCETT: Any parties in relation to our acquisition of this Tract 1 and 2.

ACTING CHAIRPERSON McCausland: Okay.

MR. THOMPSON: Also, as far as any partners that would pick up and take crude oil underneath the purchase agreement.

MR. BLANCETT: We have no side letters with anybody.

MR. THOMPSON: Did I characterize the handling of
the organization properly in the fact that the funds going to Petro-Lewis Funds and then they're going into this other properties and then --

MR. BLANCETT: Say that again.

MR. THOMPSON: Just right now that the funds that you get every month go into this Petro-Lewis Fund, Incorporated. They buy the properties and actually are putting up the moneys to purchase these two properties you're talking about?

MR. BLANCETT: That's correct.

MR. THOMPSON: Then that goes into Petro-Lewis Producing Company, Roman Numeral Number I?

MR. BLANCETT: No. This will go into these three partnerships that I mentioned, 78-1, 78-2 and 78-3. Those are different partnerships than Petro-Lewis Producing Company I. To give you people more background, Petro-Lewis Producing Company I is a more or less unionization of the first 65 partnerships that Petro-Lewis formed into one super partnership. It covers property all over the country. These partnerships that this Long Beach property will go into is not that. It's the three new partnerships that has a total value of about 45 million.

MR. THOMPSON: Now, this Partnership Properties Company again is the nominee to hold title for these three partnerships?
MR. BLANCETT: That's right.

MR. THOMPSON: Again, this Producing Properties Company is a group of the officers of Petro-Lewis, Incorporated?

MR. WATSON: Yes, sir. The three general partners of Partnership Properties Co. are Jerome A. Lewis, the President of Petro-Lewis, David A. Frawley who is the Executive Vice-President, and Dwight Moorhead who is an Executive Vice-President. Unfortunately, I must assume from my law firm some of the responsibility for the complexity of this situation. This general partnership was formed to hold title on our advice that it was the easiest vehicle for dealing with the kind of multiple ownership that the spread of exposure and risk that we recommended for the formation of these partnerships. I don't know what the California situation is, but in many states it is a difficult mechanical problem to show title in that many parties, and particularly if they're limited partnerships. The Partnership Properties Co. exists for the sole purpose of holding title for the benefit of these partnerships and some other minor affiliates of the corporation.

MR. THOMPSON: Does this also then bridge you back to Petro-Lewis Corporation itself then? Are these three partnerships on their own then?
MR. WATSON: Each of these partnerships is an independent entity formed under the Uniform Partnership Law of the State of Colorado and appropriately filed with whatever file is necessary to do business in California or any other state where they hold property. The way that we get back to Petro-Lewis Corporation is by two separate routes. The one that I think is most relevant to the matter we're considering is the Petro-Lewis Corporation has delivered its guarantee of all obligations to Partnership Properties Co. It has I think promised to the State that if anything goes wrong, the credit of Petro-Lewis Corporation is available to back up the obligations of P.P. Co.

If you wish to trace the economic benefits of the transaction and you have P.P. Co. as what we would call a bare nominee, serves no purpose other than appearing in whatever records exist to show who owns it and who would sign conveyances, it holds entirely for the economic benefit of the three partnerships that have been identified. Each of those partnerships is a separate entity. Petro-Lewis Funds, Inc. as general partners of those partnerships shares in whatever economic benefit those partnerships create. As a subsidiary of Petro-Lewis Corporation with the economic benefits to Petro-Lewis Funds, Inc. are channeled back as economic benefits to Petro-Lewis
Corporation and, of course, ultimately to its shareholders. So that there are those two different ways to get back to Petro-Lewis Corporation from P.P.Co.

I hope, as I said before, that you'll be satisfied that the guarantee we've delivered as a single step transaction will be sufficient for your purposes.

ACTING CHAIRPERSON McCUSAULAND: Are there further questions?

MR. BLANCETT: Mr. Chairman, I'd like to make a correction on these partnerships. It looks like they are in 77-10, 11 and 12, the last three partnerships of 1977. They're equally divided in a third in each one of those partnerships.

ACTING CHAIRPERSON MCCUSAULAND: Is that a calendar year?


ACTING CHAIRPERSON MCCUSAULAND: So you essentially have some assets acquired from limited partners in '77 that you have yet to actively --

MR. BLANCETT: In other words, we'd like to fill up the earlier partnerships first. The reason being that we don't like to keep uninvested funds.

MR. WATSON: There is another reason, and I'm not sure -- these partnerships are offered to the public on what's called a blind pool. The way we present them to
the public, we can only use the money that they subscribe to acquire properties that are purchased by the corporation after the funds arrive. Petro-Lewis has on occasion for substantial purchases modified this to identify properties as being an inventory. But at the current time, the standard offering to the public and modifications in compliance with the SEC laws in notifying the public what it is that is an inventory when the partnerships are going to be available. But as we present these to the public and the way that we have operated in the past, it would not be appropriate for us to put any of this acquisition into a partnership form after we have reached the stage when we thought the acquisition was going forward.

ACTING CHAIRMAN McCausland: I understand that. This may be a question beyond the scope of what's reasonable for us to ask for and you don't have to answer it. If you are in the process now of placing a million dollars over three partnerships from calendar year 1977 and you're taking in what you described earlier as eight to twelve million dollars a month, are you currently managing a fairly large fund of short-term investments or have you found producing properties for the bulk of your 1978 partnership contributions?

MR. BLANCETT: Both. We are actively and have signed contracts for substantial property purchases like
this. We've been working on this since last April. It takes a long time to close. We have just closed a $50 million acquisition that we were on almost a year. But the funds were tied up for that long and like the effective date on this will be April, but the closing will be hopefully November. This is a relatively small acquisition. We've got uninvested funds that we keep in short-term paper to make our investors as much money as possible during that time.

**ACTING CHAIRPERSON McCUSAULD:** Is your short-term paper outperforming your producing properties this year?

**MR. BLANCETT:** No, it sure isn't, not even at the high interest rate. Our average is about 12 percent for our investor over the life of the properties. But that is over the life of the properties, not on one year to the other.

**ACTING CHAIRPERSON McCUSAULD:** All right. Any questions?

**EXECUTIVE OFFICER NORTHPRO:** I have a couple.

**ACTING CHAIRPERSON McCUSAULD:** Mr. Northrop.

**EXECUTIVE OFFICER NORTHPRO:** I have a couple, and it's just for the Chairman. We've already exceeded my knowledge of the economic world --

**ACTING CHAIRPERSON McCUSAULD:** I don't answer
Executive Officer Northrop: -- but I would like to just for my own edification get a couple of questions answered.

You talked about leverage, and in my mind leverage means on the other side of a fulcrum there is a chance you won't be able to move it and it will break the stick.

Acting Chairperson McCausland: That's why you're working for the State Lands Commission now instead of Petro-Lewis.

(Laughter.)

Executive Officer Northrop: That's right. I don't understand leverage and how you work that.

Does that mean in this leverage you're pledging the State owned reserves on other notes?

Mr. Watson: We have not fully, I don't think, been told by the bank how to react to this. If you will look at the underlying contractor's agreement, you'll see a provision that the City or State, depending on which one can pull the cord in the event of bankruptcy. The primary value that a bank places on collateral is how it looks after the borrower has gone bankrupt. I believe the situation we'll face is that the bank will refuse to accept these properties as collateral for anything. I
think Mr. Blancett's comments on leveraging was to explain the difference between the buying power of the program and its initial subscriptions, and he was speaking of the programs as a total. I don't think that Petro-Lewis would wish to say that it wouldn't try to get a loan against these properties if it could, but at the current time it looks like it may be unavailable because the collateral looks very fragile.

**ACTING CHAIRPERSON McCausland:** This is a fairly small asset in terms of your overall --

**Mr. Blancett:** Yes. In the total program of those three programs, the 45 million just wouldn't have much affect on what the collateral value is it may have.

**ACTING CHAIRPERSON McCausland:** Want to pursue that?

**Executive Officer Northrop:** Yes, I would. Because it's one of our babies, I don't like to see it belittled. When you look at the amount of money that they're paying --

**ACTING CHAIRPERSON McCausland:** I wouldn't leverage anything off of it either.

**Executive Officer Northrop:** When you consider what Petro-Lewis is paying for these properties for the small percentage of the properties they're getting, when you take a look at that in ratio to the percentage and give
it present worth -- again, I'm a country boy and I don't understand all these economic things --

ACTING CHAIRPERSON McCausland: Good words, you're doing fine.

EXECUTIVE OFFICER Northrop: You see that we have got numbers, very high hundreds of million dollar numbers is the value. So I just don't take kindly to them belittling our property and, in fact, I think they have a significant piece of property with a fantastic amount of leverage available if they are able to pledge it. This is the question we should know going in, that we may well be buying an encumbrance on our own properties if we haven't got this cleared up. That was why my naive question --

ACTING CHAIRPERSON McCausland: Let me ask a question regarding that. I recall when Arco was being written up in Fortune and Business Week for the tremendous amount of extension involved in the construction of the Alaskan Pipe Line. While they were spread that thin, I don't believe we were asking them if our leases in California were pledged against the encumbrances associated with the Alaskan Pipe Line. But I understand the issue you're raising and I think all business corporations that we deal with will leverage everything they have an opportunity to leverage if the interest rates allow it. The situation
here, I assume, is that you're looking at the overall financial structure of the organizations you're dealing with and expressing a little more concern. Go ahead and proceed.

EXECUTIVE OFFICER NORTHROP: No, I think your point's a good one and I think you're where I am. You're well to point out the apparent inconsistencies in the argument, but the argument is something that they came in on the beginning of the development of the field and they were in place. We have a chance now of someone else coming in. I think it behooves staff to at least ask these questions.

ACTING CHAIRPERSON McCAUSLAND: So the question is: Will this property be pledged as collateral against loans, and the answer is if they get a chance, they will.

EXECUTIVE OFFICER NORTHROP: Okay. That's a good answer. That concludes my questioning unless staff has questions.

ACTING CHAIRPERSON McCAUSLAND: Do you have any more comments you'd like to offer for the record?

MR. BLANCETT: I don't think so, Mr. Chairman.

ACTING CHAIRPERSON McCAUSLAND: This has been an enlightening discussion for me.

MR. BLANCETT: Thank you very much.

ACTING CHAIRPERSON McCAUSLAND: Anyone else wish
to offer any comments, observations, testimony on Calendar Item 31?

MS. KNIGHT: Good morning. I'm Nancy Knight. I represent Century Resources Development. This is Mr. Morris Hodges.

ACTING CHAIRPERSON McCausland: Would you be willing to tell us where you graduated from law school?

MS. KNIGHT: UCLA.

(Laughter.)

MS. KNIGHT: Am I surrounded by USC?

ACTING CHAIRPERSON McCausland: The Lieutenant Governor's Legal Counsel thought he recognized you.

MS. KNIGHT: Mr. Hodges is here and would be happy to answer any questions that the Commission Members may have.

MR. HODGES: Mr. Chairman, I'm here to answer any questions that you might have. I want to commend the staff on that mini Arco that we have got there on the wall. That's what it looks like, a mini conglomerate.

ACTING CHAIRPERSON McCausland: Now I'm beginning to understand how people get lost.

MR. HODGES: I'd like to begin by saying that the original intent of our tryin' to develop, putting together something here that would hopefully benefit two or three independent refiners in California that are
presently having some serious problems, crude oil supply problems. One of them is Demmeno Resources in Compton, California, that is presently rated at about 8,000 barrels a day and are only able to run 3,500 because of their inability to receive or obtain a supply of crude oil locally. The supply of crude that they are getting is coming from local producers. They are trucking some crude in from the Imperial Valley at a very high cost to them. It's not economically feasible for them to continue that.

In the case of Macmillan Ring Free of which you have copies and the staff has copies of those contracts, they are presently in a position to handle 4,000 plus barrels a day of Wilmington crude. They can take delivery by pipe line of this crude. They have indicated by letter to the staff -- I believe you have copies of those letters -- their desire to obtain as much of the 5,000 approximate barrels per day as they can get.

What we tried to do here is allocate the crude to three refineries. One would be Macmillan Ring Free, number one. Number two would be Demmeno Resources in Compton. We have made commitments, Century Resources has made commitments to Demmeno Resources. Third would be Coastal Petroleum Refineries, Inc. of Bakersfield, California. Now, we would expect that in the next six to eight months to be able to deliver some of that crude
to Coastal by virtue of an exchange. We're working on that now whereby the local crude would be run by the two refineries and we in turn, they would in turn buy crude in the San Joaquin Valley and deliver those barrels to Coastal Petroleum Refiners. That was the original intent of Century Resources to get involved, was to ensure a supply of crude oil to a refinery in the Bakersfield area that we are financially involved in with a number of independent producers in the San Joaquin Valley. A substantial commitment has been made in this refinery in Bakersfield and we are in escrow with Gulf Oil who we purchased the unit from. We have negotiated ground leases with Tenneco Oil Company for the land. We are presently before the EPA and the Kern County Air Pollution Control District for our permits. We would expect to have clearance on those permits by the middle of October or the first of November.

We have natural gas supply for our refinery which allowed us to proceed under limitations that wouldn't impair quality. So that's the reason for our being able to get these permits.

Other than that, we started this back in April or May, '77, to try to ensure that we would have a viable supply of crude for these refineries. You can have a refinery, but without a viable supply of crude you don't
have much of a refinery. There are economic limits that these small refiners, even though they do receive certain benefits from the Federal Government, there are certain problems they do face. If they don't run a minimum amount of crude oil, their operating costs are fixed, whether they run 3,000 barrels a day or seven or eight thousand barrels a day. From our economic analysis, if a refinery is running less than 5,000 barrels a day, they have serious problems. Basically, I think that hopefully sums up what we intended or tried to do in negotiating with Atlantic Richfield and obtaining the supply of crude oil. It became apparent to me at least in my conversations with both the City and State, that although Century Resources is a small company, much smaller than Petro-Lewis, that we did not have the financial background or financial wherewithal to satisfy both the City and State that we could potentially, although you did have an opportunity for us to present our financial information, although we did send financial information on energy production and sales which is connected with -- it's on the chart -- with Century Resources to Mr. Northrop and Mr. Brock of the City of Long Beach, I felt in my conversations with the staff it would take somebody much stronger than Century Resources. Hence, the reason for us bringing in Petro-Lewis to participate with us as a financial partner.
ACTING CHAIRPERSON McCausland: Questions.

MR. THOMPSON: You mentioned a third refinery here. Now, does this show up in any of your crude oil purchase?

MR. HODGES: No. We have not formulated a purchase agreement with Coastal Petroleum Refiners, Inc. because between Demmeno Resources right now, Mr. Thompson, and Macmillan Ring Free, we have tentatively committed all this crude when and if it is available to them in the immediate future. It will be essential that these two refiners purchase a supply, at least a portion of this crude, and return those barrels back to Coastal Petroleum Refiners for their refinery in the Valley. This is common practice done in the industry. In other words, a refinery in the Valley may own crude in Wilmington. They in turn will take barrels back. We want barrels back for our refinery in the San Joaquin Valley, but only a portion of the 5,000 barrels per day are we asking.

MR. THOMPSON: This is Demmeno, D-e --

MR. HODGES: D-e-m-m-e-n-o, Demmeno Resources.

MS. KNIGHT: Mr. Thompson, it's anticipated that the Coastal Petroleum Refinery will go on stream about June 1, and Demmeno has agreed to terminate or make exchange crude available in the San Joaquin Valley in 1979.

MR. THOMPSON: This is a plant that is in
existence?

MS. KNIGHT: No, it's a plant that's under construction and is now getting the Air Quality Control approval. It is not on stream and will not be on stream until June 1.

MR. THOMPSON: What would happen if the permits were not granted?

MR. HODGES: The crude would continue in the hands of both Macmillan and Demmeno.

MS. KNIGHT: Century has been unwilling to make longer term commitments, although both Macmillan and Demmeno would prefer a longer term commitment because they want the crude for the new refinery.

MR. THOMPSON: Am I to understand now that Demmeno, there should be a crude oil purchase agreement then between Century Resources Development and Demmeno that will take part of that bottom line there now that we have going to either Coastal Petroleum or to Macmillan? Where do we come in on this?

MS. KNIGHT: It's actually the Tract 1 crude that Century has been discussing with Demmeno.

MR. THOMPSON: Arco's going to take that for six months?

MS. KNIGHT: Right. And after Arco no longer takes it, then the Tract 1 crude will go to Demmeno if
Demmeno can make available a comparable volume in the Valley.

MR. THOMPSON: That's very essential that we see that crude oil purchase agreement and the validity of that because that's the basis for our pricing.

MS. KNIGHT: We understand.

MR. THOMPSON: The validity of that agreement is what we need to step up, and that's a crucial part of the whole thing.

MS. KNIGHT: I would like to clarify those agreements that you do need. You'd like to see the contract with Demmeno?

MR. THOMPSON: We need to know any crude oil purchase that is going to be in effect in your sale from Century Resources Development that will represent.

MS. KNIGHT: So the Demmeno and the Coastal Petroleum which will not take effect immediately.

MR. THOMPSON: Because in all cases, Partnership Properties Company is going to sell to Century Resources Development?

MR. HODGES: That's correct. All of the crude from Tract 1 and Tract 2.

MS. KNIGHT: The Tract 2 crude, however, is going to Macmillan, and you have that contract. The State's oil is going to Macmillan.
MR. THOMPSON: And that is the one in which they've offered to extend to the year 2000 --

MS. KNIGHT: Right. That's a five-year contract.

MR. THOMPSON: -- 2,000 barrels a day, and now they'll take it all?

MR. HAGER: They will take all of Tract 2; is that correct?

MS. KNIGHT: Yes.

MR. HAGER: And they will convince themselves to taking it through 2000?

MS. KNIGHT: Yes.

MR. THOMPSON: Coastal Petroleum Refiners then drops out and Demmeno --

MS. KNIGHT: If they drop out -- they're on Tract 1. Demmeno may take it on the interim exchange until the Coastal Petroleum Refiners goes on stream at which time it will be exchanged for Valley crude. But if you want to know where it is going locally, where it's physically going to be delivered, it will probably continue to be delivered to Demmeno. If for some reason Demmeno cannot make such an exchange, then it would be trucked to the Valley.

MR. THOMPSON: In all cases we need to follow because it's actually how that crude will move.

MS. KNIGHT: Right. That is on the Tract 1 crude.
MR. THOMPSON: If something messes up, then all of a sudden you have crude to dispose of.

MR. HODGES: Macmillan Ring Free has offered, but we're reluctant to sign that contract, to take all of the crude in Tract 1 and Tract 2.

MS. KNIGHT: Macmillan, however, has furnished a letter, of which you have a copy of, that they will take all of the Tract 1 and Tract 2 crude in the event that Century is unable for any reason to take it over the life of the contract.

MR. HODGES: This is in Tract 2. It doesn't say Tract 1. They have offered to take all of the crude from Tract 1 and Tract 2 since they're short approximately four to five thousand barrels a day. But I told Macmillan Ring Free that that's not possible because part of this crude is committed to Demmeno Resources. Of the total 5,500 barrels a day, because now we're talking about Tract 1 and Tract 2, we talk about the total commitment of Tract 1 and Tract 2, all of Tract 2 is committed to Macmillan.

EXECUTIVE OFFICER NORTHROP: Did I understand if Demmeno could not make a satisfactory exchange, you would be then trucking to the Valley?

MR. HODGES: Well, we have a possibility of crude being delivered into Macmillan's refinery, and then
in turn MacMillan will make the crude available to us. They'll take delivery of the entire 5,000. We could, Bill, back haul the crude to the Valley in an emergency. I think the contingency items that potentially could be done, we don't like to do it, but it can physically be done. I believe that the exchange will be worked out between Demmeno Resources and Standard Oil of California who they're negotiating with -- they were in San Francisco yesterday -- to take delivery of Wilmington crude, whereby Standard will take delivery of Wilmington crude and Standard will deliver to Demmeno in Compton by pipe line -- the pipe line's only 300 feet from Demmeno Resources property line. They have requested through Standard Oil people a connection at that point. They're negotiating that right now. They wanted to know how firm our deal was. I said that we hoped that it was very firm, that they could go to Standard Oil now and talk to them about the exchange. If that is done, then Demmeno will take pipe line delivery of crude oil into their refinery and not have to truck the crude.

MR. THOMPSON: Another question. I hate to bring a third party into this, but CIPA has written a letter in which they say Century Resources Development informed us that they intend to exchange some of the lower tier crude oil attributable to these interests with Independent
Oil Producers, San Joaquin Valley, for use in steam
generators in the field.

MR. HODGES: That's correct.

MR. THOMPSON: This would be an unrefining use
of the oil?

MR. HODGES: That's right. That's a deemed
exchange whereby the physical barrels --

MS. KNIGHT: It's a nonrefining use, and under
the present regulation it would probably not bear an
entitlement burden as leased crude.

MR. THOMPSON: Is there a possibility of this
being changed in the future?

MS. KNIGHT: Yes. In which case it might not
be advisable for any of these parties to do it. But this
is while it is available, those producers in San Joaquin
Valley would like to take advantage.

MR. THOMPSON: What percent of this crude then
do you think will end up to be burned as fuel for steam?

MS. KNIGHT: I think it's a relatively small
percent.

MR. HODGES: 500 barrels a day, potentially may
be 1,500 barrels a day. A minimum of five and a maximum
of about fifteen hundred.

There are producers in the Valley that could use
this lower tier crude to burn in their generators. The
fact of the matter is, I believe some of the Tract 4 crude that presently is being sold is being trucked back, delivered to the Valley for generator purposes. The fuel costs are eight or nine dollars a barrel in the Valley, and the lower tier crude in Wilmington is only $5.20. You can see the economic benefit to those producers. It's a considerable savings. And these producers, some of them burn five hundred to a thousand barrels a day of this crude in an enhanced recovery project.

So there are many possibilities with the Wilmington crude. Our problem is we have to get it first before we can deal on it.

MR. THOMPSON: I think, again, this points out the thing we've been belaboring for many years about the value of our crude oil in different places and different ways and the strange things the entitlements program does.

EXECUTIVE OFFICER NORTHROP: I think it's important to point out, Mr. Chairman and Ms. Smith, that this deal is very, very attractive today because of the change in the entitlements program. But what they can change with the stroke of a pen, they can unchange, and we could well be -- and this is one of the reasons staff has been very, very cautious about moving to an area that looks attractive to people now because there's a tremendous profit in it. But it could evaporate very quickly.
MS. KNIGHT: Mr. McCausland, I would like to point out that these negotiations with Arco were begun a year and a half ago or more at a time when the entitlements picture was not attractive, and Mr. Northrop was the one that was working very hard getting that whole situation turned around.

Our clients feel that, we hope that the Department of Energy has learned something over the last few years and that such a situation should not come up again, but there are enough alternatives here that we should never find ourselves in a situation where it was so unattractive that it was an impossibility.

ACTING CHAIRPERSON McCausland: Governments are able to unlearn very rapidly.

MS. KNIGHT: I guess that's something that we need to be aware of.

ACTING CHAIRPERSON McCausland: Anything else this morning on this item? All right. We'll see you on the 11th.

MS. KNIGHT: Thank you.

ACTING CHAIRPERSON McCausland: In the meantime, make sure that the City of Long Beach is satisfied so that you'll stay on a timely basis.

If it's all right with everyone, we'll conclude our discussion of Item 31 for today. Does staff have any
last comments? Okay.

Mr. Thompson, you've been requested by Ms. Smith to provide her with a copy of your introductory comments as soon as they're transcribed.

MR. THOMPSON: If I can recall those words that are up here somewhere, we will get them back to you.

ACTING CHAIRPERSON McCausland: She wants to use them in her novel, I believe.

(Laughter.)

ACTING CHAIRPERSON McCausland: Calendar Item 32 regards the Final Report and Closing Statement of the 1977-78 Plan of Development and Operations and Budget for the Long Beach Unit of the Wilmington Oil Field.

MR. THOMPSON: This is merely a closing of what happened last year. In essence, we didn't make as much money as we had originally estimated.

ACTING CHAIRPERSON McCausland: You're going to make more money next year, though, and without objection, Item 32 is approved.

Item 33 is an information item regarding Micellar-Polymer flooding techniques.

MR. THOMPSON: In a point of brevity, we are moving along in this program and we hope to be putting this slug in the ground sometime in the next six months and we should see some results in 1979.
ACTING CHAIRPERSON McCausland: It seems that you've been discussing this with us for an awful long time.

EXECUTIVE OFFICER Northrop: At least.

ACTING CHAIRPERSON McCausland: If the progress you've made on this project is indicative of the speed with which negotiations are going to proceed on the assignment we just discussed, it is unlikely we'll ever close anything.

MR. THOMPSON: We have a Federal Government department in this.

(Laughter.)

ACTING CHAIRPERSON McCausland: Moving right along, Item 34 regards an exemption of proposed oil and gas lease from competitive public bidding procedures required under the Public Resources Code for the Hilmar Cemetery District. Any questions or objections?

MS. SMITH: None.

ACTING CHAIRPERSON McCausland: Without objection, Item 34 is approved as submitted.

Item 35 regards the proposed sale of royalty oil from State oil and gas leases in the Huntington Beach Field in Orange County. Any questions, objections?

Item 35 is approved as submitted.

Item 36, authorizing the issuance of a request
for proposals in the award of a contract to the preparation of an EIR for the resumption of oil drilling operations near Point Conception. Are there any questions or objections?

MS. SMITH: No.

ACTING CHAIRPERSON McCausland: Item 36 is approved as submitted.

Item 37 is authorizing the Executive Officer to solicit and accept the lowest qualified bid for removal of the remains of steel sheet piling groins at the Biltmore Hotel in Santa Barbara County. Questions or objections?

MS. SMITH: None.

ACTING CHAIRPERSON McCausland: Item 37 is approved as submitted.

Status of major litigation.

MR. STEVENS: Mr. Chairman, Ms. Smith, the California Supreme Court has agreed to review the Berkeley Waterfront case, the Murphy case, and a hearing has been set on the Lake Tahoe case concerning the high-water boundary by the Court of Appeals, and it's December 19th of this year. We hope for a decision on both of those things before the end of the year.

ACTING CHAIRPERSON McCausland: Any questions?

MS. SMITH: No.
ACTING CHAIRPERSON McCausland: All right.

There will be a special meeting of the State Lands Commission called for October 11th at 10:00 a.m. The room will be announced. The two agenda items that will be most likely considered will be a further discussion of the Negative Declaration regarding the race course and the discussion of the assignment of Tract 1 and 2 leases and any additional items that staff may find appropriate.

Without objection, the meeting is adjourned.

(Thereupon the State Lands Commission Meeting was adjourned at 11:35 a.m.)

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CERTIFICATE OF SHORTHAND REPORTER

I, CATHLEEN SLOCUM, a Certified Shorthand Reporter of the State of California, do hereby certify:

That I am a disinterested person herein; that the foregoing State Lands Commission Meeting was reported in shorthand by me, CATHLEEN SLOCUM, and thereafter transcribed into typewriting.

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

IN WITNESS WHEREOF, I have hereunto set my hand this 2nd day of October, 1978.

CATHLEEN SLOCUM
Certified Shorthand Reporter
License No. 2822

PETERS SHORTHAND REPORTING CORPORATION
7700 COLLEGE TOWN DRIVE SUITE 213
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-5601