MEETING

STATE OF CALIFORNIA

STATE LANDS COMMISSION

ROOM 6031

STATE CAPITOL

SACRAMENTO, CALIFORNIA

THURSDAY, JUNE 26, 1980

10:00 A.M.

GATHLEEN SLOCUM, C.S.R.
License No. 2822
MEMBERS

Mr. Kenneth Cory, State Controller, Chairperson
Mr. Roy M. Bell, representing the Director of Finance
Mr. David G. Ackerman, representing the Lieutenant Governor

STAFF

Mr. William F. Northrop, Executive Officer
Mr. Robert C. Hight
Mr. James F. Trout
Mr. Donald J. Everitts
Mr. Wilbur M. Thompson
Ms. Diane Jones, Secretary

ALSO PRESENT

Mr. Jan S. Stevens, Attorney General's Office
Assemblyman J. Robert Hayes
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CHAIRPERSON CORY: Okay. We'll call the meeting to order, please.

We have confirmation of any corrections or additions to the minutes?

Oh, we need some microphones on I think.

(Thereupon a discussion was held off the record.)

CHAIRPERSON CORY: Are there any corrections or additions to the minutes? Hearing none, they'll be approved as presented.

The Executive Officer has a report.

EXECUTIVE OFFICER NORTHROP: Mr. Chairman and members, the Corps of Engineers is in the process of reclaiming Webb Tract, an island in the Delta which was flooded due to levee breaks during last winter's storms. Pump-out facilities will require that PG&E provide emergency electrical service to the island. The reclamation work is scheduled for completion within 12 months, of course, depending upon weather conditions. Work is to start on July 1st, 1980.

In response to the proposal for storm damage corrective work, the staff issued an emergency permit to PG&E for installation of a submerged power cable under
the San Joaquin River between Twitchell Island and Webb Track.

CHAIRPERSON COPY: Do we have a through-put agreement on that?

EXECUTIVE OFFICER NORTHROP: We're going to get that.

The temporary emergency permit will expire at the end of the year, end of 1981, which should allow for completion of the reclamation work and removal of the submerged power cable issue of emergency permits for levee repair was approved by the Commission at its February 1980 meeting.

The next subject is the Windfall Profit Tax. The Commission, the Attorney General's staff, Alan Hager, along with Washington counsel John Lamont and the Long Beach City Controller met with the Deputy Undersecretary. We indicated to the Deputy Undersecretary our interpretation of the interim withholding tax regulations and the problems that have arisen as to the definition of "economic interests" and the difference in the application of I.R.S. regulations for depletion versus Windfall Profit Tax calculation. Written comments had been submitted earlier for hearings on July 16 and 17 at which time revision of these interim regulations are to be considered. The Secretary recommended that we make a presentation at that hearing and submit additional
comments outlining the differences as we've seen them;
and, in fact, "economic interest", the same definition did
not have to be necessarily used because there were ample
instances where words meant different things to different
people.

Currently, approximately $13 million in Windfall Profits Tax paid by the various tideland contractors have been withheld from state revenue for the months of March, April and May. Application for refund of these withholding tax monies from the Treasury is now under consideration.

MR. ACKERMAN: Do we get interest on that?
EXECUTIVE OFFICER NORTHROP: No.
MR. BELL: Any chance of ever getting anything back once the Federal Government gets its hands on it?
EXECUTIVE OFFICER NORTHROP: The chances are --
MR. BELL: We've got to get it turned off before we lose it all; isn't that it?
EXECUTIVE OFFICER NORTHROP: But the turnoff, getting it turned off, is up to the companies. The problem with turning it off is that there may be penalties involved. The companies are paying it to the Federal Government saying: Look, we may be penalized. This is the way we read it. Now, all the contractors don't read it this way. Powerine Oil Company reads it as I do: there is no tax, so they're not sending anything to the Federal Government. Chevron reads
it: whatever their interest is is taxable. The only thing they're paying is, for example, if their interest is five percent of the net profit, they're only paying five percent.

The balance of the contractors, Texaco, Exxon, Union, Mobil and Shell are saying: Well, we have to pay taxes on that early carry interest and by paying taxes on the 30-day carried interest, they translate that back to barrels and are paying it on that as well. Which means, well, our annual operating is about a hundred million for this discussion. That means we will be paying 70 percent, 30 to 70 percent windfall on the entire operating cost which was not intended to be that way. So that's the problem.

CHAIRPERSON CORY: On this issue I was in Washington, I guess, Thursday of last week and talked to some of the lawyers. One of the things that my instincts sort of tell me we may have to end up doing is trying to get some tax lawyering in an area that we normally don't deal with because our Franchise Tax Board, we don't deal with this kind of a thing and we may need some special help. If we get in a jam, I told them to start thinking about that. When you get into Federal tax law for depletion allowance and windfall profits and interpretation as they do in Washington, the guys are pretty good at handling Department of Energy problems. I'm not so sure that they're tax experts and we may need to get them a subcontractor, but
at that point they didn't think so. I just said: Look, there's too much money to end up blowing it because we don't have the right soldiers on the field because my instincts tell me every month this goes by, we're probably going to never see that money.

MR. BELL: That's what I was saying. Once gone, it would be pretty hard to get back.

CHAIRPERSON CORY: So if we don't get off dead center shortly, we may try to get another soldier back there on a short-term contract to deal with the tax questions, people that are used to dealing with I.R.S.

at top levels.

MR. BELL: Do you think it would be appropriate for the Board in advance of the next meeting to give the Executive Officer power to get some kind of contract for a tax lawyer or at least get one lined up?

CHAIRPERSON CORY: It might be worthwhile to grant that authorization, say, not to exceed ten thousand in case they're in a jam. We can go ahead if that's --

MR. BELL: Yes, I think that would be wise.

CHAIRPERSON CORY: Just because it's in the area that we're normally not dealing with.

MR. BELL: Yes.

EXECUTIVE OFFICER NORTHROP: It was clear at the meeting, Mr. Chairman, that, as you know, you and I and others
have spent many hours before Department of Energy and Department of Interior and it's clearly a different arena we're in there.

MR. BELL: Dealing with I.R.S., let's face it.

CHAIRPERSON CORY: So without objection, that authorization is hereby granted if needed and you should report back to us. That will just tide you over. If you have a proposal, it should be on the next calendar.

EXECUTIVE OFFICER NORTHROP: Yes.

CHAIRPERSON CORY: Okay. You have another --

EXECUTIVE OFFICER NORTHROP: Yes. We have "crude oil sell-off". In accordance with your authorization of January 24 the staff called for and received bids on the uncontrolled portion of royalty oil produced under certain State leases in Ellwood and Carpinteria areas in Santa Barbara County and the Huntington Beach area in Orange County. The bids were based on the highest per barrel bonus over the highest posted price for uncontrolled oil in the respective fields. La Jet, Incorporated, submitted on May 27th the only bid for approximately 2300 barrels in the south Ellwood field in the amount of 36.7 cents per barrel.

CHAIRPERSON CORY: Who is La Jet?

EXECUTIVE OFFICER NORTHROP: La Jet is an operator, as I recall -- I'm not certain -- I believe he's in Signal...
Hill doing some work. It could be Valley, but the names have changed there recently.

Two bids were received for approximately 100 barrels in the Summerland/Carpinteria fields, with the highest bid from U.S.A. Petrochem in the amount of 86 cents per barrel.

On June 17 two bids were also received for the 100 barrels per day of Huntington Beach oil with U.S.A. Petrochem submitting the high bid of 32 cents per barrel. These bids are currently being reviewed by staff and will be presented for your consideration at the July meeting.

This last you'll be interested, extremely interested. In addition, on June 23rd, we called for bids on approximately 250 barrels from Tract Two of the Long Beach Unit and no bids were submitted. It appears from the rather limited response we are receiving on the sell-offs that the demand for crude is decreasing. I think really the glut of heavy crude is increasing as we predicted for some time it was going to.

CHAIRPERSON CORY: The glut of heavy crude or the glut of crude?

EXECUTIVE OFFICER NORTHRUP: The glut of heavy crude. There's a great crude glut, but the heavy crude is the first to suffer.

CHAIRPERSON CORY: Is that a movie?
Any questions from the Commissioners?

Staff report on State Coastal Commission:

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, I don't believe there is one.

CHAIRPERSON CORY: Okay. I think it's the appropriate time for Mr. Bell to have the floor.

MR. BELL: No, I think it is the appropriate time for an award ceremony.

CHAIRPERSON CORY: Well, there is an award to be made, but I thought we'd take care of the more serious discussions, but we'll take care of this end of it now.

As many of you are well aware, our Executive Officer has what most psychiatrists would call a fetish. He has several of them. One of which deals with eagles. The other of which deals with just a general fascist personality --

(Laughter.)

CHAIRPERSON CORY: -- and a great simpatico with the military and particularly a certain element of the military, at least from my view. So I thought it might be appropriate to acknowledge that and award him for his good service.

We have some eagles --

EXECUTIVE OFFICER NORTHROP: Those are nice.

CHAIRPERSON CORY: -- for presentation to our
Executive Officer. I think it is inappropriate for him to wear anything from the Third Reich, but the United States Government does have a few bird colonels around on occasion. So we have a couple of birds here for you.

(Laughter.)

CHAIRPERSON CORY: We expect to see these on your lapels at all times when you're carrying on official duties. Otherwise, the power and the mystique of the Executive Officer will not be transferred to any orders and commands that you issue, Mr. Northrop.

(Laughter.)

CHAIRPERSON CORY: If you screw up, let me tell you, we're going to rip them off.

(Laughter.)

EXECUTIVE OFFICER NORTHROP: Those are very nice, as a matter of fact. You may think it's funny, but I think they're very nice. Thank you.

MR. BELL: The psychiatrist said that's what you'd say.

(Laughter.)

CHAIRPERSON CORY: Mr. Bell, you have nothing to say about --

(Thereupon a discussion was held off the record.)

EXECUTIVE OFFICER NORTHROP: Let's move along.
CHAIRPERSON CORY: The next items on the agenda are the Consent Calendar. These items are designated by the prefix C, C1 through 18. These will be taken up and approved as a group and we will approve the staff recommendation.

If there is anybody in the audience that has any problems with any of those items --

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, you have in front of you a telegram on Item No. C5 from the North Marin Water District and it reads:

"North Marin County Water District's application for construction and maintenance of an eight-inch pipe on Lagunitas Creek Bridge, we respectfully request that you waive the $475 permit fee which we have already paid. The project is merely replacing a" --

CHAIRPERSON CORY: Deteriorated.

EXECUTIVE OFFICER NORTHROP: Is that what that is?

-- "deteriorated pipeline which has been hanging on the bridge for forty years. The pipe is part of a small rural water system and the project has qualified for ... grant/loan ..."
because of financial need and small income of the area."

So they're asking that the 475 permit fee be waived.

CHAIRPERSON CORY: Is there anybody from the North Marin County Water District in the audience?

What's the wish of the Commissioners?

MR. BELL: Well, I have no objection to the waiver. I don't know. How do you feel?

MR. ACKERMAN: Is there a recommendation from the staff?

CHAIRPERSON CORY: If we waive this, how do we not waive every other public agency?

EXECUTIVE OFFICER NORTHRUP: The staff would recommend the 475 be collected because the 475 reflects at least our costs. The costs of preparing and putting the item before the Commission and so I believe the costs are justified. We have done a study and found out that maybe 475 doesn't cover our costs totally.

CHAIRPERSON CORY: Doesn't?

EXECUTIVE OFFICER NORTHRUP: No.

CHAIRPERSON CORY: I'd be embarrassed to admit that.

EXECUTIVE OFFICER NORTHRUP: We have a very heavy overhead load.

MR. ACKERMAN: In that case, I don't think it's
appropriate.

CHAIRPERSON CORY: I just think we have a problem if we do it here.

MR. BELL: Since there is no one also in the audience to appear to object to the item, let's leave it on the Consent Calendar.

CHAIRPERSON CORY: Is there anyone in the audience on any of the other items that disagree with the staff recommendation on Items Cl through 18? Without objection, the Consent Calendar will be approved as presented.

Item 19 is approval of seven 40-year General Leases in the Tahoe area for marinas. As I understand it: this is a result of some rather lengthy negotiations with the marina owners up there, putting them together where they have a lease that they can live with and bringing some people under lease and everybody worked very hard on this. Is there anyone in the audience on these items?

Any questions from Commissioners?

MR. BELL: None.

MR. ACKERMAN: None.

CHAIRPERSON CORY: Without objection, Item 19 will be approved as presented.

Item 20, a 20-year commercial use at Tahoe City for John and Barbara Kearns. Is there anybody in the audience on this item? Any questions from Commissioners?
Without objection, Item 20 will be approved as presented.

Item 21 --

MR. BELL: You can take 21 and 22 and 23 together.

CHAIRPERSON CORY: Twenty-one, 22, and 23 together. This is a, as in all shell games, is a three-shell item to move the Malibu Pier from the Malibu Pier Corporation to the State of California and then back out to a sublessor which leaves Gener-1 Services holding the bag rather than us. Is that the effect of this transaction?

EXECUTIVE OFFICER NORTHPROP: That's the way it works.

CHAIRPERSON CORY: Is there anybody in the audience on any of these items, 21, 22 or 23? Any questions from Commissioners?

MR. ACKERMAN: None.

CHAIRPERSON CORY: Without objection, Item 21, 22 and 23 will be approved as presented.

Item 24, this is a lease of Mr. Walter M. Harvey on J Street.

EXECUTIVE OFFICER NORTHPROP: On the J Street location.

MR. BELL: This is not the O Street location.

EXECUTIVE OFFICER NORTHPROP: This is the J Street.

CHAIRPERSON CORY: And this is an item where there
is nonpayment, and this has not been corrected?

EXECUTIVE OFFICER NORTHROP: That's correct.

Mr. Chairman.

CHAIRPERSON CORY: And so we propose terminating
the lease for nonpayment.

EXECUTIVE OFFICER NORTHROP: Nonpayment, correct.

CHAIRPERSON CORY: Any questions from Commissioners?

MR. ACKERMAN: No.

I'd originally asked this be held over from the
last meeting and we did have a meeting with some of the
participants involved, laid it out very clearly to them that
payment should have been received by last Thursday and no
payment was forthcoming. So I would respectfully move the item.

CHAIRPERSON CORY: Without objection, Item 24, the staff request is approved as presented.

There's nobody in the audience on 24? Okay.

Item 25, Kings River Conservation District, rescission of a permit.

EXECUTIVE OFFICER NORTHROP: Forty-nine year
and issuance of a 66-year.

MR. BELL: This matches their Federal --

CHAIRPERSON CORY: This conforms to their
financing --

EXECUTIVE OFFICER NORTHROP: Federal.

CHAIRPERSON CORY: -- program?
Anybody in the audience on Item 25? Questions from Commissioners?

MR. BELL: No.

MR. ACKERMAN: No.

CHAIRPERSON CORY: Without objection, item will be approved as presented.

Item 26, John Chase needs an access corridor which he'll pay fourteen hundred and fifty-two dollars on a landlocked parcel that was transferred prior to that being inappropriate. Is there anybody in the audience --

MR. BELL: I think we should take it quickly.

CHAIRPERSON CORY: Without objection. Item 26 will be approved as presented.

Item 27, approval of sale of a perpetual road easement for $1400, U.S.D.A. Forest Service. Anybody in the audience on this item? Questions from Commissioners?

Without objection, Item 27 will be approved as presented.

Item 28, approval for finding that Santa Cruz Port District has substantially complied with the terms of its grant.

Anybody in the audience on this item? Questions from Commissioners?

MR. BELL: None.

CHAIRPERSON CORY: Without objection, Item 28
will be approved.

Item 29, U.S. Borax and Chemical Corporation --

Ronnie rides.

(Laughter.)

CHAIRPERSON CORY: That's the least we can do for him.

(Laughter.)

MR. ACKERMAN: No comment.

MR. BELL: I have no comments.

CHAIRPERSON CORY: Approval of a two-year prospecting permit -- and you don't think he's going to last four, huh?

(Laughter.)

MR. ACKERMAN: Twenty mule team.

CHAIRPERSON CORY: Is there anybody in the audience on this item?

Without objection, the two-year prospecting permit as requested will be approved.

Item 30 is off calendar.

EXECUTIVE OFFICER NORTHROP: That's correct.

CHAIRPERSON CORY: Item 31, approval of award of geothermal resources lease to SMUD who is the high bidder.

Is there anybody in the audience on this item? Any questions from Commissioners? Anything the staff needs to add?

EXECUTIVE OFFICER NORTHROP: No, sir.
CHAIRPERSON CORY: Without objection, Item 31 is approved as presented.

Item 32 is --

EXECUTIVE OFFICER NORTHROP: Is off calendar,

Mr. Chairman.

CHAIRPERSON CORY: -- off calendar. The Accounting Department wants to check because this is an additional lease and they want to double-check if there are two leases, not just one, in terms of the financial capability of the company before we give final approval.

EXECUTIVE OFFICER NORTHROP: That was the main thing our Accounting Department wanted to take a look at it.

MR. BELL: You told me yesterday it was a good, solid deal.

EXECUTIVE OFFICER NORTHROP: A solid deal, but we looked at them once before and now the head of our Accounting said that maybe with the second one --

MR. BELL: Maybe with the second one --

EXECUTIVE OFFICER NORTHROP: We can't handle it, so we'll take a second look.

CHAIRPERSON CORY: Item 33, anybody in the audience on Item 33 which is approval/acceptance of Lease Quitclaim Deed and termination of five-year Mineral Extraction Lease in Contra Costa and Sacramento County submerged lands.

Anybody have any questions? Without --
MR. BELL: None.

CHAIRPERSON CORY: -- objection, Item 33 is approved as presented.

Item 34, this is approval of disposal of clean drill cuttings and oil-free mud from the existing Platform Emmy in offshore Huntington Beach for Aminoil.

Is there anybody in the audience on Item 34?

Any questions from Commissioners?

MR. ACKERMAN: I have a question. In case of liability here, -- I think I asked this yesterday -- but in case of liability, in monitoring whether or not the cuttings are clean, who has the ultimate liability if Aminoil doesn't dump clean cuttings? Who determines the cleanness; and if there is a problem, who's problem is it? Is it Aminoil's? Is it ours?

MR. STEVENS: I'm inclined to think it would be Aminoil's because in effect they would be operating under a permit from the State and the provisions for immunity from liability in the Liability Act should apply. For acts done under permit, the State would not be liable.

CHAIRPERSON CORY: Is there a representative from Aminoil?

MR. SHELDON: Yes, Mr. Chairman.

I'm Spencer Sheldon with Aminoil, U.S.A.

The answer to that question is that Aminoil, the
Applicant, is responsible. It has to operate under the conditions of its N.P.D.E.S. permit with the Regional Water Quality Control Board, part of the State Water Board.

MR. ACKERMAN: They've already passed on this.

MR. SHELDON: That permit was obtained last September. We've been going through the CEQA clearance process here with the State Lands Commission in order to use that permit which was subsequent to AB 678 which was passed in 1979.

MR. ACKERMAN: Is monitoring done then by the Regional Water Quality Control Board?

MR. SHELDON: No. We have a regular monitoring program and conditions of that permit. They audit that monitoring program and have the ability and the right to come out and provide their own independent testing at any time they feel it necessary.

CHAIRPERSON CORY: Any further questions?

MR. ACKERMAN: None.

CHAIRPERSON CORY: Okay. Without objection, then, Item 34 will be approved as presented.

MR. ACKERMAN: Thank you, Mr. Chairman.

CHAIRPERSON CORY: Item 35, City of Long Beach requests prior approval for subsidence expenditure for Van Kamp Street extension.

EXECUTIVE OFFICER NORTHROP: Mr. Chairman,
I appreciate the eagles very much, but I think I'd like to have Mr. Thompson and Ms. Jones point out the problem.

CHAIRPERSON CORY: You aren't wearing one of those things. I can't recognize you. You're out of uniform.

(Laughter.)

EXECUTIVE OFFICER NORTHROP: Mr. Thompson, would you come forward.

MR. THOMPSON: Mr. Cory, I don't know whether you realize it or not, but the lowest rank we have in the State Lands Commission's staff --

CHAIRPERSON CORY: Diane?

MS. JONES: I have a pointer.

CHAIRPERSON CORY: That is liberation. Go ahead.

You have your own pointer. Wonderful.

Moving right along.

MR. THOMPSON: Well, prior to today the lowest rank we had in the State Lands Commission staff, of course, you know was a one star general.

(Laughter.)

EXECUTIVE OFFICER NORTHROP: I realize that.

MR. THOMPSON: This is a project here in which the City of Long Beach, the Harbor Department, wants to extend Van Kamp Avenue. They have to go over a railroad track.

The one on the left shows actually the profile.
You see Van Kamp Street there is actually going over the top. That's the actual elevation they have to go up to. They have to get an extra, I think, 15-plus feet to get clearance under those tracks.

There was contention here between our staff and the City as to whether this really was a fill project or not because, in effect, instead of filling in a whole pier, this was more or less putting in a dike or something like that. We have compromised and we're proposing to accept this negotiated settlement with them.

CHAIRPERSON CORY: This cost is how much?

MR. THOMPSON: Five hundred and sixty-two thousand plus dollars max.

EXECUTIVE OFFICER NORTHROP: Four hundred and fifty-six.

MR. THOMPSON: Started out as seven hundred and some thousand dollars.

MR. BELL: I think you should explain any future conditions on this that in effect we'd have sort of a hold harmless on this in case --

MR. THOMPSON: This is part of the contention. For example, this area right in here had originally been filled and this asphalt had been replaced before subsidence cost. So as part of this, we want to make sure that if this particular structure is raised again because of these tracks,
that they have to redo this whole structure, that you're not going to be asked again to approve subsidence costs for raising part of this. That's one of the conditions --

MR. BELL: Is that one of the conditions?

MR. THOMPSON: That is one of the conditions and that's included in the letter of agreement between the City Attorney's Office and the Attorney General's Office.

MR. ACKERMAN: Does this establish a precedent for other situations like this where the city may want to add improvements on top of subsidence and then come back to us?

MR. THOMPSON: Unfortunately, most negotiated things, both parties more or less maintain their same posture and we try to negotiate ours and in between somewhere. They have their viewpoint and we still have our viewpoint. I don't think it sets precedent for either side.

MR. BELL: Where they do have a right to the State's payment, but we didn't want to have to pay it twice. I would assume though that the one precedent we are setting is that we're not going to be paying for anything twice by this agreement.

Mr. THOMPSON: For example, they had asked for putting in guardrails all along this whole section and moving various lights and things like that. So it was just part of the negotiations.
CHAIRPERSON CORY: You did not approve that?
MR. THOMPSON: Yes, that's part of it.
MR. BELL: Yes, we did not approve it?
MR. THOMPSON: We did not approve the extra amount of lighting and guardrails they've requested. That's been reduced. I think we're back where we were. We'll just have to argue each one out.

This line right here actually shows what the elevation of this pier was before subsidence. So this is the amount of actual fill material in here that we're actually approving under this --

CHAIRPERSON CORY: They aren't going to put fill in there, instead they're building a bridge; is that correct?

MR. THOMPSON: That is the contention, that it is really not a subsidence-related project. But, again, they are really placing fill on lands that have gone down. So it's a little of each.

CHAIRPERSON CORY: Okay. Any questions from anybody in the audience? Members?

Without objection, Item 35 is approved as presented.

Item 36, this is just the overall subsidence?

EXECUTIVE OFFICER NORTHROP: Right.

MR. THOMPSON: This is for an annual.

CHAIRPERSON CORY: Are there any questions on this
Without objection, Item 36 will be approved as presented.

Item 37, this is the seismic monitoring. We've had no seismic activities is that correct?

EXECUTIVE OFFICER NORTHROP: No seismic activity and no subsidence.

CHAIRPERSON CORY: No subsidence.

MR. THOMPSON: This map over here on your left will show the amount of subsidence from May of 1965 which is before production started on the Long Beach Unit up to the last survey. The only area that's gone down in that period of time which is 15 years is this small area right in here. The Long Beach Unit boundary is right here. So, very definitely, nothing from any production in the Long Beach Unit has caused any subsidence.

CHAIRPERSON CORY: Where is that? I mean, if I were in the harbor, where would I be in that area?

MR. THOMPSON: The large bridge that goes over here is right there. That's the Desmond Bridge and that's the power plant right in there. This is the end of the channel right here. This is where the big ARCO deep channel cut in here and that's going to be located down here.

CHAIRPERSON CORY: Any idea what's causing that?

MR. THOMPSON: No.
MR. BELL: That's outside.

MR. THOMPSON: This is completely outside.

MR. BELL: Our responsibility pertains only to the unit?

MR. THOMPSON: To any production in here. Actually this area had gone down and subsided before we started production from the unit. That's why we picked a starting date of May, 1965 because that's prior to any kind of production in the Long Beach Unit.

CHAIRPERSON CORY: Okay. Are there any questions from anyone in the audience? Any further questions from Commissioners?

MR. BELL: No.

CHAIRPERSON CORY: We have received the information in 37.

Item 38, proposed expenditure by City of Long Beach for resurfacing Marina Basin Number 3 parking lot. Anybody in the audience on this item? Questions from Commissioners?

Without objection, 38 will be approved as presented.

Item 39, request for ratification of disclaimer. What's this about?

MR. HIGHT: Mr. Chairman, this is a ratification of a disclaimer filed in the Hamilton Air Force Base case.
to exclude three parcels which were included in the complaint description.

CHAIRPERSON CORY: We're cleaning up our act?

MR. HIGHT: Correct, Mr. Chairman.

CHAIRPERSON CORY: Anybody in the audience on this item? Okay.

Without objection, Item 39 is approved as presented.

Item 40, authorization to file disclaimer in Placer County.

MR. HIGHT: This is for the Central Valley project, Mr. Chairman.

CHAIRPERSON CORY: Any questions from members? Anybody in the audience?

Without objection, Item 40 is approved as presented.

Item 41, Ocean Front Oil Company. This is a well that is in --

MR. BELL: This is a large outbreak of a very bad well.

CHAIRPERSON CORY: We want to authorize taking the necessary steps including litigation to remove the hazard; is that correct?

MR. HIGHT: That's correct, Mr. Chairman.

CHAIRPERSON CORY: Is there anybody in the audience on Item 41?
MR. BELL: I was just going to ask if they had consulted with the Division of Oil and Gas.

CHAIRPERSON CORY: Come forward and identify yourself.

MR. MEYER: My name is Stephen Meyer and I represent Ocean Front Oil Company.

We'd request today either that the request be denied or, in the alternative, that it be continued until the next meeting.

The history of this particular well is that we have an oil lease that's price sensitive. It was entered into in 1934. Commencing in '74 when oil prices started to go up, our royalty rate went from 25 percent to anywhere from 80 percent to a hundred percent. That's the amount we pay the State. Presently that royalty rate is 200.7 percent. That is for every dollar we take in, we pay the State two.

We have been making payments under protest since 1974 asking for modification of this lease. Only in 1976 do we get any response from State Lands. Finally, in '79 at the behest of my law firm, we began negotiations.

It became apparent at that time that the State wanted the well abandoned for two reasons. One was its low production, and the other was a safety problem with the well. We don't think there's a safety problem with the
well, but I think production isn't high. But in light of a royalty rate of 80 to 100 percent, there is not a great deal of incentive to put in new equipment.

Nonetheless, we think that first the request ought to be denied and our lease ought to simply be modified to give us a reasonable royalty rate. The State's interest isn't really harmed because the State's getting paid money on this well. We've consulted with engineers who find it quite odd and unusual that the State should be so concerned about this well in light of the fact that the State is getting paid. I mean, we're the ones, who, if anyone is losing money, it might be us. But the State isn't being harmed.

However, we did have settlement negotiations with the State Lands Commission and in July of '79 it was agreed that, with staff, that we would get 50 percent of the amount of the royalty to be paid back to us. However, in August of '79 that was withdrawn. That was rescinded by staff in an unusual move. But we continued negotiation and we finally had a meeting in January of '80 and this understanding was supposed to have been reduced to writing by the attorney at that meeting. That understanding was, according to that letter, was that we were to advise the Lands Commission when we were going to cap this well. The decision at that time was whether we cap or redrill. This
well passes through private land as well as State land.
So we wanted to explore the option of just capping it at
the point where it enters into the tideland and redrill
in our area.

The confusion arose as to whether or not we were
going to give notice to the State in either March 1 or
April 1 of exactly what we were going to do and when
we were going to do it. I advised the attorney for State
Lands that that wasn't our understanding of that meeting.
That we would simply apprise them of our progress. We had
retained a consultant.

My clients then contacted, it's my understanding,
contacted Mr. Everitts in late March or early April and
advised him that he still had not gotten his report back
from the consultant that he had retained and he was advised
to retain Mr. James Shephard as a consultant in this matter.
Mr. Shephard was retained and Mr. Shephard is preparing
a report. Mr. Shephard's report will be out week after
next. From that report it will be determined whether we'll
redrill or whether we will cap. That's why I'd like to
continue it, because we'll get that report week after next
and I think we can continue discussions with State Lands
staff.

So I ask you either that the request simply be
denied or that it be continued. I do think that if we go
into litigation, it's not really in the interest of the State. This will be protracted and go on for some time. We're only talking about a total sum of, total amount of money paid in since '74 of $48,000 or something approximately in that area. It is a great expense to the State as well as to my client to go into litigation and I think will result in probably the same settlement anyway.

Thank you.

CHAIRPERSON CORY: Staff.

MR. HIGHT: Yes, Mr. Chairman. The reason that we're at this point at this time is we thought we had an agreement in January and there was a misunderstanding. The misunderstanding has not led to any productive negotiations or progress and that's why we hoped to bring the thing to a head. I think that we would be agreeable to working with the Applicant during the next month and, hopefully, coming out with an agreement that both parties can live with.

MR. EVERITTS: Just as a matter of interest, the reason --

CHAIRPERSON CORY: Where are we on the question of safety? There seems to be a unanimous question here. We have a safety report from the Division of Oil and Gas.

MR. EVERITTS: The way this started was there is an injection well, water injection well nearby the well.
The well is capable of sustaining water flow and whatever oil might be produced if, in fact, the well head were to burst under injection pressures. As a matter of fact, that's our basic concern. They may not be a danger to life, but clearly a danger to property and to quality of the water.

CHAIRPERSON CORY: The question is, is the Division of Oil and Gas, as I understand it, is supposed to do oil well safety work, have they been involved in this?

MR. EVERITTS: The Division of Oil and Gas issued a notice approximately two years from this coming November requesting them to abandon the well. They gave them two years to abandon the well.

MR. MEYER: They gave us two years to abandon or fix it. We're still not in violation of the D.O.G. order.

MR. BELL: They have the next move.

MR. MEYER: And you can understand why we might not equip this with whatever it is that D.O.G. is requesting as much as at the same time State Lands is seeking to shut us down and we're paying a royalty rate that simply has no basis in reason. There's no economic basis.

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, if I may, I think we should lay something else on the table here. That is the fact other wells in the area went into a...
unit. We agreed at the time we put that unit together to adjust the royalty rate to make it economic to produce. This operator chose not to go into the royalty, but rather to go it alone.

CHAIRPERSON CORY: Not to go into the unit.

EXECUTIVE OFFICER NORTHROP: Rather than to go into the unit, correct.

So I think it's well that we understand that as we go into it. Perhaps this operator under the free enterprise system is allowed to exercise his own judgment. So that's where we are on this well. I think it's important that be pointed out.

CHAIRPERSON CORY: Bob, your recommendation, I am unclear with what you want to do at this point. You're saying wait another month because he's got a report coming out in two weeks? Are you wanting to wait?

MR. HIGHT: I would think that at this point another month will not place us in jeopardy and that we can go another month and negotiate.

CHAIRPERSON CORY: Any questions from the Commissioners?

MR. ACKERMAN: Why don't we put it over, 30-day continuance.

MR. BELL: Thirty-day, next month's calendar.

CHAIRPERSON CORY: Put it on for next month's
calendar.

MR. MEYER: Thank you.

MR. HIGHT: Our concern in the area, the major concern is the safety element, and I think that given a month's time we can work that out.

CHAIRPERSON CORY: May I ask one question before you leave, just for my own information. You made a statement that someone had requested that you hire a specific --

MR. MEYER: My client talked to Mr. Everitts and my client had said he'd not gotten a report back from the consultant he had retained and it was recommended by, I believe, Mr. Everitts. This is all hearsay. This is what my client tells me. That he should retain Mr. Shephard. Mr. Shephard is well regarded in the Long Beach area and a well-known person.

CHAIRPERSON CORY: That's just somebody who is knowledgeable with the field --

MR. EVERITTS: He's the ex-vice president of Signal Oil and Gas Company and an engineer. He works with one of the legal consulting firms. I suggested to call him and he might be able to help.

MR. MEYER: We talked to Mr. Shephard and hired Mr. Shephard. I talked to Mr. Shephard and Mr. Shephard said the reason this hadn't gotten out any quicker was
the man who was supposed to be working on this went on
vacation for a while and things just didn't move along.
We also hope to use Mr. Shephard in discussions with
local State Lands people in Long Beach. I think we can
make more progress that way as well.

MR. ACKERMAN: The question of safety should
also be addressed at the next meeting as well, I imagine.
Would it be appropriate to have contact or some response
from the Division of Oil and Gas as to their input into
whether or not the safety requirements are being met
or their edict is being complied with?

CHAIRPERSON CORY: As I understand it, -- and
maybe I misunderstood -- but I was under the impression
that D.O.G. said you've got until November of '80 to
correct and nobody is contending that anything has been
done even partially because you're waiting for the report
so you can make your business determination, your
client can make his business determination as to what
solution he wishes to follow; is that where we are?

MR. MEYER: Right.

MR. EVERITTS: I think it's important to know
that the regulations that the Commission just approved
last month or the month before, they're in violation of
those specific regulations, State Lands Commission safety
regulations also and, in fact, the previous ones.
CHAIRPERSON CORY: You should have for next month a detailed report of what D.O.G. found and how the proposed consultant's report or what the options are that you get out of it so we can get that in the file rather quickly.

MR. MEYER: Thank you.

CHAIRPERSON CORY: Without objection, that will be put over until the next meeting.

Item 42, this is authorization for the Lands staff and/or the Attorney General to protect the rights of public access to the Russian River near Guerneville in the case of Notter vs. County of Sonoma.

Is there anybody in the audience on this item? Any questions from Commissioners?

MR. ACKERMAN: None.

CHAIRPERSON CORY: Without objection, Item 42 will be approved as presented.

Item 43, reversion of jurisdiction, approval of holding public hearings with respect to Los Padres National Forest and the Hunter-Leggett Military Reservation in Monterey County.

Is there anybody in the audience on this item? Questions from Commissioners?

Without objection, Item 43 will be approved as presented.
Item 44, cession of jurisdiction, approval of holding public hearings relative to concurrent criminal jurisdiction at Moffett in Santa Clara County.

Anybody in the audience on this item? Any questions from Commissioners?

Without objection, Item 44 will be approved as presented.

Item 45, request to augment and amend the contract with Peat, Marwick and Mitchell relating to the hotel convention center in Long Beach for an additional $2,000.

Anybody in the audience on this item? Any questions from Commissioners?

MR. BELL: This will complete it?

EXECUTIVE OFFICER NORTHROP: This should complete it, yes, Mr. Chairman.

CHAIRPERSON CORY: I want you to know we can only believe half of what you say at this point.

Item 45 will be approved as presented.

Item 46, authorization to solicit bids and award a Helicopter Services Contract for the '30-81 fiscal year at a cost not to exceed $15,000. This is for monitoring the offshore, particularly the offshore work; is that correct?

EXECUTIVE OFFICER NORTHROP: That's correct,
Mr. Chairman.

CHAIRPERSON CORY: Okay. Is there anybody in the audience on this item?

Without objection from Commissioners, --

MR. BELL: No.

CHAIRPERSON CORY: -- 46 will be approved as presented.

Item 47, Atlas Blueprint Company, approval to enter into a contract with the low bidder of $30,210 for the reproduction services for the Sacramento office. Is there any --

MR. BELL: This, again, is for the '80-81 budget?

CHAIRPERSON CORY: Yes, '80-81.

EXECUTIVE OFFICER NORTHRUP: That's correct.

MR. BELL: No objection.

CHAIRPERSON CORY: Yes, '80-81, the yet-to-be-approved budget.

Anybody in the audience on this item?

MR. ACKERMAN: I just hope they don't do any blueprinting after July 1st.

CHAIRPERSON CORY: Only if they have a budget.

MR. BELL: There will be no problem with paying.

CHAIRPERSON CORY: You going to pay them? That's nice of you, Roy.

(Laughter.)
CHAIRPERSON CORY: Without objection, Item 47 is approved as presented.

Item 48, authorization to enter into two interagency agreements with California Department of Forestry related to transfer of funds from the Forestry Improvement Fund and to fund two Forester positions on the Commission's staff. Is that correct?

Any questions from Commissioners?

MR. BELL: Just whether that slide show we saw last month had any connection with this item.

MR. ACKERMAN: I think it's coincidental.

MR. BELL: I think it was purely coincidental.

CHAIRPERSON CORY: Your tree-planting project, is that related to this?

EXECUTIVE OFFICER NORTHROP: Yes. This is a demo project in which I believe the Department of Forestry now wants to get into the act and do their own number because they see how well we did. So they're going to do demonstration plots.

MR. BELL: They're paying for it.

MR. ACKERMAN: It's a good project.

CHAIRPERSON CORY: Anybody in the audience on this item?

Without objection, Item 48 will be approved as presented.
Item 49, compromise title settlement with Pickleweed & Associates.

MR. BELL: Isn't that beautiful.

CHAIRPERSON CORY: Love it.

This is, what, three thousand square feet or three thousand dollars --

EXECUTIVE OFFICER NORTHRUP: Three thousand square feet of mistake that's being rectified.

CHAIRPERSON CORY: And it's worth a dollar a square foot, then? I see $3,000 in here, or is that a typo?

EXECUTIVE OFFICER NORTHRUP: Well, it's really not exactly $3,000. It was 8300 square feet, we thought it was, and when we measured it out it was only 5400 square feet. So it's approximately 3,000 square feet.

CHAIRPERSON CORY: Is there anybody in the audience on this item?

That's disappointing. I've always wanted to meet somebody from Pickleweed.

MR. BELL: I have.

CHAIRPERSON CORY: Without objection, Item 49 is approved as presented.

Okay. Do you have a litigation item?

MR. STEVENS: Thank you.

The first, of course, is the boundary between
California and Nevada has finally been determined. The Nevada Surveyor General reported it has been determined in 1874 in his report, but it took us a while to get around to nailing it down. The Supreme Court has ruled that the long acquiesced boundary is the boundary and all that remains is for us to join the oblique and hundred and twentieth lines between Lake Tahoe which we are having meetings about and I anticipate no trouble with. We're particularly grateful to Mr. Uzes and his unit for some very superior work that they did in preparing exhibits and getting things together on that. I think they did a tremendous job and we finally have some certainty.

The Court declined to rule on the validity of the patents which Nevada had given within the State of California and, therefore, we're going to have to pursue this matter with the Bureau of Land Management. It may be necessary to secure Federal legislation. The Bureau and the Department may be willing to disclaim their interests in various parcels of this land. But in essence, we're on our own in that respect.

The second matter relates to public lands generally. Inasmuch as Mr. Northrop is now a United States colonel, I believe he has a conflict of interest that requires he be disqualified from consideration here.

EXECUTIVE OFFICER NORTHROP: Not you, too.
MR. STEVENS: There will be litigation filed by the State of Nevada next month or shortly thereafter seeking to clarify the general relationship of the State and the Federal Government with respect to the public lands in California and all the western states. Nevada will be essentially asking the Court to declare that when the nature or magnitude of public land ownership is so great as to impair essential State functions, that there is a constitutional dislocation and there is a remedy available in the Federal District Courts. They'll be asking for a general ruling in this respect.

CHAIRPERSON CORY: Where is that? Has that already been filed?

MR. STEVENS: They're planning to file it this summer. Essentially, draft pleadings have been prepared and it will be filed in the U.S. Supreme Court. They'll be asking the Supreme Court to clarify once and for all the relationship of the states and the United States with respect to public lands.

CHAIRPERSON CORY: It's original jurisdiction to the Supreme Court.

MR. STEVENS: It is original jurisdiction. The primary job that Nevada will have to begin with and other western states will be to persuade the Supreme Court to
keep the case because it is conceivable that the Supreme Court could either reject the case out of hand or send it back to a lower court. The jurisdiction is concurrent, not exclusive.

Nevada has asked the other western states to join in a brief supporting this threshold question. In other words, arguing that the matter is sufficiently important, of sufficient concern to all the western states, that the Supreme Court should retain jurisdiction and should take the case. We expect a majority of those states to join in on this. Since the Commission has the primary responsibility in this area among the State agencies, we're bringing it to you to ask for your guidance and preferences with respect --

CHAIRPERSON CORY: What's your recommendation?

MR. STEVENS: Basically we believe that it would be valuable to have the Supreme Court keep this case and to make some rulings.

We need clarification in a number of these areas. Our statutory rights with respect to indemnity selections, as you know, has been a continuous problem, and there are cases in which we believe the ownership and retention of unappropriated, unreserved lands -- we're not talking about national forests, we're not talking about national parks or military reservations -- but these unappropriated lands
have caused severe problems. We believe that retention of this case by the Court is going to help clear up a lot of things and perhaps provide impetus to solutions at the administrative and legislative levels as well.

CHAIRPERSON CORY: So you think it's wise that we put the oar in the water?

MR. BELL: What do we do, amicus curiae, or whatever you lawyers call that thing?

MR. STEVENS: That essentially is what the subcommittee and Attorney General is planning. I believe that there will be a number of such states from Alaska to New Mexico.

CHAIRPERSON CORY: Can you handle this under your new restricted budget, '80-81 year?

MR. BELL: I believe the Conference Committee hasn't dealt with that item yet.

MR. STEVENS: That's right. There are a number of economic intangibles, but the preference of this Commission would have a very heavy bearing on what ultimately is done.

CHAIRPERSON CORY: Bob, do you have any comments on this subject? Is that why you're here?

ASSEMBLYMAN HAYES: More on curiosity. Of course, as you know, I am slightly interested in this subject. Our bill is in Senate Finance and the Governor has given me a
commitment to sign it this time.

MR. ACKERMAN: It has the $25,000 in it?

ASSEMBLYMAN HAYES: Twenty-five thousand, yes.

CHAIRPERSON CORY: It would seem to me that the issues are well worth getting the Court to resolve and we can get it done in a quicker fashion if we get them to take it and get an extension rather than take it all the way up and it would be cheaper. So I'm sort of inclined to get it resolved.

MR. ACKERMAN: Jan, do we, in procedures, do we join with other states in filing an amicus brief or do we file it on our own? How does that work?

MR. STEVENS: We could join with other states of which there will probably be about seven filing such joint brief. I believe that we could get our oars sufficiently into such a brief. So that not only could we share the cost of such litigation, but we wouldn't have the problems of our directly filing a suit or joining a suit by which we'd be bound such as Nevada.

MR. BELL: We wouldn't be bound.

CHAIRPERSON CORY: There are some policies in other states with the way they administer property that I do not personally want to be necessarily associated with and that's why I think it's important that we have an independent posture. I think we do a fairly credible job for both sides including the environmentalists here in
California that I don't want to, by this action, be blessing what some other state may be doing, may be something I don't personally approve in. So, doing the amicus thing I would hope is, Counselor, you keep that in mind that we are an independent, sovereign state and if somebody else somewhere in another state is not doing right by the environment, that we don't get tarred with that same paint brush. But I think we ought to be involved in the law suit on the amicus level.

MR. BELL: I don't think we get in danger --
CHAIRPERSON CORY: I don't either. That's why --
MR. ACKERMAN: File with other states.
CHAIRPERSON CORY: Yes. I mean, if we have you dealing with the issue, as long as you keep that in mind and bring us a point if there is a problem because at least the arguments that I read about on that subject do not factually apply to the administration of State lands in California. I cannot speak and don't have the time or the inclination to monitor how other states are doing, but I just want to make sure that we defend what we're doing.

MR. STEVENS: Our initial position would be restricted to urging the Court to accept these important questions and not to endorse the New Mexico range policies, for instance.

CHAIRPERSON CORY: Without objection, you have
that authorization.

MR. STEVENS: Thank you.

CHAIRPERSON CORY: Is there any other business to come before the Commission?

MR. BELL: Not yet.

CHAIRPERSON CORY: Well, in the generic sense, I would just like to say that it's a pleasure working with this august body and I do look forward to the next meeting seeing all the members who are here back to discuss the important business of the State. If that's not the case, we will send the Sergeant at Arms of this body to seek any absent members to compel their attendance here.

MR. BELL: I would include that to be both either in mind or in spirit.

CHAIRPERSON CORY: No. I want the body.

(Laughter.)

CHAIRPERSON CORY: I want to see the evidence of what time can prevail this building has caused upon your body, Roy Bell.

But anyway, I appreciate you being here at this meeting and other meetings and hope you are here at many more meetings in the future even though you probably have better things to do with your time.

MR. BELL: I appreciate your comments.

CHAIRPERSON CORY: If there's nothing else to
come before us, we stand adjourned in memory of the crooked colonel.

(Laughter.)

(Thereupon this meeting of the State Lands Commission was adjourned at 11:00 a.m.)

--oOo--
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 / day of July, 1980.

CATHLEEN SLOCUM
Certified Shorthand Reporter
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