BUSINESS MEETING
STATE LANDS COMMISSION
STATE OF CALIFORNIA

CITY OF LONG BEACH
925 HARBOR PLAZA BOARD ROOM, 6th FLOOR
LONG BEACH, CALIFORNIA

TUESDAY, AUGUST 26, 1980
10:00 A.M.

DIANE M. HOLNBACK
C.S.R. License No. 4022

PETERS SHORTHAND REPORTING CORPORATION
7700 COLLEGE TOWN DRIVE, SUITE 209
SACRAMENTO, CALIFORNIA 95828
TELEPHONE (916) 383-3601
MEMBERS PRESENT

Mr. David G. Ackerman, Commissioner, Acting Chairperson
Ms. Susanne Morgan, Commissioner
Mr. John Jervis, Commissioner (Non-voting) representing Mr. Kenneth Cory

STAFF PRESENT

Mr. William F. Northrop, Executive Officer
Mr. Robert C. Hight
Mr. James F. Trout
Mr. Donald J. Everitts
Mr. Richard S. Golden
Mr. Robert Paul
Mr. Wilbur M. Thompson
Mr. Allen Willard
Ms. Diane Jones
Mr. David Hayward
Mr. Leslie H. Grimes
Ms. Roberta Miner

ALSO PRESENT

Mr. Jan S. Stevens, Attorney General's Office
Mr. Alan V. Hager, Attorney General's Office
Mr. Richard L. Maullin, Geothermal Kinetics, Inc.
Mr. Peter Dalquist, Environmental Management Agency, Orange County
## INDEX

<table>
<thead>
<tr>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
</tr>
<tr>
<td>1</td>
</tr>
<tr>
<td>1</td>
</tr>
<tr>
<td>3</td>
</tr>
<tr>
<td>4</td>
</tr>
<tr>
<td>4</td>
</tr>
<tr>
<td>8</td>
</tr>
<tr>
<td>10</td>
</tr>
<tr>
<td>12</td>
</tr>
<tr>
<td>13</td>
</tr>
<tr>
<td>14</td>
</tr>
<tr>
<td>15</td>
</tr>
<tr>
<td>16</td>
</tr>
<tr>
<td>17</td>
</tr>
<tr>
<td>18</td>
</tr>
<tr>
<td>19</td>
</tr>
<tr>
<td>20</td>
</tr>
<tr>
<td>21</td>
</tr>
<tr>
<td>22</td>
</tr>
<tr>
<td>23</td>
</tr>
<tr>
<td>24</td>
</tr>
<tr>
<td>25</td>
</tr>
</tbody>
</table>

### Proceedings
- Confirmation of Minutes
- Opening Statement by Acting Chairperson Ackerman
- Report of the Executive Officer
- Presentation on Sell-off Crude - Mr. Thompson
- Staff Report on State Coastal Commission - Mr. Golden

### Consent Calendar
- Items C-1, C-3 through C-30, C-32 and C-33

### Regular Calendar
- Item 34 - Lazio, et al, City of Eureka, State Lands Commission (Boundary Line Agreement)
- Item 35 - City of Eureka, Northwestern Pacific Railroad Company (Title Settlement Agreement)
- Item 36 - Land Exchange Agreement
- Item 37 - U.S.D.A. - Forest Service, perpetual road easement
- Item 38 - U.S. Forest Service, perpetual road easement, Pacific Crest Trail
- Item 39 - Chevron, U.S.A., Inc., general lease, right-of-way use
- Item 40 - Charles V. Kelly (Applicant)
- Item 41 - Crown Zellerbach Corporation
- Item 42 - Huntington Marina Association
- Item 43 - Off calendar
Regular Calendar (Continued)

Item 44 - Shell Oil Company, energy and mineral resource development

Item 45 - Union Oil Company of California

Item 46 - Tosco Corporation

Item 47 - Chevron, U.S.A., Inc.

Item 48 - State Lands Commission

Item 49 - Geothermal Kinetics, Inc.

Item 50 - Plan of Development, First Modification

Item 51 - Plan of Development, Second Modification

Item 52 - Plan of Development, Parcel "A"

Item 53 - Closing Account of Westside Industrial Park

Item 54 - Los Angeles County Assessor's Assessment of the Long Beach Unit

Item 55 - Pilot Scale Demonstration

Item 56 - Settlement of Dispute, Ventura Port District versus State of California

Item 57 - Matheson versus State of California

Consent Calendar (Resumed)

Item 31 - Orange County Environmental Management Agency (Applicant)
<table>
<thead>
<tr>
<th>Regular Calendar (Resumed)</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Item 58 - Revenue Estimate -- Long Beath Tidelands</td>
<td>81</td>
</tr>
<tr>
<td>Item 59 - Annexation of Tidelands and Submerged Lands</td>
<td>93</td>
</tr>
<tr>
<td>Item 60 - Proposed Revision of Regulations, Geothermal Development on State Lands</td>
<td>94</td>
</tr>
<tr>
<td>Item 61 - City of Capitola</td>
<td>94</td>
</tr>
<tr>
<td>Adjournment</td>
<td>95</td>
</tr>
<tr>
<td>Certificate of Reporter</td>
<td>96</td>
</tr>
</tbody>
</table>
ACTING CHAIRPERSON ACKERMAN: I'll start over again. I think I have some procedural things to go through. I'll bring the gavel down and everything.

Mr. Hight, did you have a preliminary announcement?

MR. HIGHT: Yes, Mr. Chairman. For the record, Mr. Jervis will be sitting in a non-voting capacity for Mr. Cory.

ACTING CHAIRPERSON ACKERMAN: Okay. Thank you. We'll have confirmation of the minutes of the meeting of July 24th, 1980. Are there any questions or corrections by any of the commissioners to the minutes?

COMMISSIONER MORGAN: The minutes are fine.

ACTING CHAIRPERSON ACKERMAN: Seeing no corrections or additions, the minutes will be deemed approved as submitted.

Before we go into the Executive Officer's report and items on the agenda, I think it's important to note that we are here for a particular reason in Long Beach today. In the past 15 years, the State of California has witnessed really an unusual joint effort among the State and the City of Long Beach and the oil industry in developing the Long Beach Unit.

Today, or really most recently, a milestone
has been reached. And that was the production of
500 million barrels of oil from the Unit. This has been
done with no adverse effects on the coastline of the City
of Long Beach. And I think that's quite an important
point. It has been accomplished under a net profit-sharing
contract, which has reduced the risk for the industry
contractors and provided the maximum funds for statewide
benefit. And the use of these funds for the Central Valley
Water Project has provided benefits for the people of
California from one end of the state to the other, as
does the Capital Outlay Fund for Public Higher Education.
That fund has provided classrooms, laboratories and
libraries on the campuses of the University of California
and the state university and college system.

I believe that we will pass more milestones
in the near future. Undoubtedly, we will commemorate
the production of another 100 million barrel increment
within the next few years. We will also see the added
statewide benefit from the oil revenue received by the
State. Recent directives from the State Department of
Finance indicate that the tidelands oil revenues are going
to play an increasingly important part in the future
financial status of the State, anyway.

The current revenues from the state tidelands
are being reviewed now by the Legislature and the Governor's
Office and will provide those maximum future statewide benefits.

Everyone that's been involved in this, I think, deserves a pat on the back and should be complimented for his or her part in helping to maximize the recovery of the valuable resources. It's critical, not only to our national economy but our security as well and also to demonstrate that this type of oil operation can be done without imperiling the environment and in demonstrating the net profit-sharing concept is the way to proceed in the development of these public resources in the future.

I think at this point I'd like to turn it over to Mr. Northrop, the Executive Officer of the Commission, for comments he may have concerning the milestone we've reached today.

EXECUTIVE OFFICER NORTHRUP: Thank you very kindly, Mr. Chairman and members. The staff has been pleased not only with the cooperation that we received from the City of Long Beach as a trustee in this matter but also from the contractor. We are very pleased that this has worked out this way. Thank you.

ACTING CHAIRPERSON ACKERMAN: Mr. Northrop, do you have an Executive Officer's report?

EXECUTIVE OFFICER NORTHRUP: Yes, Mr. Chairman. I would like to proceed with the Executive Officer's report,
if I may. We have a particular problem in Long Beach at the present time on a parcel of sell-off crude, that is crude that was sold at auction and that recently I understand the parcel of some 600 barrels a day has been returned to the city. And we have a very short time fuse in reawarding the oil, because as I understand around September 1st the oil will not have a place to go.

So, Mr. Thompson will go into it in some detail.

MR. THOMPSON: All right. About nine months ago, the Commission approved the bids, forms and specifications for putting this eight percent LBOD oil out for sell-offs. We've had to give the present contractor notice to take this oil, and, therefore, the City of Long Beach has the oil and must dispose of it.

Under this bid form, we went out and got it, bids back, and then about seven months ago the Commission approved the awarding of this bid to the highest bidder. This was for a six-month period with two options to extend for additional six-month periods, two six-month periods.

The successful bidder at that time did not exercise his option to extend the second six months, which starts September 1st. This left the City of Long Beach, then, with this 600 barrels a day of oil that they have to do something with on September 1st. So, this puts them in a very short time bind. They had to get out and
have a sealed bid, because all these bids must be sealed bids, competitive bids.

They just got the bids back yesterday. We didn't have time to get this on the calendar item, and this is of an emergency nature. So, we would like to fill you in on it now and hope that you could have a special meeting to approve this particular sell-off at sometime in the future, because it has to start September 1st. The City Council is acting on it today.

By sealed bids, MacMillan was the highest bidder. And you have the list of bids in front of you there and that particular letter. And they bid 37.1 cents a barrel over the contract price.

ACTING CHAIRPERSON ACKERMAN: Okay. The City of Long Beach will act on this and approve the bid today?

EXECUTIVE OFFICER NORTHROP: Yeah. We expect them to act on it in the City Council meeting that's meeting concurrently with this meeting this morning.

MR. THOMPSON: They have a one-week calendaring problem, whereas we have almost a three- or four-week leave. And so, we weren't just able to get it on the calendar, because things just happened too fast.

EXECUTIVE OFFICER NORTHROP: The options we have open to us are these. We could proceed with the bids, after advising you, and have a confirming meeting,
confirm it next month, or we could have a special meeting, given the seven-day notice as of today, and have it a week from today.

Counsel, do you have any advice on that?

MR. HIGHT: In this matter, I believe that the Commission would fall within the purview of a special meeting, which would require 24-hours' notice. And I think that a meeting could be put together this week or, if it could be worked out, next week, as long as the city approved it.

ACTING CHAIRPERSON ACKERMAN: Is there any seven-day notice requirement for them prior to the Commission taking action?

EXECUTIVE OFFICER NORTHRUP: Not on an emergency meeting.

MR. HIGHT: It would be 24 hours on an emergency meeting.

ACTING CHAIRPERSON ACKERMAN: I would think that if the Commissioners agree that it would be appropriate for us to act prior to September 1st to make things easier for the city as well.

EXECUTIVE OFFICER NORTHRUP: In that case, we would probably use the emergency meeting and meet in Sacramento probably tomorrow.

ACTING CHAIRPERSON ACKERMAN: Okay.
MR. THOMPSON: It would certainly be nice to help the City of Long Beach out of that, because this was a problem of our scheduling not theirs, and they've done everything they can to get a quick turnaround back on this thing. So, I'd appreciate that.

ACTING CHAIRPERSON ACKERMAN: If we could attempt to have a meeting --

EXECUTIVE OFFICER NORTHROP: We'll structure it for Thursday. Counsel said he will take necessary steps in the morning to make the 24-hour notice.

ACTING CHAIRPERSON ACKERMAN: Okay. Thursday will be fine. Do you have any comments?

COMMISSIONER MORGAN: I think I have a prior commitment on Thursday, but --

EXECUTIVE OFFICER NORTHROP: It won't take very long, Commissioner Morgan. We can work it in before or after your particular schedule.

COMMISSIONER MORGAN: Fine.

ACTING CHAIRPERSON ACKERMAN: In any event, we should take action prior to September 1st.

COMMISSIONER MORGAN: I agree. Thank you, Mr. Thompson.

MR. THOMPSON: Thank you very much.

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, that completes my report.
ACTING CHAIRPERSON ACKERMAN: Do we have a staff report on State Coastal Commission matters?

MR. GOLDEN: Yes, Mr. Chairman. As your representative on the State Coastal Commission and the San Francisco Bay Conservation Development Commission, I have the following items summarized. The State Coastal Commission has certified the Long Beach Local Coastal Program. Conditions prohibiting the night drilling of oil were dropped, based upon the testimony presented by your staff. The City of Long Beach will now assume coastal permitting jurisdiction from the Coastal Commission over most of the lands in the coastal zone within the city.

We have provided input on many Local Coastal Programs or LCP's, concerning public trust lands -- Redondo Beach, Huntington Beach, Ventura harbor, and the City of San Buenaventura being the most recent. A number of LCP's are still backlogged, largely because of controversy surrounding housing considerations of the Coastal Act.

Our staff has participated with Coastal Commission staff in drawing up the access guidelines and insuring through the Commission's public hearing process that State Lands Commission interests were met, for example, proper recognition of our role and the type of access easements that State Lands might consider accepting.
Moving on to the San Francisco Bay Conservation and Development Commission item, an applicant, George Kokalis, in the Bay Area, San Francisco Bay Area, wished to build a pier on tidelands that were sold as Board of Tidelands Commissioner Lots. The pier was going to be a nuisance, in that it would interfere with a harbor seal haulout area, one of the few left in the Bay Area. The applicant built the pier without benefit of an Army Corps permit or any required state permits.

State Lands Commission, along with other state agencies, have refused to issue a permit to date. Kokalis has retained counsel and has sued BCDC. We haven't been named, and we may be. I don't know. That concludes my report, Mr. Chairman.

ACTING CHAIRPERSON ACKERMAN: My congratulations to your success in the Coastal Commission on the night drilling, too.

MR. GOLDEN: Thank you.

COMMISSIONER MORGAN: Can I ask a question?

ACTING CHAIRPERSON ACKERMAN: Sure.

COMMISSIONER MORGAN: About the access guidelines, were you in agreement with the staff report on the guidelines?

MR. GOLDEN: Basically, we've had no problem with the access guidelines that they've come up with.
They are still, however, subject to some finetuning. The Commission hasn't really dealt with the problem of, in my estimation at least, and I think some other commissioners are still in doubt as to just the need for access in certain areas. And this is the one problem. They want to finetune a little more on that.

COMMISSIONER MORGAN: We -- the Coastal Conservancy has yet to act, as a matter of fact expressed some reluctance to adopt all of the standards and recommendations. And that's why I was interested.

MR. GOLDEN: The Conservancy is in a lead position in terms of being nominated to take over many of these access ways.

COMMISSIONER MORGAN: Right.

MR. GOLDEN: And I can understand this.

COMMISSIONER MORGAN: Thank you.

ACTING CHAIRPERSON ACKERMAN: John, do you have any questions?

COMMISSIONER JERVIS: No.

ACTING CHAIRPERSON ACKERMAN: Okay. We will now proceed into the regular calendar items. On the agenda today, Items 1 through 33 are considered the Consent Calendar. I understand Item 2 is going to be pulled off the agenda --

EXECUTIVE OFFICER NORTHROP: Correct.
ACTING CHAIRPERSON ACKERMAN: -- as well as Item 43?

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

ACTING CHAIRPERSON ACKERMAN: Okay. Items 1 through 33, with the exception of Item 2, which has been pulled, is considered the Consent Calendar. These are normally items of administrative nature which are noncontroversial and will be approved upon proper motion en masse by the Commission.

Is there anyone in the audience that has any questions or would like to request that any item on the Consent Calendar be pulled off and discussed as an individual item before the Commission?

MR. DALQUIST: I have a comment.

ACTING CHAIRPERSON ACKERMAN: Yes, sir? If you could come forward and identify yourself, please, in the microphone? Which item would you like to--

MR. DALQUIST: Item number 31, Orange County Environmental Management Agency. My name is Pete Dalquist. I represent the County of Orange Environmental Management Agency.

We received a staff report, and we are not in concurrence with one of the wordings of the staff member. I have two letters here I'd like to submit.
COMMISSIONER MORGAN: Mr. Chairman, I have a question. Are these letters items that have been presented to the staff previously?

MR. DALQUIST: I'm sorry. I can't hear you.

COMMISSIONER MORGAN: Were these items presented to the staff previously?

MR. DALQUIST: No, they were not. We just received the staff report late last week.

COMMISSIONER MORGAN: Excuse me a minute. I'd like to request that the Chairman take this item, put this item aside, to give the staff a chance to review the material that you're presenting now. And we will take it up later out of order.

ACTING CHAIRPERSON ACKERMAN: Would that be satisfactory?

MR. DALQUIST: I'm having trouble hearing.

ACTING CHAIRPERSON ACKERMAN: What I'd like to do is put this item over until later on the agenda so that the staff has adequate time to take a look at the letters you presented. Then, we can take this item up later on in the calendar agenda.

MR. DALQUIST: Yes. That would be acceptable.

ACTING CHAIRPERSON ACKERMAN: Okay.

COMMISSIONER MORGAN: In that case, I'll move approval of the remaining items on the Consent Calendar.
ACTING CHAIRPERSON ACKERMAN: Okay. I have a motion. If there is no objection, the Consent Calendar will be deemed approved with the exception of Item 2, which has been pulled, and Item 31, which will be placed on the agenda later this morning.

We will now proceed into the Regular Calendar items. Item 34 and 35 both deal with the City of Eureka. Mr. Northrop?

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, Items -- before we start, it might be well that Ms. Miner, in the back, has registration. She is at the right, back -- if you'll stand up -- and has registration. If anyone would care to address the Commission on items either on the calendar or outside, she would be happy to furnish them with a slip so we don't miss anyone.

Mr. Chairman and Commissioners, Item 34 and 35 we would, if it please the Commission, we'd like to take as a unit and have Les Grimes from our Lands staff explain the transaction, if we may.

ACTING CHAIRPERSON ACKERMAN: That would be fine.

EXECUTIVE OFFICER NORTHROP: Les?

MR. GRIMES: Mr. Chairman, Commissioners, Item 34 ends about 12 years of litigation in the Eureka waterfront. This particular item is a settlement of 21
existing lawsuits. If I can, I'll step over there to the exhibit so it will make --

ACTING CHAIRPERSON ACKERMAN: Please.

COMMISSIONER MORGAN: There is a problem with the tape, a problem with the tape, if he's over there.

ACTING CHAIRPERSON ACKERMAN: Do we have a microphone over there?

EXECUTIVE OFFICER NORTHRUP: No, we don't. Let's see.

MR. GRIMES: Arcata is seven miles that way.

(Indicating.) Eureka is about 300 miles this way. Lazio's Fish Restaurant is right there. (Indicating.)

If you recall about a year ago, maybe over a little over a year --

COMMISSIONER MORGAN: Les, Eureka is not 300 miles south.

MR. GRIMES: San Francisco.

COMMISSIONER MORGAN: Thank you.

ACTING CHAIRPERSON ACKERMAN: That's close.

(Laughter.)

MR. GRIMES: If you recall about a year ago, the -- about a year ago, the Commission approved a settlement from where Joe is pointing down to Highway 101, which goes up to Arcata.

The present settlement is from K Street here
down to Commercial Street. The settlement was made with
the Eureka waterfront plan in mind. We picked up
additional access along the waterfront, picked up additions
to the new First Street that they are building there,
put all of the structures under lease that are out beyond
the agreed waterfront boundary, which runs right along the
existing water line.

The City Council has approved the agreement.
The 100 or so principals have all signed the agreement.
The Attorney General has reviewed and approved the
agreement. His people were involved in the negotiations.
The staff of the State Lands Commission also recommends
that the Commission approve this settlement.

EXECUTIVE OFFICER NORTHROP: Could you separate
items 34 and 35 for the Commission?

MR. GRIMES: Okay. Item 35 is a transaction
that took place back in 1973 but had a ten-year time period
for the Commission to make the findings that the trust
easement was approved. It involves this piece of property
here, which was acquired so that the new fish plant, the
fish processing plant, could be built there. It had been
there and is the most imposing structure on the waterfront.
It's about a three-story job.

This transaction involved the city purchasing
from Northwestern Pacific this piece of ground here --
(Indicating,) -- and whatever reversionary interest they may have had in the city boat harbor, which is right adjacent, and conveying to them a small piece of unused city property that was an abandoned dog pound.

This transaction also has been reviewed by the Attorney General and the staff and finds that it meets the criteria. And the City Council has approved it. All of the parties have signed the agreement.

ACTING CHAIRPERSON ACKERMAN: Les?

MR. GRIMES: Yes?

ACTING CHAIRPERSON ACKERMAN: How many parcels remain for settlement, or is this the final one?

MR. GRIMES: This winds it all up. In the downtown area there is some stuff down here in -- west of the Broadway area, which is transition-type property, redevelopment stuff and all. But there is no lawsuit pending down there. And it's just a matter of negotiations. And that's all under control by the city.

ACTING CHAIRPERSON ACKERMAN: So, this will complete all the waterfront exchanges --

MR. GRIMES: Yes.

ACTING CHAIRPERSON ACKERMAN: -- and settlements?

MR. GRIMES: From here down to here. (Indicating.)

ACTING CHAIRPERSON ACKERMAN: It's quite a project.
MR. GRIMES: Eleven city blocks in this settlement and about a mile and three-quarters in this one.

ACTING CHAIRPERSON ACKERMAN: And the City Council has approved these, and they are happy with the deal?

MR. GRIMES: Yes, they are.

COMMISSIONER MORGAN: Les, are you aware of any opposition?

MR. GRIMES: None. We’ve had a number of hearings and presentations in the area up there with the City Council and all, and nobody is against the settlement.

COMMISSIONER MORGAN: What does the State get out of this?

MR. GRIMES: The State is kind of a backup in the litigation problem. There is a -- the State has come to the aid of the City of Eureka, and there is a special appropriation of $500,000 to pursue this litigation. Hardly any of that $500,000 will have to be used, because it has been settled rather quickly.

COMMISSIONER MORGAN: Would that revert?

EXECUTIVE OFFICER NORTHROP: It would revert if the grant was ever revoked. We would have to take it back in the best of our interests, yes.

ACTING CHAIRPERSON ACKERMAN: John, do you
have any questions regarding the settlement?

COMMISSIONER JERVIS: No, I don't.

ACTING CHAIRPERSON ACKERMAN: Is there anyone in the audience who wishes to speak on Item 34 or 35?

(No response.)

ACTING CHAIRPERSON ACKERMAN: Without objection, the staff recommendations on the exchanges will be approved, then, on Item 34 and 35.

Les, congratulations on 12 years' worth of hard work.

MR. GRIMES: Thank you.

ACTING CHAIRPERSON ACKERMAN: Item 36, land exchange agreements with Navy land?

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, this is an exchange of land located in the Mojave "B" and the Chocolate Mountains area of considerable size. Most of this, if not all the lands involved on our side of the trade, is encumbered with unexploded ordinance, which was placed there during and after World War II. As a matter of fact, I understand, General Patton's tanks trained in the Chocolate Mountains area. And there are considerable numbers of bombs there. And you know the high regard I hold him for. So -- that was a quick aside.

COMMISSIONER MORGAN: I was going to ask you who General Patton was.
EXECUTIVE OFFICER NORTHROP: Oh.

(Laughter.)

EXECUTIVE OFFICER NORTHROP: We are exchanging it for considerably better property in the area of Norco.

Mr. Trout is pointing out the area we received in the area of Norco.

ACTING CHAIRPERSON ACKERMAN: Where is the City of Corona?

EXECUTIVE OFFICER NORTHROP: The City of Corona is there. Highway 15 is just below it. And we gave it -- we are giving up parts of the sections in the pink in that area.

ACTING CHAIRPERSON ACKERMAN: Where is the property we are exchanging, and what are we getting?

EXECUTIVE OFFICER NORTHROP: We are giving up an area in the Chocolate Mountain area there and Mojave "B" Test Range. It's not the total pink. It's considerable area in that, but it's not the total pink. We have scattered few sections for township in that area.

There is a considerable amount of land. We are getting some good property.

COMMISSIONER MORGAN: The land has been determined to be of equal value?

EXECUTIVE OFFICER NORTHROP: The land has been appraised, and it is of equal value. It's an equal-value
exchange, I believe.

COMMISSIONER MORGAN: What are we going to do with the land that we are acquiring?

EXECUTIVE OFFICER NORTHROP: At this time we have no request for the land. It will be available to those state agencies that might need land in that area. Probably, we will use part of it for our ongoing tree-planting program in the short term and other uses as determined if other people wanted it. We have had indications from General Services that they might be interested in the property. Certainly no one is interested in the Chocolate Mountains we traded out. It well may be that we -- now that we have this, we may be able to make some exchanges for other property with the Department of the Interior or Bureau of Land Management in an area that we would really want, in a forest area or some place that we could make a trade. But we now have a piece of property that has some value, and we have something to trade.

We have gotten the Department of Defense problem behind us. And now we can move on to perhaps -- I would like to present to the Commission some options later of an exchange with BLM on some other things. I think the piece of property itself has value. And that's really what we're looking at as a medium of exchange to move
on to something better.

ACTING CHAIRPERSON ACKERMAN: Do we still have land interest in the Chocolate Mountain area?

EXECUTIVE OFFICER NORTHPOR: We have now extinguished all our interest in that area with this exchange, but we’ve retained the minerals. Did you ask me minerals or --

ACTING CHAIRPERSON ACKERMAN: And the live bombs.

(Laughter.)

EXECUTIVE OFFICER NORTHPOR: Yeah. Should there be some kind of a mineral discovery that would make it economic to clear it or someone who would care to lease it for that, it can be done.

ACTING CHAIRPERSON ACKERMAN: Okay. Are there any questions from the Commissioners on this item?

COMMISSIONER JERVIS: That reminds me. What’s happened to the piece of property in Northern California where the U.S. Government used property for an artillery range, and they are attempting to give it back to us as is? What’s happened to that?

EXECUTIVE OFFICER NORTHPOR: Jim, do you want to respond to that?

MR. HIGHT: Mr. Jervis, I think you’re referring to Honey Lake. And to date, we have the same problem
with Honey Lake. The Federal Government wanted to give it back to us with a hold-harmless clause, that we would hold the Federal Government harmless for any of the bombs that they placed on our land. We are still trying to negotiate with them without much success.

ACTING CHAIRPERSON ACKERMAN: Is there anyone in the audience that wishes to address the Commission on Item 36?

(No response.)

ACTING CHAIRPERSON ACKERMAN: I will entertain a motion.

COMMISSIONER MORGAN: I'll so move.

ACTING CHAIRPERSON ACKERMAN: It's been moved, seconded, that the item be approved without objection.

Item 37, United States Department of Agriculture, Forest Service, perpetual road easement.

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, this is for a road easement of nearly two acres.

ACTING CHAIRPERSON ACKERMAN: Okay. Is there anyone in the audience on Item 37?

(No response.)

ACTING CHAIRPERSON ACKERMAN: Are there any questions from the Commissioners?

(No response.)

ACTING CHAIRPERSON ACKERMAN: Item 37 will
be deemed approved.

Item 38, United States Forest Service.

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, this is an approval of a sale of a perpetual road easement on the Pacific Crest Trail.

ACTING CHAIRPERSON ACKERMAN: Is there anyone in the audience on Item 38?

(No response.)

ACTING CHAIRPERSON ACKERMAN: Any questions from the Commissioners?

COMMISSIONER MORGAN: So moved.

ACTING CHAIRPERSON ACKERMAN: Seeing none, item shall be approved.

Item 39, Chevron U.S.A., general lease right-of-way use.

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, this is for a four-inch submarine gas pipeline.

ACTING CHAIRPERSON ACKERMAN: Anyone in the audience on Item 39?

(No response.)

ACTING CHAIRPERSON ACKERMAN: Questions from Commissioners?

(No response.)

ACTING CHAIRPERSON ACKERMAN: Item 39 will be approved as presented.
Item 40, Charles V. Kelly, applicant for a 15-year lease.

EXECUTIVE OFFICER NORTHROP: This is for a 15-year commercial general use permit, Mr. Chairman and members.

ACTING CHAIRPERSON ACKERMAN: And it's on the Klamath River.

EXECUTIVE OFFICER NORTHROP: Pardon?

ACTING CHAIRPERSON ACKERMAN: On the Klamath River?

EXECUTIVE OFFICER NORTHROP: On the Klamath River, right.

ACTING CHAIRPERSON ACKERMAN: Is there anyone on Item 40? Questions?

COMMISSIONER JERVIS: No.

ACTING CHAIRPERSON ACKERMAN: Item 40 will be deemed approved without objection.

Item 41, Crown Zellerbach Corporation.

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, this is for four day beacons to be installed on the San Joaquin River near Antioch. That's four, four day beacons.

ACTING CHAIRPERSON ACKERMAN: Could you explain to me a day beacon?

EXECUTIVE OFFICER NORTHROP: In the daytime.
for warning and other directional aids, usually triangular-shape day-glow panels are laid out for navigation on the river. And these are day beacons. They are unilluminated, but the size and the color of them make them serve as landmarks.

ACTING CHAIRPERSON ACKERMAN: Normally that’s because the corporation that’s doing business has created a hazard that necessitates the navigation beacon?

EXECUTIVE OFFICER NORTHROP: That’s correct.

ACTING CHAIRPERSON ACKERMAN: Okay. Is there anyone in the audience on Item 41?

(No response.)

ACTING CHAIRPERSON ACKERMAN: Are there any questions from Commissioners?

COMMISSIONER MORGAN: No.

ACTING CHAIRPERSON ACKERMAN: Item will be approved without objection.

Item 42, the Huntington Marina Association.

COMMISSIONER MORGAN: I have some questions.

ACTING CHAIRPERSON ACKERMAN: So do I.

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, this is a recreational pier permit for 92 small boat slips for the Huntington Marina Association of a 1.344-acre parcel in Sunset Bay near Surfside in Orange County.

ACTING CHAIRPERSON ACKERMAN: Okay. I believe
Susanne has some questions.

EXECUTIVE OFFICER NORTHROP: Sure.

COMMISSIONER MORGAN: There is a comment in
the summary of the item, which I couldn't find explained
in the item itself. But it says we're going to the --
the amendment would delete the bond requirement. Why
would we do that?

EXECUTIVE OFFICER NORTHROP: The association --
do they have a hold-harmless on that? Do they have a
hold-harmless on that?

MR. GRIMES: Yes, there is.

EXECUTIVE OFFICER NORTHROP: Okay. I think
that's the answer I'd give on that. Go ahead. Les Grimes.

MR. GRIMES: This thing here actually qualifies
for a recreational pier permit which, under 6503 requires
no bond, no insurance, nothing. However, because they've
wanted a slightly longer tenancy on the land than a
recreational pier permit would give, we gave them a monetary
permit based on recreational use. And we don't feel that
we can stretch the situation to require a bond.

EXECUTIVE OFFICER NORTHROP: We have a hold-
harmless.

MR. GRIMES: There is a hold-harmless clause
in there, an obligation to defend the State --

EXECUTIVE OFFICER NORTHROP: And insurance
as well.

MR. GRIMES: -- insurance.

COMMISSIONER MORGAN: Isn't this a little unusual? Do we do this often?

MR. GRIMES: No.

EXECUTIVE OFFICER NORTHROP: We do it. Go ahead.

MR. GRIMES: This is a little unusual in that it's a cross between a recreational pier permit and a recreational use permit.

COMMISSIONER MORGAN: And the attorneys, the staff attorneys say it's all right?

MR. HIGHT: Yes. This is okay. It would eliminate -- 92 recreational pier permits would be the other alternative. And this combines it all in one package and makes it a little neater.

ACTING CHAIRPERSON ACKERMAN: We still have 92 boat slips --

MR. HIGHT: Correct.

ACTING CHAIRPERSON ACKERMAN: -- whether it's done one by one or --

EXECUTIVE OFFICER NORTHROP: Or as a group.

ACTING CHAIRPERSON ACKERMAN: If they were done one by one, would there still be a cost consideration?

EXECUTIVE OFFICER NORTHROP: It would be -- it would balance the same. What are we looking at, Les,
50 apiece?

MR. HIGHT: It would be rent-free under that.

EXECUTIVE OFFICER NORTHPROP: It would be rent-free under --

MR. GRIMES: Yeah. It would be 92 documents to process and no rent.

ACTING CHAIRPERSON ACKERMAN: So, you convinced them to do it together, and you can charge them rent?

MR. GRIMES: A little bit, yes.

EXECUTIVE OFFICER NORTHPROP: At least get the processing worked out.

ACTING CHAIRPERSON ACKERMAN: Okay.

COMMISSIONER MORGAN: What about the comment that this would help on their loan?

EXECUTIVE OFFICER NORTHPROP: Pardon me?

COMMISSIONER MORGAN: There was a comment someplace that this would help secure a loan. Is that for this item?

ACTING CHAIRPERSON ACKERMAN: If I understand it right, the places down in Huntington Harbor aren't worth too much money unless you've got a pier to go along with it. That's why people buy -- isn't that correct?

EXECUTIVE OFFICER NORTHPROP: That's true. Too much, maybe. It certainly enhances their value when they get one.
ACTING CHAIRPERSON ACKERMAN: I mean, that's really why people --

EXECUTIVE OFFICER NORTHROP: Right. It's the ocean front.

ACTING CHAIRPERSON ACKERMAN: -- purchase down there.

MR. GRIMES: Yes. The association would like to have the ability to have those piers in place for the ten-year period. That helps them get a loan on a house, I guess.

ACTING CHAIRPERSON ACKERMAN: I have just one question, just on recreational piers in general. Like in Huntington Harbor, that's getting to be a more and more congested area all the time. Does the staff disapprove? Or in my recent memory, I don't recall the Commission turning down requests for recreational piers. Have we gotten into this, like inspection or anything?

EXECUTIVE OFFICER NORTHROP: We did a cumulative EIR at the time we issued the first permit about two years ago, as I recall. Bob just reminded me.

Jim, do you want to comment on that? You'd better. Jim Trout, the Assistant Executive Officer.

MR. TROUT: Because we saw this -- because we saw this -- I'll talk without it. Because we saw the problem of the total buildout in Huntington Harbor, Orange
County and our staff processed a cumulative EIR which considered total buildout in Huntington Harbor. And the finding was that because this was a totally ripped-up, dredged area already that it would not be detrimental. There are other areas, such as the existing Seal Beach Net Depot and others that would require it, but we did consider that. And this is consistent with that EIR.

ACTING CHAIRPERSON ACKERMAN: Does any other governmental agency have to approve pier permits as well? Are we the only one that passes on it?

MR. TROUT: Well, the City of Huntington Beach, I believe, issues construction permits for the piers.

ACTING CHAIRPERSON ACKERMAN: So, even if we go ahead and approve the permit, they still have to go to the local agency to get construction permits to go ahead and actually build the pier?

MR. TROUT: Right. And either the city or the county, which ever one is appropriate, was on the cumulative EIR. So, it's still covered under the same thing.

ACTING CHAIRPERSON ACKERMAN: That answers all my questions. John, do you have any?

COMMISSIONER JERVIS: No, I don't.

ACTING CHAIRPERSON ACKERMAN: Sue?

COMMISSIONER MORGAN: I'll move approval.
ACTING CHAIRPERSON ACKERMAN: Okay. Is there anyone, by the way, in the audience on Item 42 that wishes to address the Commission?

(No response.)

ACTING CHAIRPERSON ACKERMAN: Okay. I have a motion to approve the item. Seeing no objection, Item 42 will be approved.

All right. Item 43 is off calendar. We will go into energy and mineral resource development, Item 44, Shell Oil Company.

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, this is an approval of a lease underlying approximately 52 acres of the bed of the Sacramento River. The total rental on this is $20 per acre plus a royalty of 30 percent.

In this particular area, the Applicant has leased all of the surrounding area. And we have the option of either leasing it to them or attempting to drill it ourselves. However, in attempting to drill it ourselves, we find that we really do not have a site from which to drill. So, we really have -- if we were to put it out for a bid, we would be faced with leasing property and the lessee having no place to -- no place to stand while he dug his hole, so to speak.

ACTING CHAIRPERSON ACKERMAN: Uh-huh.

EXECUTIVE OFFICER NORTHROP: So, we now are
faced with this flat-rate royalty on a negotiated subsurface lease. As you know, it has not been the policy to use this kind of a lease save in these kinds of circumstances. And I think in this kind of circumstance we have very -- we have little alternative. We have no alternative but to go with this type of lease or we'll wind up being drained.

ACTING CHAIRPERSON ACKERMAN: How long has Shell Oil had a leasehold on the surrounding property?

EXECUTIVE OFFICER NORTHROP: I don't know. It's been a considerable period of time. They've done a lot of work in that area and have for the last decade in securing the property surrounding the river in that particular area.

ACTING CHAIRPERSON ACKERMAN: Any questions from the Commissioners? Susie?

COMMISSIONER MORGAN: Yes. The 30 percent is a standard rate?

EXECUTIVE OFFICER NORTHROP: No. It's difficult to say what the standard rate was -- is. If you were a propertyowner in the area and had a hundred acres, the usual royalty is a one-sixth or a one-eighth royalty. This is considerably higher than that. But still, when you compare it to our leases, for example, offshore in Long Beach where we get a 95 percent royalty, it's considerably less than that.
But for this kind of a royalty, the industry has been surprisingly uniform in their offers to landowners. So, they would consider this a generous offer. I consider it an average-type offer.

COMMISSIONER MORGAN: How will we know which oil is ours and which is not?

EXECUTIVE OFFICER NORTHROP: There is a considerable amount of geological work done to get some feeling as to the formation, of what it looks like. And there are standard, accepted procedures in the industry for unit formation and division by sand count and permeability and porosity to throw a couple words out that might impress Bruce Thompson. And studies are done, and it's arrived at generally on a routine -- in a routine manner in the industry.

COMMISSIONER MORGAN: And the records are audited?

EXECUTIVE OFFICER NORTHROP: Yes.

COMMISSIONER MORGAN: Okay. Thank you.

ACTING CHAIRPERSON ACKERMAN: Are those records available right now? Simply because we do currently have an interest in the land, is Shell Oil required --

EXECUTIVE OFFICER NORTHROP: I don't know.

Don, where are we on the unit agreement on that?

MR. EVERITTS: We have not entered into --
we have not entered into a unit agreement at this point. We might not want to. We have to decide. We might want to wait and found out what the production is like.

There's just a time thing. Sometimes you enter into a unit before, and sometimes you don't. There's no real geologic data. This is an exploratory well.

EXECUTIVE OFFICER NORTHROP: Right. But, of course -- thank you.

ACTING CHAIRPERSON ACKERMAN: In other words, Shell Oil may already be siphoning off?

EXECUTIVE OFFICER NORTHROP: Don said this is exploratory, so there is no production in the area.

ACTING CHAIRPERSON ACKERMAN: Okay.

COMMISSIONER MORGAN: Thank you.

ACTING CHAIRPERSON ACKERMAN: This is really a way to protect our interests as well.

EXECUTIVE OFFICER NORTHROP: Yes.

ACTING CHAIRPERSON ACKERMAN: Is there any question on Item 44?

COMMISSIONER MORGAN: The approval would be to authorize the Executive Officer to negotiate a lease?

EXECUTIVE OFFICER NORTHROP: No, we have the lease in front of us.

COMMISSIONER MORGAN: But we're approving that for purchase.
ACTING CHAIRPERSON ACKERMAN: It would be to approve a rental of $20 per acre and a flat royalty of 30 percent.

COMMISSIONER MORGAN: Right.

ACTING CHAIRPERSON ACKERMAN: Is there anyone in the audience on Item 44?

(No response.)

ACTING CHAIRPERSON ACKERMAN: Without objection, then, Item 44 will be approved.

Item 45, Union Oil of California.

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, this is to approve, in principal, the preparation of a site for drilling four wells in Sonoma County for geothermal.

ACTING CHAIRPERSON ACKERMAN: Do you have a question?

COMMISSIONER MORGAN: No.

ACTING CHAIRPERSON ACKERMAN: Is there anyone in the audience on Item 45? Any questions from Commissioners?

(No response.)

ACTING CHAIRPERSON ACKERMAN: Item 45 will be deemed approved without objection.

Item 46, Tosco Corporation, applicant for a dredging permit.
EXECUTIVE OFFICER NORTHROP: Mr. Chairman, this is to dredge approximately 25,000 cubic yards in Suisun Bay to allow Tosco to have a navigable depth wharf.

ACTING CHAIRPERSON ACKERMAN: I don't have any problem with that.

COMMISSIONER MORGAN: That's all right.

ACTING CHAIRPERSON ACKERMAN: Anyone in the audience on Item 46? Questions?

(No response.)

ACTING CHAIRPERSON ACKERMAN: Without objection, Item 46 will be approved.

Item 47, Chevron U.S.A.?

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, Chevron U.S.A. has had some problem in getting a drill ship in position to handle the drilling requirements on one of their leases. The shortage of drill ships because of OCS leases is not -- is common at this particular time.

And so, for that reason, they've asked for a one-month extension in their -- as a deferment.

ACTING CHAIRPERSON ACKERMAN: Okay. Is there --

COMMISSIONER MORGAN: Do they think -- excuse me.

ACTING CHAIRPERSON ACKERMAN: Go ahead.

COMMISSIONER MORGAN: Do they think one month is enough?
EXECUTIVE OFFICER NORTHP: Yes. They think they can probably do it within the time frame given, but there may be a glitch. And if there is, they don't want to lose it for a week or two. So, a month will handle it.

ACTING CHAIRPERSON ACKERMAN: This is just because of technical problems in getting the equipment?

EXECUTIVE OFFICER NORTHP: That's right.

ACTING CHAIRPERSON ACKERMAN: Any questions on Item 47? Anyone in the audience?

(No response.)

ACTING CHAIRPERSON ACKERMAN: Then Item 47 will be deemed approved without objection.

Item 48, State Lands Commission.

EXECUTIVE OFFICER NORTHP: This is an offer. The Executive Officer would like to go out and have a competitive bid for some gravel in the Suisun Bay. After the bids come in, we'll return to the Commission with the bids and discuss them at that time.

ACTING CHAIRPERSON ACKERMAN: What is going to be done with the gravel?

EXECUTIVE OFFICER NORTHP: Probably construction.

ACTING CHAIRPERSON ACKERMAN: Okay. And there is a market out there for it right now?
EXECUTIVE OFFICER NORTHP: Yes, a big aggregate market. And if the AMEX goes, all the gravel in the United States is going to be needed.

(Laughter.)

ACTING CHAIRPERSON ACKERMAN: Are there any questions on Item 48? Anyone in the audience?

(No response.)

COMMISSIONER MORGAN: We'll see what the bids look like, Bill.

EXECUTIVE OFFICER NORTHP: We'll bring them back. If it looks like the AMEX is going to go, we may want to wait.

ACTING CHAIRPERSON ACKERMAN: Item 48, then, will be approved without objection.

Item 49 on Geothermal Kinetics, Incorporated.

EXECUTIVE OFFICER NORTHP: Mr. Chairman, we have a lessee by the name of Geothermal Kinetics that has had some difficulty in obtaining permits in Lake County. Staff would like you to be aware of this problem, and we would like to take some time to meet with the Applicant and discuss the problem which Lake County.

ACTING CHAIRPERSON ACKERMAN: How long has this been going on? Hasn't this been kind of a long-standing dispute?

EXECUTIVE OFFICER NORTHP: This has been...
a long-standing program we started. You may recall we did an EIR, and maybe not, almost five years ago. How long ago was it, Don, we did that EIR, we started the joint hearing on the EIR?

MR. EVERITTS: It was about four years.

EXECUTIVE OFFICER NORTHROP: About four years ago, very early, very early on. I think perhaps before your term. We did a unique thing in which the State and the county got together with a joint EIR, which was well-received at the time. And since that nearly four-year time, approximate four-year time frame, some things have changed. The Applicant came in for an approval, and the county said, "It's been so long since you did an EIR, you really ought to do a supplemental," or words to that effect.

The Applicant went out and did a supplemental and has submitted it. And the response from that time to Lake County, we think, requires the staff to do some -- have some discussions with Lake County of the problem there, because we feel our --

ACTING CHAIRPERSON ACKERMAN: Well, you held public hearings, I believe, up in Lake County as well; didn't you?

EXECUTIVE OFFICER NORTHROP: We held a series of public hearings. We've taken it before the publi;
in Lake County, held I would say a number of hearings,
more than three and probably less than seven, but it's
been a number.

ACTING CHAIRPERSON ACKERMAN: I think probably
in all fairness to the Applicant a little motion is needed,
at least to get some resolution of mutual agreement between
the parties.

EXECUTIVE OFFICER NORTHP: Right. We would
like to have that authority, or at least we'd like the
Commission to be aware of it. And when the staff attempts
to make those overtures that we -- that they are not done
without the advice of the Commission as a staff matter
but rather as a policy matter of the Commission.

ACTING CHAIRPERSON ACKERMAN: I think my personal
feeling, then, I think would be that if the Commissioners
would concur -- and I'll ask for comments -- maybe to
direct the staff to at least meet with Geothermal Kinetics
and the city and county in order to try and at least get
some agreement on this matter and just pursue it to some
final resolution.

EXECUTIVE OFFICER NORTHP: Thank you. We'll
take that step.

ACTING CHAIRPERSON ACKERMAN: Any comments
at this point or concurrence from the Commission?

COMMISSIONER MORGAN: I've never been very
comfortable when the State involves itself in local
operations, but I do think that the need for energy is
important enough to everybody, not just to Lake County,
that it warrants doing something now.

EXECUTIVE OFFICER NORTHCROP: Thank you very
gently.

ACTING CHAIRPERSON ACKERMAN: Mr. Jervis?

COMMISSIONER JERVIS: (Shakes head.)

ACTING CHAIRPERSON ACKERMAN: If there is no
objection, the staff will be directed to meet with Lake
County in an effort to pursue this matter to a final
resolution. Mr. Maullin?

EXECUTIVE OFFICER NORTHCROP: Quit while you're
ahead.

ACTING CHAIRPERSON ACKERMAN: Welcome.

MR. MAULLIN: Mr. Chairman, I just wanted to
raise one matter. And I think the motion of the proposal
to the staff is very welcome on behalf of Geothermal
Kinetics.

The Lake County is holding a proceeding in
which the position of the State Lands Commission would
be important to have expressed. And I would hope that
the motion would be sufficient to allow the staff to express
the views of the Commission regarding the Lake County
permit matter which is before them September 2nd.
ACTING CHAIRPERSON ACKERMAN: Are you representing --

MR. MAULLIN: Geothermal Kinetics, yes.

ACTING CHAIRPERSON ACKERMAN: -- Geothermal Kinetics? Mr. Northrop, do you have any problems with Mr. Maullin's suggestion?

EXECUTIVE OFFICER NORTHRUP: Well, I felt the Commission's instructions included what Mr. Maullin has suggested.

ACTING CHAIRPERSON ACKERMAN: I would think our direction would be fairly liberal in allowing the Commission staff the latitude to pursue whatever resolution is necessary in the case. Thank you. You've put up with a great deal of red tape. I think it's been about four years now.

MR. MAULLIN: Let me just say thank you to the State Lands Commission for helping us in this matter.

ACTING CHAIRPERSON ACKERMAN: Our pleasure.

COMMISSIONER MORGAN: Is there anything specific that you would like us to do?

MR. MAULLIN: No. With that clarification, I'm sure Mr. Northrop and the rest of the staff will be able to help us considerably. Thank you.

ACTING CHAIRPERSON ACKERMAN: Thank you. Is there anyone else in the audience on Item 49 that wishes
to be heard?

(No response.)

ACTING CHAIRPERSON ACKERMAN: Then without objection, the staff will be directed to meet with Geothermal Kinetics and Lake County to try and come up with some kind of resolution. And you have whatever latitude is necessary from the Commission.

EXECUTIVE OFFICER NORTHROP: Thank you very kindly.

ACTING CHAIRPERSON ACKERMAN: Item 50, beginning the Long Beach operations.

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, I'd like to have Mr. Thompson come forward to present Items 50 through 55.

ACTING CHAIRPERSON ACKERMAN: Do you want to take them either together or separately?

EXECUTIVE OFFICER NORTHROP: I think probably separately as we go through them.

ACTING CHAIRPERSON ACKERMAN: Okay.

MR. THOMPSON: We might -- we'll take them separately, but since there's about five calendar items that involve Long Beach Unit, it might be well to review the oil rate performance of the Unit.

As you can see from this graph on the right up there, (indicating), the oil rate for the Long Beach
Unit is shown in red there. And you can see the flattening of the decline rate starting about mid-1977. This is the result of the increased levels of expenditures approved by the Commission after the Federal Government started removing some of the pricing inequities against California crude oil in their Department of Energy regulations. And there were numerous budget augmentations, and their attitudes toward spending money has resulted in that type of flattening there.

The Commission staff is committed to a subzone redevelopment in the Ranger and Terminal Zones of the Long Beach Unit for both injection and production wells. And we believe that this investment now for additional wells and facilities will be returned several fold over because of increased ultimate recovery and also lowered operating costs for each barrel of reserve recovered.

Right now, our budget's running about $140 to $150 million a year compared to our levels back at one time of $60 or $70 million when we were under these price constraints by the Federal Government. So, this is the result of your particular actions. And you see we are flattening out the oil right there.

All right. Now, the first modification --

ACTING CHAIRPERSON ACKERMAN: Moose, do you estimate that that line would continue out at a pretty
MR. THOMPSON: To a degree. If you will notice, in the past when you start doing some work you tend to flatten it out. And then, it begins to resume some kind of decline again. Hopefully, we'd like to keep it flat as long as we can, but there is going to be an eventual decline that will set in. It's just part of the thing. There's only so many physical barrels down there. And when you take them out, there's just fewer left. And it just has to decline. But we're going to try to maximize the ultimate recovery and keep the oil rate up as high as we can.

ACTING CHAIRPERSON ACKERMAN: Do you have an overall life expectancy of the Long Beach oil revenues?

MR. THOMPSON: The California oil fields are very, very long lived. The Wilmington Field was discovered in 1937. So, it has already been producing 40 some years. And it's part of the field that probably will still be producing in 25, 30 years from now at a lowered oil rate, and then we'll come to the economic limits, and that will close it down, but not the fact that you just stop producing oil. It's just that you get to the economic limits. You can't afford to keep on producing.

COMMISSIONER JERVIS: At what point do you think it might go under 50,000 barrels a day?
MR. THOMPSON: Just guessing, I would hope not for a couple years. You can see that climb rate there. What we're trying to do is stay above 60,000 by the end of 1981. That's our present goal right there. And we're doing this.

We're actually going to add another drilling rig here. Along about in October, we will have another new drilling rig for the unit that will be delivered at that time. We put another rig in service about three months ago. And again, we're trying to develop reservoirs and small fault blocks that we couldn't do before under the economic constraints.

COMMISSIONER MORGAN: I need some clarification. Whose budget are you talking about?

MR. THOMPSON: I'm talking about the Long Beach Unit budget. Under Chapter 138, the State Lands Commission has the final approval of the budget for the Long Beach Unit. This comprises the offshore Long Beach tidal parcel, a State Public Resource parcel, which is known as Tract 2, and also the downtown portion of the City of Long Beach. And we don't have a good map to show you.

EXECUTIVE OFFICER NORTHRUP: Behind Dave there is a map that gives part of it.

MR. THOMPSON: But in general, then, about -- I believe the number is about 10,000 different small parcels.
in the downtown portion of Long Beach. David, you can point out about where Ocean Boulevard is there, north, a little further north. In the downtown part right there, that's Ocean Boulevard. Then to the north of that is part of the town lot portion of the City of -- of the Long Beach Unit.

EXECUTIVE OFFICER NORTHRUP: It is a very large triangle of single homes, single-family R-1's.

COMMISSIONER MORGAN: So, the significance to the state of this $9.9 million adjustment is that we give up $9.9 million in revenues in the hope of getting more revenues later?

MR. THOMPSON: The State of California is in business here. We are making business decisions. You're investing money to make money.

EXECUTIVE OFFICER NORTHRUP: So, it's really --

COMMISSIONER MORGAN: Is that the answer?

(Laughter.)

EXECUTIVE OFFICER NORTHRUP: I think the answer is -- the answer to your question is yes.

COMMISSIONER MORGAN: Thank you.

MR. THOMPSON: All right. Now, when you talk about the first modification, you start talking about then we have a normal water flooding process going on here which we call secondary recovery. And then, we get
into the little more exotic things we call tertiary oil recovery. And these involve high risk, because we had inherent problems in transferring these laboratory recovery processes into the actual oil field operations. And often, it's not a question of whether we can produce more oil, which practically all of these techniques will do, but it's a question of whether we can economically produce this additional oil.

To provide some incentive for these tertiary projects, the Department of Energy allows operators to receive -- recover a part of their project cost by getting uncontrolled price for uncontrolled oil -- for controlled oil that they produce. In other words, most operators are producing a mix of controlled and uncontrolled oil. To help this front-end loading on these, you're allowed to receive uncontrolled price for the controlled portion of your oil, because there is a heavy front-end loading on this. All oil is to be decontrolled by October 1st, 1981, so they also have a provision that if you can prepay certain costs in these tertiary projects, you can recover it out of that particular controlled oil up to October 1st.

So, that's the gist of this. What we are doing here is we want to prepay for about the $10 million, $10 million worth of chemicals we will use in the balance of this project which will run through 1986. We want
to pay for them this year, so that we can use these control barrels up to -- through September, 1981.

So, in essence, what we're doing here is we are spending $10 million, but by the DOE regulations we will be able to recover about 75 percent of that in higher oil prices. So, really, our exposure is only about $3 million.

ACTING CHAIRPERSON ACKERMAN: Over what period of time do you expect that 75 percent?

MR. THOMPSON: We have to recover that by September of 1981, because at that time all oil would be decontrolled.

ACTING CHAIRPERSON ACKERMAN: Okay.

MR. THOMPSON: So, we will have that prepayment and be able to recover that. We have sufficient oil.

ACTING CHAIRPERSON ACKERMAN: And the balance of 25 percent?

EXECUTIVE OFFICER NORTHROP: As it stands today, Mr. Chairman, it will be decontrolled. There are distressing noises coming from places within the industry, surprisingly, that would like to see controls continue. So, I am not optimistic that oil would be decontrolled. That's an aside.

MR. THOMPSON: Now, this basic project itself is a caustic flood in Ranger VII of the Long Beach Unit.
And it's that project area you see to be flowing there. It involves -- the injection wells are those heavier lines across there. And then, they also influence the wells north and south of that.

The oil performance curve now for that particular block is the next curve we'll show you behind this. This actually is the way the block is performing against the water flood prediction, which is the secondary recovery. So, we would like Commission approval to go ahead and do this prepurchase of these chemicals. This will allow us, then, to offset it with the release of this oil.

ACTING CHAIRPERSON ACKERMAN: Moose, to what extent are you doing water flood projects in other fields right now?

MR. THOMPSON: The complete Long Beach Unit is underwater flood, as are all the Long Beach tidal properties.

ACTING CHAIRPERSON ACKERMAN: Okay.

EXECUTIVE OFFICER NORTHROP: This comparison, as you can see, has compared it to a base water flood, what would have happened if we hadn't put the caustic in on that straight line. And, David, the wiggly line is what it would be getting. Okay?

COMMISSIONER JERVIS: Do you buy the chemicals at today's prices or 1985 prices; or how does that work?

MR. THOMPSON: There are certain things in
the contract for transportation and inflation that we'll have to put up with, but we actually will sign the contracts now and pay a major part of the money now. And then, there will be adjustments in time as we need these and go through it. So, the main investment will be paid now with the adjustments in future time, because we really don't know what the inflation cost will be or transportation costs at that time.

COMMISSIONER MORGAN: Does this have any direct impact on the cost estimates that our chairman had a press conference about yesterday?

EXECUTIVE OFFICER NORTHROP: No. These were taken into consideration before we took a look at the non -- at the new prices. Of course, it would have an effect on any estimate, because it is cost. But these were costs that we had planned to make for some time. So, it -- well, it would affect the cost estimate, of course, any time we spend money it would affect that type of a cost estimate.

MR. THOMPSON: To give you a perspective on this, this is approximately $3 million out of about $150 million budget, plus the fact we already have in the budget about $2 million of chemicals that we already put in the budget for use this year. So, that $3 million is just about in the swing of estimating.
ACTING CHAIRPERSON ACKERMAN: Do you have any other questions?

COMMISSIONER JERVIS: No.

ACTING CHAIRPERSON ACKERMAN: Is there anyone in the audience who wishes to comment on Item 50?

(No response.)

ACTING CHAIRPERSON ACKERMAN: I will entertain a motion.

COMMISSIONER MORGAN: I'll move.

ACTING CHAIRPERSON ACKERMAN: Moved that Item 50 be approved. I second the motion. Without objection, Item 50, first modification, will be approved.

MR. THOMPSON: This is a second modification. And here we want to modify the plan and transfer funds within the budget. There will be no budget augmentation here.

It involves the purchase of some more efficient converters to change alternating current to direct current on two of our drilling rigs. And this will make all of our drilling rigs equipped that way. We use direct-current electric motors on all of our rigs. So, we -- standard electricity would come in. The power is alternating current, and we would have to convert that to direct current.

ACTING CHAIRPERSON ACKERMAN: Then it's simply
a shift between budget items?

MR. THOMPSON: Yes. And actually, we save
money by doing this, because it's more efficient. That's
why we have transferred the funds from drilling funds
into this particular account, because we actually will have
reduced drilling costs. Same way with the brine plants
for making brine for kill fluids. And the painting of the
derricks, which was highlighted when we painted one, why
then like when you paint one wall in a room, why then
the rest of the walls don't look so good. So, we painted
one, and the other three, now, we have to paint those
to keep them up. And this, again, will transfer funds
out of leasehold maintenance into environmental control.
So, there will be no budget augmentation on this.

COMMISSIONER MORGAN: I will move approval.

ACTING CHAIRPERSON ACKERMAN: Okay, John,
any questions?

COMMISSIONER JERVIS: No.

ACTING CHAIRPERSON ACKERMAN: Anyone in the
audience on Item 51?

(No response.)

ACTING CHAIRPERSON ACKERMAN: Without objection,
the second modification will be approved.

Item 52, Parcel A?

MR. THOMPSON: "Yes. This is strictly an informal
calendar item, but we would like some action on it. All we're doing is telling you that we got more revenue than we had earlier forecast a year ago, because primarily that federal action and decontrolling heavy oil made the difference whether you were getting $4 for your oil or 20-some dollars.

Now, we were instructed in the past to report back on this every six months in an information way. We are now incorporating all of this into a semi-annual revenue reporting for all the properties. So, we'd like your approval to stop this reporting, because it's incorporated in the other one. And that's the revenue projections that you'll see back on Item 58, I believe it is. Parcel "A" now is one component of that.

COMMISSIONER MORGAN: Is this within the Commission's discretion?

MR. THOMPSON: The order was --

EXECUTIVE OFFICER NORTHROP: The Commission asked us to every six months give them a report. And it's what we are attempting to do, but we are now semi-annually -- does that mean twice a year -- reporting the revenues.

MR. THOMPSON: Under the budget language.

EXECUTIVE OFFICER NORTHROP: So, we include Parcel "A" in the revenues. So, it's just a bookkeeping
duplication.

COMMISSIONER MORGAN: I assume anytime we wanted to know what the revenues were you could tell us.

EXECUTIVE OFFICER NORTHROP: Anytime you want to know, we'll let you know what the revenues are.

COMMISSIONER MORGAN: Okay. Fine.

ACTING CHAIRPERSON ACKERMAN: Again, this is just on Parcel "A" as well as including the

EXECUTIVE OFFICER NORTHROP: And normally, I think it's important, Commissioner Morgan, that we, for the record, state that we update these as soon as we find there's a change. In other words, if there is a crude price increase, we immediately recompute and communicate that. However, the problem we've had lately is we haven't had a price to recompute on. So, I thought it was time we recomputed Item 58 saying, "Whoops. It's not progressing like it should." We haven't had anything to recompute lately. So, it's time to recompute. So, that's what 58 would be about.

COMMISSIONER MORGAN: I didn't understand that.

EXECUTIVE OFFICER NORTHROP: Pardon?

COMMISSIONER MORGAN: No. Thank you.

ACTING CHAIRPERSON ACKERMAN: And again, the revenue estimates that we'll get to in Item 58 take the modifications from Item 50 and 51 into account in...
forecasting.

EXECUTIVE OFFICER NORTHROP: That's correct.
Fifty-one it wouldn't affect, but it does take 50 into account.

ACTING CHAIRPERSON ACKERMAN: Okay. We aren't required to take any action, then, on Item 52; is that what you're telling me? Do we need to take action on it?

MR. THOMPSON: We would like to have you tell us not to continue doing this.

ACTING CHAIRPERSON ACKERMAN: I'll entertain that motion,
COMMISSIONER MORGAN: I'll make the motion.

ACTING CHAIRPERSON ACKERMAN: That means there is one budget position, and you can deal with that next year, right?

EXECUTIVE OFFICER NORTHROP: Yeah, right.

(Laughter.)

ACTING CHAIRPERSON ACKERMAN: Okay. Without objection, Item 52 will be approved.

EXECUTIVE OFFICER NORTHROP: If the Personnel Board doesn't do something pretty soon about salaries, we're going to have a lot of positions.

ACTING CHAIRPERSON ACKERMAN: Item 53, closing an account of Westside Industrial Park.
MR. THOMPSON: All right. This is the final closing of the subsidence cost involved in a storm drain project that had to be replaced because of subsidence. In other words, you have to have a normal drainage in these. And as the land subsides, you lose that particular draining gradient. So, it has to be replaced. And this is the final closing on that.

The final numbers are included in the Schedule A, which shows that the allowable subsidence cost in this was $702,195 plus. And the city had deducted to date $696,000. So, they have a credit due them of almost $6,000. This will close this out.

ACTING CHAIRPERSON ACKERMAN: Is the city satisfied with the final count?

MR. THOMPSON: Mr. Peterson nods his head yes.

COMMISSIONER MORGAN: Fine.

ACTING CHAIRPERSON ACKERMAN: Any question from the Commissioners?

(No response.)

ACTING CHAIRPERSON ACKERMAN: Then Item 53 will be deemed approved without objection.

Item 54 is the problem we had with the Los Angeles County Assessor.

MR. THOMPSON: Yes. This is a continuation of our problem. We would like the Commission's approval
to appeal the Los Angeles County Assessor's assessment for 1980-81. The Assessor has increased the valuation for the Long Beach Unit by over 350 percent. The magnitude of this can be seen on this graph he has right here.

(Indicating.)

This shows the assessed valuation by the County Assessor in yellow. And that yellow tab has folded there on the righthand side. So, if you want to show that --

EXECUTIVE OFFICER NORTHROP: Put it up there, Dave, so it gets up to the top. Now you can see a real significance.

MR. THOMPSON: This is the -- the yellow is the Los Angeles County Assessor's. The red or orange there is the State Lands Commission staff valuation at the same time. You can see that the base year there is 1975, which is the Prop 13 base year. You can see where that, after 1978, that adjustment came back, so that the 1979-78 adjustment was the same. There was no question that year.

Then, we started to have questions again and differences in '79. And you approved our appealing that.

COMMISSIONER MORGAN: That's an omen.

MR. THOMPSON: That's it. Think positively.

(Laughter.)

MR. THOMPSON: All right. So, now the Assessor
we think has really done us in this time. And part of this comes from the Prop 13 is still being interpreted through the courts. And the Board of Equalization has a rule which is called 468, in which if you produce more oil because of changed economic conditions this comes under the language in Prop 1 of new construction. If you want to get into it we have Mr. Hager here from the Attorney General's Office.

Actually, I believe the Board of Equalization will be in court very soon on this issue, along with the County Assessor, to determine the constitutionality of that. The Attorney General's Office has already issued an opinion that it's not constitutional on that.

Allen, do you have any questions on this?

ACTING CHAIRPERSON ACKERMAN: We are not the only ones, are we, that are facing this treatment by the L.A. County Assessor? Are we standing alone?

EXECUTIVE OFFICER NORTHROP: Most all of them. Most all of them.

MR. THOMPSON: This is the standard practice of the Los Angeles County Assessor against all oil properties, I believe.

ACTING CHAIRPERSON ACKERMAN: So, we're not all by ourselves, then.

EXECUTIVE OFFICER NORTHROP: All oil producers
are in about the same rate which --

MR. THOMPSON: And it's the same situation
almost statewide on this thing. Now, to give you an example
of what they're doing, they're taking an escalating oil
price at 16 percent per year for a five-year period, which
means they say that five years from now our oil price
is going to be about $50. Well, the fallacy of this comes
up -- Dave, show them the curve on actually what's happened
to oil prices here.

Now, when I say they are escalating the oil
price, I mean they're escalating the controlled oil price,
and that's shown in blue. They said that that was going
to increase it 16 percent per year for five years, which
would be about $50 oil. But, in reality, we haven't had
a price increase since December of last year. So, here
we are about nine months already into this period. In
fact, we have had a crude oil price decrease of about
15 cents a barrel in this period of time.

They are really off in their thinking, because
they escalate oil prices 16 percent and yet turn around
and say that cost would only go up eight percent. And
I don't think those two things happen in our economic
society. I don't think we would have oil prices taking
off in one case and costs going in another direction.
I don't think that tracks.
They are also doing things like we are taxed here because of the possessor interest concept through the contract. Well, the contract only goes to the year 2000. They've run their particular reserves out to the year 2021. So, they're actually taxing those possessor interests 21 years beyond the life of the contract.

Then, the basic issue of whether Rule 468 is constitutional. They also then -- these valuations are established by taking a cash flow and then discounting those. They use a discount rate of capitalization rate of about 16 percent. And that's supposed to take into account two percent for their own taxes plus interest costs plus risk. And we don't think that is reasonable at all.

So, there are a number of reasons these are covered in the calendar item, and we'd like the Commission's approval to appeal this decision. Now, again, appealing is not going to get us out from the taxes, because they are just now getting around to -- no they are not. They just announced that they expect to process to last of the 1978 appeals, in 1981. We have a 1977 appeal that we don't even know whether we are going to have that approved this year or not.

So, we'll have to go ahead and pay the taxes and move back to you for budget augmentation probably in November for an extra $6 or $7 million in taxes to
be paid.

EXECUTIVE OFFICER NORTHROP: That will come out of the projections.

ACTING CHAIRPERSON ACKERMAN: What kind of money are we really talking about now from the point that we originally disagreed with the Assessor's approach?

MR. THOMPSON: Well, the taxes this year on my actual Long Beach Unit are going to be roughly about $11 or $12 million, compared to what we thought would be closer to maybe two and a half to three million dollars.

ACTING CHAIRPERSON ACKERMAN: So, we're talking about $7 to $8 million in additional taxes per year?

MR. THOMPSON: Yes. Yes. We still have the same issue of a large amount of money back in 1977.

EXECUTIVE OFFICER NORTHROP: And it should be understood that this money is paid to the county by the contractor, and we have lost use of the money.

ACTING CHAIRPERSON ACKERMAN: Now, in that settlement, we get paid interest if we win?

EXECUTIVE OFFICER NORTHROP: Would the county pay us the interest?

MR. THOMPSON: No, I don't think so.

EXECUTIVE OFFICER NORTHROP: I don't think so.

MR. THOMPSON: I don't think a taxing agency
has ever paid that. You have a newspaper article there in part of your stack I gave you. And the Long Beach Unit now is about one-eighth the assessment for the whole city of Long Beach with this type of inflation. And their assessed valuation increased about double the rate of the rest of the county.

ACTING CHAIRPERSON ACKERMAN: It's really to the advantage of L.A. County to drag their feet, then, because they're getting free use of the six, seven million dollars a year, on an average, over the last three years.

EXECUTIVE OFFICER NORTHROP: That's true.

MR. THOMPSON: Plus the fact they have thousands and thousands of appeals down there on Prop 13.

ACTING CHAIRPERSON ACKERMAN: Conveniently, they can just kind of put us down there at the bottom of the list, then.

MR. THOMPSON: Well, we're held up in the 1977 because we're still in the courts, in the appeal courts.

ACTING CHAIRPERSON ACKERMAN: We don't have any option because we have appealed that one of not paying the total tax amount?

EXECUTIVE OFFICER NORTHROP: The tax falls to the contractor, not to the State. And the contractor is under direction to pay it. And we have agreed on the contract to reimburse him for that.
MR. THOMPSON: I suggested before not to pay the taxes, and then we'd go to a tax sale for the title of properties, but I don't think that's really the way to go. We'll pay under protest and go through the courts.

COMMISSIONER JERVIS: What about other private producers in Los Angeles County; what are they doing? Are they protesting as well?

MR. THOMPSON: I believe so. I think that -- I know the independent producers are filing a suit on this, the Board of Equalization Rule 468 interpretation. I think that's going to involve the Kern County Assessor?

MR. HAGER: Yes.

MR. THOMPSON: And also I think that isn't it strange enough that the Sacramento County Assessor is filing a suit against the Board of Equalization on the same rule?

MR. HAGER: On the same rule, but he has a different cause for complaint against it.

MR. THOMPSON: So, it's -- again, it's just like recently they got part of Prop 13 resolved for the one year on how to handle unsecured property, which rates to use on that. The Supreme Court just finally ruled on that about a week or so ago. So, this, again, will have to go through the courts and get a final result.

ACTING CHAIRPERSON ACKERMAN: So, we may have
to wait until 1981 to get any kind of a feeling on this?

EXECUTIVE OFFICER NORTHROP: Yeah. At least

for '77, the appeal of '77, maybe:

MR. THOMPSON: We would hope by the first of

1981 we would get 1977 resolved. We would hope we would

get '79 resolved maybe in '82. And I don't know when.

ACTING CHAIRPERSON ACKERMAN: Why does it --

maybe I'm --

MR. THOMPSON: Although it might be speeded

up if we do get court action on Rule 468.

ACTING CHAIRPERSON ACKERMAN: Again, maybe

I'm just missing something here, but it seems if we get

the '77 resolved that establishes some kind of a precedent
to take the other years, I would think.

MR. THOMPSON: No. Seventy-seven is a before

Prop 13 issue. That is just on some other issues. Then,
after that, you get into some of the same issues plus

the Prop 13 interpretation.

EXECUTIVE OFFICER NORTHROP: As you can see

by the chart, our '77 was a little higher than usual.

ACTING CHAIRPERSON ACKERMAN: Does that tell

me that the county can come back every year and make the

same claim, and we'd have to go through an appeals process
every single year?

MR. THOMPSON: The assessor prepares the
assessment rolls.

EXECUTIVE OFFICER NORTHROP: They can vary assessment rolls, and if they vary anything -- and they usually do vary --

ACTING CHAIRPERSON ACKERMAN: You mean this is the way they could get $6 or $7 million of State money to use tax free for as long as it takes us to fight an appeal?

EXECUTIVE OFFICER NORTHROP: You have to remember also that we are only about ten -- a little over ten percent of the entire state production. So, you would multiply that by over nine or ten.

ACTING CHAIRPERSON ACKERMAN: So, you're talking about $80 million.

EXECUTIVE OFFICER NORTHROP: And that's just the disputed amount. As a matter of fact, for this year, for example, we feel that number should be somewhere around two and a half to three. And we are at 12. So, that's $10 million for this year. It compounds.

ACTING CHAIRPERSON ACKERMAN: It seems to me we ought to explore some state legislation.

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, staff has felt for some time the argument is getting stronger and stronger for an ad valorem tax in this area -- or severance tax, I'm sorry, in this area where the State
collects the money, and it's distributed to the county on a barrels-produced basis.

ACTING CHAIRPERSON ACKERMAN: Then the shoe is on the other foot.

EXECUTIVE OFFICER NORTHROP: It's what?

ACTING CHAIRPERSON ACKERMAN: Then the shoe is on the other foot.

EXECUTIVE OFFICER NORTHROP: We do it with sales tax. It seems the reasonable thing to do.

COMMISSIONER MORGAN: Well, we're too late for legislation for this session.

ACTING CHAIRPERSON ACKERMAN: Perhaps.

EXECUTIVE OFFICER NORTHROP: There was a piece of legislation carried this year, and the industry was mixed on it. I think one more year like this, and they may be convinced that it may be a better way to go.

ACTING CHAIRPERSON ACKERMAN: Maybe the staff could explore at least what legislative remedies would exist and what options, whether it's severance tax or whether something be allowed that when settlement is given maybe the interest be provided, something to where someone doesn't have -- the local government doesn't have just free use of the State's money by just forcing us through the appeal situation. That just -- I don't think that's right.
EXECUTIVE OFFICER NORTHROP: We will take those steps, Mr. Chairman, and report back to you.

ACTING CHAIRPERSON ACKERMAN: Is there anyone here from Los Angeles County?

(Laughter.)

COMMISSIONER MORGAN: That wants to speak?

ACTING CHAIRPERSON ACKERMAN: They wanted to stay away today.

(Laughter.)

EXECUTIVE OFFICER NORTHROP: The City of Long Beach is a benefactor here as well.

ACTING CHAIRPERSON ACKERMAN: Well, I would be happy to entertain a motion to support the appeal of the assessment. Do I have a motion?

COMMISSIONER MORGAN: So moved.

ACTING CHAIRPERSON ACKERMAN: Okay. We have a motion. Without objection, Item 54 will be approved.

MR. THOMPSON: Thank you.

ACTING CHAIRPERSON ACKERMAN: Item 55?

MR. THOMPSON: This is an information calendar item just showing you the performance of the Micellar Project, another tertiary project that we have over in the prior development there. He'll put up a performance curve here very soon, and you'll see how the field is doing. It's actually performing like the laboratory
prediction. Again, it's a question of economics.

We need the performance curve, Dave.

MR. HAYWARD: All right. Okay. It's down here.

EXECUTIVE OFFICER NORTHP: We out-charted ourselves today.

MR. HAYWARD: Here we are.

MR. THOMPSON: As you can see, this project was at the economic limit. It wasn't able to produce an economic amount of oil. The oil rate is shown in green at the bottom. The water rate is shown in blue at the top. And you can see that our oil rate has started to increase, and the water rate has come down. So that actually this shows the process works. You can recover additional oil. The only problem is that right now we are just producing enough oil to meet our current operating costs.

ACTING CHAIRPERSON ACKERMAN: That's the first time that's happened; isn't it?

MR. THOMPSON: Yes. And we have a little decrease there in oil rate right now, because we have some well downtime. But we hope that will come back up. So that the crux of it is how long will that green curve continue to rise there, and how long will it last? And that's the purpose of the field test.

ACTING CHAIRPERSON ACKERMAN: How much longer
do you expect this project to continue?

MR. THOMPSON: Actually, it probably should have about another three-year life, but we will get a strong indication if that oil curve ever starts to turn over. Then further handwriting is on the wall.

ACTING CHAIRPERSON ACKERMAN: This is a -- if I understand right, this is a pilot project that the Commission has undertaken, and private industry is not doing anything like this?

MR. THOMPSON: No. This actually is also a contract agreement with the Department of Energy. They actually are sharing 50 percent of the cost up to the first seven to eight million dollars.

EXECUTIVE OFFICER NORTHROP: I think there is one other project in the United States, and it also is a pilot project undertaken by industry and DOE together.

ACTING CHAIRPERSON ACKERMAN: So, really, you're looking at another two to three years before you get the final, bottom line as to how this can apply in regards to what?

MR. THOMPSON: We have an indication right now, because right now what you're looking at is by the time you take the crude oil and take a gas/oil cut out of it, add the other things back into it, you're almost looking currently at a $40 to $50 product to put back
into the ground to get $25 oil.

We actually put in $2 million worth of micellar materials in here in about two months. You can put money underground so fast it's scary.

ACTING CHAIRPERSON ACKERMAN: What happened in January, 1980, where there was that --

MR. THOMPSON: That, in effect, is where you're seeing the result of this micellar material actually going in and beginning to move additional oil in the reservoir to the producing wells. In other words, that period of time it was moving oil through the reservoir, that's the time it reached the producing wells. And that's why the material was put in.

The question is: Can we do it economically? We can move oil. We know we can recover additional oil. That's not the issue.

ACTING CHAIRPERSON ACKERMAN: It's just the economics?

MR. THOMPSON: Just the economics.

COMMISSIONER MORGAN: How much longer are we going to attempt it; three years?

MR. THOMPSON: We are going to take this process to its end here. And again, how fast that curve goes up or down will depend. Right now, we're just barely looking at mean operating costs. We are under a commitment,
since the Federal Government backed part of this, to take it to its economic limit.

EXECUTIVE OFFICER NORTHROP: When we get there, we shan't run the line any farther, just run to the line.

COMMISSIONER MORGAN: What is the economic limit?

EXECUTIVE OFFICER NORTHROP: Pardon?

COMMISSIONER MORGAN: What's the economic limit?

MR. THOMPSON: The economic limit was unavailable the day we started the project. You cannot make money off of pilot projects, because you have too much overhead, too much research, too much lab work in front of it.

EXECUTIVE OFFICER NORTHROP: It's too much money. The Federal Government participated in this for the first, what, seven million?

MR. THOMPSON: Yes.

EXECUTIVE OFFICER NORTHROP: The first $7 million was total federal money.

MR. THOMPSON: But from this you hope to get the information to see whether you can go on and make a full-scale commercial project.

EXECUTIVE OFFICER NORTHROP: That's right.

And without the federal assistance, we would have needed $27 oil.

We're getting now to the point where we're
experimenting -- no question about it -- as to whether
it will work, if it holds promise. And what is the acreage
on that area up there?

MR. THOMPSON: Well, let's throw the other
curve there and show the increased recovery on one of
those other curves behind you.

EXECUTIVE OFFICER NORTHRUP: I want to make
a point on this.

MR. THOMPSON: Well, this is a very small one.
This is only ten acres.

EXECUTIVE OFFICER NORTHRUP: This is a ten-
acre plot. And if it works, as you saw today and you'll
see later the vast acreage we have, it could be -- it
could be a very -- could be --

MR. THOMPSON: Dave, show them that curve behind
the performance curve there. Behind the performance curve.
This now shows the ultimate recovery you can get in a
lab. You see the very sharp bend up to the right there,
up at the end of the curve? That's additional recovery.
And that is about -- you're almost doubling your recovery
there. That's the potential. There is a large potential.
It's a question of whether it's an economic potential.

EXECUTIVE OFFICER NORTHRUP: That's the laboratory
curve.

ACTING CHAIRPERSON ACKERMAN: I think Susanne's
point was since it's a pilot project, at what point do we realize the result of it, where our intent here is to prove it's economically feasible, not necessarily to produce oil? In other words, has this become a producing well, then, using that technique, or --

EXECUTIVE OFFICER NORTHROP: Excuse me, Moose. We're using -- don't cover that up, Dave. We are using that chart as indicative of what should happen. And when it deviates substantially from that chart, if it deviates substantially from that chart to the left, which is the optimum we can expect, when it deviates from that substantially on the downward side, then we know it has not been successful.

MR. THOMPSON: We have to have a stable factor to go from laboratory data to field application. If we start this project down earlier with higher oil saturation, then it would work. The question is whether we have those type of locations available and whether we would have to cap them, because you could talk about putting a -- for a full-scale list, you could talk about putting a billion dollars' worth of material underground. The numbers pile up very fast.

COMMISSIONER MORGAN: I don't want to put a billion dollars into the ground.

MR. THOMPSON: Well, but again, if you could
make three billion, that's the name of the game. But, if we can't say we can make three billion, then that's not the name of the game.

COMMISSIONER MORGAN: Every time this comes up, I'll ask you how much longer we're going to pour money into the ground before we realize something.

MR. THOMPSON: We'll watch that green line and see how much longer it goes up.

COMMISSIONER MORGAN: Okay.

EXECUTIVE OFFICER NORTHROP: The green line is indicative of what we can do.

ACTING CHAIRPERSON ACKERMAN: Are we expecting at some point in time to achieve a break even on this one?

MR. THOMPSON: No.

EXECUTIVE OFFICER NORTHROP: No.

COMMISSIONER MORGAN: We will never see it.

EXECUTIVE OFFICER NORTHROP: It may well be, as we construct the ten-acre tract from the information that we have, and while we continue with it, it well may be that this ten acres, while it's got a terrible overhead burden on it now, translated to five hundred acres --

ACTING CHAIRPERSON ACKERMAN: Might work.

EXECUTIVE OFFICER NORTHROP: -- it makes all kinds of economics.
ACTING CHAIRPERSON ACKERMAN: And it might work, even over a short period of time.

EXECUTIVE OFFICER NORTHROP: But we have to know. We have to know what it looks like on ten acres. If ten acres is a loser, when we start translating it into a much larger area, the economies of scale may make it a winner.

MR. THOMPSON: If we could find some thicker sand that had higher oil saturation, where instead of going from 50 barrels of oil up to 175 we're talking about being able to go initially from 500 to three or four thousand, then we have a chance of doing something.

ACTING CHAIRPERSON ACKERMAN: Okay. Thank you. We now move into areas of legal concern. Item 56, settlement of a dispute with the Ventura Port District versus the State of California. Mr. Hight?

MR. HIGHT: Yes, Mr. Chairman. This is the item that we had before the Commission last month. This amendment will approve minor technical changes to the amendment.

The Port District's bond counsel wanted the amendment changed slightly. So, in order to help him out with some bonding -- and this also leases back the area that we acquired from the Port District for a 49-year term.
ACTING CHAIRPERSON ACKERMAN: Okay. I don't have any problems with that item. Any questions from Commissioners or anyone in the audience on Item 56?

(No response.)

ACTING CHAIRPERSON ACKERMAN: Item 56 will be deemed approved without objection.

Item 57, Matheson versus State of California?

MR. HIGHT: Yes, Mr. Chairman. This is a settlement of an existing lawsuit to which the Commission is a party. The Commission will take $32,500 for it as compensation for the value of the land that it has within the parcel.

ACTING CHAIRPERSON ACKERMAN: Okay. I think in this case it was nice not to have to go to litigation with a small party for a small settlement.

MR. HIGHT: Yes, sir.

ACTING CHAIRPERSON ACKERMAN: Okay. Without objection, Item 57 -- anyone in the audience on this item?

(No response.)

ACTING CHAIRPERSON ACKERMAN: Without objection, Item 57 will be deemed approved.

COMMISSIONER MORGAN: Mr. Chairman?

ACTING CHAIRPERSON ACKERMAN: Yes?

COMMISSIONER MORGAN: Before we move into administration, what about Item 33 or 31?
ACTING CHAIRPERSON ACKERMAN: Thirty-one.

EXECUTIVE OFFICER NORTHROP: Mr. Chairman,

I believe on Item 31 the County of Orange Environmental Department and Mr. Willard have come to some kind of agreement. Would the two of you care to come to the podium and tell us what you want?

ACTING CHAIRPERSON ACKERMAN: We'll take up Item 31, then?

EXECUTIVE OFFICER NORTHROP: Is that what you want?

ACTING CHAIRPERSON ACKERMAN: That would be fine. Mr. Dalquist?

MR. DALQUIST: Mr. Willard, the County of Orange and myself have come to an agreement. The county would like to amend the letter that we submitted to you under county letterhead. We would like to remove our concern number one, which states "include the State Department of Parks and Recreation as coapplicant." We have worked out and resolved our problems for concern number two.

ACTING CHAIRPERSON ACKERMAN: Do you have a change on your request on number two?

MR. DALQUIST: There is no change for that.

ACTING CHAIRPERSON ACKERMAN: Mr. Hight or Mr. Northrop, is there agreement from the Commission staff?
to these suggested changes?

EXECUTIVE OFFICER NORTHROP: Yes. You're willing to withdraw two?

MR. WILLARD: Yes, number two will be withdrawn.

ACTING CHAIRPERSON ACKERMAN: So, you're withdrawing number two?

EXECUTIVE OFFICER NORTHROP: You're going to cave on that? You're going to cave on two?

MR. WILLARD: Well, we're sticking with the stock language in our form of permit which states that the State reserves the right to assess a royalty of 25 cents per cubic yard for material placed on private property or used for any private or commercial benefit. This protects the State. The material is intended to be placed upon state-owned land, that is Parks and Recreation land.

EXECUTIVE OFFICER NORTHROP: Right. This is Northstar Range.

ACTING CHAIRPERSON ACKERMAN: Is this consistent with your recommendation, Mr. Northrop?

EXECUTIVE OFFICER NORTHROP: Uh, I think we're waiving the 25 cents?

MR. WILLARD: No. Well, the material -- originally, there is no intention of assessing a royalty for the material that was going to be returned to state
land, that is on Parks and Recreation land.

EXECUTIVE OFFICER NORTHROP: They had no problem, if they pay the 25 cents if they put it on private land.

MR. WILLARD: If it goes on private land. You're in agreement, then?

MR. DALQUIST: Yes, we are.

EXECUTIVE OFFICER NORTHROP: So, what I hear you saying is that you -- if you withdraw one and two, you have withdrawn your letter; is that correct?

MR. DALQUIST: No. No. That's not correct. We are withdrawing number one. Number two, I'd like to have that for the record.

COMMISSIONER MORGAN: You would like to have that language withdrawn from the --

MR. DALQUIST: The language, yes. The new language has been withdrawn. Our concern with number two is it's ambiguous, the word "anytime" and "to the State's best interest." We have revised that wording as Mr. Willard has just read to you to become more definite. And there is no ambiguity in this wording.

EXECUTIVE OFFICER NORTHROP: I have no problem with that, Mr. Chairman.

ACTING CHAIRPERSON ACKERMAN: Okay. Then we will simply -- what you're asking us is to approve Calendar Item 31 with one change, and that's to eliminate the wording
that you suggest in your letter, that the State reserve
certain of the right at anytime to assess a royalty if the Commission
finds such action to be in the State's best interest.
That will be stricken from the permit with your wording.

MR. WILLARD: That's correct. The resolution
stands as written in the calendar item.

ACTING CHAIRPERSON ACKERMAN: Okay. Then
without objection that will be the action of the Commission.

COMMISSIONER MORGAN: Fine.

ACTING CHAIRPERSON ACKERMAN: Okay. Thank
you. I'm glad we could work that out so smoothly.

Okay. Let's pick up with the last item on
the agenda, which is -- which are the administrative items.
Go to Item 58, which is more than just administrative,
I think.

EXECUTIVE OFFICER NORTHROP: Yes, I believe
so. Mr. Chairman, we have heard from Mr. Thompson and
will again on this item. However, I'd like to introduce
Bob Paul from our statewide operations, who is going to
take the heat for these numbers as well as Mr. Thompson
and myself. So, Bob, do you want to come up with Moose
and lay out where you're coming from? I'm sick and tired
of catching it all the time.

MR. THOMPSON: All right. I'll speak here.
And if Bob disagrees with me, why he will grab the mike
from me and go from here. The previous projections we were faced with the same thing that we have, variations in oil rate and other factors, but when it comes down to it the most important thing is oil pricing. So, therefore, we took oil rates and set those, and then we ran variations of cases in which we escalated oil prices starting in December of 1979 with no escalation, five percent per year escalation, and ten percent per year escalation.

As you look at the oil price curves that you see on the left here -- we've gone through that -- that in effect we have zero price escalation. And, of course, now when we can escalate like this, we also compound. So, by the time you get out any period of time, you not only have ten percent per year if you use that, but you have ten percent compounded. So, this builds up.

Now, the gist of this is that on the average by the time we get to the '81-82 year the difference between zero escalation and ten percent escalation is about $4 a barrel. And this, then, can add up to the amount of oil we have been involved with would be $100 million. And that's just exactly where we are. The revenue estimates you see now are taken down towards the -- what we take as a conservative view on crude oil price escalation in which we've held them constant through the 1980-81 period. And
then, we start escalating them, so that by the end of '81-'82 year we have escalated up to ten percent.

ACTING CHAIRPERSON ACKERMAN: You're saying we'll be down a hundred million in this current budget?

EXECUTIVE OFFICER NORTHROP: Fifty million in this.

ACTING CHAIRPERSON ACKERMAN: Fifty million.

MR. THOMPSON: We will not be down a hundred million dollars. The oil price, if you looked at a ten percent escalation, would be a hundred million dollars plus or minus.

Now, you could have oil prices that could take off and do that. But when you talk about the difference between a zero escalation and a ten percent escalation in a revenue estimate for a year, that could be $100 million. What the final revenue is going to be is going to be whatever it is that year, depending on what happened to the crude oil price. We could sit here, and we could estimate and say we're going to get revenue until it's coming out of our ears, but if the crude oil price, which we have no control over -- it's particularly controlled by the OPEC countries and federal policies to a degree on control -- that's just where we are.

COMMISSIONER MORGAN: How does ten percent equate to a million dollars?
EXECUTIVE OFFICER NORTHROP: Pardon me?

COMMISSIONER MORGAN: Does ten percent equal to four dollars per barrel?

MR. THOMPSON: Yes. Over that period of time, you take two years there. We start escalation -- in these earlier projections, we started escalating at a monthly rate equal to either zero, five or ten percent per year compounded. By the time you get out and look at the average oil price for '81-82, if you use a ten percent versus a zero escalation, that will be about four dollars a barrel, because you're going through two timing periods.

EXECUTIVE OFFICER NORTHROP: It's the -- it's the cumulative effect of the ten percent compounded.

MR. THOMPSON: Because you started in December.

COMMISSIONER MORGAN: Eighty-one, eighty-two?

EXECUTIVE OFFICER NORTHROP: Yeah. Because you will have compounded it from a previous time level, right?

MR. THOMPSON: Starting from December, '79. So, it's actually an extra period of time there going back to the previous budget year.

EXECUTIVE OFFICER NORTHROP: And you think only lawyers get off statements.

MR. THOMPSON: So, if someone will tell us exactly what crude oil prices will be in '81-82, we'll
come out with a revenue estimate that will be very close.

EXECUTIVE OFFICER NORTHROP: We're -- it's one of those things.

MR. THOMPSON: So, the red actually shows that for the '78 -- for the 79-80 year, that it was forecast to be I think three ten. I think it was actually 307. And you'll see it running a little less for the next year, because the escalation factor having caught up. By now, again, if you look again, if you want to compare I guess a ten percent range, then this is where that $100 million may enter, or you could say it's above the zero escalation range.

ACTING CHAIRPERSON ACKERMAN: Really, what you're saying is that's how much money will come in if these certain assumptions hold true.

EXECUTIVE OFFICER NORTHROP: In the calendar item, we list -- we list nine assumptions and A, B, C, D, E; F caveats to those. So, it's a --

ACTING CHAIRPERSON ACKERMAN: Did you develop a matrix that goes along with this that -- so you could take a variety of those assumptions and then equate out to a different revenue figure, based upon which assumption you used?

MR. THOMPSON: Yes. By the time you get through, the overriding matrix is the crude oil price. There are
other factors that could come in.

ACTING CHAIRPERSON ACKERMAN: But they don't weigh that much.

EXECUTIVE OFFICER NORTHRUP: No.

MR. THOMPSON: Again, we take an optimistic and a pessimistic. We take an optimistic in the fact we say that the exemption for windfall profits tax will be resolved. If that isn't, then we are out of whack another $100 million a year there. Well, but again, you don't know how much further, on oil property, that thing could go.

EXECUTIVE OFFICER NORTHRUP: And again, as I have mentioned this morning, if the entitlements program or some of entitlements is put into place, we really don't know what happens on that. And there is a great feeling now that there may well be some entitlement.

MR. THOMPSON: In these estimates, we've actually put back in about $9 million in windfall profits tax that was collected last year. And we assume that the windfall profits tax that we're being paid right now of almost $6 million a month, five to six million a month, will be resolved this year and cycled back as revenue. But that, again, is in the hands of the Federal Government.

ACTING CHAIRPERSON ACKERMAN: If that doesn't go, that's another $100 million?
EXECUTIVE OFFICER NORTHROP: Seventy.

MR. THOMPSON: Not quite. It would be about $70 million.

EXECUTIVE OFFICER NORTHROP: We'll get a better handle on that. We're due in Washington a week from tomorrow to have some discussion, which is a good time to raise this. You had indicated that it would be well to discuss our problem with a tax specialist. I have an appointment with a city attorney of Long Beach and Alan Hager a week from Thursday morning in Washington at nine o'clock with a Mr. Martin Ginsburg, who is a professor of economics at George Washington University and a prominent tax lawyer, formerly a prominent tax lawyer in New York City and now teaches in Washington and does some consulting work. We have a meeting with them to at least go over the steps we've taken so far regarding our appeals with the windfall profits tax problem.

ACTING CHAIRPERSON ACKERMAN: In other words, you're going to have to make a decision, then, what revenue figure you use when the Department of Finance puts together the budget.

EXECUTIVE OFFICER NORTHROP: We feel relatively certain at this time. Alan Hager, do you want to give me a number? Ninety percent?

MR. HAGER: No.
EXECUTIVE OFFICER NORTHROP: Eighty-five?

MR. THOMPSON: We've taken a very optimistic viewpoint on that.

EXECUTIVE OFFICER NORTHROP: We're very optimistic in viewpoint, and you say "no"? I'm going to get you and Everitts and put you in the same bag. I sit down and talk to you, and you get to a meeting and you talk different.

(Laughter.)

MR. THOMPSON: We have a -- next year we have been very conservative on oil pricing, and yet we are optimistic on the windfall profits tax. And that's the blend of it all.

EXECUTIVE OFFICER NORTHROP: But we are optimistic on this. We feel -- (inaudible.)

ACTING CHAIRPERSON ACKERMAN: The cookie jar is gone; isn't it?

MR. THOMPSON: Well, maybe the cookie jar never really existed.

ACTING CHAIRPERSON ACKERMAN: That's a better statement.

EXECUTIVE OFFICER NORTHROP: It is.

ACTING CHAIRPERSON ACKERMAN: You can tell your legislators that.

EXECUTIVE OFFICER NORTHROP: This is --
MR. THOMPSON: Or if the cookie jar existed, maybe it wasn't that full.

EXECUTIVE OFFICER NORTHROP: Incidentally, I think it would be well, Bob, to comment on the geothermal, because this revenue now becomes very significant. In the past, geothermal revenue had been in a suspense file, and I believe this is the first time we're showing it as a revenue income item.

MR. PAUL: It is. That is a fact.

EXECUTIVE OFFICER NORTHROP: And it --

ACTING CHAIRPERSON ACKERMAN: What percent is geothermal, roughly?

MR. PAUL: Geothermal, at this time relative number is quite long, but as a percentage it's small. I would say it's like one percent of that total amount on there.

ACTING CHAIRPERSON ACKERMAN: What's the dollar?

EXECUTIVE OFFICER NORTHROP: About four to five million a year. In the past, it had been very -- in fact, it had been zero, because for the last four or five years -- is that right -- it had been in litigation, and the money had been, by order of the court, in a passbook account at the Hibernia Bank in San Francisco. We are now taking steps to put those, that money, pending additional court action that there may well be --
ACTING CHAIRPERSON ACKERMAN: It wasn't one of those accounts where they couldn't find the owner of the account; was it?

EXECUTIVE OFFICER NORTHROP: No. But, boy, it was a big number when you paid five and three-quarters percent, particularly in days when short-term bills are paying at 15 percent and the pooled money investment paying at least that much. So, we're now moving that money, as we can, into certificates so it does earn some interest.

ACTING CHAIRPERSON ACKERMAN: Okay.

EXECUTIVE OFFICER NORTHROP: But it was not poor stewardship on our part. It was the court had placed it there. I'm copping a self-serving plea.

ACTING CHAIRPERSON ACKERMAN: The revenue estimates are now to be done on six-month intervals; is that correct?

EXECUTIVE OFFICER NORTHROP: At least six months.

ACTING CHAIRPERSON ACKERMAN: Now, the releasing of the figures yesterday formally, was that one of those six-month intervals now?

EXECUTIVE OFFICER NORTHROP: Yes. You have now, in your calendar on page 96 revised, the estimated revenue as reflected by the Chairman's discussion yesterday in an attempt to get some money which will be in a bill.
for secondary recovery pointing to the need for secondary recovery to give incentive for more oil producing.

ACTING CHAIRPERSON ACKERMAN: So, really, your next watershed date on this will be from May revised figures in late May.

EXECUTIVE OFFICER NORTHROP: Yes. Unless there is some kind of crude price or something extraneous happens in the meantime, and then we'll run the computer and see what it says.

MR. THOMPSON: There are two different things here. We're required by the budget language to report semi-annually to the Governor's Office and to the Legislature. But, as Mr. Northrop says, any time that we see a significant change, why, we will redo our estimates.

ACTING CHAIRPERSON ACKERMAN: Okay. Thank you.

EXECUTIVE OFFICER NORTHROP: This one happened to be a significant unchanged. We expected raises and didn't get it.

COMMISSIONER MORGAN: Other than the Chairman having a press conference, will we be transmitting this to the Legislature informally?

EXECUTIVE OFFICER NORTHROP: This will be transmitted to the Legislature formally after the Commission reviews it.
COMMISSIONER MORGAN: Okay.

ACTING CHAIRPERSON ACKERMAN: It might be helpful to the legislators, not just the Legislature, but to the legislators, to tell us, possibly either a letter from the Chairman or from you, Mr. Northrop, whichever would be appropriate. But, you know, last year --

EXECUTIVE OFFICER NORTHROP: You mean individually?

ACTING CHAIRPERSON ACKERMAN: Individually. I think last year tidelands oil revenue was viewed by each legislator as being something they could get their hands on for projects in their districts. And I think that unless that feeling is turned around a little bit, they are still looking at it the same way -- the Chairman's press conference notwithstanding. And I think you need to bring them down to a little reality.

I know Susie's got some problems with a lot of spending bills that are going to be considered this week that the Governor's going to have to take action on.

EXECUTIVE OFFICER NORTHROP: As we've said and you, thank God, have supported us on the fact that a year ago, six months ago, when Danforth was sending out that California was going to get $30 billion in the next ten years -- was that the number, Jim?
MR. TROUT: Something close to that, yes.

EXECUTIVE OFFICER NORTHRUP: Thirty billion dollars in the next ten years. And your staff kept saying it can't happen. It just can't happen. And it's not happening. And the figure that we gave of six billion for a ten-year period may well have been very, very optimistic.

ACTING CHAIRPERSON ACKERMAN: As I recall, I think I was a little on the high side of those figures, too. So, I was guilty. Okay. Any other questions on Item 58?

(No response.)

ACTING CHAIRPERSON ACKERMAN: Okay. We will go to Item 59, annexation of tidelands and submerged lands.

EXECUTIVE OFFICER NORTHRUP: Mr. Chairman,

Mr. Hight will discuss this.

MR. HIGHT: Yes, Mr. Chairman. The City of Oxnard wishes to annex a small portion of tidelands and disapproves a legal sufficiency of the description. Any annexation will have to go to LAFCO and then go to a vote.

ACTING CHAIRPERSON ACKERMAN: Okay. Anyone in the audience on this item? Any questions from the Commissioners?

(No response.)

ACTING CHAIRPERSON ACKERMAN: The item, then,
will be approved without objection.

Item 60, revision of your geothermal regulations?

EXECUTIVE OFFICER NORTHROP: Mr. Chairman,
we did, as you know, some new geothermal regulations.
We need to do some cleanup on those. And so, what I'm
asking is authorization to have public comment on the
revisions, and we'll bring them back to you after that.

ACTING CHAIRPERSON ACKERMAN: I don't have
any problem with that. Any questions from the Commissioners?
Anyone in the audience on Item 60?

(No response.)

ACTING CHAIRPERSON ACKERMAN: That will be
deemed approved, then, without objection.

Item 61, the City of Capitola.

EXECUTIVE OFFICER NORTHROP: Mr. Chairman,
the City of Capitola has done a very nice job with their
grant and would like to reconstruct their wharf. And
the staff finds that this is consistent with their Grant
Statute and feels that $250,000 probably would be well
spent in Capitola.

ACTING CHAIRPERSON ACKERMAN: And the staff
concurs?

EXECUTIVE OFFICER NORTHROP: That's correct,
sir.

ACTING CHAIRPERSON ACKERMAN: Anyone in the
audience on Item 61? Any questions from the Commissioners?

COMMISSIONER MORGAN: It sounds like a good idea. The city came to the Coastal Conservancy to try to get some money, which the Conservancy could not give them in support of related projects. So, I'm happy to see that they are going to go ahead.

ACTING CHAIRPERSON ACKERMAN: Without objection, then, Item 61 will be deemed approved.

That completes the regular calendar items. Are there any other items that anyone in the audience wishes to bring before the Commission?

(No response.)

ACTING CHAIRPERSON ACKERMAN: If not, the Commission meeting will stand adjourned.

(Thereupon the business meeting before the State Lands Commission was adjourned at 11:45 a.m.)

---00o---
CERTIFICATE OF SHORTHAND REPORTER

I, DIANE M. HOLNBACK, a Certified Shorthand Reporter in the State of California, do hereby certify:

That I am a disinterested party herein; that the foregoing business meeting of the State Lands Commission was reported in shorthand by me, DIANE M. HOLNBACK, 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 22nd day of September, 1980.

[Signature]

DIANE M. HOLNBACK
C.S.R. License No. 4022

PETERS SHORTHAND REPORTING CORPORATION
7700 COLLEGE TOWN DRIVE, SUITE 208
SACRAMENTO, CALIFORNIA 95820
TELEPHONE (916) 383-3601
Certificate of Individual Microfilm or Other Photographic Reproduction
Section 14756, Government Code

I, the undersigned, hereby certify to the following in connection with the accompanying microfilm (photographic reproduction):

That I, Dick Brown, Supervisor, Microfilm Services of SOLAReeve an employee in the charge of Mr. Brown, have been provided with access to the records, documents, instruments, plans, books or papers (hereinafter referred to as "records") of LA La quest for the purpose of microfilming; that such access was provided with the consent of said person or entity; that such records are reproduced in the accompanying microfilm; and that each Department of Water Resources of the State of California reproduction includes the following identifying symbol, roll number.

That pursuant to delegation of the Department of Water Resources, I am authorized to direct and control the reproduction of documents and records of the Department or of other persons and entities in the manner authorized by Section 14756 of the Government Code, and Section 1557 of the Evidence Code; to execute certificates as required by Section 1531 and 1551 of the Evidence Code; and to certify under the official seal of the Department.

That this microfilm of the above-described records was taken under my direction and control on the date hereof and that it is a complete, true and correct copy thereof;

That the microfilming or other photographic processes were accomplished in a manner and on film which meet with the standard specification of the United States National Bureau of Standards;

That this certificate was made at the time of the taking of this microfilm.

WITNESSETH my hand and the seal of the Department of Water Resources this 31st day of DE, 1985

(name)
Certificate of Individual Microfilm or Other Photographic Reproduction

Section 14756, Government Code

I, the undersigned, hereby certify to the following in connection with the accompanying microfilm (photographic reproduction):

That I, Dick Brown, Supervisor, Microfilm Services of the State of California, have been provided with access to the records, documents, instruments, plans, books or papers (hereinafter referred to as "records") of the Department of Water Resources of the State of California for the purpose of microfilming; that such access was provided with the consent of said person or entity; that such records are reproduced in the accompanying microfilm; and that each Department of Water Resources reproduction includes the following identifying symbol, roll number:

That pursuant to delegation of the Department of Water Resources, I am authorized to direct and control the reproduction of documents and records of the Department or of other persons and entities in the manner authorized by Section 14756 of the Government Code, and Section 1551 of the Evidence Code; to execute certificates as required by Section 1531 and 1551 of the Evidence Code; and to certify under the official seal of the Department.

That this microfilm of the above-described records was taken under my direction and control on the date hereof and that it is a complete, true and correct copy thereof;

That the microfilming or other photographic processes were accomplished in a manner and on film which meet with the standard specification of the United States National Bureau of Standards;

That this certificate was made at the time of the taking of this microfilm.

WITNESS my hand and the seal of the Department of Water Resources this 31st day of ___, 1985.

[Signature]
(nature)