MEETING

STATE OF CALIFORNIA

STATE LANDS COMMISSION

State Capitol Building
Room 2170
Sacramento, California

Tuesday, December 16, 1980
10:00 a.m.

Sydney Conarroe
Shorthand Reporter
COMMISSIONERS PRESENT
Kenneth Cory, State Controller, Chairman
Susanne Morgan, Representing the Director of Finance

STAFF PRESENT
William F. Northrop, Executive Officer
R. C. Hight
Mr. Trout
Jan Stevens
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CHAIRMAN CORY: We'll call the meeting to order. The staff has informed me that Mr. Ackerman is ill this morning, and so we will probably not have a representative from the Lt. Governor's Office because of his illness. We'll try to proceed. If we disagree, it isn't going to get done.

COMMISSIONER MORGAN: Right.

CHAIRMAN CORY: Are there any corrections or additions to the Minutes of the meetings of October 30th and November 17th?

COMMISSIONER MORGAN: I don't have any.

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

The Executive Officer wants to make a report.

EXECUTIVE OFFICER NORTHPROP: No. I won't make a report. It will probably be covered with the Attorney General's Report on litigation at the end of the meeting.

CHAIRMAN CORY: Okay. And Mr. Bowman is at the Coastal Commission, so we do not have a Coastal Commission report.

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

CHAIRMAN CORY: Okay. The next items on the agenda are the Consent Calendar items. For those in the audience,
those are the agenda items C1 through C23.

EXECUTIVE OFFICER NORTHROP: Fourteen is off, Mr. Chairman.

CHAIRMAN CORY: Item 14 has been removed from the calendar, so we're talking about C1 through 23, excluding 14. If there's anyone in the audience who disagrees with the proposed action of the staff on those items, would they please let their displeasure be known now because we plan on taking these up all on one motion and approving them if there are no objections.

(No audible response.)

CHAIRMAN CORY: No objections?

COMMISSIONER MORGAN: None.

CHAIRMAN CORY: The Consent Calendar will be approved as presented -- Items C1 through C23, excluding C14.

Item 24 --

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, Item 26 is off calendar, and with the indulgence of the Commission, we'd like to move Item 36 to the end of the calendar.

CHAIRMAN CORY: Well, okay. You want to move Item 36 to the end?

EXECUTIVE OFFICER NORTHROP: Yes. They're still negotiating.

CHAIRMAN CORY: And I want to move 38 to the front.
COMMISSIONER MORGAN: Fine.

EXECUTIVE OFFICER NORTHROP: Fine.

CHAIRMAN CORY: So, we'll trade. We'll take Item 38 up first so that Mr. Iander can get to coffee.

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, this is a proposal to authorize the staff to hold a hearing to consider pollution and subsidence control required by Section 6873.2 of the Public Resource Code. The applicant is C. F. Braun and Company.

CHAIRMAN CORY: The public hearing is -- that doesn't really explain to me. You're going to have a hearing on pollution and subsidence?

EXECUTIVE OFFICER NORTHROP: Right.

CHAIRMAN CORY: For what activity?

EXECUTIVE OFFICER NORTHROP: On the proposed oil and gas lease under the Sacramento River at Freeport.

COMMISSIONER MORGAN: Is this the beginning of the environmental impact process?

EXECUTIVE OFFICER NORTHROP: This will be the initial phase of the environmental impact process. After that's complete, we will then come back to the Commission and discuss the lease itself. But before we get that far in, we want to handle these two items first.

COMMISSIONER MORGAN: Okay.

CHAIRMAN CORY: Okay. Is there anybody in the
audience on Item 38?

(No audible response.)

CHAIRMAN CORY: Without objection, we will authorize the staff to proceed with the public hearings on subsidence and pollution.

EXECUTIVE OFFICER NORTHROP: Thank you, Mr. Chairman.

CHAIRMAN CORY: Item 24?

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, Mr. Trout will address Item 24.

MR. TROUT: For several years the Fish and Wildlife Service has been funding some additional staff for the Commission to make studies in areas of priority and concern to them, one of these being the Tijuana Estuary. The Fish and Wildlife Service is acquiring property for a wildlife habitat and preserve from the Helix Corporation, and they are, at the same time, requesting a release from the Commission for the Commission's interest in that area, a 66-year lease. The item before you will establish the extent of the state's ownership within the property surrounded by Helix, and it will authorize the issuance of a 66-year lease to the Fish and Wildlife Service.

The boundary will not be a permanent boundary but will be a moving boundary because of the natural condition of the area. Representatives of Helix and the Fish and Wildlife Service are here. However, there is no dispute,
and the staff does support the solution and recommends your approval.

CHAIRMAN CORY: Is there anyone in the audience that wishes to be heard on this item?

(No audible response.)

COMMISSIONER MORGAN: This is the boundary between jurisdictions of governments -- the federal government and ours; is that right?

MR. TROUT: That's the result, yes. That's correct.

COMMISSIONER MORGAN: There's no disagreement with the government of Mexico?

MR. TROUT: No. This is separated from the boundaries of the Republic of Mexico by some intervening property, including Border State Park.

COMMISSIONER MORGAN: Okay.

CHAIRMAN CORY: Without objection, Item 24 will be approved as presented.

Item 25 -- this is the request for authorization of the Executive Officer to enter into a cooperative agreement with the U. S. Fish and Wildlife Service for $75,000 per year boundary determination services within Bodega Bay, Sonoma and Marin Counties, Humboldt Bay, San Francisco Bay, San Diego Bay, Tijuana Estuary, and the Elkhorn Slough in Monterey. Is there anybody in the audience on this item?
(No audible response.)

CHAIRMAN CORY: Any questions from Commissioners?
COMMISSIONER MORGAN: I have none.

CHAIRMAN CORY: Without objection, Item 25 is approved as presented.

Item 26 is off calendar.

Item 27 -- request for approval of a 10-year general lease for commercial use in Freeport. Is there anybody in the audience on this item?

(No audible response.)

CHAIRMAN CORY: Any questions from Commissioners?
COMMISSIONER MORGAN: No.

CHAIRMAN CORY: Without objection, Item 27 is approved.

Item 28 -- this is acceptance of a quitclaim from the Grimes. Are we going to award an additional lease, then?

EXECUTIVE OFFICER NORTHROP: Yes.

CHAIRMAN CORY: To?

EXECUTIVE OFFICER NORTHROP: To Mark and Patricia Nugent, Ward's Boat Landing.

CHAIRMAN CORY: Anybody in the audience on this item?

(No audible response.)

CHAIRMAN CORY: Questions from Commissioners?
COMMISSIONER MORGAN: (Shakes head.)

CHAIRMAN CORY: Without objection, Item 28 will be approved as presented.

Item 29 is trying to clean up the problems with the leasehold with Anza, is that correct, on liquidation?

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

CHAIRMAN CORY: We are assigning the interest to a group of individuals who are then leasing back to a proposed parking agency.

Standard rental?

EXECUTIVE OFFICER NORTHROP: Yes, sir.

CHAIRMAN CORY: Anybody in the audience on Item 29?

(No audible response.)

CHAIRMAN CORY: Questions from Commissioners?

COMMISSIONER MORGAN: No questions.

CHAIRMAN CORY: Without objection, Item 29 is approved as presented.

Item 30 -- Peninsula Boating Association. This is a denial, without prejudice, of an application for state-owned property. This is to meet a deadline required by statute. If we don't act, this will be automatically approved.

EXECUTIVE OFFICER NORTHRUP: That's correct.
without any prejudice.

CHAIRMAN CORY: Anybody in the audience on this item?

(No audible response.)

CHAIRMAN CORY: Questions from Commissioners?

COMMISSIONER MORGAN: Is this the first time we've denied without prejudice?

EXECUTIVE OFFICER NORTHROP: No. We have done this on, I would imagine, half-a-dozen occasions.

COMMISSIONER MORGAN: I think maybe it's about time we took some real action on it. I mean, how many times can we deny without prejudice?

EXECUTIVE OFFICER NORTHROP: No. This is the first time this one has been denied. I thought you meant had we established a precedent of doing it. I'm sorry.

COMMISSIONER MORGAN: No. I meant had we done it before.

EXECUTIVE OFFICER NORTHROP: What we have here is a failure to communicate.

COMMISSIONER MORGAN: I just wanted to make sure that we're not denying without prejudice --

EXECUTIVE OFFICER NORTHROP: This is the first time.

COMMISSIONER MORGAN: Okay. Thank you.

CHAIRMAN CORY: Anybody in the audience?
CHAIRMAN CORY: Without objection, the denial is made as requested by the staff in Item 30.

Item 31 -- authorization for removal of structures and the relocation and preservation of the Crescent School on Grizzly Island, Solano County. Anybody in the audience on this item?

(No audible response.)

CHAIRMAN CORY: Commissioners?

COMMISSIONER MORGAN: (Shakes head.)

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

Item 32 -- approval of beach erosion project on Granted lands at Santa Cruz. Are there any questions from anybody in the audience on this item?

(No audible response.)

CHAIRMAN CORY: Commissioners?

COMMISSIONER MORGAN: (Shakes head.)

CHAIRMAN CORY: Without objection, Item 32 is approved as presented.

Item 33 -- City of Carpinteria; approval of finding that a proposed renegotiated lease for an existing pier and submerged lands in Santa Barbara County is consistent with the grant statutes. Is there anybody in the audience on this item?
(No audible response.)

CHAIRMAN CORY: Questions from Commissioners?
(No audible response.)

CHAIRMAN CORY: Approved as presented.

Item 34 -- the County of Fresno wants approval to dredge 100,000 cubic yards out of the San Joaquin River near Mendota. This soil is used for road maintenance and other public projects. Anybody in the audience on this item?
(No audible response.)

CHAIRMAN CORY: Without objection, Item 34 is approved as presented.

Item 35 -- Union Oil is seeking a 10-year dredging permit to dredge 25,000 cubic yards in Humboldt Bay to maintain access to their terminal. Is there anybody in the audience on this?
(No audible response.)

CHAIRMAN CORY: Questions?

COMMISSIONER MORGAN: No questions.

CHAIRMAN CORY: Without objection, approved as presented.

Item 36 you want at the end?

EXECUTIVE OFFICER NORTHROP: Yes, Mr. Chairman.

CHAIRMAN CORY: That was the trade-off? I can't double-cross you at this late date.

Item 37 -- resumption of drilling operations in
the Molino area, Santa Barbara County.

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, this
item, we've already approved the drilling operations per
se, but we've left open the dumping of cuttings and mud.
The staff has been negotiating with Shell for several months
on this item, and we now feel, in looking at the legislation
that was adopted last year and the fact that Fish and Game
has filed no objections and that Regional Water Quality will
monitor the dumping operations, the staff is recommending
at this time that we proceed with the calendar item.

CHAIRMAN CORY: Is there anybody in the audience
on this?

(No audible response.)

CHAIRMAN CORY: Any questions?

COMMISSIONER MORGAN: I just want to be sure --
you told me previously that the environmental impact report
had been prepared and hearings had been held.

EXECUTIVE OFFICER NORTHROP: That's correct. We
held hearings in Santa Barbara, and Mr. Hight handled and
conducted those hearings.

MR. HIGHT/Yes. The hearings were held, and there
were comments on the environmental impact. And I think that
apparently those comments have been taken into consideration.
We expected someone here today with some opposition, but
that apparently didn't happen.
COMMISSIONER MORGAN: I guess we should proceed.

CHAIRMAN CORY: Okay. Item 37 will be approved as presented.

Item 39 - request by Geothermal Kinetics for extension of its permit at Boggs Mountain. They have finally now received their permits?

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, as I understand it, they have received all their local permits. They're ready to go, but it means their term is going to have to be extended because it took much longer than we thought.

CHAIRMAN CORY: Is there anybody in the audience on Item 39?

Yes, sir?

MR. BANISTER: Mr. Chairman, I am John Banister with Geothermal Kinetics.

CHAIRMAN CORY: Come forward. Are you happy with this proposed extension of time?

MR. BANISTER: Yes, sir. Just one question. On page 4 of the calendar items report it indicates that we should pay damages in the amount of $189,250. That figure should have been corrected to 89,250. I just wanted to be sure that was done.

CHAIRMAN CORY: My copy does say $89,250.

MR. BANISTER: Fine. Then I have no objections
at all. Thank you.

EXECUTIVE OFFICER NORTHROP: That's correct.

Counsel indicates -- they've been working on that -- that that is the correct figure: $89,000 --

CHAIRMAN CORY: That's what all of our records show?

EXECUTIVE OFFICER NORTHROP: Yes. I think Mr. Banister may have gotten an earlier copy.

CHAIRMAN CORY: Okay. Without objection?

COMMISSIONER MORGAN: Okay.

CHAIRMAN CORY: Item 39 will be approved as presented.

Item 40 -- authorization for the Executive Officer to file the final revisions on geothermal development regs. These relate to surface owners so that they have a better notice time. Rather than extending from the mailed notice, it extends from when they received it or five days. Is there anybody in the audience on this item?

(No audible response.)

CHAIRMAN CORY: Questions?

COMMISSIONER MORGAN: I think it's a good idea.

CHAIRMAN CORY: Without objection, Item 40 is approved as presented.

Item 41. Item 41 is authorization for the Executive Officer to submit comments to the Department of Energy
favoring the continuation of the present Mandatory Petroleum
Allocations Regulations Program until controls expire in
'81. This is the gradual phaseout --

EXECUTIVE OFFICER NORTHROP: This is the
continuing phaseout rather than the changing.
CHAIRMAN CORY: Is there anybody in the audience
or this item?

(No audible response.)
CHAIRMAN CORY: Any questions from Commissioners?
COMMISSIONER MORGAN: This is a continuation?
MR. THOMPSON: It's somewhat, more or less, of
a control. Really the whole thing is going to -- if they
don't get rid of it pretty soon, we're going to have to have
reversal entitlement of some kind.

EXECUTIVE OFFICER NORTHROP: It no longer
accomplishes what it was originally intended to do.
CHAIRMAN CORY: Without objection, Item 41 will
be approved as presented.

Item 42 --

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, Mr.
Thompson will handle this item.
CHAIRMAN CORY: This is like a parody of a
Vaudeville magician act. You've got the beautiful lady with
the pointer and the ugly magician.

(Laughter.)
MR. THOMPSON: And it's so close to Christmas.

CHAIRMAN CORY: Bad! Humbug! Go ahead.

COMMISSIONER MORGAN: I would never have said that.

(Laughter.)

MR. THOMPSON: All right. This is an informal calendar item on the status of our caustic flood here, and really we have nothing to report because the caustic is just going in now. The positive indications are that we have no bypassing of the alkaline material, and the limiting faults still seem to be holding up. At the present time you can see that we're producing above this particular declining curve. It really has nothing to do with the alkaline material. That was merely to prepare the injection wells and producing wells.

The federal government participates 40 percent in this project. They have already put in their 40 percent of the original $11.6 million. And they, of course, also have the right to be reimbursed out of the incremental oil between those two lines.

CHAIRMAN CORY: If the base case waterflood projection is the dotted line, and we did some remedial work relating to injection wells that didn't relate to that, are they going to come in and claim that because we did that remedial work, they get credit?

MR. THOMPSON: Yes. Because they actually spent
about $4.5 million of their money doing that work.

CHAIRMAN CORY: Okay. Fine.

MR. THOMPSON: And they have gotten back about eight or nine hundred thousand dollars to date. By the end of the project time, which will be the end of September of '81, they should get back about one and a half to two million dollars of their four and a half million dollar investment. So in other words, they were merely helping us out.

CHAIRMAN CORY: Okay.

MR. THOMPSON: We have also pre-purchased the chemicals for the rest of this program, extending clear out through 1985, and we're recovering about 75 percent of that particular prepayment under the attritiary provision of the DOE, where under certain attritiary projects you're allowed to take controlled oil and sell it at uncontrolled prices and use that incremental to pay this current enrollment. And this is the one you approved some time back for about $10 million for pre-purchase of chemicals.

CHAIRMAN CORY: In terms of cash flow, we've spent 10 million this current fiscal year?

MR. THOMPSON: The whole project here was committed for an 11.6 commitment by the federal government. On this particular project, we've spent to date probably 20 million counting our pre-purchase of chemicals. Because they were only supposed to stay in through '81.
CHAIRMAN CORY: But I mean in terms of cash flow, I'm trying to figure out what year we prepaid the chemical purchase.

MR. THOMPSON: We prepaid the chemical in, I believe, November -- some in August and some in November -- and we'll make another payment in January.

CHAIRMAN CORY: So it's all the current fiscal year?

MR. THOMPSON: All the current fiscal year. And we will get that back through controlled oil, selling it at uncontrolled price through September of 1981. In other words, you bank the cost, and then each month as you come up in controlled oil, you release that at uncontrolled prices. So you're paying it back monthly.

And we'll report on this quarterly as the project goes along.

COMMISSIONER MORGAN: Is there a point at which we start making a profit?

MR. THOMPSON: Well in effect, we think we have made a profit already. Because in effect, 40 percent of the incremental deal to date is $900,000. So, 60 percent of that, which is our share, would be somewhere around a million and a half dollars. So at this particular rate, we'll pay back probably in two or three years, which we think is a good pay-back period.
COMMISSIONER MORGAN: So you're not taking all the revenues and paying off the loan first. You're splitting?

MR. THOMPSON: Each of us splits the money. In other words, of each increment we take 60 percent and the federal government takes 40 percent.

COMMISSIONER MORGAN: Okay. Of $20 million?

MR. THOMPSON: 11.6 was their commitment. Anything over that, we have 100 percent. And after September of 1981, we get a hundred percent of the incremental oil, too. So we benefit from the program after September of '81. It accrues to us 100 percent.

COMMISSIONER MORGAN: Have we made what we put into it yet?

MR. THOMPSON: No. But again, we're looking at this two to three payout time. And these expenditures started back in about mid-'79.

COMMISSIONER MORGAN: So at what point do we hit $20 million -- I guess that's the magic number that represents our expenditures?

MR. THOMPSON: I would estimate that would probably be the first part of '83.

COMMISSIONER MORGAN: Okay. Thanks.

CHAIRMAN CORY: Okay. That completes 42?

EXECUTIVE OFFICER NORTHROP: That completes 42,

Mr. Chairman.
CHAIRMAN CORY: Item 43 -- fourth modification -- revision of economic projections.

MR. THOMPSON: It might be well if we could see that production curve. Would you put that up there, Dianne?

All right. This is the oil rate for the Long Beach unit. And you can see, our trend back in this period of time, we had a very good month in November. And I think that probably for December we will probably make 64,000, which will be about at this point down in here. So you can see we are flattening the oil range curve out -- which again is your answer to where our payout comes.

EXECUTIVE OFFICER NORTHROP: This is partially responsible for what we've discussed the past couple of days in the loss of revenue in production. Because this bit here (indicating) cost nearly a 3,000-barrel-a-day loss. As you know, our revenues follow production by about 60 days. So what we have had recently is bad. And as you come out this end of the year, we will pick up additional monies.

MR. THOMPSON: Of course, the major reason for our decrease in gross revenue is seen on those two curves on your right over there. You take the top curve up there, the blue line, is the uncontrolled price. We're selling all of our crude now at uncontrolled price because of this prepurchase costing. And you can see that actually for a year now we've had no increase in uncontrolled oil price --
actually that's a 15 cent decrease since the first of the year. And the impact, of course, you see on the curve just below that. The line with a slope on it was the dollars per barrel we thought we would get from revenue. There's a slope to it. And actually, you can see that this has been flat. The reason for this is, of course, the estimates were made last March, and we anticipated at that time a continuing crude oil price increase that hasn't materialized. So of course, that reflects back into then the difference between the gross revenue on the left there and the top one we projected originally and the one below.

CHAIRMAN CORY: What has historically been the relationship between uncontrolled domestic oil prices and what the scoundrels at OPEC are doing?

EXECUTIVE OFFICER NORTHROP: It depends on another -- there's another factor that comes into it, and that is the production volumes that OPEC has been using. If the Saudis cut back, I would imagine our price increase would reflect within about 60 days. But if they don't, historically -- everything being equal -- we're four to six months behind them on increases.

MR. THOMPSON: There was no response at all to the $2 increase in Saudi crude about three or four months ago.

EXECUTIVE OFFICER NORTHROP: We haven't gotten
anything on that yet, but volume stayed up.

MR. THOMPSON: And again, Saudi crude is not imported into California as such. So again, it's kind of a retroeffect you get. Indonesian crude is the main crude we get in here, and any excess is shipped by. We get a kind of tipple effect on prices from that.

CHAIRMAN CORY: Okay.

COMMISSIONER MORGAN: If revenues follow production by about 60 days --

EXECUTIVE OFFICER NORTHRUP: Depending on other factors -- oh, you mean revenues? Yes. By about 60 days.

COMMISSIONER MORGAN: -- shouldn't we be able to predict two months ahead of time what the revenues are going to be?

EXECUTIVE OFFICER NORTHRUP: Yes. As a matter of fact, we've done that on the windfall profits tax obligation and other things.

COMMISSIONER MORGAN: Okay.

MR. THOMPSON: This is the difference between estimating on a month-by-month basis and trying to estimate for a year.

COMMISSIONER MORGAN: Okay.

EXECUTIVE OFFICER NORTHRUP: I see what you're getting at, though, and the point is well taken. But we felt, to take it the next step further, we felt, additionally,
the windfall profits tax would probably overcome our problem and it would not require revision.

COMMISSIONER MORGAN: But we still don't know if your annual revenue report requires revision?

EXECUTIVE OFFICER NORTHROP: Right.

COMMISSIONER MORGAN: But we're below projections?

EXECUTIVE OFFICER NORTHROP: We're below projections. And as soon as we have some changes, we'll get them in.

COMMISSIONER MORGAN: But your projections were based on higher flow than now.

EXECUTIVE OFFICER NORTHROP: Yes. They were based on a higher flow and a higher price. And windfall profits do not affect this.

MR. THOMPSON: Are you going back to the August projections or the more recent one?

COMMISSIONER MORGAN: No, the more recent one. Why we were surprised.

EXECUTIVE OFFICER NORTHROP: And we indicated to Finance staff that there was a problem.

CHAIRMAN CORY: Okay. You want approval of the Board's modification?

EXECUTIVE OFFICER NORTHROP: Yes.

CHAIRMAN CORY: Without objection, the fourth modification is approved. Right away you come back with
the fifth one.

COMMISSIONER MORGAN: Is this one that costs money?

EXECUTIVE OFFICER NORTHROP: This sixth one is where you get hurt.

COMMISSIONER MORGAN: I'll watch for that.

CHAIRMAN CORY: What are you doing in the fifth?

MR. THOMPSON: We want to change the plan to recomplete wells into another zone, and the budget item didn't have the money, so we'd like to get the money for that. What we have is two idle wells in the channel zones. There's no point in going through this, but here's a drawing of one of the wells. One of these wells was originally completed to a depth of about 10,200 feet. It's uncomplete in that zone. And it will now bring it back up and produce at somewhere around 4,000 feet. So it's a question of salvaging. A new well costs us $400,000, and this way it will be $150,000 to $200,000.

CHAIRMAN CORY: Okay. The fifth modification is approved as presented.

Now for the coup de grace. You want a million, two for toys; right?

EXECUTIVE OFFICER NORTHROP: Eleven.

COMMISSIONER MORGAN: Eleven.

CHAIRMAN CORY: Eleven, two?
MR. THOMPSON: You have the numbers all right; it's the decimal point we have trouble with.

CHAIRMAN CORY: Are we going to have a dog and pony show for this?

MR. THOMPSON: We thought we might try to soften it up, having applied for $11 million.

Now the Commission originally authorized the purchase of two drilling rigs, and there are two different styles.

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The most recent one being approved was T-6. And what this is, is we're asking to purchase the drilling equipment that goes inside of the derrick. These derricks are moved by hydraulic grippers that move on tracks, so this whole derrick moves over to the next location.

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One of the main things is the difference in how these rigs are moved. Right here are the hydraulic grippers used to move the derricks. What they do is grip the flange of the rails and hydraulically pull the system. The system moves in two parts.

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This is another version of this hydraulic moving equipment. This is the control panel for it. And right here is the separation from what you saw before. This side
would be the mud tanks and pipe racks, and this is the
sub-base on the derrick itself.

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And this is an actual shot down -- and you can
see the grippers actually gripping different parts. That
goes over the flange of these rails, and this hydraulic
cylinder extends and actually pushes or pulls the rig along.

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Before that, we had purchased this rig, P-5. It's
a portable rig. This derrick will actually lay down and
move from location to location -- rather from island to
island. From location to location, we move this by a rig-
moving system, which you can just barely see -- these wheeled
things here.

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This is another shot of the same type of derrick.

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Now again you can see the moving system -- the
large rubber tires. There's a large beam that goes right
through a box section of the sub-base. It goes through and
when you're ready to move, it actually lifts this whole sub-
base and derrick. It lifts the derrick and sub-base on these
wheels and moves on to the next location.
CHAIRMAN CORY: What is the cost of that type of rig?

MR. THOMPSON: This is the type of rig we're proposing to purchase -- about $5.5 million each.

CHAIRMAN CORY: And the other?

MR. THOMPSON: By the time we renovated the derrick and got the mud tanks and everything, about the same amount of money.

This is a closer view, and if you can see, it takes this rig up and moves it to another location.

This particular island that this picture was taken on happens to have the same track system that the other derricks have, and these rigs will be flexible enough to be used on two island locations and the pier as well.

CHAIRMAN CORY: Are those pneumatic tires?

MR. THOMPSON: Yes.

This shot is, again, a closer view.

Here again you can see how this beam goes right through the sub-base unit and physically jacks it up and takes the weight on there.
Now, the reason we're asking for this extra drilling equipment is two-phased. Actually there's a payout in the purchase of the rigs themselves if we want to stop using contract rigs. We now, at the present time, have two contract rigs. There's a three-year payout if we would have these ourselves. But if we continue the subzoning development we have right now -- for example, there's a colored electric log here, and a lot of our wells are completed in the yellow and green sections. So what we're doing now is we're starting to drill in-fill wells and subzoning to where we will complete the green separately and the yellow separately -- both projection wells and producing wells. And this will give us better coverage, better aerial distribution, and better distribution of our water as we move along up the coast.

Then, in some parts of the field, we've actually then included the red section in there. So definitely, this will be another area in which we'll subzone and break out.

So this is the reason we're going to need probably from 200 to 500 more wells. And unless we start with a certain finite number of drilling rigs, the drilling program extends out 15 or 20 years, and it's not worth it. So with buying two more rigs, we will have the flexibility at this time they're delivered, which would be 1982, of maintaining ten rigs or cutting back to our present eight rigs by
letting go two contract rigs. We think by that time we will
have drilled enough of the subzone wells to see the economics
throughout the whole field.

CHAIRMAN CORY: How many contract rigs do we have?
MR. THOMPSON: Two.

COMMISSIONER MORGAN: What's the annual rental?
MR. THOMPSON: The annual rental?
COMMISSIONER MORGAN: Do you have an annual rental on those?

MR. THOMPSON: Actually it comes back to a day rate, and the annual rental on that would be, that type of rig would probably cost, I imagine, about $100,000 a month.

COMMISSIONER MORGAN: So the payback point is --
MR. THOMPSON: About three years.
COMMISSIONER MORGAN: And you anticipate using these for 15 years?

MR. THOMPSON: (Nods head.)
COMMISSIONER MORGAN: When is the contract for the field up?

MR. THOMPSON: 1990. But then the contract is rebid at that time. The field life is beyond the end of the contract.

CHAIRMAN CORY: We pay for all the development costs, so the hardware is ours?

MR. THOMPSON: Yes. This is completely unit-owned
equipment. We would have contract crews operate them.

CHAIRMAN CORY: Since we're blowing the pool anyway
-- the electric log is actually a measurement of what?

MR. THOMPSON: The left side is a measurement of
the rock character, and the right side is a measurement of
the fluid saturation. In other words, as you move to the
left, on the left side that indicates sandier, more porous
material. And it moves to the right, more dense material,
like shale. So what you're looking for is movement to the
left, and you're looking for a resistive fluid in there which
is oil rather than saltwater. So you're looking for a
departure to the right. You're looking for an hourglass
effect. So whenever you're seeing things that are moving
apart, that would generally tell you that you are in an oil
sand -- just in general.

CHAIRMAN CORY: Your vertical axis represents the
distance down the hole?

MR. THOMPSON: There are drill depths on there,
and each one of those numbers are a hundred feet apart.

CHAIRMAN CORY: And it moves linearly on the
vertical axis?

MR. THOMPSON: Yes. That is not vertical depth.
That's true drill depth. Because these are deviated holes.
That section there happens to show all oil-saturated sands.
If you look up at the very, very top, you'll see wet sands.
And you can see the departures to the left on the left side, but on the right side, this is not -- starting below that you have oil saturation.

COMMISSIONER MORGAN: What is the life span of the rig?

MR. THOMPSON: Fifteen to twenty years. There are some rigs in which the basic components, the basic steel in them is still going. The rig base and everything like that, probably for our purposes, has infinite life. It's made out of steel. The main components of the rig probably have considerable life -- 20, 30, 40 years. The moving equipment and some of the other parts have to be replaced. The electric motor might have a life of three to five years.

COMMISSIONER MORGAN: Who does the maintenance on the contract rigs?

MR. THOMPSON: The contractor himself.

COMMISSIONER MORGAN: And they pay for it?

MR. THOMPSON: (Nods head.) Under some circumstances. In the end, you usually end up paying for it -- either in the hourly rate or in some particular part of the contract when you have to maintain a certain part of the equipment. There's no free lunch. You're going to pay for it, plus their overhead and their profit.

COMMISSIONER MORGAN: In your estimate of costs, this is just the purchase price? You haven't figured any
maintenance costs of the rigs?

MR. THOMPSON: No. That would come each year in budget. The payoff indicates we would have to put in a certain amount of maintenance costs.

COMMISSIONER MORGAN: Maybe I worked the numbers wrong, but I don't get a three-year payback.

MR. THOMPSON: Probably because I've given you the wrong monthly rate. I don't have that one right in my head right now.

COMMISSIONER MORGAN: But your estimate is that when you compare contracting for a rig with purchasing a rig, you make money after the third year?

MR. THOMPSON: Another thing that doesn't indicate in here is the cost of contract rig moving, depending on how far we have to move them. It's anywhere from $30 to $60 thousand to move from one location to another, because each rig is not portable.

COMMISSIONER MORGAN: The ones we're using.

MR. THOMPSON: The two contract rigs we're using. Whereas, with this type of rig, we can move from one location to another in a matter of maybe two or three or four hours, using no cranes or anything like that to speak of. And with that type of rig, we have to lay it down, take the sub-base out, do a lot of crane work and that kind of thing. So it gets expensive. So that's incorporated in
the payoff consideration.

If you want more detail on this, I'd be happy to get it for you.

COMMISSIONER MORGAN: I'd be a little more comfortable if I could see some of the fiscal information for a better understanding of the return on this investment. But I don't want to hold you up if you're at a point where you can move ahead.

MR. THOMPSON: We're trying to get these rigs on schedule, so we'll be on with the delivery time and everything.

CHAIRMAN CORY: How long will it take to get that information together?

COMMISSIONER MORGAN: It depends on how many questions I ask.

MR. THOMPSON: That can be telecopied to you probably tomorrow.

COMMISSIONER MORGAN: When's the next meeting?

EXECUTIVE OFFICER NORTHROP: January.

CHAIRMAN CORY: What I was thinking of doing was approving it subject to your being satisfied tomorrow.

EXECUTIVE OFFICER NORTHROP: It's not work we have to generate. We have already justified the numbers. We just don't have them with us is the problem.

CHAIRMAN CORY: Can we approve it subject to her veto after she sees the backup data?
MR. HIGHT: (Nods head.)

CHAIRMAN CORY: And if you don't like it, it's going to be on the calendar next month. If you do like it, then go ahead.

COMMISSIONER MORGAN: Fine. That's good. But I do think this is a healthy expenditure, and I'm sure that before you made this proposal you did a cost estimate.

EXECUTIVE OFFICER NORTHROP: It's been done three times.

COMMISSIONER MORGAN: Okay.

MR. THOMPSON: Depending on the size of the pages, I'll make some phone calls, and I'm sure we can get a good part of it up here by express mail by 10:00 in the morning. Because I would like not to have to wait until January.

CHAIRMAN CORY: Okay. We will approve Item 45 subject to --

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, I'd like to have some kind of a firm signoff by Ms. Morgan so we can go ahead on it after we get the information.

CHAIRMAN CORY: Okay. You bring it by, and if we've got two members that sign, you're on. Get two signatures rather than one.

COMMISSIONER MORGAN: Okay.

CHAIRMAN CORY: That's called sharing the guilt. 46 -- this is authorization for staff to prepare
litigation and litigate on the Dana Point Grant if they're unable to resolve the differences with the County of Orange. That was, I believe, discussed previously in Executive Session. Is there anybody in the audience on this item?

(No audible response.)

CHAIRMAN CORY: Without objection, Item 46 is approved as presented.

Item 47 -- this is to reatify dismissal of three remaining causes of action in Amigos de Bolsa Chica, et al, versus Signal Properties, Inc., et al. Is there anybody in the audience on this item?

(No audible response.)

CHAIRMAN CORY: Anything from Commissioners?

COMMISSIONER MORGAN: No.

CHAIRMAN CORY: Without objection, Item 47 is approved as presented.

Item 48 -- Valley Nitrogen Producers, in bankruptcy. This is settlement of a suit cutting the alleged damages by 50 percent and then putting us in line with the rest of the creditors. We'll probably be getting about 20 cents on the dollar of that half. Is there anybody in the audience on this item?

(No audible response.)

CHAIRMAN CORY: Without objection, Item 48 will be approved as presented.
Item 49 is cession of concurrent jurisdiction at Moffett Naval Air Station. This relates to criminal jurisdiction as opposed to civil. Is there anybody in the audience on this item?

(No audible response.)

CHAIRMAN CORY: Questions from the Commissioners?

COMMISSIONER MORGAN: (Shakes head.)

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

Item 50 -- this is disclaimer of any titular interest on Zedevelopment property on Signal Hill. We have no interest in the property?

EXECUTIVE OFFICER NORTHROP: Correct, Mr. Chairman.

CHAIRMAN CORY: Anybody in the audience on this item?

(No audible response.)

CHAIRMAN CORY: Without objection, Item 50 will be approved as presented.

Item 51 is an amendment to the contract increasing the fees to our tax expert who is helping us fight the windfall profits tax problem.

COMMISSIONER MORGAN: And we're going to obtain an increase in revenue as a result?

EXECUTIVE OFFICER NORTHROP: The question answers in the affirmative, because we've already estopped the
interim calculation, and we have a 90 percent limitation. We already have those two things going for us. Now we're trying to get the total exemption.

MR. THOMPSON: We expect a $13 million adjustment on the first part of that.

CHAIRMAN CORY: That deals with the overwithholding, in essence; is that not correct? They were requiring us to reserve more than our obligation was if the obligation remains in existence?

EXECUTIVE OFFICER NORTHPROP: That's true.

MR. THOMPSON: It's stopping the use of the interim process for the balance of this month. I expect the adjustment by the January 9th payment, which closes out for the year we're in now.

CHAIRMAN CORY: But this does not relate to actual liability. This relates to restoration of cash flow.

EXECUTIVE OFFICER NORTHPROP: Right. But we do have the interest on the money.

MR. THOMPSON: Which the contractors would not do without the ruling.

CHAIRMAN CORY: Are there any questions from anybody in the audience on this item?

(No audible response.)

CHAIRMAN CORY: Without objection, Item 51 is approved as presented.
EXECUTIVE OFFICER NORTHROP: Okay. Then Item 36.

CHAIRMAN CORY: Item 36.

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, the

staff indicates -- Mr. Everetts, will you try to explain

this item?

MR. EVERETTS: Several months ago the Commission

approved the resumption of drilling on Rincon Island,

Ventura County offshore. The current formula for royalty

on that lease is such that it's around 124 barrels a day

that pays a hundred percent royalty. The lease currently

is being modified for secondary recovery, and it has a

royalty percentage of 32.28 percent. The applicant wants

to drill a well, a deep well, to 12,000-foot basic depth,

10,000-foot true vertical depth. The well is estimating

a thousand barrels a day and obviously would not be

economical at 100 percent royalty.

They've asked for modification in the royalty.

And this is permissible according to the Public Resources

Code. The staff has reviewed the economics with them and

have estimated the cost at $3.78 million and rising rapidly.

When we started talking to them, it was 3.2 million, and

just in the last several months the price has gone up. Rig

costs alone -- we asked them how much it costs to run a rig,

and particularly one that is used here is $13,000 a day.

So rig costs alone for the well will be $1.3 million. And
that's not counting fuel and other costs. So it's a rather expensive operation.

We're proposing a conventional sliding-scale royalty that is used on other modern oil leases -- that is, state leases. It's a 16 and two-thirds minimum calculating to 50 percent maximum of 500 barrels a day. And we're also proposing a 50 percent royalty on gas. Our calculations are that with that, if the well is a thousand barrels a day -- which I don't think is going to happen -- but if it is, the well will probably pay out in two to three years, and will be equivalent to about a 15 percent rate of return.

CHAIRMAN CORY: That's to the lessee?

MR. EVERETTS: To the lessee, yes. If it's a 500-barrel-per-day well, for example, it wouldn't pay out. These are unescalated oil prices, unescalated costs.

COMMISSIONER MORGAN: This is different from our usual minimums and maximums,

MR. EVERETTS: It's comparable to our modern-day leases. For example, the platform Holly that we've talked about off and on has that particular status.

CHAIRMAN CORY: It's a deviation from what they signed up to.

MR. EVERETTS: Yes. It's a deviation from the old pre-Cunningham-Shell lease.

CHAIRMAN CORY: We are giving them the adjustment
because they are trying to -- you're trying to entice them into --

MR. EVERETTS: This is only for one well. If they make a discovery, then we'll try to negotiate. I've suggested that we might be interested in the net profit, and they didn't back off.

COMMISSIONER MORGAN: What's the minimum on the current contract?

MR. EVERETTS: The current contract is 20 percent.

CHAIRMAN CORY: And it goes to a hundred percent.

MR. EVERETTS: And it goes to a hundred percent.

COMMISSIONER MORGAN: Where does it usually fall?

MR. EVERETTS: At a hundred percent if we actually did make a hundred percent production. As I say, when we're done modifying for waterflood, we should be able to recover a flat 32.28 percent. This, again, based on a thousand-barrel-a-day well, this sliding scale would average out to a straight average of 32 percent of the gross. However, the gross is about 63 percent of the net, and it's better for the state to have the sliding scale because we're getting 50 percent oil up front pretty early. And with the present value situation, we're better off even though an average is 32 percent. Compared to 32.28, the fact we're getting 50 percent oil fairly early is better for the state.

CHAIRMAN CORY: The difference on the interest
is what you're talking about?

MR. EVERETTS: Yes.

COMMISSIONER MORGAN: The average that you've given us is just an arithmatic average. That doesn't mean that's what the return is going to be. In fact, it could be at the minimum for the entire operation.

MR. EVERETTS: If it's at the minimum, it will be a mop-up operation. It will take about a year's production, at least right now, to pay for just one well.

COMMISSIONER MORGAN: What's the term on the extension for the modification?

MR. EVERETTS: Well, this is for one well. We're only suggesting there be a royalty modification for just one well. It will probably take about 90 days to drill the completed well, so we're probably talking about a six-month period overall.

COMMISSIONER MORGAN: Is this a good deal, Bill?

EXECUTIVE OFFICER NORTHPROP: You do that to me. Actually, I'm not sure it's as good a deal as we could get if we argued forever. But I think considering the fact we're going into depth and new horizons, we would all like to see what's there. And if anything is going to be done in California in that area, we're going to have to look at getting close to basement. I mean by that, getting closer into the deep zones rather than forever looking at shallow
zones. My indications are that if it is there, it's fairly good quality oil. Would you agree with that --

MR. HUNDLEY: Yes, Bill. You're right.

EXECUTIVE OFFICER NORTHROP: That's Jack Hundley from ARCO. But I wanted to get Jack's concurrence that he thought it was going to be a fairly good quality.

MR. HUNDLEY: Correct.

COMMISSIONER MORGAN: Okay. Thank you.

CHAIRMAN CORY: Okay. The item is approved as presented.

Are there any other items to come before the Commission?

EXECUTIVE OFFICER NORTHROP: In lieu of his objections about the court, the Attorney General now wants to comment.

MR. STEVENS: We just have two items to report, actually. The first is that the high-water boundary litigation was at last submitted to the California Supreme Court last week.

CHAIRMAN CORY: And the 90 days is running?

MR. STEVENS: I believe it's formally submitted, although no such statement was made. We hope to get clarification on that in the near future.

The second item was the Desert Lands Act on which a hearing was held in Federal Court yesterday. For that,
we have Mr. Mills in our office, and Messrs. Northrop and Trout if they would like to comment further on the negotiations with the Bureau of Land Management.

MR. MILLS: I'd rather do this in Executive Session since the litigation is still ongoing, and we're not going to have a final decision for some time.

MR. STEVENS: Why don't you just indicate what happened in court, and if the Chairman desires, we can have a further session. If not, we can end the meeting here.

MR. MILLS: Well, we went to court Friday before last, and requested a temporary restraining order to file the complaint. And in that complaint we alleged two basic causes of action. The first one is that BLM gave the State Lands Commission inadequate time to review the proposed plan. The second cause of action was based on the fact that we would not be able to review the final plan until it was implemented. And in effect, we asked for a temporary restraining order to prohibit the Secretary from signing the plan for 60 days. That was denied.

We have the hearing on the preliminary injunction yesterday. In the meantime, the staff has been talking to the Bureau of Land Management and the Assistant Secretary of the Interior. And they have worked out a proposed settlement. Unfortunately, we can't get any guarantees from the federal government that it will be put into effect. And
without those guarantees, there's not much to go on.

So what we asked the judge yesterday -- the current time frame calls for the Secretary to sign the plan on the 19th -- and we asked the judge to delay the matter for a couple of days while we continued discussions, which he did. We have a hearing set Friday morning at 10:00 o'clock -- we got a continuance until Friday morning at 10:00 o'clock.

There are four parties now seeking to intervene in our lawsuit -- the National Outdoor Coalition, the County of Inyo, the American Motorcycle Association, and the --

EXECUTIVE OFFICER NORTHROP: San Bernardino.

MR. MILLS: San Bernardino County is not seeking to intervene. The other one is the California Mining Association. In the federal system they have all filed lawsuits, and they've been assigned to four different judges. So we now have, theoretically, five separate lawsuits going on, and they're all asking for temporary restraining orders which will be heard in the next couple of days. They're all trying to get everything thrown into one, big package.

CHAIRMAN CORY: That was filed where? In Sacramento?

MR. MILLS: That was filed in Los Angeles, at the Federal Court in Los Angeles. It's before Judge Laughlin Waters.
MR. STEVENS: So, that's it.

COMMISSIONER MORGAN: Do we need any further discussion? Do you need any further direction?

MR. STEVENS: No.

CHAIRMAN CORY: Okay. Are there any other items to come before us? Is that it? Are we ready to adjourn?

EXECUTIVE OFFICER NORTHRUP: I have nothing further.

CHAIRMAN CORY: We stand adjourned.

(Thereupon the meeting of the State Lands Commission was adjourned at 11:00 a.m.)
CERTIFICATE OF SHORTHAND REPORTER

I, SYDNEY CONARROE, a shorthand reporter, do hereby certify:

That I am a disinterested person herein; that the foregoing meeting of the California State Lands Commission was reported in shorthand by me, Sydney Conarroe, 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 5th day of January, 1981.

[Signature]

SYDNEY CONARROE
Shorthand Reporter