MEETING OF THE
STATE LANDS COMMISSION

STATE CAPITOL
ROOM 447
SACRAMENTO, CALIFORNIA

ORIGINAL

THURSDAY, JULY 22, 1982
10:20 A.M.

Nadina J. Parks
Shorthand Reporter

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APPEARANCES

Members Present:
Kenneth Cory, State Controller, Chairperson
David Ackerman for Mike Curb, Lieutenant Governor, Commissioner
Susanne Morgan for Mary Ann Graves, Director of Finance, Commissioner

Staff Present:
Claire T. Dedrick, Executive Officer
Greg Taylor
Robert C. Hight
Richard S. Golden
J. F. Trout
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PETERS SHORTHAND REPORTING CORPORATION
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Call the meeting to order.

Any corrections or additions to the minutes of the meeting of June 29th? Without objection, they'll be confirmed as presented.

Claire, do you have the Executive Officer's report -- which is in writing before me -- do you have any comments you'd like to make?

EXECUTIVE OFFICER DEDRICK: Yes. I wanted to tell you that our representative to the Coastal Commission, Dick Golden, he is retiring; however, he has agreed to stay on as a retiree annuitant -- or however you want to put that -- he has agreed to continue to represent us on the Coastal Commission with your permission.

We have also begun the reorganization of the Minerals and Oil Sections in Long Beach so that we're combining the Long Beach operations with the statewide operations. Moose Thompson is the chief and Don Everitts is deputy chief. And to replace Mr. Golden as Chief of the Lands Branch -- Lands Division is Lance Kiley who was appointed yesterday.

CHAIRPERSON CORY: Okay. I would like to comment that I'm glad that Dick is staying to continue the Coastal Commission work. We appreciate you doing that,
Dick. And we will miss you. Since you won't be here the rest of the time, we'll be eating our hearts out. But you'll be doing something worthwhile with your time.

MR. GOLDEN: Thank you.

CHAIRPERSON CORY: Thank you very much.

And there is a conflict of interest, I guess, that should be disclosed, we'll put around it "top secret" in terms of Kiley's relationship to the Controller's Office. We have called, though, I want you to know for a full investigation for the wanton cheating that went on by this outrageous operation called the Lands Commission. I always thought these were good people. I really did.

(Laughter.)

MS. MORGAN: Are you going to tell us the score of the baseball game?

CHAIRPERSON CORY: It's irrelevant. They cheated. They absolutely cheated.

(Laughter.)

CHAIRPERSON CORY: And we're going to do something about that. I never thought that Sean McCarthy was right, but I'm beginning to reevaluate my position. They're thieves. They stole that baseball game.

(Laughter.)

CHAIRPERSON CORY: I missed it.

MS. MORGAN: That's probably why they won.
CHAIRPERSON CORY: Okay. We have a report on coastal matters.

MR. GOLDEN: Yes, Mr. Chairman, very brief.

The State Coastal Commission met in San Mateo from July 14th through the 16th.

An announcement was made of a symposium on the future role of the State of California in Marine Resources Management to be held November 7th through the 10th at Asilomar to be sponsored by the California Coastal Commission as part of an ocean study project funded by the William H. Donner Foundation of New York.

A project of Caltrans to realign a section of Pacific Coast Highway in Ventura County near the Los Angeles County line sparked extensive discussion.

Caltrans spoke to the necessity of widening the roadbed into adjacent tidelands to allow safer public access through the areas of highest slide potential.

This project is on this Commission's agenda today for a public agency permit as Item C-5. After exploring every alternative, including the no-project alternative, the Commission approved the permit on a 6 to 4 vote.

Are there any questions?

CHAIRPERSON CORY: I have a question. If it was a six to four vote, we've got something on the consent calendar --
MR. GOLDEN: That was the land use one of the Commissioners was concerned about, because he didn't feel that there was sufficient quid pro quo being offered by Caltrans in exchange for taking the tenth of a mile of tidelands.

This point was, I think, rather carefully gone into by Caltrans and by the staff of the Coastal Commission by recommending that they had gone into it very carefully. And the areas that were not subject to public access at this point, and the increase in public access offered by Caltrans would be more than adequate to take care of it. I think that the majority did feel it was a good project.

CHAIRPERSON CORY: Okay. Thank you, Dick, Okay.

The next item is the consent calendar. Those are the items on the agenda with the prefix "C" in front of the numbers. And they go from C-1 through 14, excluding 12, which has been removed from the calendar. Is that correct?

We will take all of these items up in one motion, unless somebody in the audience has some objection to the proposed staff recommendation on these items.

Without objection, the consent calendar will be approved as presented.

Item 15. It's a request to approve the form
of the lease between the State and Hometels Development Corporation.

Is there anybody in the audience on this item?

Mr. --

MR. BRUNSTEN: Bill Brunsten from Manatt, Phelps, Rothenberg & Tunney.

MR. WOOLLEY: I'm Robert Woolley from Hometels Development Corporation.

CHAIRPERSON CORY: Do you have any problems with the proposed staff recommendation on this?

MR. BRUNSTEN: No. We're in favor of it.

CHAIRPERSON CORY: Okay. Is there anybody else in the audience on this item? Questions from the Commissioners?

MR. ACKERMAN: Just one question.

There is -- I've noticed one provision in the calendar item -- maybe the applicants might want to comment on this -- that it says the Commission reserves the right to make changes in the lease or other modifications deemed appropriate.

My concern was that if our action today -- and I know you've requested it -- you've had to go to financial lenders to put the whole package together, is it a concern to you how financial lenders may view these change provisions? It may be jeopardizing arrangements or agreements that you have made to them or the Commission's
made to them somewhere down the road.

And I just wondered how useful this document would be for your purposes with that clause in it.

It says the Commission may -- I believe it's Item 3 in the -- It's Item C or 3 in our action?

MR. TROUT: It's 79-C, Item -- Recommendation 3, which says that the Commission declares the approval of the lease form herein shall in no way prejudice or otherwise affect the Commission's future deliberations and decision relative to Hometels' project.

MR. ACKERMAN: It seems to give the Commission pretty wide latitude to come back for future changes. And since this is a pretty expensive project, I was concerned how extensive those changes might be somewhere down the future and how that might impact you going now with this lease to propose to the lenders.

I guess it doesn't depart from future actions -- I mean previous actions the Commission has taken. You've done this I believe on one other project or two other projects before. I'm all in favor of doing this; I just don't want to approve something in a format that may come back to haunt you. That's all.

And if you're totally satisfied with that Item 3, it's fine with me. I was just concerned about that from your standpoint.

MR. WOOLLEY: Based on the time and the effort
that we've put in with the staff, and the length of the negotiations of the lease, I'm satisfied to have that clause in there.

CHAIRPERSON CORY: Okay. Without objection, Item 15 will be approved as presented.

I'd almost be wanting to take note that the Lieutenant Governor's Office is that concerned about our National Chairman, but I absolutely won't do that. (Laughter.)

Item 17. The California Department of Forestry, approval of an interagency agreement for a firebreak. Anybody in the audience on this item? Questions from the Commissioners? (Laughter.)

Without objection, Item No. 17 is approved as presented.

Item 18, authorization to offer for --

EXECUTIVE OFFICER DEDRICK: 18 is off.

CHAIRPERSON CORY: 18 is off. At the top of my list I have 12 is off, 16 is off, and 22 is off, and 30, EXECUTIVE OFFICER DEDRICK: We pulled it this morning.

CHAIRPERSON CORY: 18 is off. All right. The only way I can get even on that is to cheat on the paychecks.

(Laughter.)
EXECUTIVE OFFICER DEDRICK: We thought it was safe to win while you were out of town. Obviously, we were wrong.

CHAIRPERSON CORY: Probably the only time in the history of State employment is that going to be handled by payroll deductions. You guys lost.

(Laughter.)

CHAIRPERSON CORY: Okay. Item 19 is execution of an -- execution and acceptance of an agreement for transfer of control of 80 acres. Why don't you tell us what we're doing here?

EXECUTIVE OFFICER DEDRICK: What happened was that several years ago Forestry wanted a lookout station and BLM owned the land. So we traded with BLM and Forestry did the survey and built their fire station. And then it got resurveyed and it turned out it was the wrong piece of land, different from the one that the fire station is on.

MR. ACKERMAN: Sort of like bulldozing the wrong house on the block or something like that?

EXECUTIVE OFFICER DEDRICK: It's not quite that bad. But it's a trifle embarrassing,

CHAIRPERSON CORY: The environmental work must have been inadequate.

(Laughter.)

EXECUTIVE OFFICER DEDRICK: I don't know what
occurred, but I think it was long before that.

CHAIRPERSON CORY: Is there anybody in the

audience on 19?

Questions from the Commissioners?

Without objection, Item 19 is approved as

presented.

Item 20. Staff is going to inform us on the

proposed Point Conception leasing.

EXECUTIVE OFFICER DEDRICK: Yes. Mainly the

purpose of this item is simply to bring you up to date

on what has, in fact, been going on and what kind of time

frame you can expect further action on.

The environmental impact report is in the final

stages of becoming a final environmental impact report.

And the staff and the consultants are -- have reviewed

the comments from all the agencies, from the public, and

are adopting or adapting the final report to cover the

substantive issues.

We will be bringing that before you for your

certification, if you choose, at the August 26th meeting.

As you read in the informational item, that last

OCS sale was not a very successful sale, but it can't

really be considered a typical sale because the parcels

were bits and pieces scattered around -- some were in very
deep water; some had been offered before.
It is important, I think, that the highest bid price in the sale was on a piece of land adjacent to one of our leases further east along the Santa Barbara coast, the Point Conception area. The bid on the little triangular parcel with the marine canyon in it that abuts the formation on our property -- the bid on that was about $2,000 an acre. It was rejected by the federal government and is now going to be -- go out in another cleanup lease sale.

The Long Beach office, as I pointed out, is in the process of reorganizing to have the statewide use of all of our personnel. There's an accounting problem, of course. We have to be very sure that we keep Long Beach operation separate from everything else so we will be able better to use our people, I think, in a consolidated statewide operation.

We have geophysical data available to the public now for their perusal. You have seen those data in earlier briefings.

We have -- the staff has prepared a basic, general lease form and we are workin, with the oil industry and the Legislature to try to get unitization agreement statutes available by the end of this calendar year.

And that's where we're at. You still have to hold a hearing on the final environmental impact report
before you certify it. You must certify that report before you decide to go to lease, if you so choose. And in addition to that, you have to hold a hearing under -- what's the section of the Public Resources Code? But, anyway, under particular provisions of the Public Resources Code that requires you to make findings that are listed, but which are also covered in the EIR, because that section of the statute is old.

If you choose, we can bring that -- hold that hearing in August or we can hold it at a later time.

CHAIRPERSON CORY: Questions from the Commissioners?

MS. MORGAN: Yes. Before we really start into this, I think I'd like to spend a little time with the staff.

EXECUTIVE OFFICER DEDRICK: We'd be glad to.

MS. MORGAN: So we can schedule something. I'd appreciate it.

CHAIRPERSON CORY: At this point, though, we're having a meeting August 26th.

EXECUTIVE OFFICER DEDRICK: That's our regularly scheduled Commission meeting.

CHAIRPERSON CORY: And at that point we would -- well, we could start the process, everything, staff working together, Commissioners -- I'm sort of inclined to want to proceed with it. Although the one thing I would like the
staff to keep in mind is that we do have an election that occurs in November. It would seem to me that a lame duck period between the election and the swearing in of the newly elected people, I would prefer that during that period of time we not be awarding leases. If we can -- we can start the process and make the actual award afterward, I would feel more comfortable than to deny the public the right to get even if they don't like our decision.

EXECUTIVE OFFICER DEDRICK: Okay.

MR. ACKERMAN: I agree. I have one question, too. At the August 26th meeting if, in fact, a hearing is held on the EIR process and all at that time, would we also have before us a decision on what form the lease arrangements would take us to what type of bid or what structure that the bid would be?

EXECUTIVE OFFICER DEDRICK: That's at your option.

MR. ACKERMAN: Because that's a pretty fairly complicated decision that has to be made. I think we really need to have adequate time to weigh each of those options,

EXECUTIVE OFFICER DEDRICK: It's entirely up to you. You can't make the decision before the EIR is certified. And after that the other steps -- the timing of the other steps is the choice of the Commission.
MR. ACKERMAN: Okay.

CHAIRPERSON CORY: You should sort of try to get out a flow chart for us as to what our options are.

EXECUTIVE OFFICER DEDRICK: All right.

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

The other thing I guess you should -- in the normal course of events you should coordinate with other --

EXECUTIVE OFFICER DEDRICK: Yes, we are in fact --

CHAIRPERSON CORY: -- other State and local agencies as to what happens?

EXECUTIVE OFFICER DEDRICK: Yes, Yes, we work very closely with the other agencies. Of course, in the environmental process, reporting process, the comments come in, and the staff and consultants are working with the agencies to be sure that our responses to their comments are satisfactory to the agencies on the substantive issues.

CHAIRPERSON CORY: Okay.

MR. TAYLOR: By scheduling the hearing for next August, are you scheduling the staff meeting to discuss-- I'm unclear.

EXECUTIVE OFFICER DEDRICK: Well, I thought you had intended to -- well, I may have misunderstood you. You don't have to hear -- you don't have to hold a hearing on the EIR in August. If you would rather put that over, you can.
But you cannot go any further in the process without holding that hearing and making that decision.

CHAIRPERSON CORY: We could, after we deal with the environmental question, have that hearing. It's subsequently we could make our decision and deal with the issue of the form of the lease.

EXECUTIVE OFFICER DEDRICK: That's correct.

CHAIRPERSON CORY: I'd as soon go ahead and get it done.

MR. ACKERMAN: But I think if that is to be done, that's a controversial enough decision to where there must be adequate notice to all interested parties who would be interested in how the bid is structured and the like so that it's clear to everyone that, you know, both the hearing and the discussion and a decision on a bid package would be made at the same time.

CHAIRPERSON CORY: My understanding of what the staff is saying is that they do not have to be made at the same time. You must make the environmental hearing --

EXECUTIVE OFFICER DEDRICK: Before you --

CHAIRPERSON CORY: -- before we do anything else, before we proceed any further. So, if we're going to move in a timely manner, we should, in fact, proceed with the environmental hearing at least in August. We should at least have that. Whether or not we can get to the other
stuff done remains to be seen.

Is that --

MR. ACKERMAN; But if you get the other stuff, other things done, the normal notice for meetings is what? Ten days prior to the meeting? I don't think ten days is adequate to discuss something like that.

EXECUTIVE OFFICER DEDRICK: One other point, which I hesitate to raise, but I think I'd better. The Catalina hearing is scheduled for August 26th also.

CHAIRPERSON CORY: Okay. It'll be a long day.

MS. MORGAN: It's important for us to see the schedule laid out, too.

EXECUTIVE OFFICER DEDRICK: We will do that.

MS. MORGAN: That would have some influence, I think.

EXECUTIVE OFFICER DEDRICK: Okay. Thank you.

CHAIRPERSON CORY: Item 21 is assignments of geothermal lease of Richard Wall to Aminoil.

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

Without objection, Item 21 is approved as presented.

Item 22 is off calendar.

Item 23 is a request for approval of a prospecting permit for gold and other valuable minerals, other than
oil and gas, in Riverside County for Southern Desert Gold Corporation.

Anybody in the audience on this item?
Questions from the Commissioners?
Without objection, Item 23 is approved as presented.

Item 24, approval of a prospecting permit application for gold and minerals, excluding oil and gas, in San Bernardino County for Ron Spear.

Anybody in the audience on this item?
Questions from the Commissioners?
Without objection, Item 24 is approved as presented.

Item 25, Sutter County Department of Public Works wants an exemption from the oil and gas competitive public bidding surrounded by a small parcel of what, an acre, acre and a half, surrounded by somebody else. And they want to negotiate with them rather than do it separate,

MR. HIGHT: Correct, Mr. Chairman.

CHAIRPERSON CORY: Anybody in the audience on this item?
Questions from Commissioners?
Without objection, Item 25 is approved as presented,
Item 26, assignment of State Oil and Gas Lease and Easement from Arco to Norris Oil.

We have Mr. Buchanan and Mr. Carr representing Norris Oil here.

Staff, why don't you fill us in briefly and then let us hear from the people involved.

EXECUTIVE OFFICER DEDRICK: This is -- we're talking about Rincon Island off of Ventura. And the picture here for your benefit -- this is one of the oldest leases the Commission has. And the production on the island is declining. Atlantic Richfield wants to assign the lease to the Norris Oil Company. And Atlantic Richfield wants to be held harmless in that transaction so that they no longer have an obligation to take care of cleanup work out there.

The staff estimates that to take out the wells and do the job on the island would cost between four and eight million dollars, depending on how much of a job you want to do.

The original lease required the lessee to return the ocean floor to its original state. If you want to go that far and take out the island, then the number would be more like $8 million in today's dollars.

Staff has worked with Mr. Norris of the Norris Oil Company and Mr. Carr and has negotiated -- well, the
lowest that we think is even a reasonable risk for the Commission to take would be a $2 million bond.

Norris Oil says they cannot get a $2 million bond, and I really cannot recommend that anything lower than that be accepted. I think you should recognize that the State will be at risk in this situation.

Arco has a $500,000 bond. And Norris has such a bond also. The difference, of course, it's an old bond, and also Arco is a very large company. Norris is a small company.

If you'd like to hear from Moose Thompson or other staff members on more details, they're available.

CHAIRPERSON CORY: I'd like to hear from Norris. Make it good, because you're in trouble.

EXECUTIVE OFFICER DEDRICK: Identify yourself.

MR. BUCHANAN: My name is Robert Buchanan. I'm an attorney and I'm representing Norris Oil Company. My office is at 626 Wilshire Boulevard, Los Angeles. Next to me is Mr. Ned Carr, President of Norris Oil Company.

I think the first comment that we would like to make -- I'd like to make -- is that I think Miss Dedrick, you somewhat misadvised on one point, and that is that you stated -- I understood you to say that Norris cannot get a bond. That's not the fact. We're asking that we not be required to get a $2 million bond.
EXECUTIVE OFFICER DEDRICK: I'm sorry. In a conversation with Mr. Carr, I was informed by Mr. Carr that you could not get a $2 million bond in the Santa Barbara channel.

MR. BUCHANAN: Well, I spoke with the bond people yesterday. And I wasn't aware of that. And I asked that specifically. But, in any event, our request is for approval of the assignment.

We feel that there are good reasons that Norris ought to be approved the assignment without requiring it to obtain and furnish a greater bonding that presently exists. Those are specifically these: the $500,000 bond, which has to do with the removal of the island; and a $25,000 lease performance bond. That's what Arco presently has and supplied in the past. And we are prepared to do that.

I wish you to know also that in accordance with the statewide rules of the DOG, Norris has and has been carrying a statewide bond with DOG of $250,000 which has to do with the cleanups. That's for the protection of all the landowners, including the State of California.

And separately, and not applicable to this case, they also carry a hundred thousand dollar bond for DOG purposes for onshore leases.

So, they're certainly bondable and they're proven...
to be so.

They are indeed a small company compared to
Arco today. But I will remind those of you who maybe
aren't as old as I am -- and I think that covers most
of you -- that Arco was in rather dire straits -- not Arco --
but its predecessor Richfield Oil, the original lessee --
shortly before this lease was let in 1955.

CHAIRPERSON CORY: My recollection is that
Mr. Jones had more than that in cash on him when he died.

MR. BUCHANAN: Well, you're speaking perhaps
of Mr. Jones as distinguished from Richfield Oil?

CHAIRPERSON CORY: My recollection is that --

MR. BUCHANAN: But things change and we
recognize that certainly. And I don't mean to be
suggesting that Richfield wasn't always a stable company.
But they were in financial difficulties in the late
forties and early fifties. And yet your predecessors on
this Commission didn't see fit to be terribly tough with
them in 1955.

We certainly recognize that the costs have
increased. And the --

CHAIRPERSON CORY: The amount of bond is currently
how much?

MR. BUCHANAN: There are two bonds, Mr. Cory,
five-hundred and a quarter. There are two bonds in total.
We're talking, true, in some views may not be considered too much -- the difference between the 500,000 and the 25,000 bond and a $2 million bond represents around $20,000 a year, which may not seem too much to anybody. But if you multiply that over 30 years, it adds up to quite a bit.

It also -- for a company who has been on a growing trend and is relatively small compared to Arco -- is a more significant expenditure than it would be for the larger company.

The point I think you need to keep in mind about Norris Oil is that it has operated for over a year now and once prior to that period operated one lease. But it has since, for the last year and a half, operated two State leases. And I believe your staff will back me up when I tell you that Norris has done an excellent job on both of those leases, has improved production, has cleaned it up; has, I think, increased communications with the staff so that the staff is more cognizant of operations on those two leases than your staff was prior to that time.

But they've done a good job, and I think what I'm suggesting to you is that they're capable of it.

We wouldn't have this problem, I submit to you, and we wouldn't be here today discussing it with you but for the fact one of the conditions that we have in our

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transaction with Arco is that they want clearly to have --
no longer have any obligation to the lease.

Whatever those reasons -- whatever the reasons
behind that request and demand are, I don't know and that's
none of my business. But that is the situation. And I
feel, as a lawyer, that both the law of the Public
Resources Code and perhaps even this particular lease
really call for an assignment without holding Arco
continuing to be responsible. So, I think our --

CHAIRPERSON CORY: Are you suggesting that the
assignment is an administerial act and must be granted?

MR. BUCHANAN: No, I am to this point. I think
you can only withhold approval if there's a showing that
the assignee is not capable of meeting the requirements
of the law. I don't think that's the case here.

I don't want -- I see Mr. Taylor inching towards
the microphone -- I don't want to take that initiative,
because I'm not hanging on a legal point, Mr. Cory, like I
have on other issues before this occasion on other
occasions.

But I --

EXECUTIVE OFFICER DEDRICK: I don't think that
should be on the record, the comment --

CHAIRPERSON CORY: I don't want to get into
a discussion of that on the record. I've made my decision.
I've got nothing more, you know. If that's your view, that's where we are. The lawyers are expensive and it ends up costing everybody money; I'm ready to read them and weep.

MR. BUCHANAN: Mr. Cory, I'm trying to point out to you that we recognize -- that Norris Oil Company recognizes that it is not financially equal to Arco. There's no question about that.

CHAIRPERSON CORY: The difficulty for getting into any further discussions at this point, giving your position, I just think -- I'd just soon not hear any more and decide whether or not we should make the assignment or not make the assignment rather than getting into any dialogue or discussion as to why. So, you can take your best shot, given your view of the law and where you think you are and what you can and can't do, rather than for us to get into a full scale discussion which might end up adversely prejudicing the State's position. Or in some attempt to try to help you, it could end up being used adversely to the State's position.

And I'm a little leery about, given where we are --

MR. BUCHANAN: You seem to take umbrage with what --

CHAIRPERSON CORY: No.
MR. BUCHANAN: -- and I apologize.

CHAIRPERSON CORY: No, I don't take umbrage at all.

MR. BUCHANAN: I didn't mean --

CHAIRPERSON CORY: I'm not taking umbrage at all. I understand your position as you state it. And if that's the position, then I don't think we can discuss -- if the question is solely that in your view and that's the law and our lawyer agrees with that, I don't really care what our lawyer thinks. If that's what you think, then we're going to be litigating. There's a high possibility that we're going to litigate that issue.

MR. BUCHANAN: Not at all.

We have no interest whatsoever in litigation. I want to make that absolutely clear.

We're here to ask your approval of the assignment and we wish for the assignment, and we'll certainly accommodate you to the extent we possibly can on whatever conditions you wish to make.

We ask that under the conditions and the situation that exists that you give our request consideration to not require a bond that would be financially somewhat difficult for us, but not impossible.

However, if you feel that you should accommodate your staff's suggestion that they should have a minimum
of a $2 million bond, and that's the wish of this
Commission, then we shall accommodate that way and provide
it to you.

CHAIRPERSON CORY: Did the staff tell me it was
going to take four to eight million -- why are you asking
for two million? If you're going to get protected, why
not get protected for your exposure?

EXECUTIVE OFFICER DEDRICK: I think that --

CHAIRPERSON CORY: If a prior Commission made
an error because they miscalculated what inflation was
going to be or what have you, the issue to me from
protecting the State of California viewpoint, is if you're
sure those figures are right -- four to eight million --
why are you only asking for two million?

EXECUTIVE OFFICER DEDRICK: You're perfectly
right on. The staff has -- had come to that figure as an
absolute minimum based on their knowledge of Norris as a
good operator. It does not -- it leaves you at risk.

MR. TAYLOR: I think the situation you're faced
with, considering the reasonableness of this assignment,
is the fact that this is a very old lease; it's going to
be facing abandonment at a relatively early time. And when
it is abandoned, the abandonment costs are going to be
rather substantial because of the uniqueness of this area.

The Commission has had before it several times
abandonment costs and also we've had to go in and pick up the cost in Santa Barbara County and to some extent in Ventura County itself. That is the first part.

The second part is that what is unusual about this request is the fact our lessee, who is a responsible party, is asking for relief from that responsibility as part of the assignment.

And normally, an assignor is not relieved of liability. And so, those are the two aspects that are here.

And judging the reasonableness of the request, I think the age of the lease and the unique circumstances which will be required are the things that have to be weighed in the Commission's mind.

CHAIRPERSON CORY: I don't want my comments to imply that I doubt the ability of the Norris Oil Company to conduct business or their responsibility. It's the fact that we're at the tail-end of the lease, and that if anything -- it may be that a prior Commission had underestimated where we're going to be at. And I've got --

MR. CARR: Let me comment on that, Mr. Cory.

CHAIRPERSON CORY: Yes.

MR. CARR: We operate the lease offsetting this lease. And it's been under operation for 53 years. The present lease we're going in on now has been under operation
for twenty-two years. In other words, there's no doubt in
our mind that thirty more years of operation plus -- it's
not -- and the lower, the deeper zones in the lease have
never been drilled to produce on the offsetting leases.

There's probably 50 years of operational --

CHAIRPERSON CORY: Rincon is -- I'm just trying
to recall this from my own memory. Rincon is south of
Santa Barbara?

EXECUTIVE OFFICER DEDRICK: Ventura.

CHAIRPERSON CORY: Ventura County and the access
is not -- it's relatively close to shore, and there's
what, trestles that goes through -- is that correct?

MR. TROUT: That's correct. It shows in the
corner of the picture there.

CHAIRPERSON CORY: You're currently operating --

MR. CARR: We're currently operating the two
that I've shown there. The 410 and the 429.

CHAIRPERSON CORY: Okay.

MR. CARR: One was a Tidewater and the other one
was a Richfield. We bought one from Getty, formerly
Tidewater, 14 years ago, or 15 years ago, something like
that.

And the second one we bought from Arco six years
ago.

By the way, for your information, we increased
the production by almost four times on that, on the last Richfield lease we bought.

MR. TROUT: Mr. Chairman, the significant difference, I think, is that on the prior two leases assigned to Norris, the original lessor remains liable.

CHAIRPERSON CORY: That's the bottom line in terms of -- I have a hard time figuring out what the State's getting to have Norris -- I don't mean that in a disparaging way -- in terms of the awesome power of Arco. We've got them on the hook. I'm a little more comfortable.

Is anybody from Arco here? Would you come forward and identify yourself and start thinking about why it is you guys want off the hook?

MR. DRAPER: Yes. I'm Jack Draper, attorney for Atlantic Richfield.

I think the distinction here is the lease, perhaps unlike other leases, provides expressly for release of the assignor if the consent is given.

CHAIRPERSON CORY: And we're saying from our side of the table, we're not too enthused with that. We're willing to allow you to make the assignment to Norris, but is there some way you and Norris can work out some sort of a sliding scale or something to help them so we've still got you on the hook and let them
slowly build up out of, say the profit side of the deal, after they have it to cover the thing. Because there's nothing in it for us at this point to take a lessor credit risk for the exposure.

MR. DRAPER: I think there is potentially something in it, as Mr. Carr's pointed out, his track record shows that he can increase production greatly and that's going to raise the royalty due to the State.

However, Arco would probably continue to produce at the same level it is now and the lease might be abandoned much earlier with Arco. And the State will lose their incremented oil royalty.

Furthermore, I would make the point that the parties stated and Richfield bargained for that type of a lease back in 1957 allowing complete release of the assignor upon the approval of the assignment. So, the lease doesn't appear --

CHAIRPERSON CORY: What we're telling you -- at least this person is unprepared to vote for the assignment if you don't stay on the hook.

You aren't going to get my vote the way it stands. Now, if you want to make a business deal -- what I'm telling you is you got to figure out a way to cover Norris.

Now, I don't know whether or not --
MR. DRAPER: I see your position.

CHAIRPERSON CORY: If you guys want to sell it to Norris, and you guys have your reasons why you want to sell it to them, benefits to you, I'm willing to do it, but not the way you present it.

MR. DRAPER: Well, isn't there -- isn't the fact of increased production of interest to the State?

CHAIRPERSON CORY: Not enough.

MR. DRAPER: More production in the deep zone --

CHAIRPERSON CORY: Not enough.

MR. DRAPER: It seems that when a resource is already there and it's essentially being abandoned too early because --

CHAIRPERSON CORY: You abandoned the lease, you know, we can go back in, take it over, get a rebid, do all sorts of things.

MR. DRAPER: Also with the cost of rebidding.

CHAIRPERSON CORY: You know, that's where we are.

MR. DRAPER: Renovating the whole thing is --

CHAIRPERSON CORY: If you're not willing to do it, you may not have -- be able to sell the lease.

MR. DRAPER: Well, that's, of course, the problem.

If the factor -- the amount that the staff has said would be necessary to abandon, four to eight million...
dollars, that really puts a heavy burden on any kind of a deal.

CHAIRPERSON CORY: While you're looking at that problem, we won't let you off anyway.

MR. DRAPER: Well, that's right, but we would hope that you would, given that Richfield -- the original lessor -- and the State negotiated a lease which provided an assignment was possible and if the assignment was approved, that there was -- the assignor will be relieved of his obligations and duties under the lease.

And it seems like to approve it any other way would be renegotiating the bargaining, changing the terms of the lease. We're not asking for that.

CHAIRPERSON CORY: We knew the credit worthiness of Richfield and we knew the risk when we took it from the State's point of view of the contract.

We're willing to live with that deal. You're the guys who walk in and say you wanted a change. If you want to change, you can belly up to the bar, sweeten up the deal some way for somebody, or you can talk to the other two Commissioners and maybe get them to vote for you. But I'm not going to vote for you.

MR. DRAPER: We're not asking for a change. We're only asking --

MR. ACKERMAN: Has the Lands Commission's legal
staff examined the original lease to see if the wording of it says the Commission "shall" release Arco or does it say the Commission "may"?

MR. HIGHT: It's at the discretion of the Commission.

Could I just read it to you? It's sort of brief.

(Reading)

"In the event of approval, such assignment or transfer...

I'm reading from paragraph four.

"...the assignor shall be released and discharged from all obligations thereafter appearing under this lease with respect to the assigned or transferred lands."

MR. DRAPER: So the approval — it follows by the language of the lease — the approval —

MR. ACKERMAN: Yes, but my next question was if that's the language of the lease, are the Commission's hands relatively tied; that if we do decide to assign, then we have no option on whether or not to relieve Arco. So, if the Commission's decision is to assign the lease, we have no option but to release Arco from any liabilities.

So that would be instrumental in the decision
whether or not to assign the lease.

CHAIRPERSON CORY: That's why I'm unprepared to assign unless Arco can come --

MR. DRAPER: So you're asking for a renegotiation of the lease terms in effect.

CHAIRPERSON CORY: No, not at all. No. We're going to live up to our side of the deal.

We like you, Arco. I mean, you know, you can take all your money you're saving by not extending credit and we know you're going to be there to pay the eight million.

We're looking forward to getting some of your dough.

MR. DRAPER: How does that benefit the State if Arco --

CHAIRPERSON CORY: Because we don't have to pay the eight million, friend.

MR. DRAPER: But no one has to pay it if it goes 50 years longer, because --

CHAIRPERSON CORY: It may not, though.

MR. DRAPER: Well, there's a good chance --

CHAIRPERSON CORY: Hey, friend, that's where it is. Do you want it or don't you?

MR. DRAPER: I can't speak on any renegotiation.

CHAIRPERSON CORY: I'm willing to put this over
to the next meeting to see if Arco, in dealing with their principals, can -- both varieties and both spellings -- can come to some thing that would protect the State.

MR. ACKERMAN: From my own position, I feel to put the entire burden on Norris Oil is asking a little too much for that, and I --

MR. TAYLOR: Can I state one little thing for the record? I've been informed that the staff has calculated an estimated increase in production under this lease. And the increase in production would nowhere equal the exposure the State would be assuming.

And as the Chairman has pointed out as well, even if the lease was abandoned, another operation could be substituted -- I mean a fresh lease could be substituted. So on both counts, it would appear that what's being offered, which is continued production, doesn't equal out to the risk the State would be assuming. Essentially the State could have a different kind of facility go in there and still recover the oil from a different substantive operator under a new lease if it's abandoned.

MS. MORGAN: It seems to me that if you're going to have a bond that makes us nervous and there's no place to look for the funds that are needed if those wells are abandoned, then we need some greater revenues projected to
give us a little more comfort, a fiscally prudent way
of going about doing business.

CHAIRPERSON CORY: I can understand the problem
that the representative from Arco has, you know, he's got
to check with his folks. I don't know where you are in
your timing in terms of the deal. But I'd like to put it
over to the next meeting without prejudice.

MR. BUCHANAN: May I make one short comment?

CHAIRPERSON CORY: Sure.

MR. BUCHANAN: It seems to me that if we had been
able to negotiate the arrangements with Arco such that
they would have continued to be on the thing, we wouldn't
have had any problem.

I would hope that your staff wouldn't think
there was a necessity to increase the bond. That wasn't
possible.

We did examine it, and upon the request of the
staff we reexamined that with Arco. I don't know what
the future may hold. We're interested in getting the
transaction done.

One of the considerations -- and this was
discussed with your staff -- was that a big part of the
monies that potentially will be needed to be paid for
putting it back in its original shape was removal of the
island.
I think some of your people -- at least the ones that I spoke to -- seemed to have the same feeling I did; that is, the island itself would doubtless never be removed and used for other purposes. There's a marine biology lab on there now and I'm certain that would be continued.

The point being that we're talking about abandonment of oil wells. And there is, number one, a $250,000 bond now for that purpose with the DOG. We're prepared to put up additional funds if you feel that our size is such that we must put up a total of at least $2 million that your staff has indicated is their minimum requirement. We will do so in either a bond or a letter of credit,

And we would like to have your approval on that basis so we can proceed and you can, too. And we won't have to burden your meeting that's apparently already filled up.

CHAIRPERSON CORY: How did the staff arrive at $2 million when the minimum cost figure is four?

MR. TROUT: Purely a tradeoff between the anticipated increased revenues and the risk.

What staff has done is basically make an analysis and say that for two million the staff would recommend that the Commission take -- the State assume that
risk. For 500,000 we can't recommend it.

MR. ACKERMAN: It seems like the Commission really has to decide what risk it wants to accept. As Mr. Buchanan mentioned, if it's the Commission's intent to remove the island on abandonment to the sea floor, that indicated one level of cost. If the intent of the Commission is to retain the island for some other use, that obviously would be at a different level of cost.

And then the company would have to expect to assume a different level of risk.

Well, that's got to be part of our decision, would be the exposure to the State.

Because you're not exposing the State to risk if it's not our intent to remove the island anyway.

CHAIRPERSON CORY: I'm not so sure I know what the facts are to make that decision now. But the minimum cost is the four million figure?

MR. TROUT: We figure -- the engineers have estimated that to remove -- to abandon the wells and remove the production facilities -- in effect, skin off the island and leave it with a concrete slab and well cellars sealed off, it would run $2.8 million. There is another $300,000 roughly to bring the trestle up -- to make all the repairs that might be necessary to bring the trestle up to standard.
So, we think that if the island were to remain, the trestle were to remain, and all the other facilities were removed, Don's staff and Bruce's staff come up with roughly a $3 million number.

Given a rough estimate of doubling the value -- doubling the production from the lease -- the State's take is roughly 50,000 a month, it would go to roughly a hundred thousand a month. That a $2 million bond is a reasonable compromise and reasonable risk. That's the decision that's before you guys.

CHAIRPERSON CORY: I want to point out also that's in today's dollars.

MR. ACKERMAN: Another question I'll raise incidental to that is the boilerplate language we've seen in other assignments has been -- included the language the required bond is secured and all of that.

I'm just wondering in other cases has the State assumed a margin of risk in all other assignments because of old negotiated bonding levels?

And I'd hate to wonder what our entire exposed risk might be. I know the State's not banking the money for future use, that's for sure.

(Laughter.)

MR. TROUT: The Commission may remember the assignment in Long Beach from Arco to Petro Louis; I believe
it was a partnership property, in which the same issue rose.

I think Moose could tell you what the results were, but at that time the same situation arose and at that time the Commission did not wish to allow Arco off the hook for liability. And that was solved in a successful manner.

MR. ACKERMAN: What that's looking at is looking at Arco's corporate resources that go beyond this specific project.

MR. TROUT: Absolutely.

MR. ACKERMAN: And if we're looking at five or six leases that Arco may hold or more than that, then their exposure is multiplied five or six times.

And you wonder whether that's a good policy as well to get them to look for the other corporate resources of a company and size to determine the bonding level to where that may not be a realistic assumption either.

MR. BUCHANAN: May I make a further suggestion? I don't know how you feel right now about bonding levels. But assuming that you would adopt the recommendation of the staff, I would have -- I would suggest that -- I would ask that you consider an action today which would approve the assignment subject to either, one, Arco's continuing on the obligation, which may be
possible to get. I don't know. I don't think so, but I'd like to have that opportunity to take a crack at it. Second, if that's not available, that the assignee, Norris, provide you with letters of credit or a bond in accordance with the staff's recommendation.

MR. ACKERMAN: You mean of $2 million?

MR. BUCHANAN: Yes.

MS. MORGAN: You keep mentioning a letter of credit. I'm not comfortable with that.

CHAIRPERSON CORY: As long as it's an acceptable letter of credit --

MR. BUCHANAN: I mentioned that simply because your staff had indicated to me in the past that they kind of like the letter of credit because -- and I think most lawyers agree -- they're more easily collectible than a bond.

MS. MORGAN: Is that true?

MR. HIGHT: Yes.

CHAIRPERSON CORY: Banks usually pay off on a letter of credit without a hassle. You don't have to litigate. It cuts down --

MR. TAYLOR: The bonding company usually doesn't pay; the courthouse does.

CHAIRPERSON CORY: As long as, you know, it's not issued by Franklin Bank, but if he did cover it with an
acceptable letter of credit, so --

I've got no problem with that. I'm willing to leave it in midstream and for another month.

MR. BUCHANAN: I appreciate that, Mr. Cory, but I think that we could move a little faster and relieve you of further consideration.

MR. ACKERMAN: A case of either/or action?

CHAIRPERSON CORY: I would think so.

MR. TROUT: The action before you -- the recommendation before you is on page 163(a), a green sheet, says that the Commission would approve the State oil and gas assignment or State oil and gas lease 1466 and easement 1961, which is the trestle, by the lessee Atlantic Richfield to Norris subject to Norris obtaining and maintaining in effect a $2 million performance bond or letter of credit, or other equivalent insurance.

CHAIRPERSON CORY: In the alternative, Arco remaining on, so they can try to negotiate that option.

MR. ACKERMAN: Shouldn't that really be the first option?

CHAIRPERSON CORY: The order I think is immaterial.

I'm prepared to vote for that one. Okay?

Without objection --

MS. MORGAN: That's fine.

CHAIRPERSON CORY: -- that will be the order.
MR. BUCHANAN: Thank you, sir.

CHAIRPERSON CORY: Thank you.

Okay.

MR. ACKERMAN: Let me just make one other comment.

If the year life on this well -- productive life is 50 years, 50 years from now a $2 million bond would probably provide funds for one cement truck to run out on the island.

We'd be right back in the same position.

CHAIRPERSON CORY: You're telling me that Reagan's not going to pull off his thing?

MR. ACKERMAN: Oh, he is.

(Laughter.)

MR. ACKERMAN: But, you know, looking at the -- maybe the staff could look at the whole policy of bonding the State, assuming liability, because obviously the Commission in most of the fifties, 1955, didn't build in any escalation factor or any estimate of what it would cost when the lease -- when the well was actually abandoned.

Maybe they did. I really don't know.

EXECUTIVE OFFICER DEDRICK: I can't answer your question, but we certainly will find the answer to it.

CHAIRPERSON CORY: Well, as a general policy matter, I don't know whether or not it should somehow be
for future leases you should start in some new — whether
or not exposure should be tied in say to oil prices or
something else that might move.

MS. MORGAN: You're assuming that the companies
are around long enough to have a successful operation;
that there is some assurance —

CHAIRPERSON CORY: Like Chrysler.

(Laughter.)

MS. MORGAN: Do we have a bond for Chrysler?

MR. TAYLOR: It should be pointed out that the
$2 million in no way discharges their responsibility
or obligation to terminate the lease in an appropriate
manner. And if it takes everything the company's got
to do that, the State is going to stand — it's going to
take the position that that would be required, a complete
liquidation of the company.

CHAIRPERSON CORY: The way they played softball,
I can understand how you'd go about that,

(Laughter.)

MS. MORGAN: Only short, general leases —

CHAIRPERSON CORY: You can't do that —

MS. MORGAN: You can't put the deal together.

CHAIRPERSON CORY: If Finance would let us spend
the money, we could go ahead and do that, if we pay the
capitalized costs that the private entrepreneur wouldn't, we
could do it on the State side and have them as operators, it would work. They'd have to come up with enough dough. What can I say?

MS. MORGAN: I'm going to find some next week.

(Laughter.)

CHAIRPERSON CORY: I think this is something that staff should look at.

EXECUTIVE OFFICER DEDRICK: Very well,

CHAIRPERSON CORY: Contingent liability of the State for un-- you know -- exposure, might be significant.

Okay. Any other questions?

Item 27, Chevron USA wishes a deferment of drilling requirements on PRC 3095 so they can do a complete drilling plan; is that correct, Don?

MR. EVERITTS: The drilling and/or workover plan.

CHAIRPERSON CORY: Okay. They want to do a complete plan rather than punch the individual holes in.

Questions from the Commissioners?

Question from anybody in the audience?

Without objection, Item 27 is approved as presented.

Item 28: This is a request to award a negotiated oil and gas lease on Jo Island. They have some
surrounding production, is that the case?

EXECUTIVE OFFICER DEDRICK: Yes.

CHAIRPERSON CORY: And it's, what, a one-third royalty?

EXECUTIVE OFFICER DEDRICK: Yes,

CHAIRPERSON CORY: Anybody in the audience on this item?

Questions from the Commissioners?

Without objection, Item 28 is approved as presented.

Item 29, approval of a proposed sale of crude oil, Tract 2, Long Beach.

Any changes staff wants to put in here? This is to go ahead with the sale?

EXECUTIVE OFFICER DEDRICK: There's a discussion on the minimum bid. I think what we'd like is authorization to determine what a practical and reasonable minimum for the goals of the Commission would be.

CHAIRPERSON CORY: This parcel is currently ten cents?

EXECUTIVE OFFICER DEDRICK: Yes, ten.

CHAIRPERSON CORY: I would think that if we didn't get the existing one, we'd leave it with the, you know, who's got it,

So, I'd go along with the ten cents minimum, just
so people will know, don't waste your time.

MR. ACKERMAN: Should it be higher than ten?

Or is that -- We've never put minimums on the bids before.

EXECUTIVE OFFICER DEDRICK: There are pretty
flaky bids sometimes below the -- negative bids. This
would cut down the workload a little bit.

MS. MORGAN: So there's no point in considering
bids that are below ten.

EXECUTIVE OFFICER DEDRICK: That's true. That's
the general notion.

MS. MORGAN: Are you thinking about setting it
higher? The minimum?

EXECUTIVE OFFICER DEDRICK: Not really. I think
they're --

CHAIRPERSON CORY: Why don't you try this one
at ten and with the next one, we'll see what happens, how
that affects their bidding.

EXECUTIVE OFFICER DEDRICK: Okay.

CHAIRPERSON CORY: Anybody in the audience on
this item?

Without objection, Item 28 is approved with a
ten cents minimum.

Item -- Item 29, pardon me. I misspoke myself,
Item 29 was approved with a ten cent minimum.

30 is off calendar.
Item 31 is a proposed revision of the compromise title settlement between Usonia, Inc., and the State.

Anybody in the audience on this item?
Questions from Commissioners?
Without objection, Item 31 is approved as presented.

Any other items to come before us?
We stand adjourned.
(Thereupon the meeting was adjourned at 11:45 a.m.)

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CERTIFICATE OF SHORTHAND REPORTER

I, Nadine J. Parks, a shorthand reporter of the State of California, do hereby certify:

That I am a disinterested person herein; that the foregoing regular meeting of the State Lands Commission was reported in shorthand by me, Nadine J. Parks, and thereafter transcribed into typewriting.

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

IN WITNESS WHEREOF, I have hereunto set my hand this 3rd day of August, 1982.

Nadine J. Parks
Shorthand Reporter