SPECIAL MEETING
STATE LANDS COMMISSION
STATE OF CALIFORNIA

STATE CAPITOL
FINANCE CONFERENCE ROOM 1145
SACRAMENTO, CALIFORNIA

MONDAY, APRIL 14, 1986
10:00 A.M.

ORIGINAL

Nadine J. Parks
Shorthand Reporter
APPEARANCES

Lizabeth Rasmussen, Acting Chairperson, for Kenneth Cory, State Controller, Chairman

Nancy Ordway, for Jesse R. Huff, Director of Finance, Commissioner

Laura Schlichtmann, for Leo T. McCarthy, Lieutenant Governor, Commissioner

Staff:

Claire Dedrick, Executive Officer
James F. Trout, Assistant Executive Officer
Robert C. Hight, Counsel
Jane Smith, Secretary
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ACTING CHAIRPERSON RASMUSSEN: Let's bring the meeting to order.

We have just one item on the agenda; Item 2 was pulled, right?

EXECUTIVE OFFICER DEDRICK: That's correct. Item 1 is the updated Tideland Oil Revenue Report.

A brief summary is that projected revenues for this fiscal year are down from our February estimate of 425 million to 418 million. Estimated revenues for 86-87, February estimate is 185; current estimate, 99 million.

The calendar item covers the assumptions. Moose Thompson and Wes Pace are here. Would you like to ask questions or want further details presented?

MS. ORDWAY: Question.

Moose, what are we putting as the barrel price now, 10?

MR. THOMPSON: The oil price?

MS. ORDWAY: Barrel price at 10?

MR. THOMPSON: Depends on which part of California you're in. We're using 10 for everything except Elwood Offshore, which is the Santa Barbara Channel.

MS. ORDWAY: Okay. Where we're using $7.00.

MR. THOMPSON: $7.00.
MS. ORDWAY: Okay.

MR. THOMPSON: Which in fact comprises about two-thirds of the production from Santa Barbara County. It has an impact -- in Santa Barbara County, the average price is about $8.00.

We didn't try and change and adjust oil prices individually for each lease because -- adjusted to $10 right across the board.

MS. ORDWAY: How much of the reduction is based on reduced price versus -- how much of a revenue loss based on reduced price versus limited production?

MR. THOMPSON: Primarily it's the price. There is some reduction in oil production. And again, it's somewhat linear; in the statewide leases, we're on a royalty basis.

And as the oil price comes down, you can figure we have dropped $3.00 from previous one, you're going to have that much change. Except then, we know we're going to have some reduced oil production.

We now have one lease with Mobil at Rincon shut in completely. We have about 500 wells today shut in completely. And the rest of it will be what we're guessing at reduced production, because the lessee is not going to spend money to do as much well work, changes, et cetera.

MS. ORDWAY: Under the terms of our standard
lease, how long can a well be out of production?

MR. THOMPSON: This is, I think, this is probably a legal question. But I think normally the lease exists as long as it produces an economic quantity.

The question is if it's a temporary aberration; in other words, the lease may be shut down now because oil prices are $10. It may be economic if the oil price comes back to $11. So, the lease is shut in more or less seeing what's going to happen.

If the lessee decides it's not going to come back, then they can quitclaim back to us.

MR. EVERTS: There is an option in the lease now which allows the Commission to negotiate a lower royalty rate that would put the lease back into an economic condition again.

MR. THOMPSON: We only have one lease like that at the present time. We get the net profits. It's not linear; it's definitely not linear.

We're talking about between the February estimate now about less than 25 percent oil price reduction, 13 to 10. But the net revenue is about half. And you can see that basically over here (indicating on chart), because of the one on the right, the difference between oil price and expenditures.

MS. ORDWAY: Yes.

MR. THOMPSON: So, what you're doing is the
oil price is coming down in this amount (indicating), but you're changing this to that. It's almost -- and then we take the next step. If you drop a dollar more, and again, that may lose more than 50 percent.

And, for example, we have a large amount of our leases in prior development that are right at zero revenue. Hopefully, we will be able to keep the organization going, cutting back expenditures enough to just match our revenue.

MS. ORDWAY: Okay.

ACTING CHAIRPERSON RASMUSSEN: Any other questions? Laura, did you have any questions?

MR. THOMPSON: Again, like we did in February, don't treat us like we came in with bad news for the investors from the front. We're just the messengers. Don't kill us.

MS. ORDWAY: We don't shoot the messenger, because you have to deliver another message another day.

MR. THOMPSON: But when things get bad --

(Laughter.)

ACTING CHAIRPERSON RASMUSSEN: Any other comments or questions? Any other business to come before the Commission this morning?

EXECUTIVE OFFICER DEDRICK: No.

ACTING CHAIRPERSON RASMUSSEN: All right.
Then the meeting is adjourned. Thank you.

EXECUTIVE OFFICER DEDRICK: Thank you.

(Thereupon the meeting was adjourned.)

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CERTIFICATE OF SHORTHAND REPORTER

I, Nadine J. Parks, a shorthand reporter of the State of California and a disinterested person herein, hereby certify that I reported the foregoing meeting of the State Lands Commission in shorthand writing and thereafter transcribed my shorthand writing into typewriting.

I further certify that I am not of counsel or attorney for any of the parties to said meeting and am disinterested in the outcome of said meeting.

IN WITNESS WHEREOF, I have hereunto set my hand this 21st day of April, 1966.

[Signature]
Nadine J. Parks
Shorthand Reporter

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