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MEETING
STATE LANDS COMMISSION
STATE OF CALIFORNIA

ROOM 447
STATE CAPITOL
SACRAMENTO, CALIFORNIA

THURSDAY, JUNE 26, 1986
10:00 A.M.

ORIGINAL

Nadine J. Parks
Shorthand Reporter

MEMBERS PRESENT

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Lizabeth Rasmussen, Acting Chairperson, for
 Kenneth Cory, State Controller, Chairman
 Jock O'Connell for Leo T. McCartney, Lieutenant
 Governor, Commissioner
 Nancy Ordway, for Jesse R. Huff, Director of
 Finance, Commissioner

STAFF PRESENT

Claire T. Dedrick, Executive Officer
 Jan S. Stevens, Counsel
 Robert C. Hight, Counsel
 Jane Smith, Secretary

I N D E X

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P R O C E E D I N G S

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3 ACTING CHAIRPERSON RASMUSSEN: I'll bring the
4 meeting to order.

5 Mr. Hight, would you make a statement about the
6 voting?

7 MR. HIGHT: Yes. For the record, Jock O'Connell
8 will be sitting in a voting capacity for the Lieutenant
9 Governor. And Lizabeth Rasmussen will be sitting in a
10 nonvoting capacity for the State Controller.

11 ACTING CHAIRPERSON RASMUSSEN: Thank you. The
12 first item of business is the confirmation of the minutes
13 for the meeting of May 22nd. Are there any questions?
14 The minutes are confirmed by consensus.

15 The second item is the report of the Executive
16 Officer.

17 EXECUTIVE OFFICER DEDRICK: No report today,
18 Commissioner.

19 ACTING CHAIRPERSON RASMUSSEN: All right. No
20 report.

21 Item 3 is the consent calendar. These are Items
22 C-1 through C-21. And these are items that have been
23 deemed to be noncontroversial. We will take them up in
24 one motion unless there's someone in the audience or here
25 on the staff or on the Commission that would like one of the

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1 items removed for discussion.

2 COMMISSIONER ORDWAY: Motion.

3 ACTING CHAIRPERSON RASMUSSEN: Seeing no hands,
4 no item is removed; there's been a motion, the consent
5 agenda is approved by consensus of the Commission

6 The first item on the regular agenda is Item 22.

7 EXECUTIVE OFFICER DEDRICK: Commissioners, this is
8 an application by Chevron U.S.A. to self-insure all of
9 their projects under State Lands; staff recommends
10 approval.

11 ACTING CHAIRPERSON RASMUSSEN: Any questions?

12 Item 22 is approved as presented by consensus.

13 I should note also that Item No. 27 has been taken off
14 calendar.

15 Item 23, please.

16 EXECUTIVE OFFICER DEDRICK: Item 23 is the
17 Point Arguello Pipeline Company application for some
18 waste water outfall, seawater intake, and brine ditch charge line
19 at their proposed facility at Gaviota. Staff recommends
20 approval.

21 COMMISSIONER ORDWAY: Motion.

22 ACTING CHAIRPERSON RASMUSSEN: Any questions on
23 23? Item 23 is approved as presented.

24 Item 24?

25 EXECUTIVE OFFICER DEDRICK: Item 24 is a request

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1 for an authorization to set aside and terminate a
2 grazing lease at Goose Lake in Modoc County pursuant to a
3 Superior Court order.

4 MR. SHERIDAN: May I speak about this?

5 ACTING CHAIRPERSON RASMUSSEN: Certainly. You
6 certainly may. If anyone would like to speak, we
7 ordinarily have a form that you can fill out with your
8 name and address. But that's fine.

9 MR. SHERIDAN: I didn't know about that.

10 ACTING CHAIRPERSON RASMUSSEN: Just for future
11 reference. We need your name.

12 MR. SHERIDAN: My name is Dennis Sheridan. I'm
13 the person that had the lease on that Goose Lake property.

14 The Commission is reviewing a new application of
15 mine, basically the same as the old lease. And I would
16 like to seek permission to leave my cattle on the
17 property until this can be resolved because of the
18 transportation problem and finding new property to lease to
19 run my cattle and things.

20 There's already cattle on the property in
21 trespass. So, I would think that I would have as much
22 right as anyone else as far as -- maybe even more right,
23 because I have got an application. I have had a lease.
24 And until it's resolved -- I don't know how long that would
25 take -- but I don't have any --

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1 COMMISSIONER ORDWAY: Are there any legal
2 problems? Are there any legal considerations?

3 MR. HIGHT: Yes. I would like Joe Barbieri, who
4 is with the Attorney General's Office and who's been
5 handling this -- I believe the court order prevents us
6 from --

7 COMMISSIONER ORDWAY: Allowing us to do that?

8 MR. HIGHT: Yes.

9 Is that correct, Joe?

10 MR. BARBIERI: Yes. That's correct. The
11 effect of the order is that we set aside the lease that
12 we've presently issued to Mr. Sheridan. And I think to
13 allow him to do directly or to do informally what we can't
14 allow him to do formally would be probably defeating the
15 purpose and probably the letter of that order.

16 ACTING CHAIRPERSON RASMUSSEN: I think it would
17 also be against our policy. I don't think we usually
18 encourage what would in essence be a trespass on our land
19 at this point. I think we're sympathetic to your problem.
20 It sounds like there's not much we can do about that.

21 MR. SHERIDAN: What about other people that
22 trespass on there? Can you make them remove their livestock
23 also then?

24 COMMISSIONER ORDWAY: Mr. Hight?

25 MR. HIGHT: We can.

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1 COMMISSIONER ORDWAY: I think that should be done
2 then.

3 MR. SHERIDAN: There's a number of cattle on
4 your property that I happen to have leased that are most
5 definitely on your property fenced away from any private
6 property. They are completely on State lands. If I have
7 to remove mine, I would like to have those removed also.

8 EXECUTIVE OFFICER DEDRICK: Excuse me. I think
9 what we probably ought to do, Commissioners, is to send
10 a couple of people up there to meet with Dennis, Mr.
11 Sheridan, and come back with a recommendation to me, and
12 I can carry out your direction.

13 MR. KILEY: Sounds like a good idea. We'll go up
14 and take a look at the actual situation and come back.
15 My information in the past has been that there was no
16 fence in the outland away from the lake bed. And
17 unfortunately, we don't have the staff to go up there and
18 actually watch the cows and see where they go back and
19 forth. If there is a fence that they could be kept behind,
20 we certainly can look into that.

21 MR. SHERIDAN: Sir --

22 EXECUTIVE OFFICER DEDRICK: Well, at least see
23 what the situation is.

24 MR. SHERIDAN: I happen to have some pictures of
25 fencing and things like that. I've stated on numerous
occasions that there is a fence separating a lot of your

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1 land from the private upland already. I don't know.
2 Maybe I didn't state it to the right person. I don't know.
3 But I have got pictures of fence; got pictures of the
4 cattle. And I would be more than willing, if anybody wants
5 to come up there, I'll show them. I probably -- I don't
6 know if I'm blowing my own horn or bragging or what, but
7 I probably know more about the State lands on Goose Lake
8 than the State Lands Commission does, because I've been
9 studying them for the last year and a half.

10 There's several things that I know hasn't been
11 brought to people's attention.

12 EXECUTIVE OFFICER DEDRICK: Mr. Sheridan, if you
13 can stick around a little while after the meeting, you've
14 come a long way, and the staff is here, I'm sure they'd
15 be happy to sit down with you to go over your pictures and
16 maps and anything that you have.

17 MR. SHERIDAN: I would like to do it, because I've
18 already traveled 400 miles.

19 EXECUTIVE OFFICER DEDRICK: And we appreciate it.

20 ACTING CHAIRPERSON RASMUSSEN: Thank you,
21 Mr. Sheridan. We'll look forward to hearing from our
22 staff.

23 MR. SHERIDAN: I'll be right outside.

24 ACTING CHAIRPERSON RASMUSSEN: Thank you very
25 much.

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1 MR. SHERIDAN: You're welcome.

2 ACTING CHAIRPERSON RASMUSSEN: Are there any
3 questions on Item 24?

4 COMMISSIONER ORDWAY: Moved.

5 ACTING CHAIRPERSON RASMUSEN: It's been moved
6 and is approved as presented.

7 Item 25.

8 EXECUTIVE OFFICER DEDRICK: Item 25 is a
9 recommendation for approval and acceptance of a donation of
10 land from the Trust for Public Land of a portion of what
11 will be sovereign land at Bolinas Bay.

12 COMMISSIONER ORDWAY: Motion.

13 ACTING CHAIRPERSON RASMUSSEN: Any questions on
14 25? 25 is approved as presented. 26.

15 EXECUTIVE OFFICER DEDRICK: This is an application
16 by Portofino Cove Patio Homes Association and Crocker
17 National Bank for the approval of an agreement and consent
18 to encumbrancing to a lease at Huntington Harbor in
19 Huntington Beach.

20 COMMISSIONER ORDWAY: Motion.

21 ACTING CHAIRPERSON RASMUSSEN: Any questions on 26?
22 26 is approved as presented.

23 27 is off calendar. 28, please.

24 EXECUTIVE OFFICER DEDRICK: 28 is the approval of
25 the eighth modification to the 85-86 Plan and Budget.

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1 Mr. Thompson, Moose Thompson, is here. This is the
2 revenue projections from the Long Beach Unit for this
3 year. If you would like Mr. Thompson to speak to that,
4 I'm sure he would be happy to do so. There are several
5 Long Beach items in a row, and you may want him to speak
6 to several of those.

7 ACTING CHAIRPERSON RASMUSSEN: Yes. I think
8 we'd appreciate hearing from Mr. Thompson.

9 MR. THOMPSON: The Calendar Item 28 is a
10 reporting through March and not really very germane right
11 now because of the things that happened in April. So,
12 it's kind of a factual deal, and if you want to act on
13 28, there's really nothing to say about that, because --

14 COMMISSIONER ORDWAY: Motion.

15 ACTING CHAIRPERSON RASMUSSEN: Thank you. It's
16 been moved. Any questions on 29? Or 28. 28 is
17 approved as presented.

18 Item 29.

19 MR. THOMPSON: 29 is trying to get some things
20 finished in this year's business without having to carry it
21 over and modify the plan for next year. It's a small
22 plan modification that change some plans on the type of
23 pump they want to put in, and so we have to add it to the
24 plan and transfer roughly over -- about a hundred thousand
25 dollars between funds. We'd like your approval to get the
project going.

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1 COMMISSIONER ORDWAY: Motion.

2 ACTING CHAIRPERSON RASMUSSEN: Questions on 29?
3 29 is approved as presented.

4 Item 30.

5 MR. THOMPSON: Item 30, this is to follow up
6 on the action that was recommended in which you adopted
7 in April on accepting the plan and budget for the Long
8 Beach Unit, and because of the timing, it was not very
9 meaningful. But it was adopted, and we're bringing it back
10 for some modification. This is the modifications agreed
11 to between the staffs of the City of Long Beach and our-
12 selves and the City Council of Long Beach has adopted this.

13 And basically, what it does, it reduces the
14 plan and budget that had \$387 million down to \$147 million.
15 This reflects the dramatic change in oil prices that went
16 on. You can again see in the far right (indicating) of
17 that exhibit, that shows on a dollar-per-barrel basis
18 what's happened to oil prices. You can see the drastic
19 change there. You can also see in black what the cost in
20 the past has been at dollars per barrel and the four lines
21 below are what our projected costs would be under this first
22 modification of plan and budget.

23 The one on the -- (indicating) translates those
24 into dollars per month. As part of this particular cost-
25 cutting operation, this was covered in the modification of

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1 the last one, we shut in high cut wells that would not pay
2 the cost of producing the wells. This resulted in an
3 oil rate drop. But, as you can see, we're saving \$40
4 million in the next budget. Why, you translate that into
5 oil, that's the equivalent of a \$10 barrel of oil, that's
6 4 million barrels of oil, and we're certainly not losing
7 that much. So, this has been a question of following up
8 on the drilling rig reduction that was in the seventh
9 modification. We're down to two rigs for this year.

10 There are also reductions in the electrical power
11 usage and every other way we can find cost reductions in the
12 unit, so you can see the profit margin in the original area.

13 ACTING CHAIRPERSON RASMUSSEN: Thank you. Are
14 there any questions?

15 COMMISSIONER ORDWAY: Motion.

16 ACTING CHAIRPERSON RASMUSSEN: Item 30 has been
17 moved and is approved as presented.

18 Item 31.

19 EXECUTIVE OFFICER DEDRICK: Moose, would you
20 continue this? This is the subsidence item that I'm sure
21 you'd like to speak to that for the record.

22 MR. THOMPSON: We settled out the subsidence costs
23 with the City of Long Beach quite a few years back. The
24 only thing that was left in that agreement was that we
25 would approve their running their annual -- semi-annual, I'm

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1 sorry -- benchmark surveys to see that there is no
2 subsidence. And this is merely prior approval for them
3 to incur those costs.

4 COMMISSIONER ORDWAY: Long Beach is not moving,
5 I assume?

6 MR. THOMPSON: It is fluctuating up and down, as
7 does all earth surfaces. And they go through this
8 periodically, and then we report to you twice a year on the
9 results of those surveys.

10 COMMISSIONER ORDWAY: Motion.

11 ACTING CHAIRPERSON RASMUSSEN: Item 31 has been
12 moved. Are there any questions? 31 is approved as
13 presented.

14 Item 32.

15 EXECUTIVE OFFICER DEDRICK: Item 32 is the
16 approval of issuance of a negotiated oil and gas lease at
17 White Slough in the Delta. It's a negotiated lease because
18 the access of the operator -- the applicant is the only
19 person who can have access to the slough because of this
20 property.

21 COMMISSIONER ORDWAY: Motion.

22 ACTING CHAIRPERSON RASMUSSEN: Any questions on
23 Item 32? Item 32 is approved as presented.

24 Item 33.

25 EXECUTIVE OFFICER DEDRICK: Item 33 -- there is no

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1 calendar item. And the reason I left it on the calendar
2 was for purposes of discussion. This is the general
3 question of royalty oil, crude oil sales that the State --
4 we've been very successful in making until the oil price
5 problem arose.

6 I asked Moose to give you a rundown on what is
7 going on in the oil business. I thought this would be an
8 appropriate time to do that. And also, staff is not at
9 this time recommending royalty oil crude sales, and I felt
10 it was important that you should know the reasons for our
11 making a recommendation of that sort. If you would listen
12 to Mr. Thompson again, I'd appreciate it.

13 ACTING CHAIRPERSON RANUSSEN: Mr. Thompson?

14 MR. THOMPSON: I think we've reported back to you
15 the problem we had with our sell-off contractors; many of
16 them have turned the oil back to us. Most of them have
17 agreed to either paying the bonus even though they're not
18 taking the oil. One or two of the others were in default.
19 The problem is that we have bonus bidding above posted
20 prices. The spot market is lower than posted prices;
21 therefore, the sell-off purchaser is at a disadvantage of
22 having to pay posted price plus a bonus when the actual
23 market for the oil is below posted price.

24 Our leases also vary in our ability to take this
25 oil. They vary from demand to take and give back. So,

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1 what we're doing is reviewing each sell-off contract as
2 it comes up to a termination date to see if it has a long
3 advance notice. We would like to get out and see if there
4 is a situation where we can get a bonus bid. Our review of
5 the situation right now is that we don't think so. Spot
6 markets are still below. We actually are physically
7 receiving less than posted prices on some leases.

8 Mexico is putting a lot of oil on the market
9 at around eight to eight and a half dollars a barrel.
10 The futures market is all below \$13 for much higher
11 crude. OPEC is meeting right now. And if some great
12 miracle happens over there -- maybe the prices will
13 change -- but the general consensus is they're going to stay
14 pretty much where they are.

15 We would like to continue using our particular
16 insight on the market to see if the spot prices come up.
17 If they do, we'll come back month by month and ask for your
18 approval to allow the sales.

19 Right now, we're sorry, but we don't see that we
20 can go out and get posted price plus minimum bid in any
21 bidding situation. So we don't want to ask people to bid
22 on something in which we'll get negative bids. And you'll
23 see in the next item that comes up that there's actually
24 negative bidding going on, which we do not suggest you go
25 for.

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1 ACTING CHAIRPERSON RASMUSSEN: All right. Thank
2 you. Any questions?

3 EXECUTIVE OFFICER DEDRICK: There's no action
4 required. I just wanted you to be understanding what was
5 going on.

6 ACTING CHAIRPERSON RASMUSSEN: Item 34.

7 EXECUTIVE OFFICER DEDRICK: Item 34 is a crude
8 oil sales contract to MacMillan Ring Free Oil Company in
9 the Long Beach area.

10 COMMISSIONER ORDWAY: Motion.

11 ACTING CHAIRPERSON RASMUSSEN: Item 34 has been
12 moved. Are there any questions?

13 Item 34 is approved as presented. Item 35.

14 EXECUTIVE OFFICER DEDRICK: Mr. Hight will do
15 the legal aspects.

16 MR. HIGHT: Item 35 is the authorization to --

17 COMMISSIONER ORDWAY: Would you move closer to the
18 mike?

19 MR. HIGHT: Item 35 is the authorization to enter
20 into a title settlement in San Rafael. The State will be
21 receiving \$102,000.

22 COMMISSIONER ORDWAY: Motion.

23 ACTING CHAIRPERSON RASMUSSEN: Any questions on
24 Item 35? Item 35 is approved as presented.

25 Item 36.

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1 MR. HIGHT: 36 is the authorization to enter into
2 a title settlement at Redwood City. And the State will be
3 receiving a percentage of the ultimate condemnation
4 award. We've agreed to what the State's interest is and
5 we will receive a percentage of that condemnation award.

6 COMMISSIONER ORDWAY: Motion.

7 ACTING CHAIRPERSON RASMUSSEN: Any questions on
8 Item 36? 36 is approved as presented.

9 Item 37.

10 EXECUTIVE OFFICER DEDRICK: Item 37 is a request
11 by the staff to -- for authorization to circulate a
12 preliminary report on dredging policies on State lands.

13 ACTING CHAIRPERSON RASMUSSEN: Questions on 37?
14 37 is approved as presented.

15 Item 38?

16 EXECUTIVE OFFICER DEDRICK: Item 38 is a request
17 by staff to authorize the execution of a contract with the
18 Controller's Office to provide investigative and enforcement
19 services to the State Lands Commission for lands under our
20 jurisdiction.

21 ACTING CHAIRPERSON RASMUSSEN: Any questions on
22 38?

23 COMMISSIONER ORDWAY: Within the budget?

24 EXECUTIVE OFFICER DEDRICK: Yes.

25 MR. STEVENS: We'd like to particularly endorse

1 this. It's needed and it would help our enforcement and
2 surveillance greatly.

3 ACTING CHAIRPERSON RASMUSSEN: Thank you,
4 Mr. Stevens. Even though I'm not voting, it should be
5 noted that I wouldn't vote on this anyway, since it's
6 one from our office, right?

7 Item 38 is approved as presented.

8 Item 39.

9 EXECUTIVE OFFICER DEDRICK: This is a request
10 for authorization to enter into a contract between the
11 Commission staff and the County of Sacramento to clean up
12 and do some snag removal work in the American River. It
13 is budgeted.

14 COMMISSIONER ORDWAY: Motion.

15 ACTING CHAIRPERSON RASMUSSEN: Questions on 39?
16 39 is approved as presented. Is there any other business
17 to come before the Commission?

18 EXECUTIVE OFFICER DEDRICK: No further business,
19 Commissioners.

20 ACTING CHAIRPERSON RASMUSSEN: All right. Thank
21 you very much. The meeting is adjourned.

22 (Thereupon, the meeting was adjourned.)

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CERTIFICATE OF SHORTHAND REPORTER

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

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

IN WITNESS WHEREOF, I have set my hand this 22nd day of July, 1986.

Nadine J. Parks

Nadine J. Parks
Shorthand Reporter