MEMBERS PRESENT

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
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PROCEEDINGS
--000--

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

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

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

ACTING CHAIRPERSON RASMUSSEN: Thank you. The first item of business is the confirmation of the minutes for the meeting of May 22nd. Are there any questions?

The minutes are confirmed by consensus.

The second item is the report of the Executive Officer.

EXECUTIVE OFFICER DEDRICK: No report today, Commissioner.

ACTING CHAIRPERSON RASMUSSEN: All right. No report.

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

COMMISSIONER ORDWAY: Motion.

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

The first item on the regular agenda is Item 22.

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

ACTING CHAIRPERSON RASMUSSEN: Any questions? Item 22 is approved as presented by consensus. I should note also that Item No. 27 has been taken off calendar.

Item 23, please.

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

COMMISSIONER ORDWAY: Motion.

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

Item 24?

EXECUTIVE OFFICER DEDRICK: Item 24 is a request
for an authorization to set aside and terminate a
grazing lease at Goose Lake in Modoc County pursuant to a
Superior Court order.

MR. SHERIDAN: May I speak about this?

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

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

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

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

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

There's already cattle on the property in
trespass. So, I would think that I would have as much
right as anyone else as far as -- maybe even more right,
because I have got an application. I have had a lease.
And until it's resolved -- I don't know how long that would
take -- but I don't have any --
COMMISSIONER ORDWAY: Are there any legal problems? Are there any legal considerations?

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

COMMISSIONER ORDWAY: Allowing us to do that?

MR. HIGHT: Yes.

Is that correct, Joe?

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

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

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

COMMISSIONER ORDWAY: Mr. Hight?

MR. HIGHT: We can.
COMMISSIONER ORDWAY: I think that should be done then.

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

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

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

MR. SHERIDAN: Sir --

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

MR. SHERIDAN: I happen to have some pictures of fencing and things like that. I've stated on numerous occasions that there is a fence separating a lot of your
land from the private upland already. I don't know.

Maybe I didn't state it to the right person. I don't know.

But I have got pictures of fence; got pictures of the cattle. And I would be more than willing, if anybody wants to come up there, I'll show them. I probably -- I don't know if I'm blowing my own horn or bragging or what, but I probably know more about the State lands on Goose Lake than the State Lands Commission does, because I've been studying them for the last year and a half.

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

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

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

EXECUTIVE OFFICER DEDRICK: And we appreciate it.

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

MR. SHERIDAN: I'll be right outside.

ACTING CHAIRPERSON RASMUSSEN: Thank you very much.
MR. SHERIDAN: You're welcome.

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

COMMISSIONER ORDWAY: Moved.

ACTING CHAIRPERSON RASMUSSEN: It's been moved and is approved as presented.

Item 25.

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

COMMISSIONER ORDWAY: Motion.


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

COMMISSIONER ORDWAY: Motion.

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

27 is off calendar. 28, please.

EXECUTIVE OFFICER DEDRICK: 28 is the approval of the eighth modification to the 85-86 Plan and Budget.
Mr. Thompson, Moose Thompson, is here. This is the revenue projections from the Long Beach Unit for this year. If you would like Mr. Thompson to speak to that, I'm sure he would be happy to do so. There are several Long Beach items in a row, and you may want him to speak to several of those.

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

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

COMMISSIONER ORDWAY: Motion.

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

Item 29.

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

ACTING CHAIRPERSON RASMUSSEN: Questions on 29?

29 is approved as presented.

Item 30.

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

And basically, what it does, it reduces the plan and budget that had $1.87 million down to $1.47 million. This reflects the dramatic change in oil prices that went on. You can again see in the far right (indicating) of that exhibit, that shows on a dollar-per-barrel basis what's happened to oil prices. You can see the drastic change there. You can also see in black what the cost in the past has been at dollars per barrel and the four lines below are what our projected costs would be under this first modification of plan and budget.

The one on the -- (indicating) translates those into dollars per month. As part of this particular cost-cutting operation, this was covered in the modification of
the last one, we shut in high cut wells that would not pay the cost of producing the wells. This resulted in an oil rate drop. But, as you can see, we're saving $40 million in the next budget. Why, you translate that into oil, that's the equivalent of a $10 barrel of oil, that's 4 million barrels of oil, and we're certainly not losing that much. So, this has been a question of following up on the drilling rig reduction that was in the seventh modification. We're down to two rigs for this year.

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

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

COMMISSIONER ORDWAY: Motion.

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

Item 31.

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

MR. THOMPSON: We settled out the subsidence costs with the City of Long Beach quite a few years back. The only thing that was left in that agreement was that we would approve their running their annual -- semi-annual, I'm
sorry -- benchmark surveys to see that there is no subsidence. And this is merely prior approval for them to incur those costs.

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

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

COMMISSIONER ORDWAY: Motion.

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

Item 32.

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

COMMISSIONER ORDWAY: Motion.

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

Item 33.

EXECUTIVE OFFICER DEDRICK: Item 33 -- there is no
calendar item. And the reason I left it on the calendar was for purposes of discussion. This is the general question of royalty oil, crude oil sales that the State -- we've been very successful in making until the oil price problem arose.

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

ACTING CHAIRPERSON RASMUSSEN: Mr. Thompson?

MR. THOMPSON: I think we've reported back to you the problem we had with our sell-off contractors; many of them have turned the oil back to us. Most of them have agreed to either paying the bonus even though they're not taking the oil. One or two of the others were in default.

The problem is that we have bonus bidding above posted prices. The spot market is lower than posted prices; therefore, the sell-off purchaser is at a disadvantage of having to pay posted price plus a bonus when the actual market for the oil is below posted price.

Our leases also vary in our ability to take this oil. They vary from demand to take and give back. So,
what we're doing is reviewing each sell-off contract as it comes up to a termination date to see if it has a long advance notice. We would like to get out and see if there is a situation where we can get a bonus bid. Our review of the situation right now is that we don't think so. Spot markets are still below. We actually are physically receiving less than posted prices on some leases.

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

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

Right now, we're sorry, but we don't see that we can go out and get posted price plus minimum bid in any bidding situation. So we don't want to ask people to bid on something in which we'll get negative bids. And you'll see in the next item that comes up that there's actually negative bidding going on, which we do not suggest you go for.
ACTING CHAIRPERSON RASMUSSEN: All right. Thank you. Any questions?

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

ACTING CHAIRPERSON RASMUSSEN: Item 34.

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

COMMISSIONER ORDWAY: Motion.

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

Item 34 is approved as presented. Item 35.

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

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

COMMISSIONER ORDWAY: Would you move closer to the mike?

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

COMMISSIONER ORDWAY: Motion.

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

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

COMMISSIONER ORDWAY: Motion.

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

Item 37.

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

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

Item 38?

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

ACTING CHAIRPERSON RASMUSSEN: Any questions on 38?

COMMISSIONER ORDWAY: Within the budget?

EXECUTIVE OFFICER DEDRICK: Yes.

MR. STEVENS: We'd like to particularly endorse
this. It's needed and it would help our enforcement and surveillance greatly.

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

Item 38 is approved as presented.

Item 39.

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

COMMISSIONER ORDWAY: Motion.

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

EXECUTIVE OFFICER DEDRICK: No further business, Commissioners.

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

(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
Shorthand Reporter