MEETING
STATE LANDS COMMISSION
STATE OF CALIFORNIA

ROOM 447
STATE CAPITOL
SACRAMENTO, CALIFORNIA

THURSDAY, SEPTEMBER 25, 1986
10:00 A.M.

Nadine J. Parks
Shorthand Reporter
APPEARANCES

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Leo T. McCarthy, Lieutenant Governor, Commissioner, Chairman, and Jock O'Connell of the Lieutenant Governor's Office

Lizabeth Rasmussen for Kenneth Cory, State Controller, Commission Chairman

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

Staff Present:

Claire T. Dedrick, Executive Officer
James F. Trout, Assistant Executive Officer
Robert C. Hight, Counsel
David Judson, Department of Justice
Wilbur "Moose" Thompson
Alan Hager
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CHAIRMAN MC CARthy: Welcome, ladies and gentlemen, to this meeting of the State Lands Commission.

For everybody's knowledge, Items 15, 26, 29, and 30 are removed from the calendar. If anybody's here on those items, they will not be taken up today.

Minutes of the last Commission meeting. Are there any corrections?

MS. RASMUSSEN: Move.

CHAIRMAN MC CARthy: Moved, seconded. They are approved.

Consent items are items 1 through 14. Does anyone wish to remove any of those items from the consent calendar?

MS. ORDWAY: Moved.

CHAIRMAN MC CARthy: They're moved. Those recommendations are approved and noted.

Item 15. 15 is off. We're on Item 16.

EXECUTIVE OFFICER DEDRICK: Yes, Commissioners.

This is our report to you of the final -- consideration of the final report on the Sacramento River marina study.

The staff is recommending that the Commission adopt the report and also give us authority
to go out and meet with local government and other people
in the development of an implementation plan, which we
would bring back to you within two months.

The report has been at your direction
distributed to the public. We've had a lot of comment,
all of it favorable. We've had no negative comments on
the report, a lot of encouragement that the Commission
should go forward with this.

And now the question is how do you implement
the recommendations of that report? Some of these
recommendations clearly relate to other appropriate
jurisdictions -- local governments, some Federal, and
other State agencies, such as the Water Quality Control
Board.

So, what staff would like to do is meet with
all those agencies and develop an implementation plan
that would address appropriately the other levels of
government's responsibilities and come back to you with
knowledge or a recommendation as to how to go forward
with it.

We recommend also that we speak directly from
the Commission to the leaders in local government as to
the goals that the Commission has in carrying out this
plan.

And that's where we're at. And as far as I
know, we have no commenting people on this issue today.
Do we? I don't see anybody.

CHAIRMAN MC CARTHY: Any questions from members of the Commission? Any comments from anybody else in the audience?

MS. ORDWAY: This motion, I believe, is to allow for a two-month period in which staff will work with other agencies from Federal, State, and local governments?

EXECUTIVE OFFICER DEDRICK: And bring back to you --

MS. ORDWAY: And then come back to us in November probably?

EXECUTIVE OFFICER DEDRICK: Yes. And the relevant thing that I failed to mention is that the moratorium on construction we recommend to stay in effect during that period.

MS. ORDWAY: During that 60-day period.

EXECUTIVE OFFICER DEDRICK: We recommend that you do not lift the moratorium at this stage.

MS. ORDWAY: Motion.

CHAIRMAN MC CARTHY: There's a motion. Approved as requested. 17.

EXECUTIVE OFFICER DEDRICK: 17 is a request for approval of a staff report on the Commission's
Maintenance Dredging Policies.

In the past, we have had a process of charging for dredging separate from -- issuing permits for dredging separate from leases. There have been a good many complaints from various lessees that the process is inefficient. And we had people having to go both to Los Angeles, to Long Beach, and to Sacramento to get their permits. It was inefficient.

We have about a two-year study by the staff working with the people who were involved in the -- both the marinas and the dredging business. And the result is the report before you which, to our knowledge, has very strong support.

Ellen Johnck, who is the Executive Director of the Bay Planning Coalition is here and has asked for time to speak. And I recommend you hear her. I'm sure you would anyway.

CHAIRMAN MC CARTHY: Have you finished your report?

EXECUTIVE OFFICER DEDRICK: Yes, unless you want more details. I'll be happy to give it to you, but it is in the report.

CHAIRMAN MC CARTHY: Any questions from the members of the Commission? We have a request from Ellen Johnck, the Executive Director of the Bay Planning
Coalition to be heard on this item.

Would you like to step forward, please.

MS. JOHNCK: Good morning. I guess this is on (speaking of microphone), right?

Yes. It's a pleasure to be here this morning. And I will be brief.

I'm Executive Director of a nonprofit association called the Bay Planning Coalition. We represent approximately 200 business concerns and local government entities in San Francisco Bay and along the shore line. Our basic purpose is to ensure that a fair, reasonable, predictable, and expeditious permit and planning process occurs.

About two years ago, we approached your staff with a request to look at your specific policy for charging royalties on spoils dredged for navigational purposes in San Francisco Bay.

Our basic concerns -- representing a good deal of the marina owners and dredging industry in the Bay -- was that this charge was an unreasonable and an unnecessary burden on dredgers.

Basically, we felt that the spoils are mud, have little intrinsic value, even for fill. And so, your staff very graciously agreed to look at this. And in the course of looking at that particular policy, began a
study to look at all your permitting procedures for maintenance dredging. And we were quite pleased to see a very conscientious effort developed which resulted in the recommendations that you have before you today.

So, I'm here first of all to support the recommendations as they have come out of this study. I do have two additional requests. Since our original concern was on the royalty charge -- and we are pleased to see that it will be waived on the condition that those spoils should be placed in an authorized Army Corps of Engineers' disposal site.

But it is my understanding that as -- hopefully you will adopt this policy, but that current permittees will have to come in and immediately renegotiate their leases and their contracts to receive the benefits of this royalty charge waiver. We think that's kind of an extra burden and a hassle that permittees would have to go through. And so, we're asking you if you would consider stipulating something like a blanket order, that per the adoption of these policies, including the waiver charge, that the waiver charge is hereby dropped from all current leases and that permittees would -- instead of having to all come up here immediately tomorrow or whatever to renegotiate their leases, that they renegotiate them at the time that they
come up for renewal. That is one request.

The second request is -- is that there are -- and this applies to perhaps only one or two people. Two—one marina owner put money, royalty charge money, in escrow pending the outcome of the study and pending the approval of a waiver of the royalty charge. And we would request that the State Lands Commission adhere to those escrow instructions which essentially state that if the State Lands Commission adopts the policy with the royalty charge waiver, that the money is, in fact, returned to the permittee.

I think that only affects one person, and that person I think will be on a subsequent agenda at one of your monthly meetings.

Thank you.

CHAIRMAN MC CARthy: Are you going to respond?

EXECUTIVE OFFICER DEDRICK: Yes. Mr. Chairman, we understand where Ellen and her people are coming from and, of course, sympathize. I think, however, the assumption that all of this has to happen tomorrow is really not founded. What we would propose to do would be to put together an implementation plan, which is not going to take any time at all. We're just talking about it now.
It's just a matter of our contacting the individual lessees, of which there are about 50 as I recall, and letting them know that they have the option to modify their leases.

In other respects, the regulations are prospective. In regard to the one lessee who is, in fact -- does, in fact, have money in an escrow account, that money -- I think we need to get back to you with a report on that specific case.

The legal counsel has advised me earlier -- and Bob could not be here right now, so Rick may be picking up pieces, but -- that we couldn't really take -- you could not really take that action today anyway because that action was not noticed. The dredging report recommendations are the only actions truly noticed.

However, I do want to assure you that we are acting expeditiously in this and will be back to you very shortly with a proposal that will take care of Ms. Johnck's concerns.

MS. ORDWAY: Mr. Chairman? Would it be possible to have a report on both of those items at the October meeting?


CHAIRMAN MC CARthy: So, you're indicating,
Ms. Dedrick, that we are going to act on this promptly and remove any clouds?

EXECUTIVE OFFICER DEDRICK: Yes. Now, the one question I have now that Bob is back -- Bob, we're on the dredging report -- is can we -- now, if the Commission adopts these policy changes today, can we go forward in implementing them or do we need to go through say, for example, the OAL process first? I never was quite clear as to what that -- we usually just do things, don't we?

MR. HIGHT: Yes. It's my belief that all that is necessary is the adoption today, and this is not an item that falls within OAL purview.

EXECUTIVE OFFICER DEDRICK: That's fine. So we can then get back to you on the October meeting to tell you and have input from the concerned people as to how to go about this. I don't really see it as a complex process.

CHAIRMAN MCCARTHY: All right. Any other questions?

MS. JOHNCK: None. I just wanted to add my thanks to the staff, particularly Jim Trout and Lisa Beutler, both of whom have been very devoted to this cause. And we've worked very closely together and we're going to be happy to continue to facilitate and
cooperate with you in the implementation of these new policies. Thank you.

CHAIRMAN MC CARTHY: Any questions?

EXECUTIVE OFFICER DEDRICK: We appreciate the support of the lessees and the interested people. They were very very helpful in helping us develop this policy change. Thank you.

CHAIRMAN MC CARTHY: With that mutual applause thundering in our ears, we'll accept the recommendations on Item No. 17.

No. 18?

EXECUTIVE OFFICER DEDRICK: No. 18 is an approval and consent to a recordation of a resubdivision on three leasehold parcels held by the State in the City of Burlingame.

MS. ORDWAY: Motion.

CHAIRMAN MC CARTHY: Without any questions, accept the recommendation.

Item 19?

EXECUTIVE OFFICER DEDRICK: No. 19 is an authorization with you acting both as the State Lands Commission and as School Land Bank Trustees to sell and issue a patent to the Department of Interior for five and a half acres of a road in San Bernardino County. The money from that will go to the Land Bank Trust,
School Land Bank Trust.

MS. ORDWAY: Motion.

CHAIRMAN MCCARTHY: Any questions?

Recommendation accepted. 20?

EXECUTIVE OFFICER DEDRICK: No. 20 is an authorization to submit an application to the Secretary of the Interior to acquire a couple of acres of ocean front land at Port Hueneme to allow access to the La Jenelle wreck, which is a fishing pier.

MS. ORDWAY: Motion.

CHAIRMAN MCCARTHY: Okay. Any discussion?

Recommendation is accepted.

No. 21?

EXECUTIVE OFFICER DEDRICK: No. 21 is a consideration of a proposal of Long Beach Oil Royalty Owners to -- for implementation of Elder's bill, AB 2568.

I'd like to ask Mr. Trout to give you a brief report. There are people here, as you know, who wish to speak to this issue. And if we could go forward with Mr. Trout first, if that's acceptable to the Commission?

CHAIRMAN MCCARTHY: Mr. Trout?

MR. TROUT: Mr. Chairman, Jane has handed out to you a chart which shows the area assignments or the distribution of interest within the Long Beach Unit. This
is just for your information that shows that as time goes on and information is collected, the amount of interest within the lands contained in the Long Beach Unit has varied back and forth.

And everytime an adjustment is made, that party which has been overpaid then pays back to the Unit for distribution to the rest of the members the overpayment.

What we have before us now is a question of how the overpayments to the Townlot people are to be paid back to the State and to the Unit.

The present statute and agreement provides that these revenues shall be paid out of future flow revenues at not more than 50 percent. This has presented a hardship to some of the royalty owners. And as a result, Assemblyman Elder carried a bill which would allow, subject to certain conditions, the payback to be reduced from 50 percent of future royalties to 10 percent of future royalties, which makes the payback a longer period of time.

The State Lands Commission is involved in this in whether or not it should be approved and whether it's in the best interest of the State.

The royalty owners have suggested a payback provision which in effect would require changing of the
current procedures to allow for the 10 percent —

reduction from the 59 percent to 10 percent.

The problem really before us is how that's going to be paid for. It requires a reprogramming of computer data and a change in the way in which the Unit and its operators and the various royalty and working interest owners are dealing with each other.

The oil companies have said in the most part that they are willing to make the adjustment if the State Lands Commission decided to approve it, but they are not willing to absorb any of the costs of making that adjustment, any of the costs of reprogramming the computers and what not.

The proposal before you from the Long Beach Royalty Owners Association is for those costs to be Unit expense. In other words, that the information would be supplied to the Unit operators, which is the City of Long Beach, and then implemented at their request by the Unit contractor, the THUMS-Long Beach Company.

THUMS has indicated to the city that the cost of implementing is significant. The calendar item that you now have before you is slightly changed from the one that was mailed out, in that we had erroneously put THUMS in the place of the Unit operator and left out the city. It's a minor technical change, but it does provide
that the information on the Royalty Interest Owners
would be provided to the City of Long Beach as the Unit
Operator and implemented at their discretion by the
contractor, THUMS.

The second handout I gave you gives you some
idea of what was required. The payback on the seventh
interim area assignment, which is the current one we're
talking about, is twenty-seven and a half million dollars.

The payback of other than oil companies --
Assemblyman Elder's bill does not allow the producing oil
companies to have the benefit of the delayed payback --
is $3.1 million. And we're talking about approximately
12,400 royalty interest owners, of which about 8,000
have royalty agreements with Arco and another 3,000 with
Chevron. These are very round numbers. And the balance
with a number of other companies.

We feel two things about the Townlot
Operators -- Royalty Interest Owners' proposal. One is
it -- because of the State's high percentage net profit
interest in the Unit, if it were Unit expense, the State
would pick up a majority, approximately 82 percent of the
cost of implementing based on THUMS' estimate for
implementing the change.

The other thing is that we find nothing in
the statute, Mr. Elder's bill, or in the prior legislation
that seems to give any authority for the Commission to
encumber -- basically to reduce State revenues by this
amount of money. We also believe that it would require
a change in the operating agreement. I believe that the
opinion that I've expressed is unanimously agreed to by
the City Attorney's Office in Long Beach and by our
staff counsel and by the Office of the Attorney General.

I know that the Townlot people would like to
speak to you. Alan Hager from the Attorney General's
Office is here to give you their evaluation of it. It's
a very difficult situation. And we have worked with the
people. We have a lot of sympathy for their position.
But we're not sure that the proposal currently before
you is one that we could recommend.

CHAIRMAN MC CARTHY: Questions? Let me try
to understand. How did we get to this point?

MR. TROUT: Well, we got to this point in a
couple of ways. As the interim area assignments were
adopted, the oil companies had to implement them. The
last couple of assignments went to arbitration. There was
an arbitrator's decision. And they were implemented.

The last area assignment was implemented, but
there was some delay on the part of at least one of the
companies in implementing it. So, when they did, after
six or seven months, start getting the payback out of the
current revenues for the Townlot people, they not only
took the authorized 50 percent, but they took additional
funds to recover the money they should have been taking
out the prior six or seven months.

In addition, the price of oil dropped at the
same time from roughly $20 to somewhere in the
neighborhood of eight to ten dollars. So, as a result of
the 50 percent payback, the recovery of previously not
taken payback amounts, and the drop in oil prices,
there has been a significant reduction in the amount of
the royalty checks that the royalty owners have received.

EXECUTIVE OFFICER DEDRICK: Moose would like
to speak to some aspects of this.

MR. THOMPSON: You asked where this started.
This started in 1964 when the Legislature of the State
of California passed Chapter 138. As part of that, they
had this equity adjustment concept that would go back and
be adjusted periodically and would be retroactive.

And so that's the genesis of all this. This
is merely doing what that bill said.

CHAIRMAN MC CARTHY: I'm just trying to find
out whether or not any of the parties that are
participating here were culpable in any way in
contributing to the position that the royalty interest
owners now find themselves in; how much were they
responsible for creating this situation themselves? How much was the oil company who delayed figuring out what the calculations should be -- I think you said for six months -- what did each contribute here to this dilemma?

MR. THOMPSON: Governor, this is something that, as additional data came out, because in the past the Townlot at one time had their share increased, and there's been an adjustment now and it's going the other way. It's gone both ways. As additional information was gained, these equities were recalculated. So, it's gone both ways. And there's no fault by any party. It's just development of additional information. I don't think anybody has questioned --

CHAIRMAN MC CARTHY: I appreciate the process where the adjustments can go up or down depending upon the profitability of the sale of oil.

MR. THOMPSON: No. Lots of times on the data that's available, as you're getting additional data, then how this equity is split.

EXECUTIVE OFFICER DEDRICK: Percentage doesn't change. Just the dollar price changes when the price of oil changes.

MR. THOMPSON: But actually, in the formula you go back and talk about $3.00 oil, because it's all referenced back to that differential in the actual equity
participation formula.

CHAIRMAN MC CARTHY: Go ahead, now that it's so clear. Go ahead.

(Laughter.)

EXECUTIVE OFFICER DEDRICK: Mr. Chairman, because -- as demonstrated so ably, it's not clear at all. And I think that's one of the problems, is that for people who live a normal life, the esoteric calculations of the Unit agreement are pretty esoteric, and I think that in terms of real culpability, there really isn't anybody really guilty.

There's been some nonsense in the question of one of the oil companies increasing the impact by delaying charging for a change that has caused a lot of pain that didn't need to occur.

But the adjustments are both legal and actually required. And if the city did not act consistent with Chapter 138, they would be violating their public duty. I'm sure you understand. The price of oil dropping at the same time obviously contributed to a very substantial impact on individual royalty owners.

The hardship is a genuine hardship. The solution is not at all apparent. I mean it's just a very, very difficult solution.

In regard to the proposal that's before you
today, I think we have a clear legal opinion that we cannot -- that you do not have the authority under the existing statutes to do what you've been asked to do. And that had you that authority, it would be a serious problem in the adjustment of the Unit agreement which would take the agreement of the oil companies who are the majority working interest owners.

I can only suggest that we have made recommendations to you in this report that we continue to cooperate as much as we can and try to find other alternatives to the problem. But the problem really remains one of the nature of the oil business, the nature of Unit agreements, and the nature of Chapter 138.

CHAIRMAN MC CARTHY: Any questions from the Commissioners so far?

MS. RASMUSSEN: I have one.

CHAIRMAN MC CARTHY: Yes.

MS. RASMUSSEN: Clear up -- a point of clarification. I'm a little confused about the dual role of the oil companies. It seems to me to be inconsistent that the oil companies can be a royalty interest owner with an interest in the royalties and how much they are and at the same time responsible for the implementation of the payback. And I understand how that happened, but I don't have an answer as to how that could be corrected.
But it just seems to me to be an awfully difficult question. And maybe it's the basis of the whole problem here.

MR. THOMPSON: I think in the case where an oil company is a royalty holder, that would be on a parcel in which another working interest owner has a mineral interest. Because basically, if you have a royalty and you also have a working interest, that's just part of the working interest share.

It's only if you were in someone else's parcel that you had a royalty interest.

MS. RASMUSSEN: But you would -- I think that they would still have interest in what occurred on the Townlots.

MR. THOMPSON: But this specifically says that if you were an oil company, that you could not get advantage of this particular bill, only nonoil companies --

CHAIRMAN MC CARTHY: That's the 1964 law?

MR. THOMPSON: No.

EXECUTIVE OFFICER DEDRICK: No.

MR. THOMPSON: The Elder bill. The Elder bill is specific to help only royalty owners or nonoil companies working interest owners.

EXECUTIVE OFFICER DEDRICK: What may not have been clear to you, Commissioners, last year Assemblyman
Elder carried the bill that we're talking about trying to implement. And it really was not an easy bill for him to get through. But the Commission did not -- you know, did support the legislation and tried to help it become something that would work.

But it came up with the conclusion that the structure of the thing is such that it takes the cooperation of the oil companies to get any result and that cooperation, as Mr. Trout told you, was limited to saying, "It's a nice idea, but we're not going to pick up any of the dollars that are involved." And that's really -- so, we're down to where does the money come from and you have no statutory authority to spend it if you decided that it was in the State's interest to spend that money.

And that is one of the findings you have to make in reducing the payback percentage. You must make a finding that your actions would be in the best interest of the State.

CHAIRMAN MC CARTHY: We're talking about reducing the number of dollars that would be paid back ultimately, or --

EXECUTIVE OFFICER DEDRICK: No.

CHAIRMAN MC CARTHY: -- are we talking about increasing the span of time in which to pay back?
EXECUTIVE OFFICER DEDRICK: The latter.

MR. TROUT: Just reducing it from 50 percent to some number which could be as low as 10 percent.

The second problem which we would get into, if we could overcome the first one, would be whether or not there's sufficient time at the level of payback proposed to make sure that all the money is paid back.

Ten percent might take some of them beyond the economic payback, so maybe ten percent isn't the right number. But that's -- we're not at that point yet.

MR. THOMPSON: For example, if you took a certain payback period out at 50 percent and go to 10 percent, you also are going to have a five-time-plus expenditure of the period of time to pay that back.

CHAIRMAN MC CARTHY: Okay. Anything else from staff before we hear --

EXECUTIVE OFFICER DEDRICK: No, unless you ask questions.

CHAIRMAN MC CARTHY: We have two witnesses to hear from. One is Rose Buchholz and the other is Robert Austin.

Ms. Buchholz is the president of the Long Beach Royalty Owners. And Mr. Austin is the attorney for the same group. Why don't you tell us what order you would
like to make your presentation.

MS. BUCHHOLZ: I think Mr. Austin will speak first.

MR. AUSTIN: My name is Robert G. Austin. I'm legal counsel for the Long Beach --

MS. ORDWAY: Could you move just a little bit closer to that mike, please?

MR. TROUT: Right up to --

MR. AUSTIN: Right up to it. It's a little bit out of my past experience speaking before a microphone such as this, but I'll do the best I can.

As I was saying, my name is Robert G. Austin. I'm legal counsel for the Long Beach Oil Royalty --

Oil Royalty Interest Owners Association.

And I would like to make some comments on a problem we have had. And I think I would like to organize my thoughts in three principal areas. I think to get a better perspective of the Elder bill and what it was intended to do and why the Elder bill came into being, I think we have to go into the background of the Elder bill.

Secondly, I want to go into the matter of costs. And thirdly, I'd like to go into the area of whether or not the Unit agreement requires amending.

I think we've got to go back much further
than the history of the Elder bill and why it was
carried by Assemblyman Elder. This problem came about --
came into being when we had the sixth interim area
assignment. The sixth interim area assignment was adopted
by the equity committee of the Long Beach Unit and it
was forced upon all the participants, principally by the
State.

And it was incorporated with some rather
suspect engineering theories. The State, realizing that
they had two out of three votes, could run the show.
Chapter 138 gives the State its vote on the equity
committee, plus it gives them the right to direct the
city vote as trustee on the equity committee, and
there's one other vote on the equity committee. So
when you control two votes out of three, you're running
the show.

When the sixth interim area assignment was
adopted and because that is based on some rather suspect
engineering theories which currently are in arbitration
at the present time, that triggered the operation of
Section 5.4 of the Unit agreement.

5.4 of the Unit agreement -- well, to back-
track, I guess I might as well say it, although I don't
think I need to say it -- the sixth interim area assignment
resulted in a shifting of Unit participation share from
the Townlot area to the offshore area. And that's
demonstrated in the handout that the State just gave.

You'll note that the sixth interim area
assignment, there was a substantial reduction in the
Townlot participation share. So, that triggered Section
5.4 of the Unit agreement. 5.4 of the Unit agreement
requires or provides for a payback of prior overallocation
of crude oil.

Now, this adjustment period on every
interim area assignment, the adjustment period goes back
to year one; that is, 1965. And 5.4 further provides
that -- for paying back any adjustment for overallocation,
it's to be paid out of current revenues or current
production up to 50 percent or 50 percent would be the
payback percentage.

You can see the impact that that would
have on the owners of Townlots. The impact has been
drastic. It has been compounded by the drop in the price
of crude oil.

Now, Assemblyman Elder, when he carried
2568, intended it for some relief to the Townlot owners,
Townlot royalty interest owners. And the Townlot royalty
interest owners, not only just individuals -- there's
common people -- but we also are talking about schools.
We're talking about churches. Everybody in the Townlot
area that had a royalty interest was drastically impacted by the shifting of equity participation shares as a result of the sixth interim area assignment.

The Legislature in adopting AB 2558, intended to afford a measure of relief to these Townlot owners. I think that intent is clear. So, what we are concerned with here in this matter or in this proposal, we are concerned with how do we handle this payback adjustment as provided in Section 5.4 of the Unit agreement.

We're not talking about the calculation of royalties between a lessor and a lessee. We're talking about the Unit agreement and the triggering of Section 5.4 of that agreement.

The provision in that section dealing with the payback -- retroactive payback for overallocation -- prior overallocation, that's the issue here.

It is a section which deals with -- or a section in the Unit agreement which deals with the providing for paying back for prior overallocation.

Now, the Elder bill was intended to provide another procedure for this payback adjustment. It gave the Lands Commission the sole discretion as to whether or not that payback percentage should be 50 percent as provided in Section 5.4, or whether it can be as low as 10 percent or somewhere in between.
That is addressed to the sound discretion of this Commission. If the Commission is inclined to provide relief as authorized by the Elder bill, then they must make a further finding that any relief provided is not going to inure to the benefit of a producing oil company. If it inures to the benefit of royalty interest owners or to a working interest owner who is not a producing oil company (sic). Offhand, I would say probably -- although I don't know as a matter of fact -- like the Long Beach Unified School District I understand receives -- has oil interests. I don't know if they are a working interest owner who would -- obviously they would not be a producing oil company and would receive the benefit of any relief granted by this Commission -- or whether they are just a royalty interest owner. That I do not know.

But I assume that that language was put into the bill to cover those entities or those individuals who would be a working interest owner rather than a royalty interest owner, but who were not a producing oil company.

Now, since this action or this problem arises under 5.4 of the Unit agreement as a result of an interim area assignment, I would submit that it's just as much a part of the unit operations as the interim area assignment.
itself.

In the Unit agreement, Unit expenses are defined in Section 5 -- 1.52 and subsection -- or subdivision (i), small (i), in that section I submit is sufficiently broad to cover the cost of implementation of AB 2568.

It is an omnibus provision dealing with Unit expense. And it refers to all other costs and Unit operations. And I would submit if this is something which arises as a result of an interim area assignment, and there's no question but what an interim area assignment would be part and parcel of Unit operations, then this of necessity I think would have to be considered a Unit expense, the cost of implementing AB 2568.

So, the numbers which have been submitted -- I must submit I'm not a computer programmer analyst; I have no first-hand information as to the cost. But they seem extremely high to me. I cannot understand -- once you've got the program in place -- why it's going to cost $43,000 a month to make these determinations each month.

And also, there has to be, under the Unit agreement, a final area assignment in 1990. This is 1986, almost 1987. So, you're not going to have very many more interim area assignments. And the relief provided by Elder's bill is relief which can be given upon
every interim area assignment.

Secondly, the costs are going to be borne proportionately according to the Unit participation share -- the working interest owners and their Unit participation share, whatever it may be, will bear their proportionate costs of the cost of implementing this bill.

The Townlot area will bear their -- whatever their Unit participation share -- they'll bear that portion of the cost. In other words, not one party is going to bear the entire cost. It's going to be borne proportionately according to the Unit participation shares just as the gross revenue or the net revenues are divided according to Unit participation share.

Nobody is getting the benefit or advantage over the other. You share -- you bear the cost according to your Unit participation share. So, you bear your proportionate share of the costs involved.

So, in view of the broad wording of the omnibus clause in the definition of Unit expense as set forth in Section 5 -- 1.52 sub (i), I would submit that this falls within that definition of Unit expense and would properly be considered and handled as a Unit cost.

Now, getting into the matter of whether the Unit agreement requires amending. I would submit that it
does not. And I know that there's a difference of opinion. Anytime you get a group of lawyers together, you're going to have a difference of opinion. That's just the nature of the game so to speak.

But I'd like to give you my reasons why I believe that the Unit agreement does not require amending. First of all, you've got to keep in mind that AB 2568 amends Chapter 138. That is absolutely clear. In fact, it adds Section 6.1 to Chapter 138.

The Unit documents in Chapter 138 are integrated. In fact, you'll find language through the Unit documents stating that in the event of conflict, the provisions of Chapter 138 are to govern. In other words, Chapter 138 is what is to control. If there's any dispute as to what the Unit agreement provides or means, Chapter 138 controls.

The Unit — the administration of the Unit is to be consistent with the terms and provisions of Chapter 138. Now, in the Unit agreement, there is a Section 18.8 which deals with reformation. That section in substance says that where you've got a conflict in the provisions of the Unit agreement and Chapter 138, the Unit agreement is deemed to be amenable to reformation so as to eliminate those portions found to be in contravention of Chapter 138.
So, Elder's bill does provide for a procedure that is not consistent with Section 5.4 of the Unit agreement. Under 18.8, I would submit that 5.4 could be reformed so as to be consistent with AB 2568. It doesn't require amending so that you have to have unanimous agreement between all parties that this section should be amended.

It merely requires by its own wording, which everybody has agreed to in advance, that if there is a conflict with Chapter 138, the document can be amended or reformed. I won't say amended. The Unit agreement can be reformed so as to make it consistent with Chapter 138.

And I would submit that in order to make the relief intended by the legislation a reality, that this Commission could go ahead and grant the relief. Whether it's reduce to 10 percent or someplace between 10 and 50, I cannot say. But that's addressed to the sound discretion of the Commission.

CHAIRMAN Mc CARTHY: Mr. Austin, may I ask you one or two questions?

MR. AUSTIN: Yes.

CHAIRMAN Mc CARTHY: What kind of relief? Reduce it to dollars for me. What kind of relief are you asking be granted here? What number of dollars?

MR. AUSTIN: Well, I can't state it in terms
of dollars because the price of oil changes --

CHAIRMAN MC CARTHY: Well, with what
information we have right now, and what's projected for
the next couple of years, why don't you -- I'm sure you've
thought a lot about this. What kind of relief are we
talking about?

MR. AUSTIN: Well, I really can't say, because
I haven't tried to evaluate it in dollars and cents.

CHAIRMAN MC CARTHY: What the Legislature had
in mind in considering the Elder legislation, you indicate
the Legislature wanted to give relief. What were they
talking about? Was it a million dollars or $10 million,
or some very small sum? What do you think they had in
mind?

MR. AUSTIN: Well, I can't answer that,
because for one thing, you've got different royalty
and different percentages. One lease that had a calling
for royalty of say one-sixth; the recipient of that
royalty would be probably -- could expect more than some
royalty --

CHAIRMAN MC CARTHY: I'm thinking of an
aggregate figure that affects all of the people that are
deeply concerned about this issue. What do you think
that adds up to? Do you have any idea?

MR. AUSTIN: I have no information or idea.
MS. BUCHHOLZ: Can I speak?

MR. AUSTIN: But Miss Buchholz is here and apparently could respond to that.

CHAIRMAN MC CARTHY: Okay. Miss Buchholz?

Would you like to address the Commission?

MS. BUCHHOLZ: When Mr. Putnam and I started this company, we really started it to help the poor people in Long Beach. And we have a lot of elderly people that are depending to supplement their income with what they receive from the oil. That's why we started it.

When they deducted 50 percent without any notice to us whatsoever, people that were getting a hundred dollars a month -- which doesn't sound like much to you people I suppose, but it helps elderly people when they need it --

CHAIRMAN MC CARTHY: Sure.

MS. BUCHHOLZ: -- for rent and health, medicine, and so forth. They would be getting 50 percent; from that, they took off the cost of operation, which left them sometimes less than $25 or $15. Some companies will not write a check unless it's over $15. And I notice one company wrote a letter to me last week and said that their deadline was $25. Anything under $25 there was no check written.

So, it left hundreds -- and I think I'm safe
in saying -- thousands of Long Beach people that don't
get any kind of payment at all ever since this deduction
came in.

CHAIRMAM MC CARThY: Which oil company was
it that wrote and said that they wouldn't write any
checks for under $25?

MS. BUCHHOLZ: It was Arco.

CHAIRMAM MC CARThY: All right.

MR. TROUT: Mr. Chairman, let me interrupt
you for a minute if I may. Our understanding of the
relief was that it did not reduce the amount of the
payback. All it did was extend the period of payback
so that instead of paying it off in two years, it would
be paid off in ten years, which would be reducing the
amount that would be taken out of their checks.

MS. BUCHHOLZ: That's right.

CHAIRMAM MC CARThY: Well, I was just trying
to find out if that's what Mr. Austin also had in mind --

MS. BUCHHOLZ: We were trying money --

CHAIRMAM MC CARThY: -- in granting relief.
I didn't understand him to imply that he was just talking
about delayed payments.

MR. AUSTIN: No, it's just reducing the
percentage of paybacks so to give it a longer period of
time to pay it back than currently provided.
MS. BUCHHOLZ: We were trying to put enough
money in there, back in the hands of the people that need
it so that they could stay in their homes or whatever
they were used to living with with what they were getting
from oil and have a longer time to pay it.

I get calls every day and every day asking
when is this bill going through, when we're going to get
some money back. They're frustrated. This has been a
long year to wait for some relief. And it was an
emergency measure.

MR. AUSTIN: It really is not a matter of
giving the royalty interest owners something that they're
not entitled to by way of dollars. It's merely saying,
okay, you've got a longer period of time to pay back this
overallocations you received.

CHAIRMAN MC CARTHY: Well, what I'd be
interested in trying to find out is what responsibility
does anybody representing the State of California have
for causing the difficulties now being encountered by
all the people if that is the case. If the State of
California or officials representing the State of
California were in any way significantly responsible for
producing the distress now being experienced by the kind
of people you're describing, Mrs. Buchholz, that might
enter in here in some way. What our attorneys are telling
us is, as you heard, is that under the law this State
Lands Commission really doesn't even have the latitude --
I appreciate that you presented an argument as to why
we do have that latitude under the Elder bill. Our
attorneys, the people's attorneys, Attorney General's
Office, the attorneys from the State Lands Commission, and
as I understand it, the attorneys for the City of Long
Beach; is that correct -- are all saying this is simply
the enforcement of an existing contract and its an
accumulation of events that have added up to some very
bad luck and serious distress for the kind of people
you're describing.

MS. BUCHHOLZ: Well, we have never been able
to be heard at any time. We were in a dark locked closet
for 20 years.

CHAIRMAN MCCARTHY: Down in Long Beach?

MS. BUCHHOLZ: And until I organized this
company, now we can get together and talk things over.
There's a lot of...

CHAIRMAN MCCARTHY: Years ago, were you
trying to amend this contract?

MS. BUCHHOLZ: No. I never tried it until
then. Other people did, but they weren't successful.

MR. AUSTIN: If I might say something. If
you want to say whether or not somebody was to blame in
terms of culpability, I don't know if you can say culpable or not, but this whole problem arises out of the sixth interim area assignment when the State pushed that interim area assignment through the equity committee on a two-to-one vote. Because they had the two votes and they utilized or incorporated into that interim area assignment some suspect engineering theories. One was adjusting for overburden pressure; one was averaging velocity by area rather than unitized formation. That -- the use of those theoretical --

CHAIRMAN MC CARTHY: Which is the two-to-one vote you're referring to, Mr. Austin?

MR. AUSTIN: On the equity committee in the Long Beach Unit, it has a total of three votes.

CHAIRMAN MC CARTHY: Right.

MR. AUSTIN: Anything can be adopted by majority vote. So the three votes are the Townlot area, the offshore tract one area, which is the city's vote as trustee, and Tract 2, which is the state.

Chapter 138 gives the State to direct the city's vote so far as Tract 1 is concerned. So, they've got their own vote plus the city's vote. When you've got two out of three votes, you're running the show.

So, the sixth interim area assignment went through the equity committee on a two-to-one vote. And
that is where the whole problem started, because the sixth --

CHAIRMAN MCCARTHY: Could I get a clarification of that, Mr. Austin, from the officials here? Miss Dedrick?

EXECUTIVE OFFICER DEDRICK: Yes, Oh, excuse me.

MR. TROUT: I was just going to say, I think that while the data may be in Mr. Austin's mind questionable, it is not a free license on the State to impose its will upon the equity committee. The agreement and legislation provides that there may be arbitration and litigation. And as Mr. Austin pointed out, the issue of the, quote, questionable, end quote, data is the subject of arbitration which is now going on.

So, it isn't that the State just gets to do whatever it wants. There is a process by which the data may be examined by competent people to determine whether or not it is valid.

EXECUTIVE OFFICER DEDRICK: And this process is set up in the original agreement. And it's happened many times, as Mr. Trout pointed out to you, and in the little handout we gave you, in some instances it's redounded to the benefit of the Townlot owners, but in these last two assignments it's redounded to the benefit
of the State.

But the process is a process where you don't arbitrarily set those figures. And the two-to-one point is, in fact, the truth. But what it constitutes is the right to impose that assignment and proceed to arbitrate it by engineering -- with engineering people.

MS. BUCHHOLZ: The fact remains, though, that the State can propose an article and it can be passed by them without any question.

CHAIRMAN MC CARTHY: I think the point that Miss Dedrick was just making, Miss Buchholz or Mr. Austin, was that the procedure followed at the last equity committee meeting was the same procedure that's been followed over all of the years since that procedure was created in the first place, and in some of those years that procedure redounded to the benefit of the royalty owners and apparently now the most recent experience that's not the case. Is that an accurate representation?

MR. AUSTIN: With one exception. For every interim area assignment prior to the sixth, you had unanimity of opinion. Every interim area assignment was passed with a unanimous vote.

MR. THOMPSON: Mr. Austin is mixing up the payback with the equity adjustment. The procedure has always been exactly the same way on how paybacks are
implemented regardless of which way the equity base goes.

MR. AUSTIN: The paybacks result from an interim area assignment. When you had adopted interim area assignments that shifts your Unit participation share from one area to another, then that triggers the payback provisions of Section 5.4.

MR. THOMPSON: And when the Townlot interest went up in the past, the flow was the other way.

MR. AUSTIN: We're not disputing that. What I'm saying is that this sixth interim area assignment, which triggered Section 5.4 of the Unit agreement, was what -- and the result from that was what gave rise to AB 2568.

CHAIRMAN MC CARTHY: Was that sixth interim area assignment done any differently than previous interim area assignments?

MR. AUSTIN: Except in the sixth, they utilized the average porosity by area rather than by unitized formation as done previously is my understanding. And I don't think there was any adjustment made for overburden pressure. And using that, reduced -- brought the result which attained and which resulted in a shifting of Unit participation shares from one area to the other.

Now, if I may point -- make one more additional comment on --
CHAIRMAN MC CARTHY: Mr. Austin -- Ms. Buchholz, did you finish your comments?

MS. BUCHHOLZ: Yes, I did, for the moment.

Yes, I did.

CHAIRMAN MC CARTHY: Mr. Austin?

MR. AUSTIN: I'd like to get back to this matter of amending the Unit agreement. I've never seen any opinion from the City Attorney's Office -- I'm not saying they don't have an opinion -- but I've never seen a written opinion. But to say that it requires amending rather than reforming, you are totally ignoring the provisions contained in Section 18.8, which says that if there's any conflict -- any contravention of Chapter 138 by the Unit document or Unit agreement, than that's amenable to reformation. And it's quite clear.

So, rather than amending the Unit agreement, which would require the unanimity of all the parties, I say that a court -- once it is proven that this Section 5.4 is -- conflicts or is in contravention of 2568 -- that a court would order 5.4 to be reformed so it would be consistent with 2568 since AB 2568 is a part of Chapter 138.

It amends Chapter 138 by adding a new section. And I've never seen an opinion from any of the AG's Office or the City Attorney's Office in which they've stated
their reasons why it requires amending rather than reforming.

CHAIRMAN MC CARTHY: Could I hear a comment from our attorney on that, please?

MR. HAGER: Okay.

EXECUTIVE OFFICER DEDRICK: Identify yourself, Alan.

MR. HAGER: My name is Alan Hager. I'm Deputy Attorney General. We have a significant legal dispute here. We think that the -- what is being called for is a change in the method of allocating cost burdens between parties to a private contract that public entities are a party to.

Royalty payments, the cost of making royalty payments by a working interest owner, an oil company, under the terms of the Unit agreement is the responsibility of each working interest owner. It is not a responsibility of the Unit.

In other words, it's not an expense like buying drill pipe or paying for a drilling rig that is paid by all the participants in the Unit in accordance with their share in the Unit. If they have royalty obligations -- Arco, or Chevron, or whoever it might be have royalty obligations, they pay those royalties and the cost of doing that under the terms of the Unit.
agreement are their own responsibility.

The Unit doesn't have anything to do with anybody else in the Unit. That's simply the reason.

Arco's royalty obligations doesn't have anything to do with Chevron or the State or the City or anyone else. That's why it's not a Unit expense.

Now, what is being asked here is that those obligations -- those payment costs be shared by all the participants in the Unit according to their share in the Unit.

The State share of this would be, oh, plus or minus 82, 83 percent.

To do that would require, in my opinion, an amendment to the agreement because you are opposing additional costs. Mr. Austin says that's reformation. Reformation is a legal concept that really is designed to correct a written document that doesn't state what the parties really intended or to correct a mistake.

Certainly, it should be consistent with Chapter 138 if it mistakenly -- Chapter 138 -- if it was inconsistent with Chapter 138, it should combine (sic). But what the Elder bill did was amend 138. But it changed a basic contract right -- excuse me. But if you would interpret the Elder bill as mandating that the Unit bear the cost of paying royalty, it changes the basic contract
right that these parties had. It imposed a cost on them that they didn't bargain for. The Legislature, as you well know, cannot pass a bill that impairs the obligations of a contract.

For example, the Legislature could not pass a bill that says we're going to change the method of determining the equity, slicing the pie. They can't change the methodology that already the parties have agreed to in the contract.

They cannot change the allocation of costs among the parties to the contract. And they did not do that. In fact, the Legislature specifically was aware of this problem when we were working on the bill. They were very concerned, especially Assemblyman Elder, that there be no impairment of the obligation of the contract. And that's why it says that it shall be -- that any adjustments will be to the extent permitted by law and the Unit agreement.

So, if the oil companies who have to pay the royalty say they don't want to spend this money, they have every right to say that under their contract. That may not be charitable to the royalty interest owners, but maybe they think they would not be doing justice to their stockholders if they agreed to do this. We can't -- the State can't force these costs on them. And so...
they're unwilling to do that, we can't force the procedure that makes them bear these costs.

And we cannot bear these costs. The State cannot bear these costs as a Unit expense because we would again be forcing it partially on them and partially on ourselves which would impair an obligation in the contract.

MR. AUSTIN: May I respond to that?

CHAIRMAN MC CARthy: Yes, sir.

MR. AUSTIN: We're not concerned with the cost involved in calculating the amount of royalty which would be paid by a lessee to a lessor. What we are concerned with here is the cost of implementing a change of procedure which the Legislature has said this Commission may change in its discretion. We're concerned with the cost involved in changing the retroactive payback adjustment as provided in Section 5.4 regardless of what oil company is involved.

That applies to all -- everybody -- not just a certain specific oil company. So, we're really not talking about shifting the cost of calculating the royalty between lessor and lessee. We're talking about the cost of a change of procedure which the Legislature has said this Commission may change provided it makes a certain finding.
That change is a change in Section 5.4 or provide for a different procedure which this Commission can order or direct in its discretion.

So, that's what we're talking about. It's the cost of administering the Unit insofar as payback adjustment is concerned which results from an interim area assignment.

And the Elder bill specifically refers to upon any interim area assignment.

MS. ORDWAY: Mr. Austin?

MR. AUSTIN: Yes?

CHAIRMAN MC CARthy: Commissioner Ordway.

MS. ORDWAY: I don't disagree that the Elder bill acknowledges or recommends adjustments. As I look at the bill, it has "appropriation: No." I can only look at it as a Lands Commissioner and as a person from Finance who spends a good part of time reading these things and trying to interpret who pays for what.

It says, "Appropriation: No." There is no acknowledgment of appropriation and there's no acknowledgment of cost on behalf of the Lands Commission.

And so, I'm a little unclear with the point that you're trying to make that somehow the burden should be carried by the State to accommodate this adjustment.

I don't disagree that the bill acknowledges that there should be an adjustment. But I can't in any
place find in the bill where it is the State's responsibility for paying for that adjustment.

   MR. AUSTIN: Well, what I'm saying is everybody pays for that adjustment according to their participation share. Whatever the State's participation share, that would be the proportionate cost they would have to bear.

   MS. ORDWAY: That does not appear to be the information that we've been given this morning.

   Of the approximately two and a half million dollars that it would cost to do this, the State's share of the cost is around $2 million.

   MR. THOMPSON: You asked an earlier question which the Governor tried to get some quantification on the dollars involved. I, too, cannot give you a quantitative answer, but I might be able to give you a qualitative answer.

   The amount of paybacks still to be done is a little $13 million as of August. If I were to take Mr. Austin's number, that the royalty is one-sixth -- and again, this is qualitative -- then the amount of money involved might be one-sixth of $13 million.

   I would have problems from the staff recommending to you that we have an expense of a couple million dollars to handle a couple of million dollars
retroactive adjustment change.

You would not change the dollar amount of the payback, but it would be stretched out and the implementation cost of that seems to me would be fairly large in relationship to the amount of deferred amount.

CHAIRMAN MC CARTHY: We have ourselves a dilemma here. First of all, while it's not always apparent, I hope you both appreciate that the three of us are sitting here as a Commission under State law with a legal responsibility to try to make what seem to be fair adjustments or fair decisions in dealing with taxpayers' money. It's not our money. Really, it's the taxpayers' money.

MR. AUSTIN: We appreciate that.

CHAIRMAN MC CARTHY: But we're dealing here with a divergence of facts that have placed a lot of people -- and I'm especially sensitive to the people you described, Mrs. Buchholz, the elderly and lower income people -- in a real pinch, an economic pinch here.

And we've got all the lawyers here telling us there's a contract and it has enforceable provisions, and that the interpretation of the Elder statute, according to all of their legal brainpower and interpretation -- and that's why they're here, to advise us; we can be our own lawyer and ignore them, all these lawyers that are
advising us. But you remember what was said about the
fella who is his own lawyer.

MR. AUSTIN: That's first year law school.

CHAIRMAN MC CARthy: We're in the horns of a
dilemma.

MS. BUCHHOLZ: Could I ask one question?

CHAIRMAN MC CARthy: Yes, ma'am.

MS. BUCHHOLZ: When you deducted 50 percent
from our pay and you changed your records, who paid for
that?

CHAIRMAN MC CARthy: Whe:

MS. ORDWAY: We deducted?

MS. BUCHHOLZ: You changed your records, like
we would ask that you change them now and reduce it from
10 from 50, you reduced our pay from 100 to 50, who paid
for that?

MR. THOMPSON: I think we're getting confused
here between the working interest owner-royalty owner
lease arrangement and the Unit. That was an arrangement
between each individual working interest owner and
their royalty owners. That was not a Unit matter.

EXECUTIVE OFFICER DEDRICK: The State has no
control over that at all.

MS. BUCHHOLZ: I stand corrected. I was
just wondering where that came from.
CHAIRMAN MC CARTHY: We want to get this thing clarified. It's all very complicated.

Is there a -- I don't know if you can even differentiate between royalty owners that are really down at the bottom, the ones who were getting a hundred dollars or fifty dollars a month.

Is there a way we could try to somehow ease their situation and ease their payback? Or do we absolutely have to have the same percentage under this contract for every single --

EXECUTIVE OFFICER DEDRICK: I have to defer to attorneys on that one. I don't know how we could do that kind of accounting.

CHAIRMAN MC CARTHY: Do you understand what I'm asking, Mrs. Buchholz?

MS. BUCHHOLZ: Yes. I don't know. Everyone in Long Beach who has a royalty interest is very much disturbed about this. I doubt whether you could segregate them.

CHAIRMAN MC CARTHY: I appreciate that. For everybody concerned --

MS. BUCHHOLZ: I mean I don't know how --

CHAIRMAN MC CARTHY: -- their ideal answer would be to stretch this out in a way that would also take into account the economic adjustment required.

MR. THOMPSON: This is a mixed situation. For
example, in the Townlot, there are three working interest
owners who are actually receiving money coming back to
them because they were underpaid. There are 13 Townlot
working interest owners who have already completed their
payback.

so, there are some royalty owners connected
with those working interest owners who have either been
completely paid back or the situation would be completely
unchanged -- I mean no change. So, it's a mixed
situation.

CHAIRMAN MC CARthy: Do we have any
administrative discretion at all where you're dealing with
people that are really getting modest --

MR. AUSTIN: Not under the Elder bill.

CHAIRMAN MC CARthy: -- royalties out of
this to try to at least make some modest adjustment to
make it easier for them --

MR. THOMPSON: Also the problem of crude oil
prices dropping by 60 percent in a three or four month
period.

CHAIRMAN MC CARthy: I think that's a large
part of this problem.

MS. BUCHHOLZ: It has something to do with it,
yes.

CHAIRMAN MC CARthy: Dropping of oil prices
and, therefore, the revenue and the royalties that are coming back to all these folks has dropped considerably, too.

MR. THOMPSON: And, of course, with that, as crude oil prices have gone down, we have had to cut back operating costs and the rate has to go down a little bit because of that, and everything has added in the wrong direction.

MS. BUCHHOLZ: We have another problem. We have never been told what our debt is, this so-called debt that's hanging over our head. We have never been given a figure. And we have never been shown on our payment each month how much credit we have gotten that month against our payment. So, there's no way for us to know when we're through with the debt.

MR. THOMPSON: Again, this is the working interest owner --

MS. BUCHHOLZ: Yes, it is.

MR. THOMPSON: -- royalty issue. And, unfortunately, this is out of our hands. And we do not know all of the royalty shares --

MS. BUCHHOLZ: I realize that. But I just want you people to know what we're up against on that.

CHAIRMAN Mc CARTHY: This information will come from the oil companies?
MR. THOMPSON: Yes.

CHAIRMAN MC CARthy: If they want to, that is?

MR. THOMPSON: But again, that again is their liability. Their contract between each royalty owner and themselves. It's not a new addition.

MS. BUCHHOLZ: How do we go about getting it? I wrote to the oil company, the one that has my lease, and after months I didn't get an answer. I wrote another letter; didn't hear from them. I called long distance six times, and finally got an answer that I had paid one-third. I still owe two-thirds of it after paying over a year.

MR. THOMPSON: We understand your problem and tried to help in the past, but that's something that we can't get involved with.

MS. BUCHHOLZ: No, that's right. I just wanted you to know about it.

CHAIRMAN MC CARthy: All right. Go ahead.

MS. RASMUSSEN: Yes, thank you. I don't think we ever got an answer from our attorneys in response to Mr. McCarthy's question. Do we have any alternate recourses available to us at all?

MR. THOMPSON: This was a question of selectivity, whether you could help one portion and not
another.

MR. HIGHT: Mr. Austin agreed. Under the Elder bill as it's presently worded, I don't think you have that latitude.

MR. HAGER: I also, which is really repeating what Moose said, the matter of royalty payments is in the province of the oil companies. They know who their royalty interest owners are and they know how much each royalty interest owner gets.

If there was a determination to give greater relief to one royalty interest owner over another, it would be solely within the province of the oil companies to do that. They have the data to make those determinations. And again, they would come back to us and say, "That costs us money to differentiate among the various royalty interest owners. That's an expense we don't have to pay under our contract and we won't do it."

CHAIRMAN MC CARthy: This is frustrating.

MR. THOMPSON: One further point. Part of your calendar item on page 20 146.7, there's a letter from Chevron. And in the second paragraph they say they would agree to do --

MS. RASMUSSEN: Where are you looking?

MS. ORDWAY: Page 146.7,

MR. THOMPSON: If they were modified and
agreed so that they would be fully compensated for all of their economic losses incurred. And at one time --
I don't know if they still have the position or not --
but at one time --

EXECUTIVE OFFICER EDRICK: These are just these letters.

MR. THOMPSON: -- this was the time value of money if there were a deferred payback. I don't know what their current position is on this.

CHAIRMAN MC CARTHY: I think we've probably heard all points of view by this time. Do the Commissioners have any other questions?

MS. ORDWAY: I don't know what we can do about it. A lot of this is truly out of our hands. This is very frustrating.

MS. RASMUSSEN: That brings up something that perhaps the staff could get back to us on as soon as possible. And that would be if we have any legal avenues with regard to the oil companies, because it seems to me that they have acted detrimentally in the interest of all the people involved here. And I'm still concerned somewhat about the question raised earlier about whether there is a conflict of interest. I realize that their royalty interest is on a parcel perhaps owned by a different oil company, but still their actions benefit them and no one
else.

And I'm very concerned about that. And I think that there's a possibility that there may be a conflict of interest. I also think that they've acted negligently.

And I think we are, as a Commission, in a very difficult box. I don't think we have an alternative at this point. But I would like to ask that the staff get back to us on that to see if we have any legal recourse of any kind.

EXECUTIVE OFFICER DEDPICK: Yes, we will, Commissioner.

MS. RASMUSSEN: With that in mind, I would move the item as presented.

CHAIRMAN MC CARthy: Okay. Unfortunately, there's not much option in front of us. That's what's before us.

MS. RASMUSSEN: With a lot of regret.

MR. AUSTIN: Could I make one inquiry?

CHAIRMAN MC CARthy: Yes.

MR. AUSTIN: In reference to the recommendation No. 2, if the proposal as submitted and as pending is rejected, could we have some sort of guidelines as to what would be acceptable by the staff so it's recommended to this Commission? We don't know. We're in the dark. We
prepared a proposal and they say that's not sufficient.

Now, can somebody tell us what they may feel
is sufficient or at least how -- in what form the
proposal should be rather than just --

CHAIRMAN MC CARTHY: We'll ask the Commission
staff to discuss that with you, Mr. Austin. All right?
Let's see if there's some way to help.

MR. AUSTIN: I would at this time like to
thank the Commission and all the staff for their
attentiveness in hearing us. It's appreciated.

CHAIRMAN MC CARTHY: Thank you, sir.

MS. BUCHHOLZ: Thank you.

CHAIRMAN MC CARTHY: Thank you, Miss Buchholz.

MS. BUCHHOLZ: Thank you very much.

CHAIRMAN MC CARTHY: Item 22.

EXECUTIVE OFFICER DEDRICK: Item 22 is the
approval of the second modification of the 86-87 Plan and
Budget for the Long Beach Unit Wilmington Field, which it
constitutes a reduction of 17.3 million in expenses and
the reduction of activity by one drilling rig.

(Thereupon Lieutenant Governor McCarthy
exited the hearing chambers.)

ACTING CHAIRWOMAN ORDWAY: Any questions or
comments on Item No. 22?

MS. RASMUSSEN: Moved.
Without objection, Item 22 is approved.

EXECUTIVE OFFICER DEDRICK: Item 23 is an approval of the third modification to the same document for the purpose of continuing some funding for studies of a projected cogeneration facility.

Without objection, Item 23.

Questions or comments on Item 23?

MS. RASMUSSEN: Moved.

Without objection, Item 24.

EXECUTIVE OFFICER DEDRICK: Item 24 is approval of a proposed expenditure of $80,000 by the City of Long Beach of their tideland oil revenues for the removal of a comfort station.

Questions or comment on Item 24?

MR. O'CONNELL: Moved.

Without objection, Item 24 is approved. Item 25.

EXECUTIVE OFFICER DEDRICK: 25 is approval for the expenditure of $257,000 from the same fund by the City of Long Beach for the construction of a lifeguard substation and new restrooms.
ACTING CHAIRWOMAN ORDWAY: Comments or
questions on Item 25?

MS. RASMUSSEN: Moved.

ACTING CHAIRWOMAN ORDWAY: Without objection.

Item 26?

EXECUTIVE OFFICER DEDRICK: Approval of a
five-year maintenance dredging permit in the San Joaquin
River by the Lower San Joaquin Levee District.

ACTING CHAIRWOMAN ORDWAY: Questions or
comments on Item 26?

MR. O'CONNELL: Moved.

ACTING CHAIRWOMAN ORDWAY: Without objection,
Item 26 is approved. Item 27.

EXECUTIVE OFFICER DEDRICK: Item 27 is a
proposed royalty cr.de oil sale from the South Elwood
Field in Santa Barbara County. Prices have moved a little
bit. There's a little bit of activity of sales in other
areas in Long Beach and staff would like to try it.

ACTING CHAIRWOMAN ORDWAY: Comments or
questions on Item 27?

MR. O'CONNELL: Moved,

ACTING CHAIRWOMAN ORDWAY: Without objection,
Item 27's approved.

Item 28, 29, and 30 are off calendar. In
the absence of any other business --
MR. HIGHT: For the record, on Items 22 through 27, Jock O'Connell was sitting in a voting capacity for the Lieutenant Governor and Mrs. Rasmussen was sitting in a nonvoting capacity for the State Controller.

ACTING CHAIRWOMAN ORDWAY: All right. In the absence of any further business, motion to adjourn?

MR. O'CONNELL: Move.

ACTING CHAIRWOMAN ORDWAY: Without objection.

(Thereupon the meeting was adjourned.)
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 meeting of the State Lands Commission was reported in shorthand by me 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 17th day of October, 1986.

[Signature]

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