MEETING
STATE LANDS COMMISSION
STATE OF CALIFORNIA

1020 N STREET
ROOM 102
SACRAMENTO, CALIFORNIA

TUESDAY, NOVEMBER 5, 1991
11:17 A.M.

Nadine J. Parks
Shorthand Reporter
MEMBERS PRESENT

Leo T. McCarthy, Lieutenant Governor, Chairman
Jim Tucker, representing Gray Davis, State Controller
Susanne Burton, representing Thomas W. Hayes, Director of Finance

Staff Present

Charles Warren
Executive Officer
James Trout
Assistant Executive Officer
Robert Hight
Chief Counsel
Jan Stevens
Deputy Attorney General
Rick Ludlow
Senior Staff Counsel
Paul Mount
Division Chief, ERM
Jane Sekelsky
Chief
Land Management Division

Also Present:
Alan Hager
Deputy Attorney General
<table>
<thead>
<tr>
<th>Index</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceedings</td>
<td>1</td>
</tr>
<tr>
<td>Call to Order</td>
<td>1</td>
</tr>
<tr>
<td>Confirmation of Minutes for the Meeting of October 18, 1991</td>
<td>1</td>
</tr>
<tr>
<td>Consent Calendar:</td>
<td></td>
</tr>
<tr>
<td>Approval of Consent Calendar with the exception of Items C6, C10, C16</td>
<td>1</td>
</tr>
<tr>
<td>Regular Calendar Items:</td>
<td></td>
</tr>
<tr>
<td>Item 26 Presented by Jane Sekelsky</td>
<td>1</td>
</tr>
<tr>
<td>Commission Action</td>
<td>1</td>
</tr>
<tr>
<td>Item 27</td>
<td>2</td>
</tr>
<tr>
<td>Item 28 Presented by Jane Sekelsky</td>
<td>2</td>
</tr>
<tr>
<td>Commission Action</td>
<td>3</td>
</tr>
<tr>
<td>Item 29 Presented by Jane Sekelsky</td>
<td>3</td>
</tr>
<tr>
<td>Commission Action</td>
<td>3</td>
</tr>
<tr>
<td>Item 30 Presented by Robert Hight</td>
<td>3</td>
</tr>
<tr>
<td>Commission Action</td>
<td>3</td>
</tr>
<tr>
<td>Item 31 (Pulled)</td>
<td></td>
</tr>
<tr>
<td>Item 32 Presented by Jane Sekelsky</td>
<td>3</td>
</tr>
<tr>
<td>Commission Action</td>
<td>4</td>
</tr>
<tr>
<td>Item 33 Presented by Mr. Warren</td>
<td>4</td>
</tr>
<tr>
<td>Commission Action</td>
<td>5</td>
</tr>
<tr>
<td>Item 34 (Pulled)</td>
<td></td>
</tr>
<tr>
<td>Item 35 (Pulled)</td>
<td></td>
</tr>
</tbody>
</table>
INDEX, continued...  

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>36</td>
<td>Presented by Robert Hight</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>Commission Action</td>
<td>5</td>
</tr>
<tr>
<td>37</td>
<td>Presented by Robert Hight</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>Commission Action</td>
<td>5</td>
</tr>
<tr>
<td>38</td>
<td>Presented by Robert Hight</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>Commission Action</td>
<td>6</td>
</tr>
<tr>
<td>39</td>
<td>(Pulled)</td>
<td></td>
</tr>
<tr>
<td>40</td>
<td>(Pulled)</td>
<td></td>
</tr>
<tr>
<td>41</td>
<td>Introduced by Paul Mount</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>Division Chief</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Environmental Resources Management</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Rick Ludlow</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>Senior Staff Counsel</td>
<td></td>
</tr>
<tr>
<td>43</td>
<td>Cara Johnson</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>Representing Assemblyman O'Connell</td>
<td></td>
</tr>
<tr>
<td>44</td>
<td>John Schiree</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td>City of Long Beach</td>
<td></td>
</tr>
<tr>
<td>45</td>
<td>Casey Sparks Kaneko</td>
<td>13</td>
</tr>
<tr>
<td></td>
<td>County of Santa Barbara</td>
<td></td>
</tr>
<tr>
<td>46</td>
<td>Alan Hager</td>
<td>14</td>
</tr>
<tr>
<td></td>
<td>Attorney General's Office</td>
<td></td>
</tr>
<tr>
<td>47</td>
<td>Paul Norgaard</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td>Vice President</td>
<td></td>
</tr>
<tr>
<td>48</td>
<td>Arco Oil &amp; Gas Company</td>
<td>14</td>
</tr>
<tr>
<td>49</td>
<td>Questions/Comments</td>
<td>22</td>
</tr>
<tr>
<td>50</td>
<td>Commission Action</td>
<td></td>
</tr>
<tr>
<td>51</td>
<td>Adjournment</td>
<td>22</td>
</tr>
<tr>
<td>52</td>
<td>Certificate of Shorthand Reporter</td>
<td>23</td>
</tr>
</tbody>
</table>

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CHAIRMAN MC CARTHY: All right. Without objection, the minutes of the previous Commission meeting are approved.

Welcome to the Commission meeting. Commissioner Tucker -- representing Controller Gray Davis -- and myself will soon be joined by Susanne Burton of the Department of Finance.

Anybody wish to make objections to the remaining items on the consent calendar?

If not, without objection, the consent calendar items remaining are approved.

We'll start on the regular calendar.

Mr. Warren.

EXECUTIVE OFFICER WARREN: Item 26, Mr. Chairman and members, will be presented by the Chief of our Land Management Division, Jane Sekelsky.

MS. SEKELSKY: Item 26 is for approval of a recreational pier permit at Lake Tahoe. It is for the waterward portion of a pier, the need to reconstruct some existing piers, so it's going to be repair and reconstruction.

CHAIRMAN MC CARTHY: Any questions? Any questions from the audience on this item? Approved as
recommended. Next.

MS. SEKELSKY: Item 27 is a general lease and right-of-way -- this is one of two items authorizing the same applicant to do two different -- this is one of two items authorizing the crossing of the Colorado River with 24-inch natural gas pipeline. We have the same applicant who has two different alternative routes of crossing the river, and at this point in time, they're not certain which will be the better one to do.

Environmentally, both have been analyzed under CEQA, and neither of them will have a significant effect. This particular crossing in Item No. 27 is to take a pipeline across an existing bridge which carries other pipelines.

EXECUTIVE OFFICER WARREN: Item 27 and 28 are the alternative routes that Ms. Sekelsky mentioned.

MS. SEKELSKY: Item No. 28 is the alternative, which is to bore underneath the river.

CHAIRMAN MC CARthy: All right. Any question on 27 or 28?

Without objection, Items 27 and 28 are approved.

(Thereupon, Commissioner Burton arrived to take her place on the rostrum.)

MS. SEKELSKY: Item No. 29 is for a controlled burn of some chaparral and shrubbery on State and private

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lands in Mendocino County. It is for fire protection and improvement of habitat and wildlife trails. This is to be conducted by the Department of Forestry.

CHAIRMAN MC CARthy: All right. Any questions from the Commissioners?

EXECUTIVE OFFICER WARREN: We recommend approval.

CHAIRMAN MC CARthy: All right. Recommend approval. Next.

MS. SEKELSKY: Item No. 30, Mr. Chairman, will be presented by our legal staff, Bob?

MR. HIGHT: Item No. 30, Mr. Chairman, seeks approval of the Executive Officer's execution of an MOU between State Lands Commission and Department of Corrections concerning that site, the potential prison site in downtown Los Angeles.

What we seek to do here is to demolish the remaining structures on the site and prepare the soil. Other than that, there's nothing involved. There's no opposition or controversy involved in this activity. We ask approval.

CHAIRMAN MC CARthy: Any questions from the audience on Item No. 30? Commissioners? Approved as recommended. Next.

MS. SEKELSKY: Item No. 32 is a rent review of
an old facility at Point Richmond in Contra Costa County. There's an existing railroad freight slip. They have been attempting to sell this property, and asked, when the five-year rent review came up, that we defer changing the rent at that time, because they thought they were prepared to sell the property.

They have been unable to sell the property, and we recommend approval of the new rent rate at this point in time.

CHAIRMAN MC CARTH: Any questions? Approved as recommended. Next.

EXECUTIVE OFFICER WARREN: Item 33, Mr. Chairman and Commissioners, is to approve the proposal to abandon five completed oil and gas wells on State oil and gas leases offshore in the Gaviota area of Santa Barbara County. This well abandonment activity will take about 50 days to complete. It will begin this year during the winter season. It will involve the use of one barge to abandon the wells. We have received a letter from the Environmental Defense Center suggesting that a full EIR be undertaken on this activity because of scenic aspects and possible air quality impacts. But the project itself is exempt under the local air pollution control district rules, because it is a well abandonment project, which is desirable in itself. It's part of the project. And we
recommend approval.

CHAIRMAN MC CARTHY: Is there any opposition to this in the audience? Mr. Keith Howell want to say anything about this? Any questions from the Commissioners?

If not, approved as recommended. Next.

EXECUTIVE OFFICER WARREN: The next item is Item 36. And it and the remaining items will be presented to you by Mr. Hight, oui Chief Counsel.

MR. HIGHT: Mr. Chairman, Item 36 is the approval of an amendment to our standard lease form. It adds an environmental pollution clause that allows the Executive Officer to notify lessees that they are in default, and allows tighter control for environmental pollution.

CHAIRMAN MC CARTHY: Any questions from the Commissioners? Anyone in the audience wish to ask a question about this?

Approved as recommended.

MR. HIGHT: 37, Mr. Chairman, is the lease of the State sovereign interest in the Santa Ana River for a reclamation and restoration project that the Corps of Engineers is doing.

CHAIRMAN MC CARTHY: Audience have any questions on 37? Approved as recommended.
MR. HIGHT: 38, Mr. Chairman, is the disclaimer of interest in a Federal condemnation action in San Bernardino for 2.5 acres. And the Commission has, luckily, no interest in this parcel.

CHAIRMAN MC CARthy: Any questions from the audience? Approved as recommended.

EXECUTIVE OFFICER WARREN: 41, Mr. Chairman, is the approval of an agreement to implement an optimized waterflood program for the Long Beach Unit.

Presenting the item will be Paul Mount, who is the Division Chief of our Environmental Resources Management, Rick Ludlow of our legal staff, and Alan Hager of the Attorney General's Office.

We have Paul Mount to present the item.

MR. MOUNT: Mr. Chairman, I would like to take a few minutes to summarize the benefits of the agreement we have reached with Arco concerning the Long Beach Unit.

As you are aware, this agreement was implemented and made possible by the passage of AB 227.

This agreement will result in more revenues to the State by increasing oil production and profits, more to the city by giving them a small share of the incremental profits, and more to the county through ad valorem taxes.

The agreement, the program, and the optimized
waterflood is designed using the best engineering practices to optimize the recovery of the resource and the best available technology will be applied to the Long Beach Unit.

Because of the commitment of Arco to provide engineering and other expertise to the development of the field and the combined efforts of the State, city, and Arco engineers, and staff, better surveillance of the field will be done and more programs generated to enhance the field production. With the combined efforts of all three, the field will be better managed.

Another advantage is that Arco will provide the $100 million investment that is required to improve the oil production. This is provided at little risk to the State and the city, since the $100 million will be recovered from the increased oil production profits only.

Better control over the field will be created since the programs to develop the field will be reviewed by Arco, the city, the State in a long, five-year plan detailing out the development of the field and approved by the State Lands Commission.

All of the field development and operations will now be reviewed by Arco in addition to the city and State. All of the above will result in increased profits to the State, city, and Arco, since the additional
profits will come from incremental oil produced. The magnitude of the profit will depend upon oil price, success of the optimized waterflood, and maintaining low operating costs.

Finally, there's an increased incentive for the city, since the city will now share in the profits; and an increased incentive for THUMS, since THUMS, which is now 80 percent owned by Arco, and Arco will receive a significant share of the incremental net profits.

On the next presentation graph there, I'd like to show you an illustration of the impact of the oil production -- that the optimized waterflood has on the oil production.

The actual oil rate will vary with price, the degree of success, the staffing levels of the city, State, and Arco to implement the program, and other smaller factors.

Even with low oil prices, the State believes that increased profits are very likely from increased production.

Thank you. Do you have any questions?

CHAIRMAN MC CARTHY: Let's hear the other testimony first.

MR. LUDLOW: Mr. Chairman, members of the
Commission, my name is Rick Ludlow. I'm a Senior Staff Counsel with the State Lands Commission.

I've been involved in negotiations of this agreement with Arco and the city since Day One. I might note that it's almost two years to the day that the negotiations first began that we are now here before you with what we believe is finished product.

I just want to emphasize that these were very difficult negotiations. They were arm's-length negotiations. Many times, I think both sides were ready to walk away from the table, but we did come back. It has been made possible by the enactment of AB 227, Assemblyman O'Connell, which authorized the Lands Commission to conduct these negotiations, and which changed some of the statutory framework around the Long Beach Unit, which would allow implementation of this agreement.

The present agreement the staff put together with Arco and the City of Long Beach meets all the requirements of the legislation.

I think that from a structural standpoint and from a legal standpoint, it does everything that the State could possibly hope to achieve. It does also settle within its context the Coal Oil Point litigation. But that is not the driving force here. This agreement stands economically on its own at the Long Beach Unit as a benefit
to the State.

CHAIRMAN MC'CARthy: All right. Any questions?

MS. JOHNSON: My name is Cara Johnson. I'm here today on behalf of Assemblyman Jack O'Connell, who, unfortunately, couldn't be here today. I'd like to urge your support of Agenda Item 41, authorizing your Executive Director to sign an agreement with Arco and the City of Long Beach.

As you know, Governor Wilson recently signed Assemblyman O'Connell's AB 227, which authorizes your Commission to sign an agreement with Arco so that it can implement an optimized waterflood program to increase production in the existing oil fields in Long Beach.

All parties involved with this legislation agree that this program is necessary to increase oil production and, therefore, to provide more revenue for the State from this declining oil field.

In fact, under this proposal, it is estimated that an additional 50 to 80 million barrels of oil should be recovered, yielding the State about 317 million over the 20 years of the project. The State would share with Arco 50 percent of the revenues and the City of Long Beach will receive about 74 million over 20 years.

In return, Arco has agreed to spend a minimum of $100 million in capital to complete the project,
surrender two of their Coal Oil Point leases off the Santa Barbara coast, and drop their costly court case against the State, which was filed because they were denied permission to develop the leases.

As you are aware, this legislation was the culmination of years of negotiation between your Commission and interested parties. Your authorization of this agreement will ultimately result in a substantial amount of increased revenue to the State without the need to place additional oil platforms off our coast with all of their adverse impacts and risk.

Assemblyman O'Connell asked I thank the Commission and its staff for all their hard work on the legislation, and urges your approval.

Thanks.

CHAIRMAN MC CARTHY: Thank you. Who's next?

MR. LUDLOW: John Schiree, a representative from the City of Long Beach.

MR. SCHIREE: Thank you, Mr. Chairman. For the record, I am John Schiree. I'm the Assistant City Manager for the City of Long Beach. And, obviously, I'm here to urge your approval of this item on your agenda.

You know, somehow, this single entry on your agenda doesn't begin to reflect the hard work that went into this item to get you to this point here today for a
vote.

As has been described, these two years have involved a lot of people; many of them right here in this room worked very hard to bring this together. Rick mentioned that these were arm's-length negotiations. Sometimes it felt like there were boxing gloves on the ends of those arms. And, nevertheless, it all came together in AB 227, as Cara Johnson has described for you. The Governor has approved that bill, making this action of yours possible.

Our City Council voted on this last week, voted unanimously, with many nice things said about the work of the State Lands Commission as well as support from Assemblyman O'Connell and the Governor's Office for this legislation.

I want to also add my thanks to Arco. Arco has been an outstanding corporate citizen of our city for many years prior to their becoming an owner of the THUMS operation. They may soon be a hundred percent owner of the THUMS operation, and we look forward to working with them on this optimized waterflood endeavor.

I think that this agreement truly is a win, win, win. It's good for the company. It's good for the city. And we will be able to use our funds for maintaining and operating the State's tidelands for the good of all the people of California as we have been
entrusted to do by many years ago. And it's also good for the State, because you will see additional revenue -- we feel certain -- from this operation.

We're optimistic that it will be successful and, as a result of that, the State will see considerable additional benefits as well as the other two parties.

So, with that, Mr. Chairman, I certainly urge your approval and, once again, thank everyone who worked very hard to get this together.

MR. LUDLOW: Mr. Chairman, Ms. Casey Sparks Kaneko, legislative representative of the County of Santa Barbara, would like to address the Commission.

MS. KANEKO: Commissioners, on behalf of the Board of Supervisors of Santa Barbara County, we'd like to express our support for this agreement. And the Board is delighted with the terms that have been reached so far and the passage of AB 227.

The agreement meets the Board's goals in the Coal Oil Point litigation, which are to eliminate the county's financial liability and prevent further development of the leases off of Coal Oil Point, which -- I'd like to point out -- is directly off the shore of the University of California at Santa Barbara and its renowned marine lab, as well as Goleta Beach, which is one of the highest public coastal access areas in the
County of Santa Barbara.

Thank you for your efforts so far, and we urge your support of the agreement.

MR. LUDLOW: Alan Hager of the Attorney General's Office would like to make a comment. Alan?

MR. HAGER: As you know, our office has been involved working with your staff in negotiating the optimized waterflood agreement in securing the passage of AB 227.

We support the agreement. It's an independently supportable agreement, and it is independent of the Coal Oil Point litigation, which we have handled. It provides for a disposition of that litigation that we think is truly outstanding. It provides something that we would never get through litigation, and that's the return of Leases 308 and 309, the two leases directly offshore of UCSB. So, we wanted to make known to you our support of this agreement.

MR. LUDLOW: Mr. Chairman, our next speaker will be Paul Norgaard, Vice President of Arco.

MR. NORGAARD: Mr. Chairman, members of the California State Lands Commission, I'm Paul Norgaard. I'm the Vice President of Arco Oil and Gas Company located in Bakersfield, California.

I think that everything that I would have liked
to have said has already been said. But there are a
couple of things that I feel are important.

First off, I've heard two years a number of
times. Some of us have been working on this for over
four years. So, it has been a long and very difficult
process.

I'd also like to say that, while it's been
tough for a lot of people a lot of different times, this
is an excellent example of public and private working
together to make something happen. It clearly is a
win-win. It's a win for the State, the city, the
royalty owners, the working interest owners, Arco. It's
an excellent example of an idea that has come to fruition.

Arco does bring some special elements to the
program -- our worldwide experience, some state-of-the-art
technology, and a will and a way to make it happen.

I urge your approval and urge that you
authorize Director Warren to execute the agreement.

Thank you.

CHAIRMAN MC CARTHY: Let me ask you a couple
of questions --

MR. NORG AARD: Certainly.

CHAIRMAN MC CARTHY: -- Mr. Norgaard.

Thank you for your testimony. As I understand
the information before us, the estimate of what can be
extracted from the Wilmington Fields that are the subject of this item is about 918 million barrels over the life of the field. Is that your understanding?

MR. NORGAARD: Very close, yes, that's right. That's one of the estimates, yes.

CHAIRMAN MC CARTHY: And what we're really talking about beyond that is the estimate that 60 to 80 million additional barrels can be extracted through the Arco methodology and technology that would be employed here. And as I recall, Arco has estimated even up to 100 million additional barrels of oil; is that correct?

MR. NORGAARD: Yes, that is correct.

CHAIRMAN MC CARTHY: Using current market prices as an estimate, would you tell me how much that will increase profits beyond what would have been reasonably anticipated for all of the parties involved?

MR. NORGAARD: Well, that gets into price of oil, and costs, and so forth. And I believe the numbers that we have been looking at as being the most realistic are the 300 million to the public sector and 306 million to the private; is that not correct?

(There was a "yes" heard from an unidentified speaker in the audience.)

CHAIRMAN MC CARTHY: 300 million more to the
State and the City of Long Beach.

MR. NORGAARD: Yes.

CHAIRMAN MC CARTHY: And 300 million more to Arco.

MR. NORGAARD: Yes, on discount.

CHAIRMAN MC CARTHY: All right. Anybody have any questions?

Thank you, Mr. Norgaard. Anyone else? Is that it?

Let me just ask our colleague, Commissioner Burton, who's representing the Department of Finance on the State Lands Commission, if she would give us the benefit of any economic analysis that the Department of Finance has done on this issue just in summary form, please.

COMMISSIONER BURTON: We've done basically a fiscal analysis on this. The staff who worked on this, our staff raised quite a few questions, and we're more than pleased with the answers that they eventually were given.

I think from a fiscal analysis point of view, the staff supports this. From an economic point of view, I agree with the comments that have been made here. In the long run, this is going to be a benefit for all of us who will get some financial benefit, but also it helps to
test a new system that Arco's been willing to step forward with and try to get more of our gunk out of the ground. And it's a field that we thought wouldn't be bringing in as much as they hope they will be able to with testing this new system.

And I think the fact that Coal Oil Point is resolved is also significant. But, as everyone has said, this is an independent solution, independent of that lawsuit. It stands on its own, and will provide benefits in the long term. I know that the city is not necessarily getting everything that they wanted out of it, nor is the State, nor is Arco. But when we got involved, it was a waltz among porcupines, I guess. I think everyone was at the table in good faith, and I appreciate all of the patience that was exercised for the newcomers who got involved in this. And I think we should go forward.

CHAIRMAN MC CARTHY: Mr. Warren, do you have anything you want to propose now?

EXECUTIVE OFFICER WARREN: No, Mr. Chairman. I recommend approval.

CHAIRMAN MC CARTHY: I want to congratulate all the parties that have been engaged in this long negotiation. I had a couple of basic questions when it started out that I asked the Lands Commission staff to be very cautious of. And one was that any other oil company
that wanted to try to compete with any similar technology be given the opportunity to do so. Arco was the only company who stepped forward with such an offer.

Is there any doubt that has been lodged by any other oil company that they wanted to participate in this? Have they been given every opportunity, Mr. Warren, by your staff, the Attorney General's Office, to participate if they desired to do so?

MR. LUDLOW: Yes, Mr. Chairman. They have been on numerous occasions, both at public hearing, through written notice, and also in individual conversations exploring the possibilities, because we were looking to see what other alternatives would be out there. And everyone has declined.

CHAIRMAN MC CARTHY: And the second question that I asked from the beginning, when all of this started to be discussed, was, did the deal stand on its own feet as an economic benefit of significant measure to the State of California and the City of Long Beach?

And the advice you're giving us is that this $300 million is a very good deal, something we could not have realized in the absence of this deal, because the present methodology might have extracted something in the range of 918 million barrels, and we would not have gotten an additional 60 to 100 million barrels extracted without
this technology. That's the advice we're receiving.

EXECUTIVE OFFICER WARREN: That's the advice you're receiving, Mr. Chairman. Yes, sir.

CHAIRMAN MC CARTHY: All right. I like that.

I wonder if Arco could please advance the money to Governor Wilson --

(Laughter, which obliterated part of the Chairman's comments.)

CHAIRMAN MC CARTHY: -- and with that just one small detail, would your people have any difficulty with that, Mr. Norgaard?

(Laughter.)

CHAIRMAN MC CARTHY: Now that that's settled, I'm also pleased, as Assemblyman O'Connell has indicated, of course, that we have been able to resolve the long and unfortunate disagreement over Leases 308 and 309. I think we're pleased that those are being resolved. And I would only say, in conclusion, that it's much nicer to a partner instead of a litigant in dealing with your company on this one.

I think we're doing a good one for your shareholders and, from our point of view, we're doing a good one for the taxpayers of the State.

Any other comments or questions? Commissioner Tucker.
COMMISSIONER TUCKER: Thank you. I just wanted to take this opportunity to thank specifically Alan Hager, Paul Mount, and Rick Ludlow, the folks from the City of Long Beach, and LBOD. I watched this process very closely, and it has been incredibly complex. And I've been heartened to see that the motivation of the people working on this project has really been to maximize the benefit for the State of California.

And I think they did an outstanding job of negotiating an extremely technical deal matched up against some very good attorneys and other staff representing Arco. And our people certainly held their own, and I'm proud of that.

I wanted to say one thing about the -- what I think the impact of this deal is, so it's clear. I'm going to get a transcript of this, and I'll put it on my wall so I can make sure the point's really been made.

When someone comes in and says, "Well, where's the $300 million?"

(Laughter.)

COMMISSIONER TUCKER: I don't think that there's -- and no one's ever held out that there's a guarantee out of this deal. I think what is guaranteed is that we're fulfilling our responsibility to take the best shot we possibly can at getting this field developed
in the most responsible way possible.

    I think that's always the best that you can
do, particularly in the oil business, and I think we will
accomplish that through this agreement.

    So, the dollars may or may not come in. I
certainly hope they will. I think the estimates that
have been made are reasonable estimates. One, it's always
hard to foresee the future, but I think that we can be
confident that what will occur as a result of this is that
we made the best effort anybody could possibly make
to develop this field.

    So, my congratulations to our staff. They did
an outstanding job protecting the interests of the State
of California and the City of Long Beach. And obviously,
we're very supportive of the agreement.

CHAIRMAN MC CARTHY: Any other comments from
members of the audience on this?

We're ready for a vote. Do I hear a motion?

COMMISSIONER TUCKER: Move it.

CHAIRMAN MC CARTHY: Moved by Commissioner
This arrangement is approved. Thank you, ladies and
gentlemen.

EXECUTIVE OFFICER WARREN: That concludes the
calendar items, Mr. Chairman.

(Thereupon, the meeting was concluded
at 11:52 a.m.)
I, Nadine J. Parks, a shorthand reporter of the State of California, hereby certify that I am a disinterested person herein; that I reported the foregoing meeting of the State Lands Commission in shorthand writing, and thereafter transcribed my shorthand writing into typewriting.

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

IN WITNESS WHEREOF, I have hereunto set my hand this 15th day of November, 1991.

Nadine J. Parks
Shorthand Reporter