APPEARANCES

COMMISSION MEMBERS
Mr. John Chiang, State Controller, Chairperson
Mr. Gavin Newsom, Lieutenant Governor
Ms. Ana J. Matosantos, Director of Finance, represented by
Mr. Pedro Reyes

STAFF
Mr. Curtis Fossum, Executive Officer
Ms. Jennifer Lucchesi, Chief Counsel

ATTORNEY GENERAL
Mr. Alan Hager, Deputy Attorney General
Mr. Joe Rusconi, Deputy Attorney General
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PROCEEDINGS

CHAIRPERSON CHIANG: Good morning, everybody. I am State Controller John Chiang. And I am calling this meeting of the State Lands Commission to order. Curtis, as this is a telephone conference meeting, will you call roll of the Commissioners, please.

EXECUTIVE OFFICER FOSSUM: Yes. Commissioner Newsom?

COMMISSIONER NEWSOM: I'm here.

EXECUTIVE OFFICER FOSSUM: Commissioner Reyes?

ACTING COMMISSIONER REYES: Present.

EXECUTIVE OFFICER FOSSUM: Commissioner Chiang?

CHAIRPERSON CHIANG: Good morning. We have a quorum. Very good.

EXECUTIVE OFFICER FOSSUM: Mr. Chairman and Commissioners, this is Curtis Fossum, Executive Officer. Since we're doing a telephonic conference today, before each individual speaks, please identify yourself for the court reporter so that he can be accurate in his transcription.

Also, while not speaking, I would recommend that the other offices keep their speaker phones on mute until wishing to speak, because that will aid clarity. I'd also like to identify the members of the staff of the Commission and the Attorney General's office present for
this telephonic meeting.

In the Controller's Office in Los Angeles, We have Alan Hager from the Attorney General's Office. Greg Scott, the former Chief of the Division of Mineral Resources and Rick Ludlow for Assistant Chief Counsel. So we have our most experienced staff involved in oil and gas matters with the Chair this morning.

In Sacramento in the Director of Finance's Office we have our Acting Chief of the Division of Mineral Resources, Marina Voskanian and the Commission's oil and gas Staff Counsel Jessica Rader. Here in San Francisco with Lieutenant Governor I'm joined by Chief Counsel Jennifer Lucchesi and Deputy Attorney General Joseph Rusconi.

We also have several of our Division Chiefs in the Commission's office in Sacramento where the court reporter and members of the public were also invited to participate. And I understand that Commission alternate Alan Gordon is also present there.

So also since we do have both Constitutional Officers today, all will be able to participate and vote, pursuant to Government Code Section 7.6(f)

That concludes my remarks at this point.

CHAIRPERSON CHIANG: Okay. Thank you, Curtis.

For the record, this is John again.
The first item of business will be the adoption of the minutes from the Commission's last meeting. May I have a motion?

COMMISSIONER NEWSOM: So moved.

CHAIRPERSON CHIANG: We have a motion. Is there a second?

ACTING COMMISSIONER REYES: Second.

CHAIRPERSON CHIANG: Without objection, the motion passes.

Next order of business is the Executive Officer's report. Curtis, may we have your report, please.

EXECUTIVE OFFICER FOSSUM: Yes. First of all, I'd like to mention that on Tuesday we had 4 representatives of the United Arab Republic and Dubai Maritime Authority meeting with the staff in Sacramento going over ballast water -- our ballast water program. They're looking at initiating one for themselves.

The following day they were down in our Long Beach office and meeting with the staff there as well. And they met with the Port staff as well to help understand the actual implementation of that program.

I have one item I would like to mention. And I want to bring to attention a matter that's concerning dust control at Owens Lake. The Owens Lakebed is State sovereign land under the jurisdiction of the Commission.
There will be a hearing at the California Air Resources Board on Friday June 15th to hear an appeal by Los Angeles Department of Water and Power from the most recent order of the Great Basin Unified Air Pollution Control District.

LADWP argues, among other things, that the Air District's order unlawfully requires the control of dust that would occur naturally absent LADWP's diversion from the Owens River. LADWP believes the State, as the landowner of the lakebed, also bears responsibility for dust control on the dry lakebed and should be named in the District's orders.

LADWP alleges that the Commission has impeded its efforts to control dust, despite Commission approval of every project, using best available control measures established by the Air District.

Commission staff rejects LADWP's arguments that the Commission is responsible for controlling the air pollution caused by LADWP's diversion or that the Commission has impeded LADWP's efforts to control dust.

The Commission has cooperated fully with LADWP consistent with its responsibilities to consider and balance competing public needs for water, its duty to preserve the values and uses on the lakebed protected by the Public Trust, and protection of human health.

On at least 18 separate occasions the Commission
has permitted projects by LADWP at Owens Lake to address their responsibilities for dust control. Staff submitted comments last July to LADWP and the District after LADWP allegations first arose.

Although, the Commission is not a named party in the appeal, staff plans to submit written comments to CARB. Health and Safety Code Section 42316 subsection (b) specifies that LADWP's appeal will be heard by CARB. However, either the District or LADWP may bring a judicial action to challenge a CARB decision.

I will keep you informed as this dispute progresses or is resolved.

And that concludes my Executive Officer's report.

CHAIRPERSON CHIANG: Thank you, Curtis. Again, for the record, this is John.

The 4th order of business will be the adoption of the Consent Calendar. Is there anyone who wishes to speak on an item on the Consent Calendar?

Hearing no response, we will proceed with the vote.

Is there a motion?

COMMISSIONER NEWSOM: So moved.

ACTING COMMISSIONER REYES: Second.

CHAIRPERSON CHIANG: We have a motion. We have a second.
Without objection, the motion passes.

The next order of business is the regular calendar, Regular Item is number 3, it's to consider an agreement for implementation of an Optimized Waterflood Program for the West Wilmington Oil Field.

May we have the staff please present.

EXECUTIVE OFFICER FOSSUM: Yes, Mr. Chair.

This is Curtis Fossum again. I'll be presenting that item.

Item number 3 is a request to consider an agreement between several Occidental Petroleum Corporation owned companies, which I will refer to collectively as Oxy, the City of Long Beach, and the State, acting by and through the State Lands Commission, for the implementation of an Optimized Waterflood Program for West Wilmington Oil Field.

The proposed agreement was presented to the Commission at it's May 24th meeting. And in the staff report -- and in it staff reported at that meeting, so I won't go into great detail in my presentation, but will summarize the proposal.

Under the current --

ACTING COMMISSIONER REYES: Mr. Chair, this is Pedro. We discussed this item at length at the last meeting. I'm prepared to move the item.
CHAIRPERSON CHIANG: If you want to move, go ahead and make the motion.

COMMISSIONER NEWSOM: Yeah. This is Gavin, John. Without jumping in, Curtis, you only have --

EXECUTIVE OFFICER FOSSUM: -- a couple paragraphs.

COMMISSIONER NEWSOM: Yeah, just cause only Pedro -- I appreciate -- absolutely, I'm with you. I've gotten so well briefed on this, I feel like I negotiated this thing directly, but he's almost -- Curtis is almost done. I think we've got just a few more paragraphs here and might as well just let him continue.

CHAIRPERSON CHIANG: Okay. Very good.

COMMISSIONER NEWSOM: Thanks.

EXECUTIVE OFFICER FOSSUM: Under the current West Wilmington Oil Field contract, the State receives 95 percent of the net profits from all oil and gas produced and sold, while the contractor receives 5 percent and the City receives no percentage from the net profits. In 2006, when Oxy acquired the West Wilmington contract, Oxy proposed an agreement to provide them a financial incentive to undertake further development, as the current net profit sharing agreement did not provide sufficient incentive.

In 2008, the Legislature authorized the
Commission, on behalf of the State, to negotiate and enter into a contract with the City and Oxy that provides incentives to the contractor to develop additional oil reserves while also providing a fair and equitable return to the State and City.

All parties have been steadily working since then on such a contract. And following direction from the Commission, an agreement with the City and Oxy has been reached. The proposed agreement before you is an improvement over the original proposals by Oxy in 2006 and 2010.

The key terms of the proposed agreement include Oxy's commitment to invest a minimum of $50 million to increase development of the field with the parties sharing the incremental net profits, with the State to receive 49 percent, Oxy 49 percent, and the City 2 percent.

None of the parties will receive any incremental net profit until Oxy recovers its investment. The change in percentage of net profits formula does not affect the existing production from the field, and the State's 95 percent share of those net profits.

The State will receive a number of benefits in this proposed agreement, including benefiting from the additional net profits from incremental oil recovery, preserving existing or base net profits, receiving
reimbursement for technical review, and revenue verification, and agreement that the Commission staff may monitor the accuracy of oil sale volumes.

The City of Long Beach approved the subject agreement on May 22nd. And staff is available to answer any questions the Commission may have.

That concludes my presentation.

CHAIRPERSON CHIANG: Okay. Are there any comments by any of the -- comments or questions by the members?

COMMISSIONER NEWSOM: John, it's Gavin. I don't have any comments. I appreciate all the hard work that's been done over many, many years. I mean, this is going back to 2006. I think we're at a point where we need to, as they say, call the question. I think all sides have negotiated now in good faith. I appreciate, you know, some of the outstanding issues and some of the conversation and dialogue certainly at the last meeting. And I appreciate the good work of my staff. And I just want to acknowledge Chris Garland and Kevin Schmidt for their hard work on this, and their diligence.

And I'm prepared, as Pedro was just a moment ago, to move this item.

CHAIRPERSON CHIANG: Okay. Very good. Are there any comments by the public or questions?
Okay. Let me offer a comment. I'm going to vote no. I appreciate the hard work by everybody. I just think the State's interest ought to be at a higher percentage. I understand the risk differential versus the prior project, but I think the Commission has made two adjustments. I'm uncomfortable with making the two adjustments, in terms of the production curve and the percentages. I would negotiate a little bit higher before we go forward, but I understand that the -- in all likelihood I'm in the minority. So that being said, is there a motion?

COMMISSIONER NEWSOM: Yeah, I'll move the item.

ACTING COMMISSIONER REYES: Second.

CHAIRPERSON CHIANG: We have a motion and a second.

Please take roll.

EXECUTIVE OFFICER FOSSUM: Commissioner Newsom?

COMMISSIONER NEWSOM: I support the item, aye.

EXECUTIVE OFFICER FOSSUM: Commissioner Reyes?

ACTING COMMISSIONER REYES: Aye.

EXECUTIVE OFFICER FOSSUM: Commissioner Chiang?

CHAIRPERSON CHIANG: No.

The motion passes.

That concludes the regular calendar.

Are there -- Curtis, is there any items for
closed session?

EXECUTIVE OFFICER FOSSUM: No, there isn't, Mr. Chair.

CHAIRPERSON CHIANG: Very good. That being said, we have concluded this matter.

Thank you, everybody.

EXECUTIVE OFFICER FOSSUM: Thank you.

(Thereupon the California State Lands Commission meeting adjourned at 11:13 a.m.)
CERTIFICATE OF REPORTER

I, JAMES F. PETERS, a Certified Shorthand Reporter of the State of California, and Registered Professional Reporter, do hereby certify:

That I am a disinterested person herein; that the foregoing California State Lands Commission meeting was reported in shorthand by me, James F. Peters, a Certified Shorthand Reporter of the State of California;

That the said proceedings was taken before me, in shorthand writing, and was thereafter transcribed, under my direction, by computer-assisted transcription.

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

IN WITNESS WHEREOF, I have hereunto set my hand this 19th day of June, 2012.

JAMES F. PETERS, CSR, RPR
Certified Shorthand Reporter
License No. 10063