

TELECONFERENCE MEETING

STATE OF CALIFORNIA

LANDS COMMISSION

OFFICE OF STATE CONTROLLER JOHN CHIANG

777 SOUTH FIGUEROA STREET, SUITE 4800

LOS ANGELES, CALIFORNIA 90017

SAN FRANCISCO STATE BUILDING

CIVIC CENTER COMPLEX

14TH FLOOR CONFERENCE ROOM

455 GOLDEN GATE AVENUE

SAN FRANCISCO, CALIFORNIA 94102

DEPARTMENT OF FINANCE

STATE CAPITOL, ROOM 1145

SACRAMENTO, CALIFORNIA 95814

CALIFORNIA STATE LANDS COMMISSION

100 HOWE AVENUE, SUITE 100 SOUTH

SACRAMENTO, CALIFORNIA 95825

THURSDAY, JUNE 7, 2012

11:02 A.M.

JAMES F. PETERS, CSR, RPR
CERTIFIED SHORTHAND REPORTER
LICENSE NUMBER 10063

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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1 this telephonic meeting.

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

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

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

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

23 That concludes my remarks at this point.

24 CHAIRPERSON CHIANG: Okay. Thank you, Curtis.
25 For the record, this is John again.

1 The first item of business will be the adoption
2 of the minutes from the Commission's last meeting. May I
3 have a motion?

4 COMMISSIONER NEWSOM: So moved.

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

7 ACTING COMMISSIONER REYES: Second.

8 CHAIRPERSON CHIANG: Without objection, the
9 motion passes.

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

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

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

22 I have one item I would like to mention. And I
23 want to bring to attention a matter that's concerning dust
24 control at Owens Lake. The Owens Lakebed is State
25 sovereign land under the jurisdiction of the Commission.

1 There will be a hearing at the California Air Resources
2 Board on Friday June 15th to hear an appeal by Los Angeles
3 Department of Water and Power from the most recent order
4 of the Great Basin Unified Air Pollution Control District.

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

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

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

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

25 On at least 18 separate occasions the Commission

1 has permitted projects by LADWP at Owens Lake to address
2 their responsibilities for dust control. Staff submitted
3 comments last July to LADWP and the District after LADWP
4 allegations first arose.

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

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

13 And that concludes my Executive Officer's report.

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

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

19 Hearing no response, we will proceed with the
20 vote.

21 Is there a motion?

22 COMMISSIONER NEWSOM: So moved.

23 ACTING COMMISSIONER REYES: Second.

24 CHAIRPERSON CHIANG: We have a motion. We have a
25 second.

1 Without objection, the motion passes.

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

6 May we have the staff please present.

7 EXECUTIVE OFFICER FOSSUM: Yes, Mr. Chair.

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

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

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

22 Under the current --

23 ACTING COMMISSIONER REYES: Mr. Chair, this is
24 Pedro. We discussed this item at length at the last
25 meeting. I'm prepared to move the item.

1 CHAIRPERSON CHIANG: If you want to move, go
2 ahead and make the motion.

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

5 EXECUTIVE OFFICER FOSSUM: -- a couple
6 paragraphs.

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

13 CHAIRPERSON CHIANG: Okay. Very good.

14 COMMISSIONER NEWSOM: Thanks.

15 EXECUTIVE OFFICER FOSSUM: Under the current West
16 Wilmington Oil Field contract, the State receives 95
17 percent of the net profits from all oil and gas produced
18 and sold, while the contractor receives 5 percent and the
19 City receives no percentage from the net profits. In
20 2006, when Oxy acquired the West Wilmington contract, Oxy
21 proposed an agreement to provide them a financial
22 incentive to undertake further development, as the current
23 net profit sharing agreement did not provide sufficient
24 incentive.

25 In 2008, the Legislature authorized the

1 Commission, on behalf of the State, to negotiate and enter
2 into a contract with the City and Oxy that provides
3 incentives to the contractor to develop additional oil
4 reserves while also providing a fair and equitable return
5 to the State and City.

6 All parties have been steadily working since then
7 on such a contract. And following direction from the
8 Commission, an agreement with the City and Oxy has been
9 reached. The proposed agreement before you is an
10 improvement over the original proposals by Oxy in 2006 and
11 2010.

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

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

22 The State will receive a number of benefits in
23 this proposed agreement, including benefiting from the
24 additional net profits from incremental oil recovery,
25 preserving existing or base net profits, receiving

1 reimbursement for technical review, and revenue
2 verification, and agreement that the Commission staff may
3 monitor the accuracy of oil sale volumes.

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

7 That concludes my presentation.

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

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

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

24 CHAIRPERSON CHIANG: Okay. Very good. Are there
25 any comments by the public or questions?

1 Okay. Let me offer a comment. I'm going to vote
2 no. I appreciate the hard work by everybody. I just
3 think the State's interest ought to be at a higher
4 percentage. I understand the risk differential versus the
5 prior project, but I think the Commission has made two
6 adjustments. I'm uncomfortable with making the two
7 adjustments, in terms of the production curve and the
8 percentages. I would negotiate a little bit higher before
9 we go forward, but I understand that the -- in all
10 likelihood I'm in the minority. So that being said, is
11 there a motion?

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

13 ACTING COMMISSIONER REYES: Second.

14 CHAIRPERSON CHIANG: We have a motion and a
15 second.

16 Please take roll.

17 EXECUTIVE OFFICER FOSSUM: Commissioner Newsom?

18 COMMISSIONER NEWSOM: I support the item, aye.

19 EXECUTIVE OFFICER FOSSUM: Commissioner Reyes?

20 ACTING COMMISSIONER REYES: Aye.

21 EXECUTIVE OFFICER FOSSUM: Commissioner Chiang?

22 CHAIRPERSON CHIANG: No.

23 The motion passes.

24 That concludes the regular calendar.

25 Are there -- Curtis, is there any items for

1 closed session?

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

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

6 Thank you, everybody.

7 EXECUTIVE OFFICER FOSSUM: Thank you.

8 (Thereupon the California State Lands
9 Commission meeting adjourned at 11:13 a.m.)

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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