

MINUTE ITEM

This Calendar Item No. 20  
was approved by the Board  
No. 20 by 3  
Commissioner by 3  
to 0 of 10/27/77  
meeting.

MINUTE ITEM

10/27/77  
High

20. AUTHORIZATION FOR SUIT AGAINST FEDERAL GOVERNMENT  
CHALLENGING CRUDE OIL PRICING REGULATIONS.

During consideration of Calendar Item 20 attached, Chairman Kenneth Cory indicated he was in favor of the item. However, a stipulation should be inserted wherein staff would report back to the Commission before filing the action or hold an executive session to review the draft. Commissioner Roy M. Bell indicated he would like a stipulation as suggested by Mr. Cory included in the resolution.

Upon motion duly made and carried, the following recommendation was approved by a vote of 3-0:

THE STATE LANDS COMMISSION AUTHORIZES THE ATTORNEY GENERAL TO TAKE ALL NECESSARY STEPS, INCLUDING LITIGATION, TO SECURE FAIR AND EQUITABLE TREATMENT FOR THE PRICING OF CALIFORNIA-PRODUCED ROYALTY CRUDE OIL UNDER THE FEDERAL GOVERNMENT'S CRUDE OIL PRICING PROGRAM, WITH THE STIPULATION THAT THE STAFF REPORT BACK TO THE COMMISSION TO REVIEW ANY LEGAL DOCUMENTS PRIOR TO THE TIME THESE ARE FILED.

Attachment: Calendar Item 20 (2 pages)

CALENDAR ITEM

20.

10/77  
Hight

AUTHORIZATION FOR SUIT AGAINST FEDERAL GOVERNMENT  
CHALLENGING CRUDE OIL PRICING REGULATIONS

Crude oil produced from state-owned Tidelands properties is currently subject to an extensive system of Federal price controls administered by the U. S. Department of Energy. While California's royalty oil was initially exempt from price ceilings under Federal regulations, that exemption was withdrawn several years ago. The major portion of California's royalty oil is now classified as "old oil" under the Federal government's three-tiered pricing system, and the price of this oil is frozen at extremely low levels that barely exceed the cost of extracting such oil.

The adverse financial effects of this system have been compounded by the "Entitlements Program", which was devised to equalize U.S. refiners' cost of crude oil by subsidizing refiners dependent on higher cost foreign oil with cash payments from these refiners having access to cheaper domestically-controlled oil. The impact on California producers is to make their crude oil even less economically attractive than before, as those who use it must make cash payments to do so. Under the technical nuances of this program, refiners are given additional incentives to buy imported rather than State-owned crude oil. California production--and tideland revenues--have seriously declined as a result.

The most recent and damaging Federal action affecting California royalty production took place two months ago, when price levels were established for Alaskan crude oil delivered to the Continental U.S. via the Trans-Alaskan Pipeline. When peak Alaskan production is achieved, a glut of crude oil will occur in California. In a rule issued last August, Federal officials decided that Alaskan Oil would be treated as "new" oil for purposes of establishing maximum selling prices and as "exempt" or uncontrolled oil under the Entitlements Program. The net effect is to make California oil even less competitive with out of state and foreign oil.

Promulgation of the Alaskan pricing regulations will seriously aggravate what has previously been an inequitable situation for the State of California. The primary recipients of tidelands revenues are California's colleges and universities and State water projects. The State earned \$84.5 million in total revenues from crude oil tideland production in the 1976-1977 fiscal year. State Lands Commission's staff

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project that this figure will decline to approximately \$65 million this year due to present Federal pricing decisions, and that State revenues could be totally eliminated by 1980-1981 if the Federal program continues to be administered in its current form.

The State Lands Commission has sought to make Federal officials aware of the unique and damaging impact that the pricing system has inflicted on the State of California. Representatives of the Commission have met informally with the Federal government and have sought redress through formal administrative channels. However, these attempts have proved unsuccessful. For example, while acknowledging in its published Alaskan pricing regulations that the effect on California would be adverse, the Federal government nevertheless stated that no corrective action would be taken at this time.

The State Lands Division has met with the Attorney General's Office, the beneficiaries of tideland revenues, and other concerned State agencies to discuss the possibility of establishing litigation or seeking other appropriate redress to correct this situation and ensure that California crude oil production is treated fairly under the Federal price control system. Such action is believed to be essential if continued California tidelands production and revenues are to be assured.

IT IS THEREFORE RECOMMENDED THAT THE STATE LANDS COMMISSION AUTHORIZE THE ATTORNEY GENERAL TO TAKE ALL NECESSARY STEPS, INCLUDING LITIGATION, TO SECURE FAIR AND EQUITABLE TREATMENT FOR THE PRICING OF CALIFORNIA-PRODUCED ROYALTY CRUDE OIL UNDER THE FEDERAL GOVERNMENT'S CRUDE OIL PRICING PROGRAM.