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MEETING
STATE OF CALIFORNIA
STATE LANDS COMMISSION

ROOM 6031
STATE CAPITOL
SACRAMENTO, CALIFORNIA

ORIGINAL

THURSDAY, APRIL 24, 1980

10:00 A.M.

Diane Lynn Walton
C.S.R. License No. 3067

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MEMBERS PRESENT

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Kenneth Cory, Chairperson
Roy M. Bell, Representing Mary Ann Graves,
Director of Finance
David Ackerman, Representing Mike Curb,
Lieutenant Governor

STAFF

William F. Northrop, Executive Officer
James Trout
Donald Everitts
Bob Golden
Dennis Eagan, Deputy Attorney General
Wilbur M. Thompson
John Lamont
Kazumi Yoneyama
Robert Hight
Diane Jones

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P R O C E E D I N G S

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CHAIRPERSON CORY: Call the meeting to order. Confirmation of the minutes of the meeting of March 19th. Any corrections or additions, Commissioners? Without objections, minutes will be confirmed as presented.

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We have the Report of the Executive Officer.

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EXECUTIVE OFFICER NORTHROP: Thank you very kindly, Mr. Chairman and members.

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Directly across the table from me this morning we are fortunate in that we have several lawyers which normally do not attend. Dennis Eagan from the Attorney General's Office from San Francisco is here, and he is our counsel on the Pariani case as well as the Volumetric Rental case, and I think it might be appropriate if he gave us some comments as to where those two cases are at the present time.

MR. EAGAN: The Volumetric Rental case was argued in the Court of Appeal for the Third District of Sacramento in mid-February. We don't yet have a decision, and it was far from clear based on the questions from various members of the court what the eventual decision would be.

CHAIRPERSON CORY: Who did you have on the panel?

MR. EAGAN: Coleman Blee, Justice Puglia and Justice Paras. Justice Puglia didn't have too many questions,

1 but Justice Blee and Paras did.

2 CHAIRPERSON CORY: What were Paras' questions?

3 MR. EAGAN: Good question. I wish I had my notes
4 in front of me. I remember Blee's a little better because
5 they were tougher.

6 Justice Blee wanted to know what our reaction would
7 be to a determination by the Court that in fact the particular
8 rentals that the Commission had negotiated in certain cases
9 were in fact reasonable, and we had said to the Court or
10 argued that you don't really have to reach that and you shouldn't
11 reach that because they were negotiated, and they were agreed
12 to, and they should be deemed reasonable because they were
13 negotiated.

14 And our response was we really had no objection
15 to that, I guess, although we prefer that if the Court were
16 disposed to decide in our favor, to do so for the reasons
17 we argued in our brief. And I don't know how that sat with
18 Justice Paras.

19 CHAIRPERSON CORY: That's the only way we can
20 justify our salaries.

21 MR. EAGAN: Yeah. Right. And what Justice Paras
22 asked -- at this point his questions escape me.

23 The other case is the Pariani case which involves
24 a substantial amount of revenues from steam generation at
25 The Geysers. That was argued just last week in San Francisco

1 just last week before the First District Court of Appeal.

2 We should be in good shape on that case.

3 CHAIRPERSON CORY: Who did you have?

4 MR. EAGAN: That was Division Two consisting of
5 Justice Smith, former Senator Smith -- I can't recall. PJ
6 was the one asking questions; I should recall that. His name
7 escapes me.

8 Anyway, the tough questions were directed to the
9 other side and consisted primarily of paraphrases of the
10 State's arguments and asking the other side what the response
11 was to various of those arguments.

12 We do have a case that is very closely in point
13 of Pariani, which is the Geothermal Kinetics case, which
14 involved two private parties, Union Oil on one side and
15 Geothermal Kinetics on the other side. Geothermal Kinetics
16 argued our position, in effect. We appeared as amicus
17 curiae in that case on behalf of the Commission, which was
18 now decided about two and a half years ago, and that came
19 out our way in terms of our arguments, and we argued that
20 very heavily, of course, in terms of the Court.

21 And I would hope -- I expect that we will have
22 a favorable decision in that case probably fairly shortly.

23 CHAIRPERSON CORY: Questions from Commissioners?

24 EXECUTIVE OFFICER NORTHROP: Mr. Chairman, members,
25 also Mr. John Lamont, our Washington counsel, is here, and

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1 I have asked him to comment to the Commissioners on the
2 Washington scene as far as problems with the oil is concerned.

3 MR. LAMONT: With the heavy oil decontrol in August
4 and December of last year and the windfall profits tax
5 exemption, the Chairman's charted course in trying to get
6 a little better price for the State's oil has come a little
7 closer to fruition.

8 There is quite a bit of debris to be cleaned up
9 after. We are embarked in this nation on a program of getting
10 rid of energy controls because they are too complicated,
11 but it's a little bit ironic that in order to get rid of
12 complex regulations we have to have regulations that are
13 slightly more complex, a little bit harder to comply with,
14 and a lot harder to enforce.

15 They are supposedly time limited, but the way
16 they are moving it will be quite some time. In the meantime,
17 the crude oil has been piling up in District 5, the West
18 Coast area here, with the Alaskan crude and the foreign
19 crude having significant advantages under the regulatory
20 pattern.

21 CHAIRPERSON CORY: Is there any possibility of
22 the Alaskan favorable treatment being altered?

23 MR. LAMONT: There is a very great likelihood.
24 Last week there was a hearing on behalf of some -- Ohio
25 gasoline marketers before a Mr. Goldstein, head of the Office

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1 of Hearings and Appeals. He rejected the complaint, the
2 request as filed on the grounds that he did not have the
3 authority -- even he did not have that authority.

4 CHAIRPERSON CORY: That's precedent setting.

5 MR. LAMONT: That is. But, he did instruct them
6 on how to file it so he could grant it. That is being heard
7 later -- that will be heard next week.

8 In the meantime he also sent a formal memorandum
9 to the head of the Economic Regulatory Administration saying
10 that the special treatment for the Alaskan crude should
11 be withdrawn as a matter of protecting the innocent. It
12 is likely that the ERA will do that since they have had
13 it sitting on Mr. Hilton's desk for about a month and a
14 half, a formal rulemaking proceeding for that purpose.

15 Now that Mr. Goldstein has asked him to do it
16 they may do it more rapidly.

17 CHAIRPERSON CORY: My understanding is that
18 Mr. Duncan has not been there for a month and a half. I
19 have been trying to see him for several months and he's
20 never there. Having it on his desk won't do a great deal
21 of good.

22 MR. LAMONT: Well, there has been direct mail between
23 Washington on the Real Bill for quite some time. He's been
24 on mission to Mecca for some one purpose or another.

25 At any rate, in the midst of all of this the import

1 proclamation was issued and has caused a considerable amount
2 of legal stir. A number of people are trying to mount a
3 lawsuit with respect to it. The Congress of the United States
4 is currently considering a joint resolution to declare it
5 null and void. They had a hearing this morning before
6 Congressman Vanik, Subcommittee Ways and Means, at which
7 Mr. Duncan appeared, and according to my partners set several
8 standing records for not quite answering questions.

9 On the other hand, he's right to feel defensive
10 because this afternoon he goes before a Subcommittee on
11 Government Operations Committee, which issued a Subpoena,
12 requesting an 18-inch stack of documents prepared in the
13 Department of Energy as background for the import proclamation,
14 most of which was -- you'd have to call it negative background,
15 according to the stories.

16 That 18-inch stack, has, however, been bundled
17 up and sent over to the White House with the view that it
18 might be claimed executive privilege, rather interesting
19 situation.

20 The House Committee has formally issued a Subpoena
21 returnable this afternoon. Mr. Duncan will go on the stand
22 at 2:00 o'clock Washington time to explain -- I think to
23 explain why he isn't going to comply with that, and we ought
24 to have some fun with that.

25 Finally, one of the things that we are watching

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1 a little bit warily is the International Energy Agency with
2 the imposition of sanctions of Iran and the request of our
3 allies to do likewise.

4 There is a likelihood that some or all of the
5 Iranian supplies will be withdrawn. If so, several of the
6 countries who are fellow members of the International Energy
7 Agency will have more than the 7-percent shortfall that
8 triggers the operation of the agreement. Then, they are
9 going to have to make a decision whether or not they will
10 decide that the trigger doesn't work. The more probable
11 scenario, I think, is that they will not impose the oil-
12 sharing mechanism under IEA, but rather the United States
13 will unilaterally decide to do something about it in connection
14 with Alaskan oil.

15 The Alaskan exchange will suddenly come to life
16 again, although it will have some obstacles. It is no longer
17 quite the attractive deal it was for the companies involved
18 since the Congress insisted that the first -- that an exchange
19 of the Alaskan oil would have to be returnable with at least
20 the equivalent amount of crude oil feed stock in other parts
21 of the United States, that it would not only come back
22 similar in quantity but similar in price. So that the
23 companies are no longer quite as anxious for the deal as
24 they were before. However, that would seem to answer the
25 problem without triggering the agreement. In other words,

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1 everything is normal -- all fouled up.

2 COMMISSIONER BELL: What about equalization program?

3 CHAIRPERSON CORY: The entitlements?

4 COMMISSIONER BELL: Yeah.

5 CHAIRPERSON CORY: When does the entitlements
6 program end?

7 MR. LAMONT: It's supposed to end when the EPAA
8 runs out in 1981.

9 CHAIRPERSON CORY: What date, October?

10 COMMISSIONER BELL: October.

11 MR. LAMONT: I can't give you that. I don't
12 remember.

13 EXECUTIVE OFFICER NORTHROP: October the 1st --
14 September.

15 MR. LAMONT: The odds are, however, that some
16 variation of the entitlements program may well continue if
17 certain elements of the industry have their way. The
18 independent refiners particularly believe that they cannot
19 fairly survive in a world in which there is a wide disparity
20 in foreign oil prices -- incidentally, not just the
21 independents, but some of the smaller majors.

22 So, there will be a major move made to keep some
23 kind of entitlement operation going even after the domestic
24 program dies.

25 MR. THOMPSON: They set up a second entitlement

1 program, you know, on the import tax and the gasoline pass
2 through. John can cover that. That's another entitlements
3 program in addition to the crude oil.

4 CHAIRPERSON CORY: I think we probably ought to
5 take the time, John, for you to explain the 460 -- you pay
6 460 and get 460 back and you charge somebody else 10 cents.

7 MR. LAMONT: Couldn't I just do penance some other
8 way?

9 (Laughter.)

10 MR. LAMONT: The proclamation provides that for
11 every barrel of crude oil that is imported after the date --
12 I think it is March 15th -- May 15th -- no -- March 15th --
13 \$4.62 will be paid. Now, that initial fee is a tentative
14 one, and the import fee will be adjustable. The reason it's
15 tentative is because they don't quite know how the
16 arithmetic comes out with respect to the 10 cents a gallon
17 charge.

18 The importer pays four sixty-two into the Treasury.
19 The money goes into the Treasury. It there resides.
20 Thereafter, anyone who makes gasoline in the United States
21 out of any feed stock, whether it is foreign or domestic
22 origin, is required to have a gasoline entitlement. A
23 gasoline entitlement is worth \$4.20 a barrel, 10 cents a
24 gallon, and is supposed to be directly passed through as
25 a charge on the motorist.

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1 In turn, the gasoline manufacturer acquires his
2 entitlements at \$4.20 a barrel of gasoline from the importer
3 who paid four sixty-two to the Treasury. The difference
4 between the two is the amount of gasoline that's made from
5 the barrel of crude oil. As I say, that will be adjusted.
6 In other words, a company who imports will pay to the
7 Treasury \$4.62 and get back from the gasoline refiner the
8 same amount, and he in turn will pass it along. It is one
9 of the neatest most brilliantly packaged five-shell and pea
10 games I have ever seen in my life. Each part of it is
11 slightly deceptive. The whole is enormously deceptive.

12 The allegation is made that this will discourage
13 the use of imports by discouraging the use of gasoline. Of
14 course, the basic problem is that it doesn't discourage the
15 use of imports anymore than it does the use of domestic oil,
16 and if in fact you have an import -- if you have an import
17 subsidy as you do, it will probably diminish the use of
18 domestic oil more than it does the use of imports.

19 Now, I'm sorry. As I say I would rather do penance
20 in almost any other way. But, the net result of it is a
21 10-cent-a-gallon tax will be put on for the motorist. The
22 Treasury will receive about 10 and a half billion dollars.
23 The importer will continue to import, and if he does he will
24 get his entitlement subsidy which is now running somewhere
25 between \$5.28 and \$5.50 a barrel. That is not entitlements.

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1 CHAIRPERSON CORY: Okay. You get the old
2 entitlements of five something --

3 MR. LAMONT: Five twenty-eight.

4 CHAIRPERSON CORY: -- plus you get your four sixty-
5 two back.

6 MR. LAMONT: You get your four sixty-two back.

7 COMMISSIONER BELL: That's a big incentive.

8 MR. THOMPSON: And the consumer ends up paying
9 for it.

10 MR. LAMONT: And more than that, I think more tragic
11 than that is that the country does not get an import control
12 which it badly needs.

13 COMMISSIONER ACKERMAN: Now, when do we see that
14 10 cents at the gas pumps?

15 MR. LAMONT: I think it begins passing through
16 May 15th. There are several dates in there, and as I say,
17 it's very complicated and you can't quite tell all of the
18 players without the program directly in front of you. But,
19 I think it goes through on May 15th.

20 EXECUTIVE OFFICER NORTHROP: No longer than 90
21 days after the imposition. We got 60 to 90 days.

22 MR. LAMONT: Well, that's when they get it back.
23 But, they can start passing it through immediately, I believe.
24 The question is how much will they be able to pass
25 through. You see a great many of the gasoline marketers

1 now are not in fact able to get their full ceiling anyway.
2 We have weird spreads in the market all over the country.

3 COMMISSIONER ACKERMAN: So, if they're really not
4 able to pass through the entire 10 cents who eats it in effect?

5 MR. LAMONT: Probably all things being equal,
6 probably the fuel oil purchaser. In other words, it's
7 supposed to be limited to gasoline, but the other products
8 are not under control, and therefore the companies will have
9 an opportunity to lay off the added charge wherever they
10 can.

11 CHAIRPERSON CORY: Another thing you got to realize
12 if you are running a refinery you have a variation on how
13 much gasoline you'll produce, and the tax is only on the
14 gasoline you produce. So, if you produce something other
15 than gasoline --

16 COMMISSIONER BELL: Like heating oil.

17 CHAIRPERSON CORY: -- or like casing head, or an
18 intermediate product --

19 MR. LAMONT: Or like aviation gasoline.

20 CHAIRPERSON CORY: -- or if you go upwards on the
21 other end, to av-gas, you avoid it.

22 COMMISSIONER ACKERMAN: Um-hum.

23 MR. LAMONT: There is also the provision that any
24 gasoline that is imported made in a foreign refinery will
25 pay 10 cents a gallon import duty immediately.

1 COMMISSIONER BELL: Directly.

2 MR. LAMONT: Now, this won't go through the
3 entitlement system and consequently will not be subject to
4 the problem of time float that you will have with the
5 entitlement payments, the entitlement system, if you import
6 crude oil. So, it would look like there will be a rather
7 considerable incentive to make all of your fuel oil and lower
8 grade products in your US refineries to import your gasoline
9 to the extent that you can, and simply pay the 10 cents and
10 pass it directly through.

11 In the meantime, you will be able to pocket the
12 entitlements which other people have to buy from you without
13 having to pay for the gasoline that you have made. It's
14 interesting.

15 MR. THOMPSON: It would be six-tenths of a cent
16 sales tax on it.

17 CHAIRPERSON CORY: Questions.

18 COMMISSIONER BELL: No.

19 CHAIRPERSON CORY: Okay.

20 EXECUTIVE OFFICER NORTHROP: Mr. Chairman,
21 regarding the Long Beach Local Coastal Plan, last week as
22 the Executive Officer I sent a letter to the City of Long
23 Beach commenting on the City's Local Coastal Plan, LCP, which
24 recently was approved by the City Council. Subsequently
25 staff received the staff report of the South Coast Regional

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1 Coastal Commission on the City's LCP. This report recommends
2 the approval of the LCP subject to certain conditions.

3 One of these conditions, if approved, would preclude
4 night oil drilling in areas close to residential neighborhoods
5 of the city within the Coastal Zone. As the State of
6 California has a direct interest in any revenues which may
7 be derived from oil and gas produced from certain tidelands,
8 particularly along Alamitos Bay, which are located close
9 to the residential areas of the City, it is the staff's
10 intention to send a letter to the Regional Commission
11 commenting on this condition.

12 Now, the City recently revised its oil Code
13 relating to this matter as incorporated in the LCP, and this
14 revised Code was adopted after extensive public hearings
15 in conjunction with the LCP process. We feel, the staff
16 feels that the requirements of the new Code will mitigate
17 to the extent feasible the effects of oil drilling around
18 these residential neighborhoods really without unreasonably
19 increasing the cost of such drilling.

20 A complete limitation of night drilling could
21 discourage contractors from bidding on such work, or if they
22 did they could increase the development costs to such an
23 extent that it may well make it uneconomical to drill. Such
24 a situation could cost the State, not to mention the City,
25 private owners in the area, and we have a chance of losing

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1 much needed oil revenue on it. So, we feel that the City
 2 has taken the necessary steps to mitigate against the problems
 3 of 24-hour drilling by soundproofing rigs and limiting traffic,
 4 and other things, and we feel reasonable if you have to,
 5 the way oil drilling works out -- if you drill just eight
 6 hours a day it will be a long, painful and very expensive
 7 process, possibly even doubling or maybe even tripling the
 8 cost of an oil well.

9 With your permission we will proceed on that.

10 CHAIRPERSON CORY: If it only triples the cost
 11 maybe we ought to settle now before they make it worse.

12 (Laughter.)

13 CHAIRPERSON CORY: Are there any comments?

14 COMMISSIONER ACKERMAN: Is this a Coastal Commission
 15 staff recommendation that exceeds the limitation --

16 MR. THOMPSON: South Coast Regional.

17 EXECUTIVE OFFICER NORTHROP: It is South Coast
 18 Regional which would limit the program.

19 MR. THOMPSON: The LCP will go first for their
 20 review, and then eventually up to the State.

21 COMMISSIONER ACKERMAN: Okay. This is a restriction
 22 that exceeds what the City is already doing?

23 EXECUTIVE OFFICER NORTHROP: Right. The City
 24 realized there is a problem and held some hearings to change
 25 their Code and make it fit, and I think they have tried to

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1 accommodate as much as possible. But, the South Coast really
2 feels there should only be drilling eight or ten hours a
3 day, and that's it.

4 COMMISSIONER ACKERMAN: I kind of wonder what
5 business it is of the South Coast Commission.

6 EXECUTIVE OFFICER NORTHROP: It is within the coastal
7 area.

8 CHAIRPERSON CORY: And they voted on this at the
9 South Coast Region or not?

10 EXECUTIVE OFFICER NORTHROP: Well, I didn't want
11 to send the letter.

12 CHAIRPERSON CORY: Is it South Coast?

13 EXECUTIVE OFFICER NORTHROP: Oh, yes.

14 MR. THOMPSON: Comes up Monday afternoon.

15 EXECUTIVE OFFICER NORTHROP: It comes up Monday
16 afternoon. I would like to have the letter go, but I would
17 like to let you know that I am sending a letter so it doesn't
18 come as a surprise.

19 CHAIRPERSON CORY: It's a CYA statement, then?

20 EXECUTIVE OFFICER NORTHROP: Yes.

21 Mr. Chairman, and members, Mr. Thompson would like
22 to discuss the Westside Industrial Park storm drain.

23 MR. THOMPSON: This is a subsidence project. We'd
24 like to get something on the record on this project.

25 On December 19, 1977, the Commission granted prior

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1 approval of the subsidence cost for second-phase work to
2 replace a portion of the Westside Industrial Park storm drain
3 system. The approval was based on a contract bid of
4 \$1,208,000, and during the course of construction of this
5 thing the State has found to date to authorize eight changes
6 in the contract work, and this has increased the contract
7 cost by \$182,000, which is about equal to the 15 percent
8 contingency which we originally put in the approval that
9 you granted.

10 Recently, a ninth change order was considered for
11 \$436,000. And when the staff learned of this we sent the
12 City a letter on this, and with the concept that we thought
13 this additional work appeared to include substantial changes
14 in the scope of work from that that was granted in the
15 original approval, and consideration should be given to
16 bringing this to the Commission for augmented approval.

17 In response, the City representatives
18 contended that such approval was not necessary on the grounds
19 that the additional work would be within the scope of the
20 original prior approval. The City further contended it could
21 not wait for Commission approval as there was immediate
22 need for changes in order to keep the contractor on the job.
23 This is a job that stretched out over quite a few years.

24 So, during the month of April there have been a
25 number of discussions between the staff and the Office of

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1 Attorney General and the City representatives, and in the
2 most recent meeting the City has agreed to delete a portion
3 of their proposal. This has lowered the cost by \$128,000
4 down to \$308,000.

5 They have also assured the staff that all information
6 necessary to determine the appropriateness of the other two
7 changes would be provided, and indicated the City understands
8 its responsibilities as trustee to exercise diligence in
9 its controlling of costs.

10 There is a longer detailed text on this that was
11 prepared by the Attorney General's Office attached to this.

12 Again, all we are asking the City is to exercise
13 equal diligence on a subsidence project for which the State
14 is paying money for as they would their own cost.

15 CHAIRPERSON CORY: The same diligence that they
16 have used on the Queen, right?

17 MR. THOMPSON: I'll take the Fifth or something
18 else on that.

19 CHAIRPERSON CORY: Any questions from Commissioners?

20 EXECUTIVE OFFICER NORTHROP: Mr. Chairman, Item
21 No. C1, C33, -- correction, C1, 33 and 38 are off calendar.

22 CHAIRPERSON CORY: What about Coastal Commission
23 Report?

24 EXECUTIVE OFFICER NORTHROP: I'm sorry.

25 MR. GOLDMAN: Thank you, Mr. Chairman, members

1 of the Commission. I have two items very briefly this morning.
2 The first has to do with proposed Coast Guard Safety Fairway
3 Separation Scheme.

4 The Coast Guard is currently considering tanker
5 traffic lanes of Southern California. One proposal is to
6 have traffic lanes running from Point Arguello through the
7 Santa Barbara Channel to the Los Angeles-Long Beach Ports.
8 Another proposal would be to take tanker traffic outboard
9 of the Channel Islands to a point south of San Miguel Island
10 and thence eastward to the ports. In addition, four safety
11 fairways are proposed which assume that the alternate plan
12 utilizing the Channel will be adopted.

13 Since the State Coastal Commission will ultimately
14 have to make a consistency determination on whichever alter-
15 native the Coast Guard plans to adopt, your staff raised
16 the issue for discussion at this early date. It is our
17 position, based on extensive input from Admiral Higbee, that
18 the lanes should be located outboard of the Channel Islands
19 for maximum safety and that the so-called "safety fairways"
20 will only increase risks.

21 It is obvious from initial discussions that the
22 issue will be controversial. Staff of the Coastal Commission
23 are opposed to the outside-the-channel proposal because they
24 feel that the Channel route will buttress their position
25 for no further oil development in the Channel. There have

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1 been indications that the steamship operators would prefer
2 that the oil tankers utilize the Channel presumably so that
3 they would not have to share the lanes with the tankers.
4 The Coast Guard seems pre-disposed to adopt the Channel routes.

5 Our position is that a route outside the Channel
6 Islands will provide a greater response time in case of
7 casualty than a Channel route. The offshore islands could
8 provide a buffer. The inboard route requires eight hours
9 of careful piloting while the outboard locations do not require
10 such stringent operations. The four safety fairways proposed
11 as corollaries to the inboard routes would in two instances,
12 prevent development of two oil leases which have currently
13 been granted.

14 Further reports will be made to you as this matter
15 proceeds.

16 The second item has to do with consideration of
17 Senate Bill 664, Nielsen, by the San Francisco Bay
18 Conservation and Development Commission.

19 This legislation sponsored by the title insurance
20 industry would purport to confer unrestricted title to
21 purchasers of swamp and overflow lands and their successors.
22 This bill as drafted would attempt to cure titles to these
23 S & O lands which may be in fact tide and submerged lands.
24 The old S & O patents were noted for the fraudulent means
25 by which they were often conveyed back in the 19th century.

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1 Senator Nielsen, the author, requested that BCDC
2 reconsider its opposition stance adopted last year and further
3 requested that Mr. Sean McCarthy, lobbyist for the title
4 industry, explain the bill as now amended to BCDC. After
5 his presentation, BCDC Commissioners pointed out a number
6 of defects still remaining in the bill, and the Commission
7 refused to reconsider its prior opposition to the measure.

8 That concludes my report.

9 CHAIRPERSON CORY: Any questions from Commissioners?
10 Okay. On the Consent Calendar which items do we
11 have off?

12 EXECUTIVE OFFICER NORTHROP: Item C1 is off, and
13 C5 has a name change. And for the record the name change
14 is as follows: Sisters of the Sacred Names of Jesus and
15 Mary doing business as the Sisters of the Holy Names.

16 CHAIRPERSON CORY: I'm sorry. I mean, that's just
17 wild. They really filed -- has somebody checked to see if
18 they have filed their dba from the county?

19 COMMISSIONER BELL: I don't think they filed in
20 the county. They file above.

21 CHAIRPERSON CORY: Oh. They file above.

22 (Laughter.)

23 COMMISSIONER BELL: Which ones did you say were
24 off?

25 CHAIRPERSON CORY: For the people in the audience

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1 on the Agenda Items with a prefix C are Consent Calendar
2 items and they will not be discussed in detail unless
3 someone in the audience has some problems with the proposed
4 staff disposition of these items.

5 So, if there is anybody in the audience who has
6 any questions concerning the proposed disposition of these
7 matters that are proposed by the staff, let them come forward.

8 COMMISSIONER BELL: Was C1 off?

9 CHAIRPERSON CORY: C1 is off. We changed the name
10 on C5.

11 EXECUTIVE OFFICER NORTHROP: 33 and 38 are off
12 the calendar.

13 CHAIRPERSON CORY: All right. Nothing to do with
14 the Consent Calendar.

15 EXECUTIVE OFFICER NORTHROP: Nothing to do with
16 the Consent Calendar.

17 CHAIRPERSON CORY: We are now going to take without
18 objection Item C2 through 22, inclusive of the name change
19 on C5, and approve the staff recommendations enmasse.

20 Such will be the order.

21 Items 33 and -- which, Mr. Northrop, are off?

22 EXECUTIVE OFFICER NORTHROP: 33 and 38, Mr. Chairman.

23 CHAIRPERSON CORY: 33 and 38 are off calendar.

24 Item 23.

25 EXECUTIVE OFFICER NORTHROP: Mr. Chairman, with

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1 your indulgence of the items numbered 23, 4 and 5 will be
2 discussed this morning by Don Everitts.

3 CHAIRPERSON CORY: Okay.

4 MR. EVERITTS: I think probably I better go through
5 the map.

6 What we are proposing is to award pursuant to
7 competitive bid three leases, 40-acre parcel here, 500-acre
8 parcel, and one here.

9 In the one instance the first item, the high bidder
10 has withdrawn his bid. Staff originally had concluded that
11 he probably wasn't financially able anyway. It turned out
12 in the meantime he had submitted a letter asking for his
13 deposit back, and we have returned his deposit -- we have
14 returned his deposit to him.

15 CHAIRPERSON CORY: May I ask a question?

16 MR. EVERITTS: Beg your pardon?

17 CHAIRPERSON CORY: I guess from the legal staff
18 or the Executive Officer, if we have a bid deposit require-
19 ment, it would seem to me the purpose of it is to preclude
20 somebody who doesn't have the capacity to perform, they suffer
21 some penalty if they don't conclude the transaction. You
22 don't want people at the auction screwing around that aren't
23 in it for real. Under what grounds are we returning the
24 bid deposit?

25 EXECUTIVE OFFICER NORTHROP: Mr. Chairman, the

1 \$6,000 deposit is to -- is a good-faith deposit in which
2 case if later they decide they don't want the bid, it is
3 forfeited. But, we then look at the ability of the bidder
4 to perform on the overall contract.

5 CHAIRPERSON CORY: So, it is our staff recommendation
6 to give it back because he couldn't perform?

7 EXECUTIVE OFFICER NORTHROP: Yes. He couldn't
8 perform. They felt financially they couldn't perform on
9 it.

10 What had apparently happened -- is Harry here?

11 Kaz, is he here? Kaz, do you want to come up and
12 discuss with the Commission your findings on it.

13 Mr. Chairman, Kaz Yoneyama. Do you want to sit
14 down there and tell them what you did to come up with that
15 kind of conclusion.

16 MR. YONEYAMA: Mr. Chairman, I analyzed the finan-
17 cial statements that were submitted by the high bidder, and
18 we also reviewed some of the documents that they submitted
19 pursuant to our requests. And we felt that the results of
20 our examination showed that unless the bidder was able to
21 sell at issue shares of their stock to the public, which
22 is proposed to be done in May or June of this year, unless
23 they can do this successfully, they would not be able to
24 perform all of the conditions of the lease. And, of course,
25 at this time we would not be able to determine if they could

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1 sell these shares successfully.

2 CHAIRPERSON CORY: Okay.

3 COMMISSIONER ACKERMAN: Is the deposit just good-
4 faith money up front?

5 EXECUTIVE OFFICER NORTHROP: Bob may want to respond
6 to that. As I understand it, it is good faith in case they
7 decide to back out. It is a forfeiture to assure the bid
8 was a genuine bid.

9 COMMISSIONER ACKERMAN: And the only way it is
10 not refunded is if they chose to back out voluntarily?

11 EXECUTIVE OFFICER NORTHROP: If we came into a --
12 we're going to refund the deposit. They have sent me a letter
13 indicating it was after Kaz had made his report known to
14 them.

15 CHAIRPERSON CORY: But, what goes through my mind
16 is the possibility of somebody not knowing how much to bid,
17 but not wanting to leave anything on the table. So, he
18 creates several dummy companies, puts in five bids, and then
19 realizes that his fourth lowest bid -- the other three are
20 all his bids, so he just drops it down to that one.

21 If you start giving this money back, it tends to
22 invite that kind of manipulation for the creative. Maybe
23 we should reward their creativity, but I think there might
24 be better ways to encourage creativity.

25 MR. EVERITTS: Well, I would think if such

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1 creativity had occurred that we would probably not be
2 recommending refunding the deposit in this particular instance
3 because we denied them the bid. We felt -- rather than argue
4 with them, they didn't plan on coming here and discuss with
5 us our recommendation.

6 CHAIRPERSON CORY: Okay. Just think about it in
7 the future ones on how to structure it, because it seems
8 to me that that possibility might exist. And it seems like
9 we are going to have bids -- unless we have negotiated bidding,
10 but that's fine. Go ahead.

11 MR. EVERITTS: Simply, the first one is the green
12 area here, and the high bid, which we were recommending that
13 you reject was 76 percent. The next highest bid was 71
14 percent of the net profits. That's on top of 12 and a half
15 percent of the gross. SMUD was the high bid, second high
16 bid, so we are recommending that the lease be awarded to
17 SMUD.

18 The surface owner still has the right to match
19 that bid, however, and as soon as this meeting is over and
20 recommendations are accepted we will be transmitting letters
21 to them.

22 The second parcel, 200 acres, is recommended to
23 be awarded for 72 and a half percent of the net.

24 EXECUTIVE OFFICER NORTHROP: Second parcel, Don,
25 is 48.

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1 MR. EVERITTS: Excuse me. Forty-eight. And then
2 the 98-97 was another 76.1 percent of the net profits.

3 Just to show the relationship of them, this is
4 the big producing area right now, the big area, those State
5 leases. These are the leases that Mr. Eagan discussed earlier.

6 Down here was another lease that the Commission
7 issued. These are some areas that we are proposing to lease.
8 In fact, we are opening bids on these in the next few days.
9 Another area that we are proposing a lease. This is the
10 NCPA parcel that we discussed some time ago when we recommended
11 that you deny a prospecting permit.

12 Down in here are a bunch of Federal leases that
13 we suggested for indemnity exchange. Union Oil Company has
14 filed to drill 45 wells on these leases, so we better hurry
15 on those.

16 EXECUTIVE OFFICER NORTHROP: Outgrowth of the Utah
17 case. If the Supreme Court makes a decision, we will move
18 with all deliberate speed on those.

19 MR. TROUT: It's already filed.

20 CHAIRPERSON CORY: The three parcels are the green,
21 the blue and the small red adjacent to it?

22 MR. EVERITTS: These are the three parcels we are
23 discussing today.

24 CHAIRPERSON CORY: Any questions from Commissioners?

25 COMMISSIONER BELL: No questions.

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1 CHAIRPERSON CORY: Is there anybody in the audience
2 on the award of these bids?

3 Without objection, we will approve the awards as
4 presented, suggested by the staff in Items 23, 24 and 25.

5 Item 26, approval of 49-year General Permit for
6 US Department of Agriculture Forest Service in El Dorado
7 County, recreational pier.

8 MR. TROUT: Yes. This is an existing pier operated
9 by the Forest Service.

10 CHAIRPERSON CORY: Any questions in the audience?
11 Commissioners?

12 Without objection, Item 26 approved as presented.

13 Item 27, the Huntington partnership, approval of
14 a 22-year renewal and amendment to the General Lease of Hunt-
15 ington Harbor Marina.

16 Anybody in the audience on this item?

17 Questions from Commissioners?

18 Without objection, 27 will be approved as presented.

19 Item 28, Applicant Giovannoni in Napa County for
20 a launching ramp gangway and dock. Anybody in the audience
21 on this item?

22 Questions from the Commissioners? Without
23 objection, Item 28 approved as presented.

24 Item 29, Southern Pacific pipelines, approval of
25 a 10-year Renewal and Amendment of General Lease. This is

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1 in Yolo County, small utilization, so it is on a flat
2 minimum fee rather than --

3 COMMISSIONER BELL: Just a boat site.

4 EXECUTIVE OFFICER NORTHROP: Five-year.

5 CHAIRPERSON CORY: Anybody in the audience on this
6 item?

7 Questions. Without objection, Item 29 approved
8 as presented.

9 Item 30, Shell Oil approval of 10-year Renewal and
10 Amendment in Sunset Bay for a refueling dock, as I recall,
11 is that correct?

12 EXECUTIVE OFFICER NORTHROP: That's right, sir.

13 CHAIRPERSON CORY: Any questions from the audience?
14 Questions from the Commissioners?

15 Without objection, Item 30 approved as presented.

16 Item 31, City of Coronado, termination of an
17 existing 15-year Public Agency Permit and approval of a
18 replacement 49-year General Permit, public agency use from
19 date -- this is for public beach lifeguarding?

20 EXECUTIVE OFFICER NORTHROP: That's right.

21 CHAIRPERSON CORY: Facilities?

22 EXECUTIVE OFFICER NORTHROP: Yes, sir.

23 CHAIRPERSON CORY: Is there anybody in the audience
24 on this Item 31? Questions from Commissioners?

25 COMMISSIONER BELL: No problem.

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1 CHAIRPERSON CORY: Without objection, Item 31
2 approved as presented.

3 Item 32, Knights Landing Outboard Club, Incorporated
4 accepting a quitclaim from them and issuing a new lease to
5 Paul and Jean Meeks, is that correct?

6 EXECUTIVE OFFICER NORTHROP: That's correct,
7 Mr. Chairman.

8 MR. HIGHT: Yes.

9 CHAIRPERSON CORY: Is there anybody in the audience
10 on this item? Questions from Commissioners?

11 Without objection Item 32 is approved as presented.
12 Item 33 off calendar.

13 Item 34 and 35, the staff wishes to reject the
14 bids on oil because we didn't get enough.

15 EXECUTIVE OFFICER NORTHROP: That's correct.

16 CHAIRPERSON CORY: Is there anybody in the audience
17 on Item 34 or 35? Any questions from Commissioners?

18 COMMISSIONER BELL: This raises a question.

19 No. I don't think I'll ask it.

20 EXECUTIVE OFFICER NORTHROP: Thank you.

21 (Laughter.)

22 COMMISSIONER BELL: Perhaps it's just a worry.

23 EXECUTIVE OFFICER NORTHROP: It's a nagging worry.

24 CHAIRPERSON CORY: Okay. Without objection, the
25 proposed rejection by the staff will be approved, and Item 34

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1 and 35.

2 Item 36, Plan of Development and Operations and
3 Budget.

4 MR. THOMPSON: Commission staff is recommending
5 approval of 1980-'81 Plan of Development and Budget for the
6 Long Beach Unit. The total budget is \$116,821,000. It
7 provides \$21,865,000 for investment, \$90,980,000 for
8 expense.

9 Also, in this, then, is our \$4,176,000 for
10 administrative overhead, and the major part of the investment
11 funds are for drilling of 40 new wells and about \$78 million
12 of the \$91 million in the category of operating for direct
13 operating costs, and then about \$6 million each for taxes
14 and administrative expense.

15 On this first exhibit here we have the Long Beach
16 Unit oil prices, and then control prices shown in blue there,
17 the actual composite price we received in the Unit is shown
18 in red. Of course, the difference there is we still have
19 some amount of upper and lower tier oil that won't be finding
20 decontrol until 1981.

21 As you can see the uncontrolled price is flat there
22 and has been for about the last four months, and we probably
23 expect fairly stable oil prices here for the next three to
24 six months, and you saw that in the amount of the crude oil
25 sell-off. We are building up our products and also inventories

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1 in our pad-five refineries.

2 All right. The next curve here shows the relation-
3 ship between the Long Beach Unit --

4 CHAIRPERSON CORY: The uncontrolled is 2560?
5 MR. THOMPSON: About that, yes.

6 CHAIRPERSON CORY: We've come a long way, baby,
7 two and a quarter.

8 MR. THOMPSON: That curve has gone pretty fast.
9 Of course, we used to have this curve that sent us clear
10 back to 1973 on the left last year in which that green curve
11 was an exact flat line, and we were on constant oil prices
12 back then. You heard that many times before. So, don't
13 pass that over.

14 This next curve, now, we are showing in dollars
15 per barrel our composite oil price in red, and the cost in
16 dollars per barrel, and again, the escalated price we'll
17 receive in 1981--'80-81 period is shown in red and the costs
18 are in the dark black line there.

19 CHAIRPERSON CORY: Do you think they will hold
20 constant? I mean, you got a flat line across there.

21 MR. THOMPSON: There is no way we can tell a cash
22 flow in cost. So, we have shown that as a flat line.

23 EXECUTIVE OFFICER NORTHROP: What we are using
24 on the projection of the dotted red line is what we estimated
25 to finance as our revenue. However, it looks like the real

1 world may well change that and we will have to again
2 reassess that as we go along.

3 MR. THOMPSON: Now, the line is sloping not only
4 because of what you might think of an uncontrolled price,
5 but also because you were decontrolling upper and lower
6 tier at the same time, which is decreasing that price. And
7 that's why they are in the control group because each one
8 should be decontrolling by September of '81, and then you
9 would be completely in control of that -- about five or six
10 percent.

11 The next curve shows the same thing except in
12 dollars per month. Again, you see the oil revenue. In both
13 cases of these two curves, now, these composite prices are
14 considered before any Federal excise tax, and again, these
15 are completely on a unit basis and there will be different
16 cases of excise tax paid by different people here.

17 Again, we have shown a flat line on the revenue
18 and the costs.

19 Actually, now, these cost curves we have down below
20 here may not be quite that high because we have a lot of
21 facilities that were approved for this year's budget, we
22 have a long lead time on for equipment and construction.
23 So, it may be necessary to carry some of those funds out
24 into next year when we will actually pay the money out. And
25 that will come out of the carryover.

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1 CHAIRPERSON CORY: That's before you go to Houston
2 and the show and see all of the new gear you want to buy?

3 MR. THOMPSON: Yeah.

4 CHAIRPERSON CORY: Have either of you been to the
5 Houston show?

6 COMMISSIONER ACKERMAN: No.

7 COMMISSIONER BELL: I don't want to go.

8 CHAIRPERSON CORY: You don't want to go? It's
9 not a bad -- I mean, there are a lot of nice toys there.

10 COMMISSIONER BELL: Any comments on why Texas crude
11 is cheaper than California?

12 CHAIRPERSON CORY: No. But there are some really
13 fascinating things in learning the stuff we hear about here
14 in these reports. You can actually see the equipment that
15 we pay all these fancy prices for.

16 MR. THOMPSON: It's all in one place and you can
17 see millions and millions of dollars worth of equipment and
18 exhibits. It's a whole worldwide attention type thing.

19 CHAIRPERSON CORY: Instead of moose there are people
20 who understand.

21 (Laughter.)

22 MR. THOMPSON: They will explain it to you without
23 all of the fancy.

24 The next curve is the oil rate curve for the Long
25 Beach Unit. And, again, you can see the change in the

1 decline rate starting in about 1978, and this, of course,
2 is as a result of spending more money.

3 Okay. The first graph in your book in front of
4 you, I believe you all have some --

5 CHAIRPERSON CORY: Let's go back to the decline
6 rate. What do you anticipate the rest of '80 and '81?

7 MR. THOMPSON: If you look at the first curve in
8 the book in front of you -- it should have a red cover on
9 it.

10 CHAIRPERSON CORY: Which book? The biggie?

11 MR. THOMPSON: The big one. The first curve in
12 there, and that is the same curve here, and you will see
13 in it the estimated oil rates for the '81 -- '80-'81 period
14 in there. And again we hope to continue flattening this
15 decline by this additional drilling.

16 CHAIRPERSON CORY: That's what we get for our money?

17 MR. THOMPSON: Yes. And also on this graph you
18 will also see the augmentations that you the Commission have
19 approved in the past. And you can see the seven and a half
20 million dollars you augmented early in 1978, the 20 and a
21 half million dollars you augmented in late '79, and the almost
22 \$10 million you augmented last month. And all of these are
23 part of the reason why our curve is flattening.

24 CHAIRPERSON CORY: When was the original heavy
25 oil decision that Schlesinger --

1 MR. THOMPSON: That was August the --

2 MR. HIGHT: Fourteenth.

3 MR. THOMPSON: Fifteenth.

4 MR. HIGHT: Fifteenth.

5 MR. THOMPSON: -- of 1979.

6 MR. LAMONT: You mean the entitlement?

7 CHAIRPERSON CORY: The entitlement advantage.

8 MR. THOMPSON: Okay. That's back in this curve
9 here, in '76, September of '76. You can see where the red
10 line departs from the green line. That is the gravity
11 differential adjustment. That's the first time we were able
12 to break off from that curve, because at that time we were
13 never getting ceiling pricing, and that's the time we jumped
14 to ceiling price. That amounts to about 60 cents, I think,
15 at that time.

16 COMMISSIONER BELL: Should have been a dollar.

17 MR. THOMPSON: Then, below that on the graph you
18 are looking at you get another measure of this in the number
19 of active drilling rigs we have got there, and you can see
20 how that tapers down in '75 and '76, started picking up active
21 again in '77. That's again, the flattening of the decline
22 and gradually building up. By the end of this year we hope
23 to be up eight rigs, and just as a matter of comparison this
24 is eight rigs now compared to we were running about 16 to
25 18 when we were fully developing this unit back in '66 and

1 '67. So, we are back to a relatively high degree of
2 activity here.

3 Now, in estimating the anticipated budget
4 expenditures, for the 1980-'81 budget, we estimate certain
5 activity levels -- and these are for drilling of new wells,
6 and the redrilling and repair of existing wells, what we
7 are going to do in producing injection well stimulation,
8 the number of producing wells, pump changes, and the volumes
9 of fluid we expect to produce and inject. And then we have
10 to add additional dollars for inflation and increased
11 electrical costs. And if you look at your second curve in
12 the book -- and that is also shown on the wall here -- this
13 is entitled Electrical Energy Costs. When we started
14 preparing the budget early in 1980 the electrical costs were
15 about three and a half cents per kilowatt hour, and we knew
16 that increases in power costs would be approved by the PUC,
17 and we estimated a 40-percent increase to approximately --
18 from three and a half to 4.9 cents per kilowatt hour.

19 However, if you look at that last red dot up there
20 you will see it's already above that dashed red line that
21 we used for estimating for the budget year. So, we again --
22 additional increases probably in the mill this year by the
23 PUC. We may be underestimating in this category, and
24 electrical power is really increasing on us there.

25 Then we will also have to be considering inflation,

1 and inflation appears in most of our budget items at about
2 10 percent. At the present time, various price indexes are
3 running 16 and 20 percent, and we really can't tell what
4 that ripple effect is going to be in our costs, say, by the
5 mid-1981. And to give you an example, since January of 1974
6 an index which the Federal Government maintains, which is
7 called the Wholesale Price Index for oilfield machinery and
8 equipment has increased on the average of 25 percent per
9 year during that particular period of time. And as you can
10 see that doesn't relate to anything you have in your mind
11 for what the consumer or other price indexes are at the time.

12 The other side of the coin is the recent increases
13 in the Consumer Price Index have also things in them like
14 home mortgages which we don't -- aren't reflected in ours,
15 but still there ought to be some ripple costs and we do have
16 concerns of what the final cost will be.

17 The next curve you have here are the actual budget
18 expenditures. And on the far right you can see the budget
19 expenditures for 1980-'81 of \$116 million. That top increment
20 is for administrative overhead, which is roughly 4 percent
21 of the total budget, and 3 percent of that goes to the fuel
22 contractor and 1 percent to the City of Long Beach.

23 The next shaded area below that is the investment
24 funds which are approximately \$22 million. That's a major
25 part of that is for the wells.

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1 The expense part of the budget is \$91 million.

2 Now, if you compare the total budgets of this year
3 against last year, there seems to be only a small increase,
4 and this is misleading. And if you compare the difference
5 between the expense monies, you'll get a little better feeling
6 for the increased activity in inflation. The reason for
7 this is we have augmented a lot of money this year in the
8 construction for investment, and all of that won't be spent
9 this year and really you are looking at a two-year package
10 of this year, and next year in the investment. So, some
11 of that money that is shown here will be over in the next
12 year, and the total expenditure for next year will be a little
13 higher because of the carryout.

14 COMMISSIONER ACKERMAN: Where did this year's budget
15 start out?

16 MR. THOMPSON: This year's budget started out at
17 about \$89 million, I believe.

18 COMMISSIONER BELL: Ninety to one hundred thirteen.

19 COMMISSIONER ACKERMAN: We have had a sizeable
20 increase already?

21 COMMISSIONER BELL: One hundred sixteen. Will
22 probably go up.

23 MR. THOMPSON: Yeah. Back at the first curve you
24 augmented it 20 -- almost \$30 million.

25 The next curve there is Unit license and taxes,

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1 and again you can see the impact of Proposition 13 in your
2 taxes of '78-'79 in the reduction of the \$18 million down
3 to \$5 million.

4 COMMISSIONER ACKERMAN: Where do we stand with
5 LA County on that assessment issue?

6 EXECUTIVE OFFICER NORTHROP: The suit has been
7 postponed.

8 MR. THOMPSON: The assessment hearing has been
9 pushed off because they're tied up with a legal issue, and
10 that will probably go on for, I guess, six months to a year,
11 and then we will go back to the County.

12 EXECUTIVE OFFICER NORTHROP: It looks like about
13 a year delay.

14 MR. THOMPSON: And we have had rumors that the
15 assessor is talking about coming back in and inflating oil
16 prices at 16 and a half percent per year for the next five
17 years and inflating costs at 8 percent per year.

18 So, I imagine we will be back to -- some time after
19 we get the tax bill and the assessment asking for --

20 COMMISSIONER ACKERMAN: An appeal.

21 MR. THOMPSON: -- appeal again, as we did before.
22 And given the length of the contract and various issues like
23 that.

24 CHAIRPERSON CORY: Maybe we ought to find a statute

25 EXECUTIVE OFFICER NORTHROP: I think so.

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1 MR. THOMPSON: The next curve that you have in
2 front of you in your book would be operating expense, and
3 this is the operating expense without taxes and without
4 administrative overhead. So, this is more or less the direct
5 operating costs, and you can see that this has increased
6 about 17 percent, we're estimating that part.

7 And then the next curve is electrical energy charges,
8 and this reflects the chart that we showed you up on the
9 board there of the increases, and you can see we are
10 estimating \$21 million for our electrical expenses next year,
11 and there is a possibility that that may be too low.

12 And the last curve is the contractor salaries and
13 burdens and their various staffs in there, and this is due
14 to salary increases, and also adding additional personnel
15 because of the extra drilling activity. It takes more people
16 in the drilling end and waste haulers and everything like
17 that.

18 CHAIRPERSON CORY: In the '80-'81 year there is
19 2.2 million increase. How much of that 2.2 million increase
20 is new employees, new bodies?

21 MR. THOMPSON: I think we are going up from 310
22 to 323. That would be a little over 4 percent. So, this
23 difference here is roughly 20-some percent.

24 So, by the time you get that I would say maybe
25 15 percent of this is existing employees.

1 Part of this again is you move into more increments
2 on the Social Security base deal, matching deal on this.

3 CHAIRPERSON CORY: Okay. But, in looking at this
4 thing historically, you're looking at maybe -- like a 10-
5 percent increase, and this year they're really whacking it.

6 MR. THOMPSON: Except that -- let's go back and
7 look at previous years.

8 We have actually cut back on staff during some
9 of these times. So, you can see some different flattenings
10 in there.

11 EXECUTIVE OFFICER NORTHROP: We are probably going
12 to start using regular THUMS employees to operate the equipment
13 in the new rigs, particularly, rather than contract help.

14 MR. THOMPSON: In some cases you have seen monies
15 that would have added staff people on THUMS instead of
16 contracting it out.

17 CHAIRPERSON CORY: What I'm wondering is whether
18 or not the contractor THUMS has in essence given everybody
19 a 15-percent salary increase.

20 EXECUTIVE OFFICER NORTHROP: The salary increases
21 at THUMS have followed the industry, which has been
22 considerably more than anything the State people or the City
23 people have experienced.

24 MR. THOMPSON: All you have to look at is the last
25 Union settlement with the OCAW and petroleum industry

1 trends, and that's just where the name is. Energy people
2 are in high demand.

3 EXECUTIVE OFFICER NORTHROP: It's been very
4 difficult for us to keep.

5 MR. THOMPSON: It's very difficult for THUMS to
6 even recruit people.

7 CHAIRPERSON CORY: I told you those boats should
8 be one-way. Don't bring them back home.

9 MR. THOMPSON: Then, the last curve you have gives
10 a comparison for years on the gross revenue and the cost,
11 giving you a net, and again, this net is as if no one were
12 paying any Federal excise tax on the windfall profits tax.
13 So, this is really not a true number. It's just deducting
14 the growth revenue base before tax, that we talked about
15 over here, from the cost, and getting a net, and the net
16 is meaningless.

17 CHAIRPERSON CORY: Questions?

18 MR. THOMPSON: Now, included in this plan we have
19 40 new wells here. Approximately \$9 million to rebuilding
20 33 existing water injection wells and producing wells.

21 On these maps on the wall we have tried to show
22 some potential future locations of the actual well drilled
23 and redrilled was based on whichever service locations are
24 available at the time, and the priority for additional
25 subzone producing information, or if wells are damaged in

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1 the meantime have to repair there, and we select from this
2 particular range.

3 And the large blue dots here indicate new injection
4 wells, and the red dots are new producing wells, and the
5 green dots are some redrill candidates that we know at the
6 present time. Now, we have two sets of maps here.

7 CHAIRPERSON CORY: What does the half dot mean?

8 MR. THOMPSON: Half dot is a subzone well. And
9 this is one of the things we are getting into now. What
10 we are actually showing here is the three maps on the left
11 are the Ranger zone, and the two on the right are the terminal
12 zones. And because of the scale here we have to have two
13 maps, and actually there is continuity. There is a large
14 fault that separates the western and eastern parts of the
15 Long Beach Unit right there.

16 So, what you see on that map is the area west of
17 Long Beach Unit fault and the other area is the area east
18 of the Long Beach Fault. And we say as you brought up, those
19 part circles are subzone wells in here, and this is part
20 of our major plan we're going through right now and what
21 we are going through next year, is to complete enough of
22 these subzone wells in which we take the whole range or
23 interval and cut down the producing and injection wells and
24 evaluate the performance of this to see if economically,
25 then, we can go through and redevelop the whole Ranger zone

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1 and get additional reserves. And we need this data right
2 now, so this is where we are.

3 CHAIRPERSON CORY: For my simple mind, you are
4 talking about the vertical distance between the injection
5 and producing well, is it?

6 MR. THOMPSON: No. We are talking about when we
7 first started here, because of necessity we took the whole
8 interval. In some cases this may be as much as 400 to 450
9 feet of net sand in there, and an interval of maybe six to
10 700 feet.

11 We put that all open in one well hole. We tried
12 to control the injection into this by cementing various
13 places and using dual strings, and things like that. But,
14 the producing well we produced everything that comes along,
15 and then we try and plug off.

16 Now, what we want to do is go back and inject in
17 the smaller intervals. We are starting up with a very --

18 CHAIRPERSON CORY: But an interval is a vertical
19 distance of the zone?

20 MR. THOMPSON: Yes. For example, this map right
21 in the middle there is on the g-sands, which is at the bottom
22 and the g-sand series may be 100 or 150 feet of oil sand.

23 Now, in other places of California if you have
24 found that much oil sand that would have been an oilfield
25 and you would have developed it separately. And this is

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1 what we are going back to now and see if we can justify the
2 redrilling and recompletion. So, we would take the very
3 bottom part. Then we would try to take the middle part and
4 the very top part. The top part to date has flooded out
5 the fastest. And we think that we can get additional oil
6 reserves by doing this and actually pay out.

7 But, we need the data by starting out with these
8 individual completions to make that. So, we will be following
9 up on this as we come back with our quarterly reports as
10 to how this is working.

11 For example, on the far right over here in the
12 terminal zones, because there was a wet section in the very
13 top of the terminal zone, this was added to the Ranger zone
14 and completed.

15 Now, this is thick enough so we will go back and
16 actually take that part out and develop that as a separate
17 reservoir. This is our general program that we are going
18 through here, plus the fact we are going to go in and
19 develop a lot of the flank production that was high cost
20 building before, and now with our higher oil prices we can
21 be justified in doing that.

22 Also, we have a couple of tertiary recovery projects
23 going on. On that first map over there we have the
24 enhancement recovery project with cyclic flooding. That's
25 shown between those dashed red lines there, and that's the

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1 project we are in cooperation with the Department of Energy
2 on.

3 Then, we are going to start another one there,
4 and you approved this about three or four months ago inside
5 that broken line. That actually is in the zone above the
6 Ranger zone or the tar zone. I've merely shown it there
7 for the area, and that will be an unconventional steam-dry
8 project.

9 CHAIRPERSON CORY: Where is the Micellar?

10 MR. THOMPSON: The Micellar is in a part of the
11 field that is to our left, about -- about another mile and
12 a half.

13 CHAIRPERSON CORY: What kind of results are you
14 getting on cost of the Micellar?

15 MR. THOMPSON: We have gotten positive results
16 that we have hoped for right on schedule, and we will probably
17 be reporting on that in another month or two. And it looks
18 good now. The question is how long the response lasts, but
19 as we said at that time we will be able to evaluate this
20 same project probably within the next six months to a year,
21 that we are now seeing this response, and we will be reporting
22 that to you.

23 CHAIRPERSON CORY: Are we actually into the caustic
24 project yet?

25 MR. THOMPSON: Yes.

1 We started caustic in the ground about a month
2 ago. We are also under consideration of looking at several
3 other deals. We are talking about a carbon dioxide tertiary
4 recovery project where we actually inject carbon dioxide
5 into the sands. This tends to reduce our viscosity and
6 increase the oil saturation. This is another tertiary means
7 this would also have some air quality advantages if you can
8 get this on stack gas from refineries and plants and take
9 the CO₂ and inject it. This is, again, a project that is
10 being looked at.

11 The Micellar project we will be looking at projects
12 in the Long Beach Unit. We have to get a pretty positive
13 indication because it's so expensive to get a report out
14 before that.

15 So, we are looking every way we can. They all
16 tie together. If we can go back from our subzone completion
17 and find that there is enough productive capacity and
18 additional reserves in there, then, again, to go after it
19 with a tertiary recovery project technique, then, it is even
20 more feasible because there is enough oil for us to pay out
21 those high-cost prices.

22 CHAIRPERSON CORY: Questions?

23 COMMISSIONER BELL: No. Except I assume we will
24 continue to see modifications 1 through 12 upward.

25 MR. THOMPSON: Well, I hope you don't restrict

1 us to 12. As long as you said upward.

2 (Laughter.)

3 MR. THOMPSON: Yes. Because, again, when we start
4 putting these together we start --

5 COMMISSIONER BELL: I think the budget base is
6 a bit low.

7 MR. THOMPSON: We start estimating in February,
8 and as you can see things like this happens to us so often.
9 The costs is the only thing. We have sufficient cushion
10 now --

11 CHAIRPERSON CORY: Does it make any sense -- we're
12 buying, what, electrical power, right?

13 MR. THOMPSON: Yes.

14 CHAIRPERSON CORY: What about generating our own
15 and swapping? Generating our own at The Geysers and swapping
16 it out?

17 MR. THOMPSON: We have talked about this in the
18 past. We have talked about wheeling power. It always seems
19 to fall through the cracks somewhere. I really don't know.
20 We have talked many times about wheeling power because we
21 are a big consumer of power, and if there is any hope of
22 this, again, maybe we should go back and look at it. Because
23 you know, you're looking at breaking down a very thick wall
24 there when you start talking about wheeling power. That's
25 been our experience in the past.

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1 COMMISSIONER BELL: If you go Geysers you're going
2 to have to wheel through PG&E, aren't you?

3 MR. THOMPSON: Yes.

4 COMMISSIONER BELL: Good luck.

5 MR. THOMPSON: We've had great difficulty in either
6 getting off the ground with this. We have to go PG&E to
7 Edison. They can swap power but somehow it seems to be
8 impossible for us to do it.

9 CHAIRPERSON CORY: Okay. Give me something to
10 do to keep me off the streets at night.

11 I haven't been in a fight with anybody in a while.

12 All right. Anything else, Moose?

13 COMMISSIONER ACKERMAN: One question. If I read
14 all of this right, does this mean because of the increases
15 in oil revenues that this total budget estimates about \$5
16 million in new construction activities as a result of the
17 increases in oil prices?

18 MR. THOMPSON: Total investment is about \$21 million,
19 which is wells and some construction. Now, there is not
20 too much additional construction on this because you have
21 already augmented our construction budget quite a bit already.

22 COMMISSIONER ACKERMAN: This is a continuation
23 of the current year augmentation basically?

24 MR. THOMPSON: Right.

25 CHAIRPERSON CORY: Thank you, Moose. Thank you,

1 Diane.

2 Do you want us to approve this?

3 MR. THOMPSON: Yes.

4 CHAIRPERSON CORY: I thought it was an academic
5 exercise.

6 COMMISSIONER ACKERMAN: I can raise one point here
7 which concerns me. Since this is only my second year on
8 the Commission, I'm getting more educated on this all the
9 time. But, it seems with the whole subsidence questions
10 raised, concern me of the way of the City of Long Beach wanted
11 to spend the money, and every time they wanted to spend a
12 certain amount for subsidence activities we have always
13 questioned the appropriateness whether they are trying to
14 slip something else in. There is a lot that always seems
15 to go back to negotiation to actually -- each one is trying
16 to get the best deal for itself. And here you got a budget
17 of, what, \$116 million that much of it is being spent on
18 activities that I'm not too familiar with.

19 You raised the question of staff salaries, increases,
20 things like this, that they may be appropriate in the industry
21 and they may not. Whether they follow State guidelines or
22 not, I'm not sure.

23 Have we ever really done a complete audit or a
24 look at actually how this money is spent by THUMS? It is
25 spent by THUMS, if I understand correctly.

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1 EXECUTIVE OFFICER NORTHROP: That is correct. We
2 have done some audits. We have never done a complete audit,
3 complete internal audit.

4 Kaz, you may want to address that. Is he still
5 here?

6 MR. HIGHT: He left.

7 EXECUTIVE OFFICER NORTHROP: We have never done
8 a complete internal audit on the issue.

9 I think it perhaps would be something we should
10 think about as doing some kind of an internal audit using
11 probably outside auditors who are familiar -- and there may
12 well be those. There's a question whether there are external
13 auditors available, unbiased external auditors available.
14 But, nevertheless --

15 CHAIRPERSON CORY: Not necessarily biased, but
16 have a conflict because they represent contractors.

17 EXECUTIVE OFFICER NORTHROP: That's probably a
18 better definition.

19 As I recall one of the legislative committees were
20 very critical of us several years ago for not being more
21 selective in auditors.

22 CHAIRPERSON CORY: Could the staff come back with
23 a report of what kind of auditors are available and what
24 it would cost to do that?

25 COMMISSIONER ACKERMAN: Yes.

1 EXECUTIVE OFFICER NORTHROP: Could we do that,
2 Jim?

3 MR. TROUT: Yes.

4 EXECUTIVE OFFICER NORTHROP: Yes. We will.

5 MR. THOMPSON: I would like to bring out that if
6 you are going to think about auditing you should be very
7 specific on it, because many of the overall deals have been
8 audited, for example, the State Auditor General is in there,
9 the City is in there, we're in there on the revenue side
10 and the Unit expenditures are routine. You should very
11 definitely try to scope the specific audit, otherwise you
12 are going to have somebody who is going to go out and again
13 go in and count the petty cash and how many postage stamps
14 and everything like that, and I don't think that's the intent
15 of your audit. You're looking at really how the money is
16 spent, how the contracts are administered, how they procure
17 their equipment and things like that.

18 EXECUTIVE OFFICER NORTHROP: Mr. Chairman, I think
19 the Assistant Executive Officer has some experience formerly
20 with the -- who were you with?

21 MR. TROUT: I worked for Mr. Bell at one time.

22 EXECUTIVE OFFICER NORTHROP: He worked for Mr. Bell
23 So, he understands the concepts of all of this anyway.

24 So, I have asked Jim to take a look at this now,
25 and I think it might be well for Jim to report back next

1 month on this.

2 COMMISSIONER ACKERMAN: Maybe not only with the
3 cost of such an effort but also with the scope of the audit.

4 EXECUTIVE OFFICER NORTHROP: There are some areas,
5 for example, that I feel an auditor -- we are working on
6 equity and I think that is something we want to stay in the
7 Engineering Department and just as soon leave the accounting
8 out. But, there are other areas I think that we should look
9 into.

10 MR. THOMPSON: For example, bring someone in to
11 audit oil pricing would be a waste of time. We have gone
12 through this upside down and backwards, and sideways, and
13 every way imaginable. And to go and duplicate that effort,
14 I don't think would be good.

15 EXECUTIVE OFFICER NORTHROP: Jim, if you would.

16 CHAIRPERSON CORY: You will have that for us next
17 month -- scope, cost and options.

18 EXECUTIVE OFFICER NORTHROP: Yes, sir.

19 COMMISSIONER BELL: I just wanted to reinforce
20 what Mr. Ackerman's concern here was, because as the City
21 of Long Beach reaches the point at which it's only going
22 to get \$8 million of this and really has no further concern
23 of that big increase in cost there, and since -- although
24 THUMS have their own internal auditors they probably rotate
25 them each year just to protect their own company -- the

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1 State really, because of the amount of money involved is
2 leaving itself pretty vulnerable if it doesn't have some
3 type of relatively good type of audit of that. And at the
4 moment we don't have that ability to do as good a job as
5 we should in this area.

6 I think it makes economic sense to protect our
7 money.

8 MR. THOMPSON: Also another case is maybe we can
9 be looking at the fact that we are maybe also looking out
10 for the people in town of that area too, protecting their
11 interests.

12 CHAIRPERSON CORY: Okay. Then, without objection
13 the Plan of Development and Operations and Budget will be
14 approved with the normal silence on the part of the Director
15 of Finance for institutional purposes.

16 COMMISSIONER BELL: I just wanted to state that
17 I expect this budget to be larger than what we are approving.

18 CHAIRPERSON CORY: He will gratefully accept the
19 revenue as serious question about the expenditures.

20 MR. THOMPSON: We have been consistent on that
21 in the past.

22 CHAIRPERSON CORY: We want to -- we are closing
23 the accounts of tideland oil revenue expenditures pursuant
24 to a subsidence project on a sprinkler system?

25 MR. THOMPSON: Right. This is a final closing.

1 This subsidence system was getting below groundwater and
2 had to be replaced. We are trying to close out this, and
3 we are trying to cut these AFE's down. So, we will be getting
4 a very small backlog here and getting rid of these.

5 CHAIRPERSON CORY: Anybody in the audience on this
6 item?

7 Questions from Commissioners?

8 Without objection, closing is approved as amended.

9 Item 39, this is a New Melones lake. Are we going
10 to fill it right here?

11 MR. HIGHT: Right here.

12 CHAIRPERSON CORY: If I vote for this I'm in favor?

13 MR. HIGHT: No, Mr. Chairman.

14 CHAIRPERSON CORY: This doesn't put me square with
15 filling it. Okay.

16 Is there anybody in the audience on this? This
17 is a statement that we do not have any interest in any of
18 the property, flooded or unflooded.

19 MR. HIGHT: Correct, Mr. Chairman.

20 CHAIRPERSON CORY: Okay. Without objection the
21 disclaimer will be approved as presented.

22 Item 40, we want to authorize the Executive Officer
23 to execute an amended Memorandum of Understanding creating
24 the Geothermal Coordinating Council.

25 EXECUTIVE OFFICER NORTHROP: Correct, Mr. Chairman.

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1 COMMISSIONER BELL: It is my understanding,
2 Mr. Chairman, that although we in effect authorize this,
3 that we do not bind the State Lands Commission to final agree-
4 ment with anything the Council comes up with. We still
5 maintain our own independence.

6 EXECUTIVE OFFICER NORTHROP: That's correct,
7 Mr. Chairman.

8 CHAIRPERSON CORY: Good negotiating.
9 Without objection, Item 40 will be approved as
10 presented.

11 Item 41, approval of boundaries for an annexation
12 of tide and submerged lands, City of Redding. Any questions
13 from the audience? From Commissioners?

14 Without objection, Item 41 will be approved as
15 presented.

16 Item 42, San Francisco Bay EIR, approval of
17 solicitation of bids and subsequent award of contract, and
18 consummation of reimbursement agreement for an EIR in the
19 Hercules area, Contra Costa County.

20 Anybody in the audience on this? Any questions
21 from the Commissioners?

22 All right. Without objection Item 42 is approved
23 as presented.

24 Any other items to come before us? Thank you
25 very much. It is nice to have Methuselah here from

1 Washington, and it is nice to have a beauty to distract us
2 from Moose.

3 Thank you, very much. We stand adjourned.

4 (Thereupon the Meeting of the State Lands
5 Commission was adjourned at the hour of
6 11:20 A.M.)

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CERTIFICATE OF SHORTHAND REPORTER

I, DIANE LYNN WALTON, a Certified Shorthand Reporter of the State of California, do hereby certify:

That I am disinterested person herein; that the foregoing Hearing of the State Lands Commission was reported in shorthand by me, Diane Lynn Walton, and thereafter transcribed into typewriting.

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 22nd day of May, 1980.

Diane Lynn Walton
DIANE LYNN WALTON
Certified Shorthand Reporter
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