

1 CHAIRPERSON D'AGOSTINO: So moved.

2 EXECUTIVE OFFICER NORTHROP: Mr. Chairman,  
3 Item No. 19 is termination of a lease and replacement with  
4 a general lease for Paul L. Erman and Linda F. Erman.  
5 It brings the lease up to current regulations, and it's  
6 for the new owners.

7 COMMISSIONER MORGAN: I have a question.

8 Why was this not on the Consent Calendar? Is  
9 there some opposition?

10 EXECUTIVE OFFICER NORTHROP: There was no objec-  
11 tion to it. It was a change of lease, and it was with  
12 a commercial marina, so we decided to put it on this calendar  
13 in case there were surrounding neighbors that had comments.

14 COMMISSIONER MORGAN: I don't have any problems.  
15 Do you have any?

16 COMMISSIONER ACKERMAN: No.

17 CHAIRPERSON D'AGOSTINO: Without objection,  
18 it's approved.

19 EXECUTIVE OFFICER NORTHROP: Mr. Chairman, Item  
20 No. 20 is a boundary line agreement with the City of Pittsburg  
21 which was the legislative grantee. The current boundary  
22 of the grant was never really defined. This defines that  
23 boundary line.

24 COMMISSIONER MORGAN: That's fine.

25 COMMISSIONER ACKERMAN: No problem.

1 CHAIRPERSON D'AGOSTINO: Without objection.

2 Item #21.

3 EXECUTIVE OFFICER NORTHROP: Mr. Chairman, Item  
4 21 authorizes the Executive Officer to enter into a  
5 Memorandum of Understanding with the United States Bureau  
6 of Land Management on approximately 62.4 thousand acres  
7 of indemnity land, and 52.7 thousand acres of unassessed  
8 land. The state indemnity selections we will attempt to  
9 block up and to use, as we've outlined in previous reports  
10 to the Commission.

11 We would like the Commission's approval for  
12 my execution of that Memorandum of Understanding.

13 COMMISSIONER MORGAN: What exactly does this  
14 do for you, Bill?

15 EXECUTIVE OFFICER NORTHROP: This Memorandum  
16 of Understanding lays out the ground rules by which we  
17 will attempt to make and select the parcels of property  
18 involved.

19 COMMISSIONER MORGAN: It's a starting point?

20 EXECUTIVE OFFICER NORTHROP: It's a starting  
21 point for us as a followup to the Western States Land  
22 Commissioners Memorandum of Understanding in which all  
23 of the Western States came to an agreement that we were  
24 all going to try to work out these MOU's on a state-by-  
25 state basis. This is our basis. So far, the California

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1 State Office has been very helpful in putting this memorandum  
2 together, so it gives us a starting point. We made the  
3 specific exchange, then we will come back to the Commission.

4 COMMISSIONER MORGAN: All right.

5 COMMISSIONER ACKERMAN: Bill, do you anticipate  
6 that the current administration will facilitate this effort  
7 a little bit?

8 EXECUTIVE OFFICER NORTHROP: I will know better  
9 next week. I'm going to Washington to meet with the  
10 Secretary and with others, a group of us from the Western  
11 States are going to meet, and this is going to be one of  
12 the points we're going to address, the implementation of  
13 MOU's.

14 COMMISSIONER ACKERMAN: It might be a good item  
15 for the Executive Officer's Report at the next meeting.

16 COMMISSIONER MORGAN: We may be on the right  
17 side of an issue in Washington.

18 CHAIRPERSON D'AGOSTINO: Without objection.

19 Item 22.

20 EXECUTIVE OFFICER NORTHROP: Mr. Chairman, Item  
21 No. 22 is a name change for the Ancient Marine; to the  
22 Rusty Pelican for reaffirmation of determinations of a  
23 lease.

24 The City of Long Beach has already made a deter-  
25 mination concerning this lease, and due to the name change,

1 it is necessary for the leasees to obtain financing, and  
2 they have asked that this reaffirmation be approved.

3 COMMISSIONER ACKERMAN: No problem.

4 COMMISSIONER MORGAN: Okay.

5 CHAIRPERSON D'AGOSTINO: Next Item 23.

6 EXECUTIVE OFFICER NORTHROP: Mr. Chairman, Item  
7 23 is a return to the Commission calendar of an item we  
8 had last month, in which there was some concern over the  
9 bid on a sand and gravel permit, in which the percentage  
10 high bidder determined that they had, perhaps, bid on the  
11 wrong parcel.

12 Staff is working with them on that problem.  
13 The second bidder has rescinded his bid. So, we're left  
14 with the current bidder, Western-Pacific Construction  
15 Materials Company, who proposed a 10.51 percent of the  
16 gross selling price of sand and gravel. Staff points out  
17 that that is the sale directly to the retail trade, so  
18 we feel that the 10.5 percent would probably be higher  
19 than the other bid, because they were bid on a wholesale  
20 seller.

21 COMMISSIONER ACKERMAN: Is this the one where  
22 there was a question about returning?

23 EXECUTIVE OFFICER NORTHROP: Right. We're still  
24 working on that.

25 COMMISSIONER ACKERMAN: Was that involving the

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1 contractor who allegedly bid on he wrong parcel?

2 EXECUTIVE OFFICER NORTHROP: right.

3 COMMISSIONER MORGAN: I'm satisfied on this  
4 one.

5 CHAIRPERSON D'AGOSTINO: David?

6 COMMISSIONER ACKERMAN: No problem.

7 CHAIRPERSON D'AGOSTINO: No problem.

8 Item 24.

9 EXECUTIVE OFFICER NORTHROP: Mr. Chairman,  
10 Members, Item 24 is an exploratory well approval for the  
11 Shell Oil Company in Ventura County. They have done all  
12 of the EIR work, and the calendar item as proposed calls  
13 for one well, and if it looks promising, three exploratory  
14 wells in that location. And then, an additional well  
15 in another location, and if that looks promising, three  
16 exploratory wells off of that one.

17 Staff feels that we have completed the environ-  
18 mental work, and this is an exploratory drilling program  
19 and should if proved to be fruitful, the staff will return  
20 to the Commission for a drilling program for the field.

21 COMMISSIONER MORGAN: Okay.

22 COMMISSIONER ACKERMAN: No objection to this  
23 item.

24 EXECUTIVE OFFICER NORTHROP: Surprisingly, in  
25 our Santa Barbara hearing, it lasted less than 20 minutes.

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1 We had very few objections on it. The staff and Commission  
2 members had worked with people in that area.

3 COMMISSIONER ACKERMAN: All right.

4 CHAIRPERSON D'AGOSTINO: Without objection.

5 Item 25.

6 EXECUTIVE OFFICER NORTHROP: Mr. Chairman, Item  
7 25 is a selloff of approximately 1100 barrels of Huntington  
8 Beach oil from a statewide bid of \$1.56125 per barrel over  
9 the base price. There were approximately 15 bidders on  
10 this, and Macmillan Ring-Free Oil Company was the high  
11 bidder.

12 In addition to that, we have a language change.  
13 We'd like to submit it at this time to the calendar item.

14 The original bid, or letter of credit we had,  
15 requested that the amount of security required under this  
16 contract be \$3 million. However, in receiving a letter  
17 from Macmillan and recalculating the exposure, we feel  
18 that two and a half million dollars better covers our exposure.

19 So, we ask that the following be used instead,  
20 or that you authorize the Executive Officer to reduce the  
21 amount of security required under Section 19 of the Royalty  
22 Oil Sales Contract from 3 million to \$2,500,000, and  
23 accept such security in the form of a bond or letter of  
24 credit.

25 COMMISSIONER MORGAN: Is that changing the bid

1 specifications?

2 EXECUTIVE OFFICER NORTHROP: That's changing  
3 the credit. Wait a minute, I'm getting a yes and no.

4 MR. WILLARD: My name is Al Willard.

5 The security requirements under the contract  
6 may be changed at the discretion of the State Lands Commission.  
7 So, under the terms of the contract, you are permitted  
8 to change the amount of bonds.

9 EXECUTIVE OFFICER NORTHROP: The idea is to protect  
10 the State to exposure should something happen to the company,  
11 which is a substantial company. And we don't -- we do  
12 require this on selloff buyers to protect the state.

13 COMMISSIONER MORGAN: But doesn't it cost the  
14 bidder money?

15 EXECUTIVE OFFICER NORTHROP: Yes, it costs the  
16 bidder money.

17 COMMISSIONER MORGAN: Might not it have affected  
18 his bid?

19 EXECUTIVE OFFICER NORTHROP: Certainly. On  
20 the other hand, when you look at a bidder, or somebody  
21 that is bidding, there are some of those about which  
22 we have very little information and nothing is available  
23 because they're closely held companies, or corporations,  
24 or even individuals. So, we need some protection to the  
25 state. The exposure is high when you're looking at 1100

1 barrels a day, or 80 days before we get our money. That  
2 is a horrendous cash flow that we have to cover ourselves  
3 for, and certainly does affect the bid. It's a cost factor.

4 COMMISSIONER MORGAN: You're saying that because  
5 that company --

6 EXECUTIVE OFFICER NORTHROP: No, because we  
7 had originally looked at 90 days exposure, and they have  
8 asked us, in lieu of the fact that it is 80 days exposure,  
9 to reduce it, because it is a cost factor to them and they  
10 were the high bidder.

11 COMMISSIONER ACKERMAN: My question, and perhaps  
12 the same as Susanne has asked, is really, if you had  
13 changed this bid spec, would it have changed the order  
14 in which your bidders ranked, high to low?

15 EXECUTIVE OFFICER NORTHROP: No, it didn't,  
16 because the break between this bidder and the other bidder  
17 was considerable, it was 30 cents difference between the  
18 top.

19 That wouldn't have affected the bid.

20 COMMISSIONER MORGAN: So, it's a savings to  
21 him?

22 EXECUTIVE OFFICER NORTHROP: It's a savings  
23 to him, correct.

24 COMMISSIONER ACKERMAN: The bidders, when they  
25 submitted the change, submitted them on the same specifics?

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1 CHAIRPERSON D'AGOSTINO: That's my understanding.  
2 My understanding was, if one of the other bidders was of  
3 potentially less substance --

4 EXECUTIVE OFFICER NORTHROP: We take the company  
5 into consideration when we make this change. We took the  
6 substance of the company into consideration before we made  
7 the change.

8 CHAIRPERSON D'AGOSTINO: If you're going to  
9 take the substance of the company, isn't that in the bid  
10 specs?

11 EXECUTIVE OFFICER NORTHROP: We don't know how  
12 to quantify a company. I think that may be a problem.

13 COMMISSIONER MORGAN: What happens if we don't  
14 approve this?

15 MR. WILLARD: They'll be obligated to submit  
16 \$3 million.

17 COMMISSIONER MORGAN: They don't drop out of  
18 the bid, though?

19 MR. WILLARD: No, they have deposited a good  
20 faith deposit also of 25,000, so I doubt that they would.  
21 They're interested in oil.

22 COMMISSIONER MORGAN: I would feel more comfor-  
23 table if you could give me something more objective. You're  
24 probably right, there are companies you can depend on,  
25 but there are some you don't know as much about. But,

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1 when you're dealing with public bids, it seems to me that  
2 we have to deal with objective factors, and not with what  
3 we know about how solid a company is.

4 In this particular case, it may not make any  
5 difference, because there is a wide spread.

6 MR. WILLARD: We based our original security  
7 on 90 days, a financing function of that. We came up with  
8 this 80-day number. It's really that our exposure is going  
9 to be approximately 80 days on this matter. That's the  
10 basis for this.

11 MR. EVERITTS: My name is Don Everitts.

12 One of the important points is, you're talking  
13 about 1100 barrels a day. Over a year's time, you're talking  
14 about 400,000 barrels, you're talking about maybe \$8 million  
15 dollars' worth of oil.

16 When you're talking about exposure, you're still  
17 talking about two or three million dollars.

18 That difference is not the cost difference in  
19 the cost to the bond. I mean, it just wouldn't make up  
20 that difference. I think that's pretty important to consider.

21 MR. WILLARD: One other factor is, you know,  
22 when we talk about the bid specifications, all of the  
23 bidders were aware of the fact that the contract provides  
24 that you may change that bond requirement at your discretion.  
25 So, it's not like they were coming in and being blind-

1 sighted, the low bidders. So, they were aware that it  
2 could be changed.

3 MR. TAYLOR: I think it's important to look  
4 at the calendar item on page 129. You're accepting the  
5 bid and authorizing the Executive Officer to execute it,  
6 and you're also authorizing the Executive Officer to take  
7 the second action.

8 The third item, which Mr. Northrop has read  
9 to you, is under the contract immediately after it's  
10 signed. It's not changing the bid form, it's changing  
11 a provision of the contract, which is allowed to be done  
12 in the contract. So, we are not changing what went out  
13 on the other two items. It is a discretionary item.

14 This is still a very substantial bond. The  
15 difference is 500,000, but it's still a two and a half  
16 million dollar bond.

17 CHAIRPERSON D'AGOSTINO: It's from three to  
18 two and a half?

19 MR. TAYLOR: Yes. So in any event, one of the  
20 concerns seems to be, are you changing the bid form, and  
21 the answer to that is no. You're really changing something  
22 that's allowed to be changed by the contract immediately  
23 after it's signed, so there's no changes in operation.  
24 You're not doing that, if that satisfies your concerns  
25 on that point.

1 COMMISSIONER MORGAN: No, it has nothing to  
2 do with the form. It has to do with what you required  
3 when you went out to bid, that you changed one of the  
4 requirements of when you wrote the contract.

5 MR. TAYLOR: No, the contract has not been changed.  
6 The contract will be signed at \$3 million.

7 COMMISSIONER MORGAN: And then amended?

8 MR. TAYLOR: Then a letter of amendment will  
9 go out, which is provided for in the contract.

10 COMMISSIONER MORGAN: Which amounts to the same  
11 thing. I mean, in this case it may not make any difference,  
12 but as a matter of policy I don't like it. It's poor  
13 bidding practice to go out with one set of specifications,  
14 and immediately on determining who the bidder is, to change  
15 the specifications. It's not a very good approach, I think.

16 Dave, what do you think? I mean, in this case  
17 it may not make any difference, but I need some way to  
18 get the point across.

19 COMMISSIONER ACKERMAN: If things are very close  
20 on a bid, and afterwards the successful bidder makes some  
21 technical adjustment which would, in fact, may have allowed  
22 the second-place bidder to make a better bid, it just seems  
23 that you would make those at the time the bid is submitted.

24 EXECUTIVE OFFICER NORTHROP: May I point out  
25 that this isn't a unique situation. It's been done before.

1 COMMISSIONER MORGAN: That's what I'm afraid  
2 of.

3 EXECUTIVE OFFICER NORTHROP: The request of  
4 the company, as a matter of fact, is not an unusual request.

5 COMMISSIONER ACKERMAN: Does USA Petrochem know  
6 about this change? They were second.

7 MR. WILLARD: No, sir, I don't believe they  
8 do.

9 You'll be approving other contracts here shortly  
10 that they were successful with.

11 COMMISSIONER ACKERMAN: Would you do the same  
12 thing for them on the next one?

13 MR. WILLARD: No, because, again, our exposure  
14 is more close to the 90 days.

15 EXECUTIVE OFFICER NORTHROP: We're just trying  
16 to cover the exposure of the state, and that's really what  
17 a bond is. When we're not that exposed, the staff feels  
18 it's unfair to have them pay for the exposure.

19 MR. EVERITTS: Here's the situation. The 90  
20 days on this particular contract, we can return the oil  
21 immediately on demand to our lessees should something happen,  
22 should this Macmillan default under the contract. We can  
23 make immediate delivery on that oil to our lessees.

24 Under the next contracts, the ones you'll be  
25 looking at, we have to give 30 days notice. So, we would

1 have to be out on the street corner peddling this oil some-  
2 where or another if they defaulted.

3 COMMISSIONER MORGAN: So, the statement since  
4 this company is so solid, or the implication was, that  
5 is really not the reason for the change in the contract?

6 EXECUTIVE OFFICER NORTHROP: No, exposure was  
7 the reason.

8 MR. EVERITTS: We're fully covered on the 80  
9 yrs.

10 EXECUTIVE OFFICER NORTHROP: All we tried to  
11 do was cover our exposure.

12 COMMISSIONER MORGAN: I don't have a problem  
13 approving it on that basis. I did have problems if you  
14 change after receiving based on who sent it, who submitted  
15 the bid.

16 EXECUTIVE OFFICER NORTHROP: We're just looking  
17 at exposure.

18 CHAIRPERSON D'AGOSTINO: We would have, then,  
19 three recommendations.

20 COMMISSIONER MORGAN: And the third one we don't  
21 have.

22 CHAIRPERSON D'AGOSTINO: And two are on the  
23 agenda, and the third one you presented as an amendment.

24 EXECUTIVE OFFICER NORTHROP: Yes, it would be  
25 an amendment to the contract, to authorize me to amend

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1 the contract and not amend the calendar item.

2 COMMISSIONER MORGAN: With the understanding  
3 that the adjustment is made based on exposure.

4 COMMISSIONER ACKERMAN: I don't have any problem  
5 with that.

6 CHAIRPERSON D'AGOSTINO: There's no problem  
7 with that.

8 Item 26.

9 EXECUTIVE OFFICER NORTHROP: Mr. Chairman, Item  
10 26 is approximately 600 barrels per day bid by USA Petrochem  
11 Corporation at a proposed site in Huntington Beach.

12 COMMISSIONER MORGAN: Is there a third item  
13 to be added here?

14 EXECUTIVE OFFICER NORTHROP: No, ma'am.

15 COMMISSIONER ACKERMAN: I don't have any problem.

16 COMMISSIONER MORGAN: No.

17 CHAIRPERSON D'AGOSTINO: Without objection.

18 Item 27.

19 EXECUTIVE OFFICER NORTHROP: Mr. Chairman, Item  
20 27, USA Petrochem Corporation again, approximately 600  
21 barrels per day, but this time \$1,452 per barrel has been  
22 proposed.

23 COMMISSIONER MORGAN: Getting a lot of bids,  
24 wide range of bids, too.

25 CHAIRPERSON D'AGOSTINO: Same people.

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1 Without objection.

2 Item 28.

3 EXECUTIVE OFFICER NORTHROP: Mr. Chairman,  
4 perhaps you'd rather consider Items 28, 29 and 30 as a  
5 unit. It is a lease in Lindsey Slough for, in one item,  
6 86.27 acres, and Items 29 and 30, 152.22 acres and 175.52  
7 acres respectively.

8 In Item 28, 81.38 percent of the net profit  
9 was a 16 and two-thirds royalty and \$20 per acre.

10 The net profit changes to 79.50 percent in Item  
11 29 at 16 and two-thirds, and \$20 per acre per year rental  
12 on 29. So, those two phases remain consistent.

13 In Item 30, the net profit is 79 and a half  
14 percent.

15 It is the staff's opinion that this bid should  
16 be awarded. There has been a question about drill site,  
17 and staff assures me that there is adequate drill site  
18 available for the production of these fields.

19 CHAIRPERSON D'AGOSTINO: Where is Lindsey Slough?

20 We have couple of people from Seahawk in the  
21 audience in attendance.

22 MR. BRASSELTON: Mr. Chairman, Robert Brasselton.

23 I have no statement to make. It was in case  
24 there was any objections, I wanted to be on the record.

25 CHAIRPERSON D'AGOSTINO: Mr. Fenton is also

1 here. Do you have anything you want to present into the  
2 record?

3 MR. FENTON: Not at this time, no.

4 CHAIRPERSON D'AGOSTINO: Anyone else in the  
5 audience? Yes, sir.

6 MR. ERKEL: Mr. Chairman, I put my name in.  
7 Apparently you didn't get it.

8 I'm James L. Erkel, Staff Attorney in the  
9 Corporate Law Department of MCOR Oil and Gas Corporation.

10 With me is our senior land man with MCOR.

11 MCOR Oil and Gas Corporation is developing its  
12 oil and gas leasehold interests in and to Hastings Tract  
13 in Solano County, California. Lindsey Slough constitutes  
14 the southern boundary of Hastings Tract. Title to the  
15 surface and mineral estate in and to Hastings Tract was  
16 severed by deeds conveying the surface thereof excepting  
17 and recerving all interest in oil, gas and other hydro-  
18 carbons within or that may be produced from the property,  
19 and the right to drill and maintain oil and gas wells into  
20 and through the surface of the property.

21 We have received an oil and gas lease from the  
22 owners of the mineral estate which conveys the full and  
23 exclusive right to explore, drill for, produce, extract,  
24 mine, remove and market oil, gas, hydrocarbon substances,  
25 and other commercially valuable substances resulting from

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1 oil, gas, and hydrocarbon operations on or from said lands.  
2 The lease was intended by the parties involved to convey  
3 the entire interest and estate which the mineral owners  
4 have in this transaction.

5 The State Lands Commission has identified the  
6 bids submitted by Seahawk/Casex as having offered the  
7 highest bid factor in net profits. The bid proposals  
8 required bidders to provide evidence of their plan or ability  
9 to obtain all necessary drill sites, easements, and  
10 rights-of-way for drilling and production activity. This  
11 showing is crucial inasmuch as the proposed lease forms  
12 preclude the right to drill any well from the surface  
13 area overlying the leased lands or to use any portion of  
14 the surface area or the subsurface area within 500 feet  
15 of the surface for any purpose. Consequently, a bidder  
16 must establish its right to directionally drill a well  
17 from adjacent lands.

18 Although we have not been allowed to evaluate  
19 the bid package submitted by Seahawk/Casex, it is our belief  
20 that their showing of surface access is based on a contract  
21 with Knob Hill Mines, Incorporated, doing business as  
22 Hastings Island Land Company, which owns the surface  
23 estate in and to Hastings Tract. We believe the contract  
24 purports to convey to Seahawk/Casex, the right to locate  
25 a well pad on Hastings Tract and directionally drill and

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1 bottom a well under Lindsey Slough.

2 MCOR objects to the issuance of oil and gas  
3 leases to Seahawk/Casex covering Lindsey Slough on the  
4 grounds that Hastings Island Land Company cannot grant  
5 such a right, and, even if such a right could be conveyed,  
6 any such directional drilling would constitute a subsurface  
7 trespass as to our leasehold, notwithstanding the surface  
8 holder's.

9 Fundamentally, a grantor may not validly convey  
10 a right in real property greater than that which the grantor  
11 possesses. The deeds severing the surface and mineral  
12 estates in and to Hastings Tract allocated any and all  
13 rights to exploit oil, gas and hydrocarbon substances within  
14 or that may be produced from Hastings Tract to the owners  
15 of the mineral estate, who subsequently granted their right  
16 exclusively to MCOR.

17 Even assuming that Hastings Island Land Company  
18 had such a right to convey, the courts have held that the  
19 directional drilling by a third party of a well located  
20 on land subject to a valid and subsisting oil and gas lease  
21 and bottomed-in land leased by the third party constitutes  
22 a subsurface trespass as to the lessee, who may enjoy  
23 the drilling without regard to the lessor's consent. The  
24 salient point is that such a third party well would  
25 inevitably affect the lessee by draining its leased land.

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1           The possibility that a well directionally drilled  
2 by Seahawk/Casex would drain MCOR's leasehold is substantial.  
3 Any well drilled would immediately obligate MCOR to drill  
4 an offsetting well under its lease.

5           The issue is compounded by the possibility,  
6 which MCOR has already stated to Commission staff, that  
7 certain islands and dredger cuts in Lindsey Slough may  
8 actually constitute part of Hastings Tract and be subject  
9 to our lease.

10           We object to the issuance of oil and gas leases  
11 to Seahawk/Casex in the absence of any clearly delineated  
12 right of surface access, other than the right purportedly  
13 conveyed by Hastings Island Land Company.

14           Should the State Lands Commission accept the  
15 joint bids submitted to Seahawk/Casex as presently constituted,  
16 MCOR will consider all appropriate legal remedies to defend  
17 its leasehold interest in Hastings Tract.

18           Thank you.

19           COMMISSIONER MORGAN: I have a question of the  
20 staff.

21           Did the winning bidders, joint bidders, Seahawk  
22 and Casex, did they satisfy the requirement of having  
23 easement necessary to access?

24           EXECUTIVE OFFICER NORTHROP: Yes, I believe  
25 so.

1 I had staff recheck it as late as yesterday.  
2 Don, would you give us a reading on that, please?

3 MR. EVERITT: Our legal staff has reviewed  
4 the rights to Seahawk so that they have agreed that they  
5 have an easement through the upper 500 feet. A well could  
6 be drilled directionally, assuming that we can get close  
7 enough to the toe of the levee, which would require a  
8 variance, as I mentioned.

9 At this point, we have been talking to the  
10 Reclamation Board. There have been some wells drilled,  
11 in fact, MCOR's wells, but many of them are closer than  
12 the standard 250 foot of the levee. So, it's our plan  
13 that Seahawk does have access to the land.

14 EXECUTIVE OFFICER NORTHROP: May I point out  
15 that the draining that MCOR is worried about, it is our  
16 position that the drilling will not take place on their  
17 leasehold, and they do have rights of access.

18 MR. ERKEL: We understand the approach, and  
19 we require only that the drill not take place on our  
20 leasehold, and as long as this other right of access is  
21 established, we have no objection.

22 EXECUTIVE OFFICER NORTHROP: Perhaps --

23 COMMISSIONER MORGAN: It seems to me that the  
24 bid requires that you are able to get to the oil, and they  
25 have bid with the understanding that they will. And our

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1 staff believes that they have. I don't know if we need  
2 to go into it any further.

3 Do you have any questions?

4 COMMISSIONER ACKERMAN: Not really, other than  
5 it seems fairly clear that you're requesting that your  
6 leasehold not be used to gain the access, and as long as  
7 staff assures us that it's not, then your interests are  
8 being protected.

9 MR. ERKEL: We just want to reiterate our  
10 objection at this point. That's all we're doing.

11 COMMISSIONER MORGAN: We heard you.

12 COMMISSIONER ACKERMAN: All right.

13 CHAIRPERSON D'AGOSTINO: Anybody else in the  
14 audience wish to comment on this item?

15 COMMISSIONER MORGAN: Should we act on these  
16 as a group, 28, 29, and 30?

17 EXECUTIVE OFFICER NORTHROP: Yes.

18 COMMISSIONER MORGAN: I move approval.

19 COMMISSIONER ACKERMAN: Without objection.

20 CHAIRPERSON D'AGOSTINO: Without objection,  
21 28, 29, and 30.

22 Item 31.

23 EXECUTIVE OFFICER NORTHROP: Item 31, Mr. Chairman,  
24 we do not have the luxury at this time of a drill site,  
25 so we had to negotiate with Dow Chemical, an award of an

1 oil and gas lease under Deuel Vocational Institution in  
2 San Joaquin County. The bid was 16 and two-thirds royalty  
3 and \$20 per acre, and the net profit was 30 percent of  
4 the net profit.

5 COMMISSIONER MORGAN: I think our Chairman had  
6 some problems with this one, but we have a timing problem,  
7 don't we?

8 EXECUTIVE OFFICER NORTHROP: Right.

9 MR. RUMP: It's a special problem with the deadline.  
10 With the questions that have arisen, we would recommend  
11 at this time that the matter be denied without prejudice,  
12 and we'll bring it back to the Commission once those items  
13 have been explored.

14 CHAIRPERSON D'AGOSTINO: Is there anyone here  
15 from Dow?

16 COMMISSIONER MORGAN: What's your question?  
17 What's your problem?

18 CHAIRPERSON D'AGOSTINO: One of the problems  
19 that I have is that, apparently, Dow really is in a situation  
20 where they have the only drill sites other than Deuel.  
21 I think that situation means that we are at a very bad  
22 disadvantage, and as a result of that, we're getting only  
23 30 percent net profit, potentially, out of this well, or  
24 these drill sites.

25 It seems to me that this is still a very exploratory

1 area, and is not an area that has known potential for  
2 return. We ought to move a little more slowly. We ought  
3 to try and see if we can get access from Deuel.

4 Deuel is a State facility. We ought to be able  
5 to work with another State agency that would give us drill  
6 sites for a potential higher net return on profit if, in  
7 fact, they do find oil and gas. That was my main objection.

8 MR. DITZLER: May I make one comment?

9 My name's Clark Ditzler. I'm a manager of Dow  
10 Chemical involved in this project.

11 My only concern is that we have in good faith  
12 negotiated from this position with the State for over  
13 15 months to arrive in this position. We have held up  
14 our own activities in the area pending the outcome of this,  
15 which is considerable.

16 It was thought, until this morning, that we  
17 were informed that there may now be some question regarding  
18 a drill site, possible well, that changed the status of  
19 that lease. We have been in contact with the staff only  
20 on a monthly basis, numerous meetings in Long Beach, and  
21 having come to the last possible day this can be considered,  
22 and then we find ourselves in somewhat of a business position  
23 of, you know, we've waited a long time. We've held up  
24 activity on other property and paid rentals on them.

25 So, that's my only concern. It doesn't change

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1 the situation, but please appreciate where we have come  
2 from and how we got here.

3 It's quite surprising to find out that this  
4 may just be totally set aside now after this length of  
5 time.

6 CHAIRPERSON D'AGOSTINO: My understanding is  
7 that if we don't approve it today --

8 MR. TAYLOR: It's deemed approved.

9 CHAIRPERSON D'AGOSTINO: -- it's deemed approved.

10 Because of a problem that we have in terms with  
11 quorum and voting of members, I would suggest that we deny  
12 it but reconsider it. We could reconsider it.

13 MR. TAYLOR: We can deny it without prejudice  
14 and then renew it. You can renew the item at the next  
15 meeting.

16 CHAIRPERSON D'AGOSTINO: That would be my sugges-  
17 tion.

18 MR. DITZLER: In other words, we're getting  
19 an additional month's extension? That would put this  
20 beyond --

21 MR. TAYLOR: Not an extension in that sense.  
22 It's a denial.

23 COMMISSIONER MORGAN: From a business point  
24 of view, it's an extension. From a legal point of view,  
25 it is not.

1 MR. DITZLER: I had the impression that, legally,  
2 if it was not acted upon today, that the project was  
3 terminated.

4 EXECUTIVE OFFICER NORTHROP: No.

5 CHAIRPERSON D'AGOSTINO: Let's go off the record.

6 (Thereupon a brief discussion was  
7 held off the record.)

8 CHAIRPERSON D'AGOSTINO: Can we get back on  
9 the record.

10 COMMISSIONER MORGAN: Before he leaves, the  
11 staff's been involved with the Institution for some time,  
12 I assume?

13 EXECUTIVE OFFICER NORTHROP: Yes.

14 COMMISSIONER MORGAN: Do you know if they looked  
15 into the question that Carl is raising about location of  
16 the well?

17 EXECUTIVE OFFICER NORTHROP: We had communication  
18 dated September 21, 1980. It's a response dated that time.  
19 I thought there was a copy here in which they indicated  
20 at that time -- here's a copy of that communication we  
21 got back.

22 COMMISSIONER MORGAN: There were no drill sites  
23 available, is that your answer to the question?

24 EXECUTIVE OFFICER NORTHROP: That was the answer  
25 the staff received when we first initiated that program.

1 We've proceeded on that basis and negotiated.

2 COMMISSIONER MORGAN: So, you don't know if  
3 there are some reasons why drill sites cannot be located  
4 there?

5 EXECUTIVE OFFICER NORTHROP: No, ma'am.

6 COMMISSIONER MORGAN: On their grounds.

7 EXECUTIVE OFFICER NORTHROP: It seems reasonable  
8 that it could be, if they wanted it to be located there.  
9 It's not impossible, the fencing --

10 COMMISSIONER MORGAN: Is another month going  
11 to give us a chance to look into this or not?

12 MR. RUMP: Unfortunately, consultation with  
13 staff as been that the environmental situation as well  
14 as with the Department of Corrections and so forth, it  
15 would probably a longer period than 30 days to get back  
16 on this.

17 MR. EVERITTS: We're thinking four to six months.  
18 We'd have to go through the environmental process again,  
19 and certainly have to consult with the agency.

20 COMMISSIONER MORGAN: You're assuming that they  
21 can drill on their own property?

22 MR. EVERITTS: No, what I'm saying, first of  
23 all, as a matter of law, we have asked the agency, and  
24 the agency owns the surface rights.

25 We were initially granted a 90-day extension.

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1 Now, in denying this thing today, you've got  
2 to go through a new application. You'll have to go through  
3 all the affected agencies, ask for their common consent,  
4 and that involves actual in-house work. So, we would  
5 estimate a minimum time of three months, and then with  
6 all those other factors, it's going to be four months.

7 COMMISSIONER MORGAN: Waiting for that, it would  
8 be four months?

9 MR. RUMP: For us.

10 COMMISSIONER MORGAN: But there still is a  
11 possibility that we could expect them to wait that long?

12 MR. EVERITTS: If, in fact, we can't get a drill  
13 site, if they're still interested in our proposal, they  
14 can proceed. If you could get a drill site, then you probably  
15 don't have the option to go out into the competitive bid,  
16 and that could be a long, long time.

17 COMMISSIONER MORGAN: Interesting.

18 COMMISSIONER ACKERMAN: Is there any way to  
19 put a little pressure on Deuel Vocational Institution and  
20 still approve this? That way they could go ahead and proceed  
21 with their work. Somehow we put pressure on Deuel to put  
22 the circumstances --

23 MR. DITZLER: It seems to me we're in a position  
24 of doubting what Deuel has told us exists. We've covered  
25 that.

1 MR. EVERITTS: They're suggesting they might  
2 have a little more leverage than I had.

3 CHAIRPERSON D'AGOSTINO: I can't understand  
4 why the staff, why we haven't explored the possibility  
5 of sites at Deuel. I don't know if they're worried about  
6 environmental reasons for Deuel. I look at the map, and  
7 I don't see where there would be any particular objections  
8 to the drill site next to the disposal pond, for example.

9 COMMISSIONER MORGAN: They may be worried about  
10 bringing people into a secure area.

11 MR. EVERITTS: That's basically it.

12 Fish and Game won't let us go into some of their  
13 land areas because they don't want us to scare the birds.

14 CHAIRPERSON D'AGOSTINO: It just seems that  
15 the objection that I have is that we're getting a situation  
16 where we're basically entering into a negotiating agreement  
17 with basically no competition because of the absence of  
18 a drill site. I do not see any compelling need to rush  
19 into this.

20 MR. EVERITTS: I guess, if it's a compelling  
21 need, that somebody is able to explore a private land,  
22 and we want to be able to tie the package together. This  
23 is an exploratory well. There are no known reserves in  
24 the area.

25 CHAIRPERSON D'AGOSTINO: I understand that you

1 want to explore, and they would like to put together a  
2 total package. But I don't see a compelling reason for  
3 the State to accept a very significantly lower figure than  
4 we're accepting in other leases all over. What sort of  
5 net profits? In the leases earlier, we were looking at  
6 79, 80 percent.

7 MR. EVERITTS: That's the difference. That's  
8 why I say if in fact a discovery is made near this facility.  
9 Obviously we wouldn't be selling for 30 percent or 35 percent  
10 of the net, either.

11 The thing that makes the waterways valuable  
12 is that there is production on both sides of the river,  
13 so undoubtedly there's something in the middle. People  
14 don't mind paying a bit of royalty for valuable property.

15 That's not the same thing here. The number  
16 that we negotiated is probably fair to both sides for a  
17 wildcat prospect, a minimum wildcat prospect. In our  
18 judgment, this is a minimal wildcat project. If there is  
19 a discovery, it wouldn't be minimal.

20 COMMISSIONER MORGAN: How long does it take  
21 to find out?

22 MR. EVERITTS: I don't know what the program  
23 is. I presume they'll go ahead if we don't, eventually.  
24 They'll also drill as far away from us as they can on their  
25 place so we won't own any more than we can get.

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1 COMMISSIONER MORGAN: In your plan, how long  
2 would it be?

3 MR. EVERITTS: One year, and one year drilling  
4 time.

5 MR. DITZLER: Yes, the lease provides for dilling  
6 within a period of one year or we surrender.

7 COMMISSIONER MORGAN: I don't understand why  
8 the staff says it would take four months before the item  
9 could be brought back.

10 MR. TAYLOR: Because we denied it. It's a new  
11 application.

12 What we have overlooked in our answer to you  
13 is the fact that they have to comply with the environmental  
14 requirements.

15 MR. RUMP: It certainly requires that length  
16 of time.

17 EXECUTIVE OFFICER NORTHROP: This is the last  
18 meeting.

19 MR. TAYLOR: When does the time run out?

20 MR. EVERITTS: Somebody said tomorrow.

21 He states four months, and I agree with him.  
22 No question about it.

23 MR. SANDER: My name is Dwight Sander.  
24 Assembly Bill 884, Chapter 1200, provides for the processing  
25 of applications, and provides 105 days for notification

1 of agency approval of the document for the lead agency  
2 to make a decision. That is within the available one year.

3 The Commission has received a one-time permissible  
4 up to 90 days extension, which will run out April 30th,  
5 which is tomorrow.

6 If the project is not acted upon by this  
7 Commission today, as has been said before, it's deemed  
8 approved. If the Commission denies it without prejudice,  
9 the applicant must, in effect, start the process once again.

10 So, even though there's an existing application  
11 as of today, with the proper verbage and proper information,  
12 even if there's a Negative Declaration that's been circulated  
13 to the proper channels and in the proper manner, that process  
14 must again be repeated with the same material. Unfortunately,  
15 the law does not provide for a short end or a recirculation  
16 that is less than the one time. That's basically what  
17 we're faced with.

18 COMMISSIONER MORGAN: All right.

19 COMMISSIONER ACKERMAN: We lose four to six  
20 months with the reviews during the period that you're  
21 waiting to get a lease underway.

22 MR. EVERITTS: You'd lose four to six months.  
23 If it turned out we could get a drill site, then we'd have  
24 to do a little bit different kind of program. Well, the  
25 bidding process.

1 CHAIRPERSON D'AGOSTINO: Is it \$20 an acre we're  
2 renting?

3 MR. EVERITTS: That's average.

4 EXECUTIVE OFFICER NORTHROP: That's the revenue  
5 loss.

6 MR. EVERITTS: Yes, immediate loss.

7 CHAIRPERSON D'AGOSTINO: If you get the production,  
8 you're losing a lot more if you look at the difference  
9 between 30 percent and 80 percent on net profit. That's  
10 the point I'm making, that I think we're better off to  
11 lose \$20 an acre rental for the possibility of getting  
12 a competitive bid that would give us something more than  
13 30 percent on that profit.

14 MR. EVERITTS: You're deferring \$20 an acre  
15 anyway. That's no real loss.

16 COMMISSIONER MORGAN: What's the going rate  
17 for our exploratory wells?

18 MR. EVERITTS: This is a going rate. It's a  
19 six plus 30 percent of net profit, which is about the same  
20 as 35 percent of the gross. That's about what we've had  
21 on other exploratory leases.

22 CHAIRPERSON D'AGOSTINO: If we had other drill  
23 sites available, what would you expect them to be?

24 MR. EVERITTS: I'd expect it to be darn near  
25 the same thing, honestly. It's a statistical approach to

1 what we think it's worth, and I think we do it the same  
2 way anybody else would.

3 We gave the thing a four and a half probability,  
4 and that discounts your reserve quite a bit.

5 COMMISSIONER ACKERMAN: You mean if we had our  
6 own drill sites on the institution ground, likely you would  
7 come up with the same figures?

8 MR. EVERITTS: I would guess. I don't really  
9 know. It could be higher. I know we've had some higher.  
10 It seems logical that you're going to get something higher.  
11 I don't know what it would be.

12 COMMISSIONER MORGAN: Is it possible to have  
13 the test drill sites in one location, and if they find  
14 something, to move to Deuel, to move on a site at Deuel?

15 MR. TAYLOR: That doesn't correct the problem.

16 CHAIRPERSON D'AGOSTINO: We've already given  
17 up the leases at this point.

18 MR. TAYLOR: We've already leased the property.

19 COMMISSIONER ACKERMAN: How long is the term  
20 of the lease, one year?

21 MR. EVERITTS: No, the lease is usually three  
22 years, just exploratory.

23 COMMISSIONER MORGAN: I thought this lease,  
24 this gentleman said the lease --

25 MR. EVERITTS: No, the drilling requirement.

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1 EXECUTIVE OFFICER NORTHROP: The drilling require-  
2 ment, you must drill within one year.

3 MR. EVERITTS: Yes, but he may want the site  
4 for one year or two years.

5 COMMISSIONER MORGAN: Is there any reason why,  
6 six months from now, they should continue to participate  
7 in this agreement? Is there enough hint of oil there that  
8 they would be interested in coming back after they've had  
9 a chance to look at that?

10 MR. EVERITTS: That's something you'd have to  
11 ask them. As he pointed out, they've waited a long time  
12 to develop their interests. They may want to go out and  
13 do that. If they don't get a chance, all we've got is  
14 20 bucks an acre, which isn't any big deal.

15 COMMISSIONER MORGAN: Well, assume that they  
16 stick with the same deal?

17 MR. EVERITTS: Yes.

18 COMMISSIONER MORGAN: And I don't know why they  
19 should. I'm trying to figure out some way -- these guys  
20 aren't much help -- to continue the matter without  
21 instituting a new four-month period.

22 MR. TAYLOR: There's already an extension of  
23 time given under the statute of 90 days. That's all that  
24 the statute provides for. The party could give an additional  
25 extension of time that would be beyond the statute, which

1 the statute, what the statute constituted. And I would  
2 have a problem at this point, then, as to whether or not  
3 it was deemed approved, or whether the waiver would preclude  
4 us from raising that issue. That would be your gamble  
5 if he would give you the waiver.

6 MR. TROUT: Perhaps one more alternative, and  
7 I know Dow is unprepared for this, but perhaps they could  
8 offer a higher percentage.

9 CHAIRPERSON D'AGOSTINO: What I have objected  
10 to is the fact that there is no competitive bidding from  
11 the other side. I think that I might object that we're  
12 now --

13 MR. DITZLER: The terms of the lease were  
14 essentially proposed by the State Lands Commission and  
15 agreed to by Dow after much analysis of the situation.

16 I think Mr. Everitt posed a statistic which  
17 is well worth considering. He said the probability of  
18 success, of finding commercial valuable hydrocarbons on  
19 this property, is four and a half percent, which says that  
20 the chance of facing nothing is 95 and a half percent.  
21 And we feel the same way. It's highly exploratory, a  
22 high risk situation.

23 The 30 percent, to us, seemed like very high  
24 net profit under the circumstances, considering the fact  
25 that the property value, estimated from all the technology

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1 we have right now, the prospects there are certainly not --  
2 we have drilled three drill holes in the vicinity of this.  
3 None immediately offsetting the property, but --

4 CHAIRPERSON D'AGOSTINO: What's your pleasure?

5 COMMISSIONER ACKERMAN: What's your pleasure?

6 COMMISSIONER MORGAN: Our pleasure is to avoid  
7 six months and coming back with the same issue before us,  
8 which is a possibility, it seems to me, since we have not  
9 had a response to the substantive question that was requested  
10 last fall, about whether the agency had considered using  
11 their own property.

12 Is it possible to approve this with the under-  
13 standing that the agency prove to the Commission's satisfac-  
14 tion that it does not have a site available, and if it  
15 cannot prove that, then it's denied?

16 MR. TAYLOR: I think you've still got the problem  
17 of the statute. You've got to act within that period of  
18 time.

19 I think the only alternative you have, which  
20 is a risky one for you if you want the matter put over,  
21 is to get a waiver from Dow for another 30 days, with the  
22 caveat to you that, in litigation, we would assert that  
23 it was a knowledgeable waiver, and they're estopped from  
24 the provisions of the statute, and they would raise whatever  
25 arguments they have as to their ability to give that kind

1 of a waiver.

2 Our position would be that a party can waive  
3 benefit of any statute, and that's what they're doing here.  
4 The question is, since the statute does address the question  
5 of extension of time, and only provides for one up to 90  
6 days, whether you can give that kind of a waiver, and there  
7 would be a risk in the Commission taking that. The down-  
8 side of that risk could be a deemed approved.

9 EXECUTIVE OFFICER NORTHROP: May I make just  
10 a comment or suggestion.

11 In light of the fact that tomorrow is the deadline,  
12 perhaps you could authorize the Executive Officer to  
13 complete this negotiation with Dow, if Dow indicated they  
14 did want to have it, to allow me to execute it tomorrow.  
15 If not, if Deuel wanted to do it, then --

16 MR. DITZLER: In other words, you're saying  
17 we could resolve the question by tomorrow?

18 EXECUTIVE OFFICER NORTHROP That is what I'm  
19 trying to do.

20 MR. DITZLER: Does it give a preference --

21 EXECUTIVE OFFICER NORTHROP: We can't get the  
22 Commission together in a body tomorrow. That's what I'm  
23 trying to get around.

24 MR. DITZLER: There are obvious business concerns.

25 MR. TAYLOR: You could word the matter this

1 way, that you could vote to approve this, provided that,  
2 by the close of business tomorrow, the Executive Officer  
3 has obtained confirmation from the Department of Corrections  
4 that no drill site is available. If, in the event that  
5 he finds that there is a drill site available, by the  
6 close of business tomorrow, then the action of the Commission  
7 would be to deny without prejudice this application.

8 I'll have to work up language, but I think it  
9 gives you the thought.

10 MR. DITZNER: That would be our preference,  
11 rather than having an extension of time of any sort.

12 MR. TAYLOR: It'll be self-executing. Self-  
13 executing one way or the other. The Executive Officer  
14 must contact the Department of Corrections and get an answer  
15 by tomorrow. If he gets a negative answer or no answer,  
16 then the matter is approved. If he gets an answer that  
17 they're willing to provide a site, the matter is automatically  
18 disapproved without prejudice.

19 CHAIRPERSON D'AGOSTINO: If nothing happens  
20 by tomorrow, it's automatically approved anyway.

21 MR. TAYLOR: Yes, that's also true, but what  
22 we're directed by this motion is the fact that, if the  
23 Commission does not want it to go automatically but wants  
24 to put a hold on it, if there's a possibility of getting  
25 a site, that would kill the project. That's the advantage

1 of the motion that's been proposed.

2 COMMISSIONER ACKERMAN: I'm reluctant in  
3 disapproving it if there's no chance of getting drill site.  
4 If there's a chance of getting a drill site there, then  
5 I think we should explore that to the fullest extent. I'm  
6 receptive to the language that was just outlined.

7 COMMISSIONER MORGAN: That would give them a  
8 day to try to verify.

9 COMMISSIONER ACKERMAN: If we can verify we  
10 can get a drill site, or hopefully we can negotiate one  
11 very quickly, then that's the direction we ought to go.

12 MR. TAYLOR: Then the permit would be denied.

13 COMMISSIONER ACKERMAN: If we don't do it, I  
14 don't know whether it's fair to deny Dow because basically  
15 the facts haven't changed, and they've missed the  
16 opportunity to drill their exploratory well. I don't think  
17 that's fair to them.

18 MR. DITZLER: That is acceptable to us, because  
19 it gives us -- by tomorrow, we'll know where we stand.  
20 We may move ahead one way or another then.

21 COMMISSIONER MORGAN: All right.

22 MR. TAYLOR: Mr. Northrop will give you a call.

23 EXECUTIVE OFFICER NORTHROP: Don will probably  
24 give you a call tomorrow.

25 MR. DITZLER: Thank you.

1 CHAIRPERSON D'AGOSTINO: Where will you be around  
2 midnight tomorrow night?

3 MR. DITZLER: Call me earlier, please.

4 CHAIRPERSON D'AGOSTINO: Item 32.

5 EXECUTIVE OFFICER NORTHROP: Mr. Chairman, Item  
6 32 is approval of the award of a geothermal resources lease  
7 with a 12.5 percent royalty, net profit of 70 percent for  
8 the Geysers Steam Field in Sonoma County.

9 COMMISSIONER MORGAN: This was bid?

10 EXECUTIVE OFFICER NORTHROP: Yes, ma'am.

11 COMMISSIONER MORGAN: Sounds good.

12 CHAIRPERSON D'AGOSTINO: Without objection.

13 Item 33.

14 EXECUTIVE OFFICER NORTHROP: Mr. Chairman,  
15 Item 33 is an assignment by the Domenichellis to Aminoil  
16 USA. The Domenichellies were the land owners, and they  
17 matched a 12 and a half percent plus 55 percent net profit  
18 bid. They're coming before us now to sign this geothermal  
19 lease to Aminoil USA. Staff recommends the assignment.

20 COMMISSIONER MORGAN: Okay.

21 CHAIRPERSON D'AGOSTINO: Without objection.

22 Item 34.

23 EXECUTIVE OFFICER NORTHROP: Mr. Chairman, Item  
24 34 is the Eleventh Modification of the Long Beach Operations  
25 Plan of Budget.

1 Mr. Thompson, would you speak to this, please.

2 MR. THOMPSON: This is a ratification of executive  
3 action of approving a well be redrilled from one zone to  
4 another zone. It has no augmentation of funds transferred  
5 from within the budget.

6 CHAIRPERSON D'AGOSTINO: Any problem with that?

7 COMMISSIONER ACKERMAN: No problem.

8 CHAIRPERSON D'AGOSTINO: Without objection.

9 Item 35.

10 EXECUTIVE OFFICER NORTHROP: Mr. Chairman,

11 Item 35 is the 1981-82 Plan and Budget for \$181,142.

12 Mr. Thompson is going to show us how he's going to spend  
13 the money.

14 MR. THOMPSON: I believe you've all received  
15 the booklet of the budget which is the brown one. You  
16 have also with you a set of copies of this red-covered  
17 back here. These curves are identified in the lower right-  
18 hand corner with numbers in case we care to enter those  
19 on.

20 The plan of development and operation budget  
21 over \$181 million, there's almost \$48 million in this  
22 capital investment, \$128 million for expenses, and \$6  
23 million administrative overhead.

24 In this first graph in your book with the brown  
25 cover, you can see these breakdowns in the cross-hatched

1 area. The present year is the second one from the right,  
2 and the budget runs to the far right. The expense portion  
3 is down here in the open cross-hatched area, and the  
4 investment and administrative overhead.

5 In the current year, it is represented on the  
6 cross-hatched area, it is estimated to carry out to be  
7 about 25 or \$30 million, and continues into the next year's  
8 budget.

9 The next curve you have in your book is  
10 operating expenses. That's the \$104 million. That has  
11 no investment taxes or administrative overhead. This is  
12 your direct operating costs from your wells.

13 Now, in the plan and budget, there are economic  
14 projections in Items C1 through C4. They're in the brown  
15 book that you have here. They're after page 51. These  
16 are the estimates of production of oil, gas and water,  
17 costs such to that. Then you can see the difference of  
18 the net revenue you get. There is consideration of windfall  
19 profits tax. That's the curve in your book again, and  
20 you see \$660 million anticipated gross revenue with your  
21 \$180 million budget fund. Again, this \$660 million is  
22 without consideration of the windfall profits tax and within  
23 the various parties.

24 Now, this in the past has been prepared jointly.  
25 We have a little difference of opinion as to the amount

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1 of gross value and increased royalties projected on this  
2 one.

3 Over on the right-hand side there, on the wall,  
4 you can see some curves and trends of the way costs have  
5 been going here. The one on the far left is translated  
6 in dollars to barrels. And the gross revenue is up in  
7 red there, and you can see, when we prepared this year's  
8 budget, we anticipated the revenue would look like the  
9 broken line there. The reason for the difference for that,  
10 primarily, is that oil price is not going up as fast as  
11 we estimated. You can see the difference in the slope.  
12 We had thought that the oil price would shoot up to ten  
13 percent per year. That has not quite reached that.

14 You can see the drop of the line here again,  
15 where we've estimated 10 percent in this coming year's  
16 budget, and we may have difficulty reaching that. Again,  
17 it provides an adjustment in which they may come all within  
18 one time, or we may get 50 cents or a dollar, which made  
19 for a stair-step reflection there. So, it's a little hard  
20 to estimate.

21 On a dollar-per-month basis, we can see the  
22 second curve there, both in revenue and costs. Again,  
23 you see the projections for the budget we're anticipating  
24 on the broken line. The biggest part of this, of course,  
25 is in drilling expenditures. Then we come to the question

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1 of justification of these wells. Here's a curve which  
2 shows the drilling structure, the dollars here, number  
3 of rigs, and basically over the past year, this again is  
4 an estimated production of simply laying the pipe. This  
5 is part of the production of the wells. This is the  
6 estimate, then, in 1979, if they had not been drilled  
7 or redrilled. That's the extrapolation of that. We took  
8 that and transferred that over into the rate curve. That's  
9 this right here.

10 Here are the wells since 1977. Had we not drilled  
11 or redrilled those, this is the course we would have gotten.  
12 At the current time, we're producing about 15,000 barrels  
13 a day more. That is the message.

14 I think in this point in time I'll wrap this  
15 up. The power curve up there shows where the electrical  
16 energy has been going. Increase in that.

17 I think that's about all the recommended approval  
18 of that budget. We think the funds are adequate. There  
19 are surplus funds in a couple of accounts, depends on how  
20 much gross value is limited and ingested.

21 COMMISSIONER MORGAN: What happens if we decide  
22 to continue our current wells and didn't reopen any of  
23 the old ones?

24 MR. THOMPSON: We're back to the same situation  
25 that took place before, that you would start

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1 dropping off the rate. You would again start to come down  
2 like this. You can see that as a trend, this one over  
3 here on the far right, what's happened in the past when  
4 you stopped drilling. You have some reduction in the amount  
5 of drilling to repair those wells, then your production  
6 rate falls off.

7 COMMISSIONER MORGAN: Are you opening new wells?

8 MR. THOMPSON: Yes, a combination of new wells,  
9 and drilling, and repairing old wells.

10 COMMISSIONER MORGAN: What would happen to the  
11 revenues to the State if you held up on drilling new wells  
12 for one year?

13 MR. THOMPSON: You would not spend approximately  
14 \$50 million. It's not really \$50 million, because there's  
15 overhead. Those people will still be there, drilling  
16 crews, everything else. You have to pay that, the engineers,  
17 the project supervisors, things like that. So, only your  
18 direct costs for the crews that you would lay off and the  
19 extra rigs. So, by the time you scale that down, you would  
20 now be down closer to maybe \$20 million, and you would  
21 pay a penalty of that for every year in the future.

22 MR. TAYLOR: I should remind the commission  
23 that there is a lawsuit pending against the state during  
24 a period when there was allegedly no production, no increase  
25 of new wells. And the contention of the oil companies

1 that are suing the State in that case is that good oil  
2 field practice requires taking a field out to its maximum  
3 potential development in an orderly process.  
4

5 The existence of that litigation, and the potential  
6 if you're considering just letting things, you know, just  
7 pulling off some of the new drilling, of an additional  
8 claim by the oil companies in those situations, that should  
9 be factored into your thinking in connection with that.

10 MR. THOMPSON: It should rebate now that service  
11 is underway, to see how many drillings on the wells have  
12 been necessary, and the economic justification. Therefore,  
13 some range of estimates, like now there may be as many  
14 as 14 drilling rigs might be required in the unit to drill  
15 these 50 wells up within a certain period of time. That's  
16 probably a little on the high side. Again, you may still  
17 be drilling 7 or 17 years from now. Most studies are finished  
18 within four or five months.

19 COMMISSIONER ACKERMAN: No problems.

20 CHAIRPERSON D'AGOSTINO: Without objection.  
21 Next item.

22 EXECUTIVE OFFICER NORTHROP: Mr. Chairman, Item  
23 36 is a sell-off of approximately 250 barrels a day from  
24 the Long Beach Tract No. 2 of the Long Beach Unit. The  
25 highest bidder was Fletcher Oil and Refining Company at  
1.75. The staff recommends approval.

1 MR. THOMPSON: That is important. The bond  
2 posted there is \$500,000.

3 CHAIRPERSON D'AGOSTINO: How many barrels a  
4 day?

5 MR. THOMPSON: Two hundred fifty.

6 EXECUTIVE OFFICER NORTHROP: Two hundred fifty;  
7 12.50, it's a percentage figure.

8 CHAIRPERSON D'AGOSTINO: Any problem with that?

9 COMMISSIONER MORGAN: No.

10 CHAIRPERSON D'AGOSTINO: Item 37.

11 EXECUTIVE OFFICER NORTHROP: Mr. Chairman, Item  
12 37 on Capital Improvement Project Shoreline Aquatic Park,  
13 Mr. Thompson also has a member of the City of Long Beach  
14 here, I believe.

15 MR. THOMPSON: This is a notification from the  
16 City of Long Beach. We're going to spend their money for  
17 the operating fund. The Commission finds that this is  
18 authorized under Chapter 128/'64, Section 6. We recommend  
19 the approval.

20 COMMISSIONER MORGAN: What is this?

21 MR. THOMPSON: This is off setting the shoreline  
22 there, and there should be a map there. If you look at  
23 the map there, you'd see a new marina, downtown marina,  
24 that's being constructed. It's just right off the downtown  
25 park there.

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1           You can see Island Grisson off to the right  
2 of that, right of that lagoon area, and the convention  
3 center.

4           CHAIRPERSON D'AGOSTINO: There's no State monies?  
5 We're just finding --

6           MR. THOMPSON: Making a finding that it is allow-  
7 able under Chapter 138. If you take no action, it's going  
8 to go right through anyway. You have to do something.

9           CHAIRPERSON D'AGOSTINO: Without objection.  
10           Item 38.

11           EXECUTIVE OFFICER NORTHROP: Item 38, Mr. Chairman  
12 will be addressed by Mr. Rump.

13           MR. RUMP: Item 38 is authorization to file  
14 a disclaimer. Essentially this is a disclaimer ascertaining  
15 that the State Lands Commission has no interest in the  
16 property.

17           COMMISSIONER MORGAN: Okay.

18           COMMISSIONER ACKERMAN: Okay.

19           CHAIRPERSON D'AGOSTINO: Item 39,

20           EXECUTIVE OFFICER NORTHROP: Mr. Chairman, Item  
21 39 is off calendar, I'm sorry.

22           CHAIRPERSON D'AGOSTINO: Item 40.

23           EXECUTIVE OFFICER NORTHROP: Item 40 is the  
24 Marine Terminal Safety Program, and Mr. Kent Dedrick, who  
25 was the director of our Terminal Program, will make a

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1 presentation on this briefly.

2 MR. DEDRICK: My name is Kent Dedrick. National  
3 Safety Coordinator.

4 You've just been given an enormous volume of  
5 material, and you really don't have to read it. The big  
6 fat one is the training manual that we produced in coopera-  
7 tion with the California Maritime Academy in order to train  
8 operators of terminals consistently across the board so  
9 that we all know that all of the terminal operators are  
10 getting solid training in every aspect. A lot of the  
11 terminals presently have existing training programs, but  
12 they seem to be spotty. Some of them appear to be very  
13 good, and others are a little short. So, we've set this  
14 up, but in cooperation with the Maritime Academy.

15 The Maritime Academy thinks this sort of training  
16 program will fly. It will be the first one in the United  
17 States on a public basis, so that any member of the public  
18 can go.

19 I think if you do go look at that big, horrible  
20 thing, you know, the manual you've been handed, you could  
21 probably just pick out the table of contents and just get  
22 an idea as to the depth of material that's given. That  
23 was one of our tasks in this whole project.

24 Another one is to inspect a lot of terminals  
25 that are under lease from the State Lands Commission and

1 see how they're operating. That inspection process is  
2 still going on. It started last July. We've perhaps done  
3 about 150 inspections by this time.

4 Of course, after you start looking at a terminal  
5 time and time again, the terminal itself becomes kind of  
6 a known quantity, because you know every pipe and bolt  
7 in the place. But, the ships coming in are different,  
8 and of course that's where a lot of the action is, and  
9 where some of the more important problems can occur, such  
10 as explosions and spills.

11 I think in the interests of brevity, I can just  
12 wrap this up by telling you what the other task was, and  
13 that deals with the standard operations manual. Now, what  
14 an operations manual is is nothing more than a document  
15 that is prepared by the terminal firms that require them.  
16 It says what we're going to do in the transfer of oil.  
17 Every time they transfer oil, they're going to go through  
18 the procedures in the manual. There's a white official  
19 document that requires the Coast Guard to review these  
20 lease covenants. So, in order to see to it that these  
21 terminal manuals, which will be due next January for  
22 our leased areas, in order to see that there's some consistency  
23 in department coverage, we've prepared these guidelines,  
24 and that's that smaller document I've given to you.  
25 They have not been distributed yet. As soon as we can

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1 get them distributed in enough quantity, why, they'll go  
2 out to all the terminals.

3 Incidentally, in terms of deadlines of work  
4 going on, we now expect that that training class, the Maritime  
5 Academy will be giving in September of this year for the  
6 first time. They want a little time to advertise it through  
7 all the maritime trades, and get a brochure out, and all  
8 those matters.

9 I think that more or less wraps up what I have  
10 to say, except we're out of money.

11 MR. EVERITT: Legislation.

12 MR. DEDRICK: Yes, legislation.

13 We're presently dealing with 23 terminals in  
14 the State of California. Those are the ones on leased  
15 lands.

16 Now, there are a total of 58 or 60, depending  
17 on how you count the State totally. That means there are  
18 about 35 we're not looking at. The most important are  
19 the Port of Los Angeles, Port of Long Beach, Port of  
20 Richmond.

21 With our program, I think we've hit an area  
22 that hasn't received much attention in the past. That  
23 is, the terminals along the Carquinez Straits in San Francisco  
24 Bay, and also the offshore terminal in the Southern California  
25 coast.

1           Now, the legislative analyst, he'd love us to  
2 have a nice, consistent program that covered everybody,  
3 took care of everybody. Unfortunately, well, we don't  
4 have that.

5           Now, one thing we can do is sponsor legislation  
6 that would bring in these other terminals, these other  
7 35 or so terminals. It could at least require that they  
8 prepare their operations manuals in accordance with these  
9 guidelines that we've prepared. Again, I think that would  
10 be a very helpful thing to do, and it wouldn't be too much  
11 of a burden on anybody, as you can see.

12           EXECUTIVE OFFICER NORTHROP: Thank you, Kent.

13           As Kent has indicated, we've run out of budget  
14 funds to operate this program. The Legislature has indicated  
15 they would not renew the funding source.

16           COMMISSIONER MORGAN: Have we finished our work?

17           EXECUTIVE OFFICER NORTHROP: We have finished  
18 the work as far as the manuals, as far as the training  
19 is concerned. However, I don't think, as long as there's  
20 a potential for a blowup because of not following these  
21 kinds of regulations, that I don't think our work is  
22 finished. Someone has to pick the work up from there.  
23 It's us or someone else.

24           MR. EVERITT'S: Something we have to add, though,  
25 we have just now, through negotiations with the companies,

1 renegotiated terminal leases requiring this type of thing,  
2 requiring a manual, certain checkoff list. If we lost  
3 our funding, lost our program, there's no way we're going  
4 to know whether they're following the lease terms  
5 or not. I don't know what we're going to do. If they  
6 say we don't have a program, we've wasted our time messing  
7 around with those leases, I think.

8 COMMISSIONER MORGAN: Have they already  
9 acted on this?

10 EXECUTIVE OFFICER NORTHROP: On the subcommittees.  
11 The resource agency supported, the Governor's Office  
12 supported it. But the subcommittees on both sides indicated  
13 that -- Senator Boatwright has 15 of the 23 terminals in  
14 his district, and he was not present at the subcommittee  
15 hearing when it was discussed. So, it was acted on by  
16 Senator Briggs and Senator Presley, but Senator Boatwright  
17 didn't have any input. So right now, it's out on both  
18 sides.

19 COMMISSIONER MORGAN: What happened in the LA  
20 area? Wasn't there a spill recently?

21 EXECUTIVE OFFICER NORTHROP: There was a spill  
22 as of last Friday.

23 MR. THOMPSON: Yes, it was. I don't know what  
24 the size of it is.

25 MR. EVERITTS: It was around 4,000 barrels,

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1 pretty good sized one. Turns out it was mostly -- it was  
2 in the terminal. Very few, approximately 50 barrels in  
3 the water, something like that. Their line parted in the  
4 tank battery in the uplands just while they were transferring.  
5 They noticed it before they could catch it.

6 EXECUTIVE OFFICER NORTHROP: It was 168,000  
7 gallons.

8 COMMISSIONER MORGAN: Would your program have  
9 presented that from happening?

10 MR. EVERITTS: A full program might very well  
11 have, because with a full program, we would be inspecting  
12 that. We've been doing makeshift with a very small program.

13 EXECUTIVE OFFICER NORTHROP: Starting at page  
14 257 and 8 in the calendar, it gives a sample of just one  
15 man's inspection.

16 Thank you very kindly. That was very informative.

17 CHAIRPERSON D'AGOSTINO: Anything else on the  
18 agenda?

19 EXECUTIVE OFFICER NORTHROP: The closed session,  
20 there is no closed session. The agenda is complete as  
21 far as staff is concerned.

22 COMMISSIONER MORGAN: How come Sue's still here?  
23 Are they coming back?

24 CHAIRPERSON D'AGOSTINO: We stand adjourned.

25 (Thereupon this meeting before the

1 State Lands Commission was adjourned  
2 at approximately 12:50 p.m.)

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I, EVELYN J. DUGGAN, a Shorthand Reporter of the State of California, do hereby certify:

That I am a disinterested person herein; that the foregoing State Lands Commission meeting was reported in shorthand by me, Evelyn J. Duggan, 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 6<sup>th</sup> day of May, 1981.

  
EVELYN J. DUGGAN  
Shorthand Reporter