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SPECIAL MEETING
STATE LANDS COMMISSION
STATE OF CALIFORNIA

STATE CAPITOL
FINANCE CONFERENCE ROOM 1145
SACRAMENTO, CALIFORNIA

MONDAY, APRIL 14, 1986
10:00 A.M.

ORIGINAL

Nadine J. Parks
Shorthand Reporter

A P P E A R A N C E S

1
2 Elizabeth Rasmussen, Acting Chairperson, for Kenneth
3 Cory, State Controller, Chairman

4 Nancy Ordway, for Jesse R. Huff, Director of
5 Finance, Commissioner

6 Laura Schlichtmann, for Sec T. McCarthy, Lieutenant Governor,
7 Commissioner

8 Staff:

9 Claire Dedrick, Executive Officer
10 James F. Trout, Assistant Executive Officer
11 Robert C. Hight, Counsel
12 Jane Smith, Secretary
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P R O C E E D I N G S

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3 ACTING CHAIRPERSON RASMUSSEN: Let's bring
4 the meeting to order.

5 We have just one item on the agenda; Item 2
6 was pulled, right?

7 EXECUTIVE OFFICER DEDRICK: That's correct.
8 Item 1 is the updated Tideland Oil Revenue Report.

9 A brief summary is that projected revenues
10 for this fiscal year are down from our February estimate
11 of 425 million to 418 million. Estimated revenues for
12 86-87, February estimate is 185; current estimate, 99 million.

13 The calendar item covers the assumptions.
14 Moose Thompson and Wes Pace are here. Would you like to
15 ask questions or want further details presented?

16 MS. ORDWAY: Question.

17 Moose, what are we putting as the barrel price
18 now, 10?

19 MR. THOMPSON: The oil price?

20 MS. ORDWAY: Barrel price at 10?

21 MR. THOMPSON: Depends on which part of
22 California you're in. We're using 10 for everything except
23 Elwood Offshore, which is the Santa Barbara Channel.

24 MS. ORDWAY: Okay. Where we're using \$7.00.

25 MR. THOMPSON: \$7.00.

1 MS. ORDWAY: Okay.

2 MR. THOMPSON: Which in fact comprises about
3 two-thirds of the production from Santa Barbara County. It
4 has an impact -- in Santa Barbara County, the average price
5 is about \$8.00.

6 We didn't try and change and adjust oil prices
7 individually for each lease because -- adjusted to \$10 right
8 across the board.

9 MS. ORDWAY: How much of the reduction is
10 based on reduced price versus -- how much of a revenue loss
11 based on reduced price versus limited production?

12 MR. THOMPSON: Primarily it's the price.
13 There is some reduction in oil production. And again, it's
14 somewhat linear; in the statewide leases, we're on a royalty
15 basis.

16 And as the oil price comes down, you can
17 figure we have dropped \$3.00 from previous one, you're going
18 to have that much change. Except then, we know we're going
19 to have some reduced oil production.

20 We now have one lease with Mobil at Rincon
21 shut in completely. We have about 500 wells today shut in
22 completely. And the rest of it will be what we're guessing
23 at reduced production, because the lessee is not going to
24 spend money to do as much well work, changes, et cetera.

25 MS. ORDWAY: Under the terms of our standard

1 lease, how long can a well be out of production?

2 MR. THOMPSON: This is, I think, this is
3 probably a legal question. But I think normally the lease
4 exists as long as it produces an economic quantity.

5 The question is if it's a temporary aberration;
6 in other words, the lease may be shut down now because oil
7 prices are \$10. It may be economic if the oil price comes
8 back to \$11. So, the lease is shut in more or less seeing
9 what's going to happen.

10 If the lessee decides it's not going to come
11 back, then they can quitclaim back to us.

12 MR. EVERTS: There is an option in the lease
13 now which allows the Commission to negotiate a lower royalty
14 rate that would put the lease back into an economic condition again.

15 MR. THOMPSON: We only have one lease like
16 that at the present time. We get the net profits. It's not
17 linear; it's definitely not linear.

18 We're talking about between the February
19 estimate now about less than 25 percent oil price reduction,
20 13 to 10. But the net revenue is about half. And you can
21 see that basically over here (indicating on chart), because
22 of the one on the right, the difference between oil price
23 and expenditures.

24 MS. ORDWAY: Yes.

25 MR. THOMPSON: So, what you're doing is the

1 oil price is coming down in this amount (indicating), but
2 you're changing this to that. It's almost -- and then we
3 take the next step. If you drop a dollar more, and again,
4 that may lose more than 50 percent.

5 And, for example, we have a large amount of
6 our leases in prior development that are right at zero
7 revenue. Hopefully, we will be able to keep the organization
8 going, cutting back expenditures enough to just match our
9 revenue.

10 MS. ORDWAY: Okay.

11 ACTING CHAIRPERSON RASMUSSEN: Any other
12 questions? Laura, did you have any questions?

13 MR. THOMPSON: Again, like we did in February,
14 don't treat us like we came in with bad news for the
15 investors from the front. We're just the messengers. Don't
16 kill us.

17 MS. ORDWAY: We don't shoot the messenger,
18 because you have to deliver another message another day.

19 MR. THOMPSON: But when things get bad --
20 (Laughter.)

21 ACTING CHAIRPERSON RASMUSSEN: Any other
22 comments or questions? Any other business to come before
23 the Commission this morning?

24 EXECUTIVE OFFICER DEDRICK: No.

25 ACTING CHAIRPERSON RASMUSSEN: All right.

1 Then the meeting is adjourned. Thank you.

2 EXECUTIVE OFFICER DEDRICK: Thank you.

3 (Thereupon the meeting was
4 adjourned.)

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