

STATE OF CALIFORNIA

Minutes of the Meeting of the
State Lands Commission
Sacramento, California

APPEARANCES

Commissioners Present:

Roy Bell, Director of Finance, Acting Chairman
Betty Jo Smith, Staff Counsel, alternate
for Mervyn M. Dymally, Lieutenant Governor,
Commissioner
Keith Seegmiller, Assistant Controller,
representing Chairman Kenneth Cory, State
Controller. NOTE: Mr. Seegmiller sat on the
Commission as a non-voting member.

Staff Members in Attendance:

William F. Northrop, Executive Officer
R. C. Hight, Chief Counsel
James F. Trout, Manager, Land Operations
W. M. Thompson, Manager, Long Beach Operations
D. J. Everitts, Manager, Energy and Mineral
Resources Development
Wes Pace, Research Manager II
Diane Jones, Secretary

Representing the Office of the Attorney General:

Jan Stevens, Assistant Attorney General
Rick Frank, Deputy Attorney General

Representing the Law Firm of Loble, Novins & Lamont

William J. Lamont, Special Counsel

Re Minute Item 29 - Taxation of Long Beach Oil Field

Harold Lingle, City Attorney representing the
City of Long Beach

Re Minute Item 25 - Extension of General Lease, Right of Way Use

Terry Roach, Attorney, representing California
Blue Valley, Inc., Trustee

MINUTES OF THE STATE LANDS COMMISSION
MEETING OF
AUGUST 25, 1977

The regular meeting of the State Lands Commission was called to order at 10:08 a.m. in Room 2117, State Capitol, Sacramento, by Acting Chairman Roy M. Eell, Director of Finance. Other members present included Commission-alternate Betty Jo Smith, representing Commissioner Mervyn M. Dymally, Lieutenant Governor; and Commission-alternate Keith Seegmiller, representing Chairman Kenneth Cory, State Controller.

NOTE: Mr. Seegmiller sat on the Commission in a non-voting capacity.

The minutes of the meeting of July 26, 1977 were approved as written.

EXECUTIVE OFFICER'S REPORT

Mr. William F. Northrop's written statement is attached as Exhibit "A". With regard to the draft school land consolidation report, Mr. Northrop indicated that it would probably come before the Commission at the next meeting.

During his report on the Long Beach Unit crude oil sell-offs, Mr. Northrop stated that staff has met with the City of Long Beach, and they are in agreement with the State that the sell-offs should take place. However, he indicated that the Federal Energy Administration has put some roadblocks in the way which have to be resolved before the sell-offs can proceed. Mr. Northrop stated that the reason why the State has not initiated the sell-offs before is that the State was enjoying the maximum legal price for its oil. However, the State is now getting approximately 58 cents below the maximum ceiling price allowed.

In addition, Mr. Northrop stated that the State has been cited by FEA for a probable violation of FEA regulations on some of the contracts which were previously let. He indicated the necessary steps are being undertaken to contest these violations and the citation, the first being the process of an administrative hearing.

At this time, Mr. John Lamont, Special Counsel to the Commission, representing the law firm of Lobel, Novins & Lamont, appeared. Mr. Lamont explained the background of the prior sell-offs and the problems confronting the State in connection with the proposed new sell-offs.

Mr. Lamont stated that in simple terms the State is running into a situation where there is a confrontation building up between some rather complex state statutes, administrative regulations, contract procedures, and some FEA regulations which are extremely complex. He explained that the problem is whether

or not the 1971-72 series of sell-off contracts were initial sales by the State for the State, or if they were sales by private persons at the State's direction and for the State's account, or if they are in fact resales by the private person for their own account to achieve the general competitive purposes. In addition the FEA regulations are in the process of continual flux and change. Mr. Lamont stated that one of the reasons the State has agreed to appeal the Notice of Probable Violation is to obtain a judgment as to exactly what the State's status is under the regulations, assuming those regulations continue to apply to the State. Mr. Harold Lingle, City Attorney representing the City of Long Beach, appeared. He indicated that he had nothing more to add to what Mr. Lamont stated. He also stated that there was no conflict between the City and State.

Mr. W. M. Thompson, Manager, Long Beach Operations and Mr. Wes Pace, Research Manager II, made a presentation on the future crude oil revenues relating to this problem.

At the conclusion of this discussion, Commission alternate Betty Jo Smith asked what the solution was to the problem. Mr. Lamont stated that the Executive Officer and the Chairman have made a considerable amount of overtures to the California Congressional delegation, pushing very hard for the recognition of the rather peculiar situation in which the State has been put. If that delegation works reasonably hard, considering that President Carter's energy program has not yet passed the Senate, there is a possibility the State can get some kind of relief. However, Mr. Lamont stated that the first step is to go through the administrative hearing process.

Mr. Northrop also mentioned for the record that the State has support from the Interstate Oil Compact Commission on this concept because they understand the problem.

ASSISTANT EXECUTIVE OFFICER'S REPORT

The Assistant Executive Officer was not present at this meeting; therefore, no report was presented.

Attachment: Exhibit "A"

EXHIBIT "A"

EXECUTIVE OFFICER'S REPORT

By

WILLIAM F. NORTHROP
EXECUTIVE OFFICER

AUGUST 25, 1977

WESTERN STATES LAND COMMISSIONERS ASSOCIATION MEETING

W 1093.1

DURING THE WEEK OF JULY 31 THROUGH AUGUST 4, CALIFORNIA HOSTED THE ANNUAL WESTERN STATES LAND COMMISSIONERS CONFERENCE IN SAN DIEGO. ALL 19 WESTERN STATES WERE REPRESENTED AND THE STATE OF WISCONSIN ATTENDED ON A FACT-FINDING MISSION.

THE MEETING WAS PARTICULARLY CONSTRUCTIVE IN THAT THE BUREAU OF LAND MANAGEMENT HELD A MEETING OF ALL ITS STATE DIRECTORS AT THE SAME TIME AND PLACE. SEVERAL JOINT SESSIONS WERE HELD TO DISCUSS ONGOING PROBLEMS OF THE STATE WITH REGARD TO FEDERAL PROGRAMS ADMINISTERED BY THE BUREAU.

FEATURED SPEAKERS INCLUDED BOTH CHAIRMAN CORY AND GOVERNOR DYMALLY, AND UNDERSECRETARY OF INTERIOR GUY MARTIN. I WAS ELECTED PRESIDENT OF THE ORGANIZATION FOR 1977-78. THE STATE OF LOUISIANA WAS SELECTED AS THE HOST FOR THE NEXT ANNUAL SUMMER MEETING WHICH WILL BE HELD EITHER IN BATON ROUGE OR NEW ORLEANS.

LAND CONSOLIDATION REPORT

S 8375

EACH COMMISSIONER HAS BEEN SENT A COPY OF THE LAND CONSOLIDATION REPORT. WITH THE EXPRESSED CAVEAT THAT THE COMMISSION MIGHT MAKE SIGNIFICANT CHANGES, THE DRAFT HAS ALSO BEEN FURNISHED TO THE STATE OFFICE OF THE BUREAU OF LAND MANAGEMENT FOR PRELIMINARY EVALUATION. THE DRAFT REPORT COVERS FOUR BASIC AREAS OF COMMISSION CONCERN:

1. SATISFACTION OF REMAINING ENTITLEMENT (UNSURVEYED, ETC.),
2. CLASSIFICATION OF HIGH QUALITY LANDS FOR INDEMNITY SELECTION.
3. PRIORITY IN BLM FOR STATE EXCHANGES INCLUDING ADDITIONAL FEDERAL STAFF, IF NECESSARY.
4. FURTHER GRANTS OF PUBLIC DOMAIN.

A BRIEFING ON THE REPORT WILL BE CALENDARED FOR A SUBSEQUENT MEETING. HOWEVER, INITIAL FEDERAL REACTION IS THAT THE STATE SHOULD NOT EXPECT EARLY ACTION. UNTIL THE INVENTORY REQUIRED BY THE FEDERAL LAND POLICY AND MANAGEMENT ACT IS DONE, BLM FEELS THEY HAVE BEEN DIRECTED TO GO SLOW, OR NOT ACT AT ALL, ON ANY TRANSFERS FROM FEDERAL OWNERSHIP. THIS INCLUDES INDEMNITY SELECTIONS AND EXCHANGES.

FURTHER, IT WAS MADE VERY CLEAR AT SAN DIEGO THAT STATE EXCHANGES HAVE A LOW PRIORITY AND STATE HELP DURING THE BUDGET HEARINGS WILL BE NECESSARY FOR ANY CHANGE IN THIS PRIORITY.

ANOTHER ISSUE IS WHETHER EXCHANGES BENEFITTING OTHER STATE AGENCIES (FISH AND GAME, PARKS) WILL HAVE TO BE PROCESSED FIRST. BLM SEEMINGLY WANTS TO KILL TWO BIRDS WITH ONE STONE BY EXCHANGING COMMISSION ENTITLEMENTS FOR PARKS DESIRES. AN ISSUE MEMO OR OTHER POLICY DECISION FROM THE GOVERNOR MAY BE REQUIRED. I WILL KEEP YOU BRIEFED ON THIS.

HAZARD REMOVAL PROGRAM

W 30007

THE ACCOMPLISHMENTS OF THE HAZARD REMOVAL TASK FORCE HAVE TO DATE BEEN QUITE SATISFACTORY. THREE AREA PROJECTS HAVE

BEEN ESTABLISHED, THESE ARE:

1. THE LAKE TAHOE HAZARD REMOVAL PROGRAM
2. THE AMERICAN RIVER HAZARD REMOVAL PROGRAM; AND
3. THE UPPER SACRAMENTO RIVER HAZARD REMOVAL PROGRAM

THE TAHOE HAZARD REMOVAL PROGRAM IS CURRENTLY THE MOST ADVANCED. A CONTRACT HAS BEEN MADE WITH THE CORPS OF ENGINEERS TO ADMINISTER AND OVERSEE THE REMOVAL PROGRAM AT LAKE TAHOE. THEY ARE PRESENTLY ADVERTISING FOR THE JOB. ADDITIONALLY, ALL HAZARDS HAVE BEEN IDENTIFIED, MAPPED, AND SHORELINE ACCESS FOR THEIR REMOVAL TO UPLAND LOCATIONS HAS BEEN IDENTIFIED. REMOVAL OPERATIONS WILL BEGIN ABOUT SEPTEMBER 12 AND WILL COST ABOUT \$200,000.

THE DIVISION WILL SOON ENTER INTO A \$25,000 CONTRACT WITH SACRAMENTO COUNTY FOR REMOVAL OF HAZARDS IN THE LOWER AMERICAN RIVER. ALL HAZARDS HAVE BEEN IDENTIFIED AND MAPPED. OPERATION WILL COMMENCE ONCE THE SACRAMENTO COUNTY BOARD OF SUPERVISORS APPROVES THE CONTRACT LATER THIS MONTH.

THE DIVISION HAS JUST RECENTLY INITIATED A THIRD HAZARD REMOVAL PROGRAM IN THE UPPER SACRAMENTO RIVER. HAZARDS HAVE BEEN IDENTIFIED AND ARE CURRENTLY BEING MAPPED. IN ADDITION, INITIAL CONTACTS HAVE BEEN MADE WITH LOCAL AND STATE AGENCIES TO DETERMINE WHETHER IT WOULD BE FEASIBLE TO CONTRACT WITH THEM FOR THE HAZARDS REMOVAL. THE DIVISION PROPOSES TO BEGIN OPERATION IN THE SACRAMENTO RIVER AT KESWICK DAM AND PROCEED SOUTH UNTIL THE FUNDS ARE EXPENDED.

PUBLIC HEARING - NATURAL GAS PRICING

W 9738

ON AUGUST 11, 1977, THE EXECUTIVE OFFICER CONDUCTED A PUBLIC HEARING FOR THE PURPOSE OF GATHERING EVIDENCE TO SERVE AS

A BASIS FOR YOUR DETERMINATION OF THE REASONABLE MARKET VALUE FOR ROYALTY PURPOSES OF NATURAL GAS DELIVERIES BY CHEVRON FROM CERTAIN NORTHERN CALIFORNIA GAS FIELDS.

AS YOU WILL RECALL THE COMMISSION ON SEPTEMBER 30, 1976, APPROVED FOR A PERIOD OF SIX MONTHS COMMENCING JULY 1, 1976, LETTER MODIFICATIONS TO GAS SALES AGREEMENTS BETWEEN CHEVRON AND P.G. & E. SUCH APPROVAL WAS SUBJECT TO THE RIGHT OF THE STATE AT THE END OF THE SIX-MONTH PERIOD TO MAKE A DETERMINATION OF THE REASONABLE MARKET VALUE OF THE GAS DELIVERIES BY CHEVRON TO P.G. & E.

TESTIMONY AT THE HEARING WAS PRESENTED BY THE COMMISSION'S STAFF, A REPRESENTATIVE OF THE OFFICE OF THE ATTORNEY GENERAL, A CONSULTANT RETAINED BY THE STAFF, CHEVRON, P.G. & E. AND THE PUBLIC UTILITIES COMMISSION. THE HEARING IS BEING HELD OPEN FOR FURTHER WRITTEN REBUTTAL STATEMENTS THROUGH AUGUST 26, 1977. UPON CONCLUSION OF THE HEARING, STAFF WILL ANALYZE ALL TESTIMONY AND PRESENT RECOMMENDATIONS FOR ESTABLISHMENT OF THE REASONABLE MARKET VALUE OF THE GAS PRODUCED FROM JANUARY 1, 1977, THROUGH JUNE 30, 1978, THE TERM OF THE MODIFIED SALES CONTRACTS. AFTER JUNE 30, 1978, THE QUESTION WILL AGAIN BE OPEN AS TO THE REASONABLE MARKET VALUE APPLICABLE TO CHEVRON'S ROYALTY PAYMENTS TO THE STATE.

CRUDE OIL

LB Operations

STAFF HAS TAKEN SOME PRELIMINARY STEPS TO INITIATE SELL-OFFS OF THE 12-1/2 PERCENT OF THE CONTRACTORS' SHARE OF THE LONG BEACH UNIT OIL AS PROVIDED IN CHAPTER 138/64, 1ST E.S. AS WE PROGRESS WITH THESE SELL-OFFS, I WILL KEEP YOU ADVISED.

HOWEVER, AS I HAVE REPORTED TO YOU BEFORE, FEA REGULATION MATTERS MUST BE SOLVED BEFORE SUCH ACTION CAN BE FULLY RESOLVED. THAT PICTURE IS VERY UNCLEAR AND SHOWS NO SIGNS OF BECOMING WHOLLY DISCERNIBLE IN THE NEAR FUTURE. WE HAVE RECEIVED A NOTICE OF PROBABLE VIOLATION FROM FEA ON SOME OF THE CONTRACTS LET IN 1971-72. WE ARE TAKING THE NECESSARY STEPS TO CONTEST THESE CITATIONS. IN THAT VEIN, AND TO GENERALLY KEEP THE COMMISSION ABREAST OF OUR ACTIONS IN THAT AREA, I HAVE ASKED OUR SPECIAL COUNSEL FROM WASHINGTON, D.C. TO BRIEFLY DISCUSS THIS WITH THE COMMISSION. FURTHER, I HAVE ASKED MR. THOMPSON AND MR. PACE FROM OUR STAFF TO JOIN IN THIS DISCUSSION AS IT APPLIES TO FUTURE CRUDE OIL REVENUES.

RECORD OF ACTION TAKEN BY THE

STATE LANDS COMMISSION

AT ITS MEETING OF AUGUST 25, 1977

During the meeting, the recommendations of the staff relative to Calendar Items C1, C2, C3, C4, C5, C6, C7, C8, C9, C10, C11, C12, C13, C14, C15, C16, C17, C18, C19, C20, C21, C22, C23, C24, 26, 27, 28, 30, 31, 32, 33, 34, 35, 36, 39 and 40. were adopted as resolutions of the Commission by unanimous vote.

Commission action on Calendar Items 25, 29, 37, 38 and 41 are set forth on pages 967, 981, 998, 1001, and 1010.

Status of Major Litigation is set forth on page 1012.