

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

MEETING
STATE LANDS COMMISSION

ORIGINAL

ROOM 2170
STATE CAPITOL
SACRAMENTO, CALIFORNIA

THURSDAY, MAY 26, 1977

2:00 P.M.

PETERS SHORTHAND REPORTING CORPORATION

24 NESS COURT
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601

I N D E X

	<u>Page</u>
1	
2	
3	1
4	1
5	1
6	4
7	10
8	11
9	12
10	22
11	24
12	29
13	30
14	30
15	31
16	31
17	32
18	33
19	34
20	35
21	35
22	35
23	36
24	36
25	

PETERS SHORTHAND REPORTING CORPORATION

26 NESS COURT
 SACRAMENTO, CALIFORNIA 95826
 TELEPHONE (916) 383-3601

		<u>Page</u>
1	INDEX (continued)	
2	Calendar Item 29	37
3	Calendar Item 30	37
4	Calendar Item 31	38
5	Calendar Item 32	38
6	Calendar Item 33	38
7	Norbert Dall	39
8	Don Everitts	39
9	Calendar Item 34	40
10	Calendar Item 36	41
11	Mr. Thompson	41
12	Calendar Item 37	42
13	Mr. Thompson	42
14	Calendar Item 38	43
15	Calendar Item 39	43
16	Mr. Thompson	44
17	Mr. Golden	44
18	Calendar Item 40	44
19	Mr. Trout	45
20	Mr. Taylor	45
21	Calendar Item 41	45
22	Mr. Trout	45
23	Calendar Item 42	46
24	Mr. Trout	46
25	Mr. Taylor	48

PETERS SHORTHAND REPORTING CORPORATION

26 NESS COURT
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383 3601

1	INDEX (continued)	<u>Page</u>
2	Status of major litigation	49
3	Mr. Taylor	49
4	Adjournment	51
5	Reporter's Certificate	52
6		
7		
8		
9		
10		
11		
12		
13		
14		
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25		

PETERS SHORTHAND REPORTING CORPORATION

26 NESS COURT
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

MEMBERS PRESENT

Hon. Kenneth Cory, Controller, Chairman
Lieutenant Governor Mervyn M. Dymally
Mr. Sid McCausland, representing Roy M. Bell
Ms. Betty Jo Smith

MEMBERS ABSENT

Hon. Roy M. Bell, Director of Finance

STAFF PRESENT

Mr. William F. Northrop, Executive Officer
Mr. Robert S. Golden, Assistant Executive Officer
Mr. James F. Trout, Land Operations
Mr. Robert Hight, Staff Counsel
Mr. William Thompson, Manager, Long Beach Operations
Mr. Don Everitts, Long Beach
Ms. Diane Jones, Secretary

ALSO PRESENT

Mr. N. Gregory Taylor, Deputy Attorney General
Mr. Jan Stevens, Attorney General's Office

P R O C E E D I N G S

--oOo--

1
2
3 CHAIRMAN CORY: Call the meeting to order. The
4 Lieutenant Governor is here, and Mr. McCausland is on his
5 way shortly. The Governor, I believe, has an airplane to
6 catch so we will be proceeding rather quickly so that we
7 can get everything done.

8 LIEUTENANT GOVERNOR DYMALLY: So long as Assemblyman
9 Thomas get whatever he wants.

10 (Laughter.)

11 CHAIRMAN CORY: The first item on the agenda is
12 confirmation of the minutes of April 28th.

13 LIEUTENANT GOVERNOR DYMALLY: So move.

14 CHAIRMAN CORY: Without objection, it will be
15 approved as presented.

16 And I am correct that Sid is aware and is coming
17 up shortly.

18 EXECUTIVE OFFICER NORTHROP: That's correct,
19 Mr. Chairman.

20 CHAIRMAN CORY: Okay. Mr. Executive Officer, if
21 you could start with your report, and we will give a written
22 copy of it to Sid in case he's the only one of the three
23 of us who knows how to read.

24 (Laughter.)

25 EXECUTIVE OFFICER NORTHROP: Thank you very kindly.

1 Mr. Chairman, Lieutenant Governor Dymally, as
2 guests of Congressman Mark Hannaford and Bill Ketchum, on
3 May 19th I advised members and staff of the California
4 Congressional delegation of the serious impacts on California
5 crude oil if the proposed and present entitlements program
6 for Alaskan and foreign crude were to continue.

7 FEA is conducting a briefing on the President's
8 National Energy package on June 14 in Sacramento. We plan
9 on attending. If any of the Commission members or surrogates
10 would like to attend, we certainly would be able to accommo-
11 date them.

12 Approximately three and a half years ago, the
13 Commission approved an Environmental Study Agreement for
14 800 acres on Bair Island which is located in Redwood City
15 in San Mateo County.

16 A Task Force was formed and various scientific
17 observations have been made, wildlife inventories planning
18 taken and local planning needs have been studied. A draft
19 report has been prepared by the Division.

20 The Study Agreement provides that a minimum of
21 60 acres will be donated to the State by a private party,
22 Mobil Oil Estates. With the Commission's approval, the
23 staff will meet and negotiate the specifics with Mobil,
24 and the resulting donation and final report will be
25 presented to the Commission at the June meeting next month.

PETERS SHORTHAND REPORTING CORPORATION

26 NESS COURT
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601

1 On November 15, 1976, the Commission authorized
2 a public hearing to collect evidence on the record to serve
3 as the basis for determination of royalty gas pricing.

4 Staff has begun collecting the data necessary to
5 develop the data and the procedures for conducting the public
6 hearing. In addition, we have retained Mr. Henry F. Lippitt,
7 an attorney in private practice specializing in natural
8 gas regulatory matters, to advise us on the collection of
9 data. The staff has tentatively scheduled a date late in
10 June or early in July for the public hearing to be held here
11 in Sacramento. We hope we can have it prepared for the
12 July or at the latest the August agenda.

13 Mr. Chairman, Governor, we have had a continuing
14 dialogue with the Attorney General and the City of Los
15 Angeles on reviewing the proposed settlement between the
16 Los Angeles City and Harbor Department. We feel that these
17 negotiations are moving along probably not as expeditiously
18 as we had hoped, but very well, and they should be resolved
19 prior to the next meeting. At that time we will be able
20 to present formally to you an agreement which covers many
21 of the objections that have been raised by our staff and
22 others in the Legislature on this matter.

23 In the meantime, several items which are questionable
24 and which we have discovered, and we are not really sure
25 where they fit as to germaneness, have arisen. On these

PETERS SHORTHAND REPORTING CORPORATION

26 NESS COURT
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601

1 matters we are planning to seek the advice, or at least
2 discussion with the Attorney General on these matters.

3 It's my understanding that Assemblyman Thomas
4 may wish to speak on this issue today. He has not indicated.

5 ASSEMBLYMAN THOMAS: I don't want to delay this
6 subject matter because this is the 26th year we've been
7 working on it; but I think that if you would send this
8 document dated January 14, 1977 to the Attorney General and
9 in your letter specify just what the Grant says that the
10 Attorney General should do.

11 In the Grant, to my knowledge, it specifically
12 says that the Attorney General in any violations of the
13 Trust must take immediate action. I think those are the
14 words.

15 I left the Grant, but you have a copy. I think
16 that's very clear in the Grant on the tidelands from the
17 State to the City of Los Angeles.

18 Also, the Grant specifically sets out the duties
19 and obligations of the Lands Commission. And I hope that
20 in the letter that you would restate whatever is in the
21 Grant that the Attorney General should do.

22 It says that, "any violation", and you incorporating
23 this document dated January 14th where the Harbor Department
24 in its findings and the report that was presented to the
25 Commission in substance, if you read it, states that the

PETERS SHORTHAND REPORTING CORPORATION

26 NESS COURT
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601

1 City owes the General Trust Fund, the Trust Fund, \$15,892,439.

2 We have been kicking around all kinds of amounts.
3 The joint audit committee's auditor came up with \$36 million,
4 some \$30 million -- we are all in disagreement. But I
5 would also -- just to restate what I've said to the Lands
6 Commission -- this is a question of trust. Of course, it
7 all depends on the case law rather than statutory law, and
8 I would say that I think it's the Lands Commission's duty
9 and obligation to notify the City of Los Angeles that they
10 should have two sets of books and two accounts -- one for
11 the Trust Fund and one for the management of lands by the
12 Harbor Department and the Commission and so that they two
13 could be separated.

14 Up until now, there was just one fund, so whatever
15 monies goes into that fund the case law really specifically
16 says it becomes Trust monies or properties or whatever it
17 is.

18 I'm not going to tell the Harbor Department how
19 to run their business, but I think the Lands Commission has
20 authority to see that two sets of books are set up, two
21 funds, two accounts -- one the Trust Fund to take care of
22 the income from the Harbor District which is identified
23 as Trust Properties, and the other lands that are conveyed
24 to Harbor Department for management, the rental income
25 and all of that should be separately separated; and that's

PETERS SHORTHAND REPORTING CORPORATION

26 NESS COURT
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601

1 why we have this difference of \$36 million, \$30 million. And
2 I think that the amount here -- if the City would adopt
3 this agreement, this report from the Harbor Department as
4 specific, I think that that would settle the case once and
5 for all.

6 And if the Lands Commission can settle it, you
7 can rest assured that I'll put a resolution in the Legislature
8 commending you.

9 LIEUTENANT GOVERNOR DYMALLY: On the condition I
10 get a copy.

11 (Laughter.)

12 CHAIRMAN CORY: You are going to defer these items?

13 EXECUTIVE OFFICER NORTHROP: Yes, we will,
14 Mr. Chairman.

15 CHAIRMAN CORY: You will be sure and present it --

16 EXECUTIVE OFFICER NORTHROP: Yes, we will probably
17 do it.

18 CHAIRMAN CORY: The other thing I think you
19 should be looking at is to make sure we start making the
20 annual reports that are expected of us to the Legislature
21 on this subject. I think I have reason to believe -- if
22 there's another report, I think there's a reason why we
23 should get our something in.

24 EXECUTIVE OFFICER NORTHROP: I agree.

25 CHAIRMAN CORY: And we should deal with those

PETERS SHORTHAND REPORTING CORPORATION

26 NESS COURT
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601

1 issues at that time.

2 That letter, Vince, that letter should be going
3 out very shortly.

4 ASSEMBLYMAN THOMAS: Thank you very much.

5 CHAIRMAN CORY: We will make sure that it does.

6 LIEUTENANT GOVERNOR DYMALLY: Mr. Chairman, am
7 I to understand from the Director that we will have some
8 definite status report on this matter in the next meeting?

9 CHAIRMAN CORY: There should be a resolution.

10 EXECUTIVE OFFICER NORTHROP: It should be resolved
11 by then. We should have the final resolution. We are --
12 it's semantics.

13 LIEUTENANT GOVERNOR DYMALLY: In other words, it
14 will hopefully be resolved.

15 EXECUTIVE OFFICER NORTHROP: Hopefully. We have
16 got it very close to resolution. Included in our resolution
17 are many of the points raised, but not all, but many of
18 the points raised by Mr. Thomas are covered in the resolution.
19 Many of them are not.

20 ASSEMBLYMAN THOMAS: Can you tell me when this
21 will be forwarded to the Attorney General?

22 EXECUTIVE OFFICER NORTHROP: I would try to have
23 it early next week or late next week, Mr. Thomas. We have
24 several drafts we are working on at the present time.

25 CHAIRMAN CORY: Thank you, Vince.

1 The next item is natural gas transportation.

2 EXECUTIVE OFFICER NORTHROP: Mr. Chairman, Governor
3 it has become evident to the staff that the natural gas
4 transportation proposals, as they will affect California,
5 will require a position from the Commission.

6 This indication would be helpful not only in
7 dealing as technical staff to other State agencies, as we
8 are from time to time, but --

9 CHAIRMAN CORY: I'm a little hesitant to do this
10 without Sid.

11 LIEUTENANT GOVERNOR DYMALLY: You don't have to.
12 I have something that will resolve that.

13 EXECUTIVE OFFICER NORTHROP: An indication would
14 be helpful if the staff were to get some direction from
15 the Commission as to your wishes on this matter.

16 LIEUTENANT GOVERNOR DYMALLY: May I interrupt here
17 I think I can resolve this problem. I have a motion on the
18 subject.

19 I move that the following items be placed on the
20 agenda for the next meeting: One, SB 1081; two, my letter
21 to the Chairman of the PUC; and, three, the item relating
22 to natural gas transportation on the Director's report, page
23 3, for the next meeting.

24 CHAIRMAN CORY: I would second that. I think
25 we should have a full discussion of where we're headed on

1 that.

2 EXECUTIVE OFFICER NORTHROP: Mr. Chairman, the
3 next item is the Queen Mary. The City of Long Beach
4 informally advises the staff that they are considering
5 transferring the Queen Mary and its operation to the Long
6 Beach Harbor Department. In light of this, I request
7 permission to send the City Manager a copy of the letter
8 which is presently before you.

9 CHAIRMAN CORY: I've got no problems with it.

10 LIEUTENANT GOVERNOR DYMALLY: No problems. I
11 have read it.

12 CHAIRMAN CORY: Without objection, this will be
13 the order.

14 EXECUTIVE OFFICER NORTHROP: Mr. Chairman, the
15 final item is a little detailed, and it gets into the
16 entitlements of California lower tier oil.

17 Currently, California producers of lower tier
18 oil are being paid 60 cents a barrel less than the ceiling
19 price allowed by the Federal Energy Administration. This
20 is because refiners maintain that the over \$6 a barrel penalty
21 they must pay to refine a barrel of lower tier crude oil,
22 coupled with the over \$2 a barrel bonus they receive for
23 running a barrel of foreign crude, prevents further price
24 increases.

25 The Federal Energy Administration recognizes

PETERS SHORTHAND REPORTING CORPORATION

26 NESS COURT
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601

1 the problem, and in March of this year held hearings on
2 a proposal to reduce the entitlement obligation for
3 California and Alaskan crudes by 54 cents a barrel.

4 The FEA is currently holding hearings on their
5 proposal for pricing Alaskan North Slope oil. As part of
6 these hearings, they are asking affected Californians to
7 comment again on their lower tier price obligation reduction
8 in light of the Alaskan oil pricing proposals.

9 I would like concurrent from the Commission in
10 my sending written comments to FEA urging the adoption of
11 this proposal to reduce the entitlement burden on California
12 lower tier oil.

13 LIEUTENANT GOVERNOR DYMALLY: So move.

14 CHAIRMAN CORY: Without objection, such will be
15 the order.

16 EXECUTIVE OFFICER NORTHROP: Mr. Chairman, in
17 addition to the above, there are two additional things I
18 would like to request if I may. First, that Item Number 35
19 on the agenda be taken out of order at this time; and,
20 secondly, in light of that, I have a presentation I would
21 like the Commission to entertain given by Independent
22 Oil Producer's Associates in Kern County, Mr. Robert Johnson,
23 Mr. William Bradley and Mr. James Gilstrap, in search of
24 a solution for the --

25 CHAIRMAN CORY: Let me bring Mr. McCausland up

PETERS SHORTHAND REPORTING CORPORATION

26 NESS COURT
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601

1 to date. Bill Northrup has been reading his monologue to
2 us. Other than that, we have had comments from Mr. Thomas,
3 and in terms of substantive items, we have asked the
4 Executive Officer to write comments to FEA with respect
5 to the entitlement programs pricing.

6 We have approved a letter from the City of Long
7 Beach, and we have put on the agenda for next month --

8 EXECUTIVE OFFICER NORTHROP: SB 1081 and a letter
9 to the PUC.

10 CHAIRMAN CORY: We are now going to Item 35 --

11 EXECUTIVE OFFICER NORTHROP: On the agenda.

12 CHAIRMAN CORY: On the agenda.

13 EXECUTIVE OFFICER NORTHROP: And Mr. Thomson,
14 I believe, has a very short presentation on that, but it's
15 to give some concept as to what is happening to crude oil
16 prices and the way it's going to eventually affect not only
17 the income to the State and the production levels.

18 MR. THOMSON: Just by qualification, it has to
19 do with economic projections in the planning budget. I
20 think we can summarize this in the interest of time.

21 We have attachments giving to you on page Roman
22 numeral I-A and Roman numeral I which is outlined in red
23 the numbers of crude oil prices. Page I-A is the crude
24 oil prices we projected in February. You notice at that
25 time we increased what we thought our crude oil price would

PETERS SHORTHAND REPORTING CORPORATION

26 NESS COURT
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601

1 be to \$5.91 a barrel for the last three quarters of this
2 year.

3 You can see that on page I what has happened here,
4 we have lost approximately 50 cents a barrel. This is the
5 result of losing a summary judgment on whether the differen-
6 tial could be used for Long Beach tidelands accounts.

7 EXECUTIVE OFFICER NORTHROP: It becomes evident,
8 Mr. Chairman, looking at these dismal figures that we should
9 at least open negotiations or look into other methods to
10 raise the price of our crude oil; but negotiations with
11 the Federal government seem to be fruitless, and they generally
12 are in California, I guess. So for that reason, I have
13 asked the three gentlemen I mentioned before to come forward
14 and explain to you a program that they're instituting in
15 the San Joaquin Valley at considerable expense of private
16 capital to enhance their crude, which is similarly as
17 heavy as ours -- heavier than ours, in fact.

18 At this time I would like Mr. Johnson, Mr. Gilstrap
19 and Mr. Bradley to come forward.

20 MR. JOHNSON: Mr. Chairman, thank you very much
21 for the opportunity to address this Commission. My name
22 is Robert Johnson. I am Vice-President of the Independent
23 Oil Producers' Agency. On my left is Mr. Raymond Bradley,
24 President of the Independent Oil Producers' Agency; and
25 on his left, Mr. James S. Gilstrap, the Executive Vice-President

PETERS SHORTHAND REPORTING CORPORATION

26 NESS COURT
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601

1 of the same agency.

2 We are a group of, individually, oil producers
3 from the southern San Joaquin Valley area of California,
4 principally producing heavy oil. We're tremendously concerned,
5 and that's the reason we appreciate the opportunity to
6 address this body.

7 The California oil industry, particular the
8 independent non-integrated segment faces a difficult period.
9 As incredible as it seems in a nation which imports almost
10 50 percent of its crude oil, we are rapidly approaching a
11 time when some producing wells in California may have to
12 be shut in for lack of market.

13 This localized surplus of low-gravity oil has
14 been gradually growing as the market for high sulfur fuel
15 oil has vanished in the wake of more stringent air quality
16 standards. This vanishing fuel oil market is compounded
17 by the reduced demand for asphalt, another main product of
18 heavy oil, because of the road building curtailment and
19 slowdown in general construction activity.

20 At the same time the market is eroding, the
21 supply of heavy oil is increasing. New thermal recovery
22 methods have been developed which are increasing both the
23 rate and the amount of oil which can be recovered from low-
24 gravity reservoirs. Elk Hills has been reactivated, Santa
25 Barbara Channel is being developed and now apparently San

PETERS SHORTHAND REPORTING CORPORATION

26 NESS COURT
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601

1 Pedro Channel also shows promise of additional significant
2 heavy oil reserves. All of these resources, however, are
3 dwarfed by the volumes of heavy Alaskan oil which are
4 expected in the fall of 1977.

5 Refining capacity to handle the residual content
6 of this large amount of low-gravity crude does not exist.
7 As if the natural conditions weren't bad enough, the Federal
8 government continues its intervention in the marketplace.
9 It has already mandated preferential treatment for its
10 government-owned Elk Hills oil and proposes to do the same
11 for Alaskan North Slope crude through the entitlement
12 program, the same program which has made it more profitable
13 to purchase foreign sweet crude at \$13 per barrel than to
14 purchase a low-gravity domestic barrel at \$3.95.

15 As a consequence, refiners can satisfy their
16 product requirements by buying imported crudes and thus
17 postpone refinery investment to process low-gravity California
18 crude oil.

19 The estimates of the magnitude of the subsidy
20 flowing from California to the refiners and consumers in
21 the East via the entitlements program vary between 500 million
22 and 1 billion per year. There are, however, other equally
23 serious undesirable consequences.

24 We are exporting refinery capacity in jobs. We
25 are increasing our dependence upon imports of a premium

PETERS SHORTHAND REPORTING CORPORATION

26 NESS COURT
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601

1 crude which can be expected to rapidly increase in price
2 as other people likewise motivated bid for this commodity.
3 We are increasing the cost to the consumer by becoming
4 reliant upon this increasingly expensive crude. We are
5 adding to the nation's balance of payment problem. We are
6 precluding the development of billions of barrels of low-
7 gravity California oil. This heavy oil development has a
8 long lead time; it cannot be started and stopped at will.
9 The capital necessary to develop this resource will not
10 be committed unless a reasonable assurance of marketability
11 is present.

12 The only realistic solution is a program of
13 refinery construction to process and desulfurize low-gravity
14 oil and its residual. It's probably already too late to
15 avoid some disruptions. The lead time for construction alone
16 can reach four years. If we impact this with lengthy delays
17 in the permit phase, one can only speculate on when these
18 projects will be on stream to afford a measure of relief
19 to both producer and consumer.

20 The independent or non-integrated segments of
21 our business will be hit first and hardest. Without a
22 refinery to run his own crude, he is in a very vulnerable
23 position.

24 The Independent Oil Producers' Agency has been
25 marketing the crude oil of its independent producer members

PETERS SHORTHAND REPORTING CORPORATION

26 NESS COURT
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601

1 for 73 years. In this period the group has experienced
2 every natural, political and economic calamity imagineable
3 and still has managed to survive.

4 One of its earliest projects for survival was
5 the construction in 1909 of a pipeline from the San Joaquin
6 Valley to the Coast. This pipeline enabled the producers
7 to obtain the export or world market price for their oil
8 rather than the limited price offered by Valley purchasers.
9 A similar pioneering spirit enabled these independents to
10 develop their low-gravity oil properties to the present
11 significant reserves position they currently represent.

12 This brief excursion into history has simply been
13 for the purpose of introducing the latest project which
14 these independents feel is essential to their survival --
15 the building of a refinery.

16 At the outset, it should be made clear that this
17 action is only contemplated as a last resort. There seems
18 to be no reasonable alternative in view of the strong
19 likelihood that this crude contract will be cancelled. The
20 low-gravity crude surplus and shortage of residual processing
21 capacity is too well-known to require much elaboration.

22 To provide a more complete record, however, we
23 have attached an analysis prepared by the Union Oil Company
24 of California which we feel accurately reflects and
25 quantifies it.

PETERS SHORTHAND REPORTING CORPORATION

26 NESS COURT
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 38-3601

1 Our potential refinery project is in phase two
2 which represents a refinement of the preliminary evaluation
3 phase which looked favorable. This refinement will address
4 the more detailed economics, regulatory requirements and
5 permitting considerations which control the viability of
6 the project. If this second phase evaluation is promising,
7 some IOFA members will then proceed with the final phase
8 of detailed considerations of plant design, throughput,
9 marketing and the all-important permitting problems.

10 We are attempting a self-help solution to what
11 we see as a real problem for every oil producer in the
12 State of California. To solve the problem will require
13 the best efforts of all parties involved. It appears to
14 be a tall order for a group of small independents, but it
15 probably seemed just as difficult when our grandfathers
16 considered building a pipeline to the Coast.

17 The role of government is critical, especially
18 at the State level. An active spirit of cooperation between
19 government and the private sector is essential to the timely
20 solution of the State's low-gravity oil problem. We
21 earnestly seek your enlightened guidance. The rest is up
22 to us.

23 CHAIRMAN CORY: Bob, are you talking about a
24 refinery or just bottom-end capability?

25 MR. JOHNSON: We are in the process of evaluating

PETERS SHORTHAND REPORTING CORPORATION

26 NESS COURT
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601

1 just how deep we're going to have to go into the barrel.
2 The initial concept would be to start out with a coastal
3 facility at an "X" level. If this didn't make sense
4 economically, we would have to go more deeply into the barrel
5 and go into producing, perhaps, a low sulfur fuel oil which
6 would have a wider marketability which would involve an
7 "X" 80 percent construction factor. It would be almost twice
8 as much. Not quite, but almost. But it would take us
9 into a broader acceptability of our end product.

10 CHAIRMAN CORY: How far have you gone? Is that
11 an inappropriate question to ask you at this point?

12 MR. JOHNSON: Not at all.

13 CHAIRMAN CORY: I don't want to disclose anything
14 that would adversely affect you in terms of the marketplace.

15 MR. JOHNSON: Not at all. We have not proceeded
16 to the extent that would be divulging anything that would be
17 proprietary. The initial phase of the investigation made
18 the thing look very sensible; but when you look at the
19 overall problem California faces from the standpoint of
20 this low-gravity crude oil, it's absolutely necessary that
21 things like this be done.

22 The alternative is to rely upon imported foreign
23 crude and leave our own in the ground. As producers, we
24 are totally dependent upon the refining capacity that other
25 people own. So, we have to do it.

PETERS SHORTHAND REPORTING CORPORATION

26 NESS COURT
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 353-3601

1 Now, we're still in the process, in direct answer
2 to your question, of evaluation of costs and transfer
3 prices to other people who would take care of further refine-
4 ment of the distillate products that we would produce.

5 CHAIRMAN CORY: The Union Oil document, July 6,
6 '76, for what purpose was that prepared?

7 MR. JOHNSON: I didn't hear the question.

8 CHAIRMAN CORY: The Union Oil document that you
9 submitted with this, which I guess is a statistical analysis
10 of our overabundance of heavy crude in our limitation on
11 capacity to move that through any other plant, what motivated
12 Union to do that?

13 MR. JOHNSON: This was basically prepared as an
14 in-house analysis for Union Oil Company. It was disseminated
15 to other people who did business with Union.

16 My own estimation is to try to apprise them of
17 the problem that they would be confronting. We sell our
18 crude to Union. As a result, we're on the list of recipients.

19 CHAIRMAN CORY: Do you have any ballpark figures
20 of what this is going to cost? Quote X close quote plus
21 80, what's quote X close quote?

22 MR. JOHNSON: Somewhere between 50 and 100 million
23 dollars. This is the figure we're looking at here starting
24 out in the range of, let's say, \$50 million if you go
25 a straight coking route. This is for a 15,000 barrel

PETERS SHORTHAND REPORTING CORPORATION

26 NESS COURT
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601

1 facility. And then you get into something like \$75 million
2 if you go totally through the barrel and provide a fuel
3 oil at the end with a less than one-tenth of one percent
4 sulfur.

5 CHAIRMAN CORY: That would be meeting the current
6 fuel oil requirement limitation.

7 MR. JOHNSON: It would be exceeding it for the
8 area in which we would hopefully sell it. What that would
9 be at the time of ultimate construction of the refinery,
10 you're in a better position to guess than we are.

11 CHAIRMAN CORY: 15,000 barrels a day is what
12 your association produces, roughly?

13 MR. JOHNSON: Yes, sir. We are basing our refinery
14 economics on a base case of the crude that we control.
15 Beyond that, you get into the multiplier aspect of your
16 plant; and if you can make a base case of 15,000 barrels,
17 then you can achieve economies of scale with other crudes
18 that you can corral, provided you have an off-take recipient
19 who will take the distillate products and the coke.

20 We wanted to make a base case on what we knew
21 we had. Beyond that, it's a question of multiplying by
22 economies of scale.

23 CHAIRMAN CORY: Mr. Northrop, our production of
24 this kind of heavy gravity crude is what?

25 EXECUTIVE OFFICER NORTHROP: I would say in the

PETERS SHORTHAND REPORTING CORPORATION

26 NESS COURT
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601

1 area of a hundred thousand barrels a day -- 80 to 100,000
2 barrels. It is, of course, tied up with a contract at
3 the present time; and we are looking at two methods of
4 freeing oil, but there may be a third one come up in which
5 the oil companies would much rather have . . . that are now
6 taking crude, for example -- that would much rather have a
7 higher gravity crude and would pay more money for it. We,
8 at least I feel, initially we should undertake some surveys
9 to find out if there is a market for material if we put it
10 together and some idea of the order of magnitude of the
11 dollars involved.

12 CHAIRMAN CORY: Some of the people participating,
13 or some of the segments in the Long Beach units involved
14 there, are they not saying --

15 EXECUTIVE OFFICER NORTHROP: Yes. We have had
16 indications.

17 CHAIRMAN CORY: -- take the oil. We don't want it?

18 EXECUTIVE OFFICER NORTHROP: Right. One of them
19 has already indicated if we got into it they would gladly
20 walk away. I don't know whether that's a negotiable figure
21 or not. We haven't gotten into it.

22 I would request the Commission consider taking a
23 look at it in some depth, or at least cursory anyway, as
24 to what would be involved in it.

25 CHAIRMAN CORY: What location -- the service you'd

PETERS SHORTHAND REPORTING CORPORATION

26 NESS COURT
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601

1 be talking about is Kern County?

2 MR. JOHNSON: The Southern San Joaquin Valley which
3 would fit in with delivery via the existing pipelines, yes.

4 EXECUTIVE OFFICER NORTHROP: It goes beyond
5 economics now, getting money out of them. It may well be
6 we can't sell our own oil. The economics become so bad
7 that we can't produce it. The other alternative is the
8 Federal government giving us a hand, which they haven't.

9 MR. McCAUSLAND: My only problem with the presenta-
10 tion was we got down to the role of government being critical,
11 and I kept trying to decide if we were entering into a
12 partnership relationship or what, and all I find here is
13 an active spirit of cooperation. We'll have more than a
14 active spirit of cooperation. I'm just wondering what our
15 role should be. We don't have a partnership stake in this
16 thing.

17 MR. JOHNSON: Well, government in my has had
18 a partnership stake for a long time. April 15th is normally
19 when you normally come around and exercise your partnership
20 option.

21 (Laughter.)

22 MR. McCAUSLAND: We have to do it with an active
23 spirit of cooperation.

24 (Laughter.)

25 MR. BRADLEY: Probably what Bob was talking about

1 was retroactive applications of new rules. We've run across
2 that with the FEA. A rule today that's okay may be all
3 wrong tomorrow, and in some aspects of the environmental
4 pollution rules, if maybe we can make a one-tenth sulfur but
5 if down the road we have to come up with chocolate ice cream,
6 we're way hung out. I think that's what Bob was referring to.

7 MR JOHNSON: Basically, this is it. The permitting
8 phase and the length of time necessary to process permits,
9 the --

10 CHAIRMAN CORY: I was trying to figure out how
11 to phrase the same thing that Sid did. We may have a
12 greater interest in your project than just helping because
13 we seem to be sitting here in a similar situation, that
14 we're an independent producer whether we like it or not.
15 We do not have refining capability, and maybe if we had
16 some of that, and as you proceed if you can keep communicating
17 with the staff, we may find reasons that are in our mutual
18 interests to -- although, if you're only going to handle
19 15,000 barrels, you can't help us much. But I would suggest
20 from your side of the table that the same spirit that led
21 your grandparents to understand the system, you might be
22 able to figure out how we could participate or how we could
23 help.

24 To the extent of getting some of the people -- if
25 it's the Air Resources -- to understand the problem and

PETERS SHORTHAND REPORTING CORPORATION

26 NESS COURT
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601

1 maybe listen to them as to where they are headed, that might
2 be helpful. And maybe we can make some inquiries as to
3 where they think we should be going with the sulfur standard.

4 The problem, of course, is government changes.
5 I made the mistake on a piece of property I bought here in
6 this county of going down to the Planning Commission and
7 letting them decide which piece I bought because I didn't
8 want to get in a zoning hassle. Three months later they
9 changed the zoning. I said that wasn't fair. They quoted
10 George Miller to me and said, you know, show me the book
11 where it says they gotta be fair.

12 MR. GILSTRAP: Mr. Chairman, to put another phase
13 of this, we're not Dow Chemical. We are enthusiastic about
14 proceeding. We have to possibly have our hands held a
15 little bit more along the line.

16 We didn't ask to break any laws, but we do ask
17 for cooperation. In other words, that last paragraph, and
18 again, if we knew the proportion to our wells that we were
19 going to make \$5 million and walk away, we won't start. Just
20 leave it in the ground.

21 So, we do need cooperation, and the State, to solve
22 the rest of this problem, can well afford to cooperate with
23 us because we are willing to lead the way.

24 CHAIRMAN CORY: I think I sense maybe the Commission
25 is willing to try to help obtain that cooperation; although,

PETERS SHORTHAND REPORTING CORPORATION

26 NESS COURT
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601

1 I would point out that the last time I had a discussion
2 with the FEA I'm not so sure they even want to see me again.
3 I'm not sure I can help you with those problems.

4 MR. JOHNSON: You can't help us with zoning either
5 apparently.

6 (Laughter.)

7 MR. GILSTRAP: Mr. Chairman, we made a trip to
8 Washington and for whatever value it is, we were supposedly
9 going to receive a letter that we were nice people and they
10 agree with these beautiful ideas that we have. How much
11 farther they'll go, we don't know; but at least they've said
12 that. That's the best they've said to us in a long time.

13 CHAIRMAN CORY: My view of government doesn't
14 take that as a compliment.

15 (Laughter.)

16 MR. BRADLEY: Mr. Chairman, the FEA has figured
17 out after several detailed studies that the west side of
18 the Valley over there has 5 billion barrels of oil, which
19 is more than the North Slope had. I thought you might be
20 interested in those numbers.

21 CHAIRMAN CORY: How much of that can be recovered,
22 do you think?

23 MR. BRADLEY: We think 50 percent, maybe 65
24 percent.

25 CHAIRMAN CORY: That's still there?

PETERS SHORTHAND REPORTING CORPORATION

26 NESS COURT
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601

1 MR. BRADLEY: Yes.

2 CHAIRMAN CORY: Two and a half billion barrels of
3 heavy sulfurous gunk.

4 MR. BRADLEY: As we've discussed before, the good
5 Lord made it hard to get out, and it will be there for quite
6 some time. It will be 30 to 50 years before we get it all
7 out.

8 CHAIRMAN CORY: Fifty years.

9 Any questions?

10 MS. SMITH: No.

11 MR. McCAUSLAND: What is the next step?

12 EXECUTIVE OFFICER NORTHROP; The next step is
13 what we're asking, Mr. McCausland and Mr. Chairman, is that
14 the staff be instructed, or at least we are informing you
15 that we would like to take the steps to make the necessary
16 contacts, (a), with industry to see if there is any interest
17 and, (b), to do some preliminary costing and really kind of
18 going over the costs that the Independent Oil Producers'
19 Agency have established and see how much of their material
20 we can use as applicable to our program.

21 CHAIRMAN CORY: You should be looking at that,
22 but you should also be talking to the Air Resources and
23 other government agencies as to whether or not they view
24 this as a realistic solution to a problem that we have and,
25 if not, what the their stumbling blocks are.

PETERS SHORTHAND REPORTING CORPORATION

26 NESS COURT
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601

1 EXECUTIVE OFFICER NORTHROP: Preliminarily, I
2 discussed this with the Air Resources yesterday, and they
3 indicated that they would be most happy to follow on this
4 program because they thought it was worthwhile. I have
5 not discussed it with the Resources agency as well.

6 CHAIRMAN CORY: You indicated the figure was 50
7 to 100 million for 15,000 barrel capacity. At that range,
8 did that include desulfurization or just coking?

9 MR. JOHNSON: At the upper range figure you would
10 have a very low sulfur product, less than one-tenth of one
11 percent. At the low range, let's say, \$50 million, you would
12 come out with coke and distillate that would not meet
13 sulfur specifications and would require further finishing.

14 CHAIRMAN CORY: How would you move coke from the
15 Southern San Joaquin Valley to the market?

16 MR. JOHNSON: Carefully.

17 (Laughter.)

18 MR. JOHNSON: Trucks, railroad cars, covered
19 gondola trucks, something of this nature.

20 CHAIRMAN CORY: But the market is Japan.

21 MR. JOHNSON: Basically, the market today is
22 Japan, but the coke we make out of San Joaquin Valley crude
23 oil of this particular area is a relatively good grade of
24 coke. It can be calcined up and has a preferential market
25 as opposed to some of your coke from Wilmington.

PETERS SHORTHAND REPORTING CORPORATION

26 NESS COURT
SACRAMENTO, CALIFORNIA 95824
TELEPHONE (916) 383-3601

1 EXECUTIVE OFFICER WILSON: They probably have
2 a domestic market, Mr. Chairman.

3 CHAIRMAN CORY: For theirs, not ours.

4 EXECUTIVE OFFICER WILSON: Yes, for theirs. Ours
5 does not have a domestic market.

6 MR. BRADLEY: I beg your pardon. Yours could very
7 well have. If California had the necessary capacity coke,
8 you know, the residue of coke from refining capacity of
9 300,000 to 500,000 barrels a day -- and I think this is
10 going to happen one of these days, it will have to -- then
11 you are going to have a whole lot of coke. As a matter of
12 fact, I think Japan will be about this far under coke after
13 awhile, but when the FEA tells us we have to burn coal in
14 Bakersfield and Fellows California, about 25 percent more of
15 this coke will burn and be as comparable in price and air
16 pollution.

17 The price to use this stuff up is as close as you
18 produce it, right? There's no one showing it here and there
19 and back every place else. There's a lot that could very
20 well be used right in the State itself and be cheap and
21 practical as importing coal.

22 CHAIRMAN CORY: Thank you, gentlemen, very much.
23 The staff will be trying to see what they can learn from
24 the other agencies here.

25 EXECUTIVE OFFICER WILSON: Mr. Chairman that

1 concludes my report.

2 CHAIRMAN CORY: Okay. A long report.

3 The next item on the agenda is the Consent Calendar.
4 These are items C1 through --

5 MR. GOLDEN: I have a very brief report.

6 CHAIRMAN CORY: I'm sorry. Go ahead.

7 MR. GOLDEN: As your delegate to the Coastal
8 Commission and the San Francisco Bay Conservation and
9 Development Commission, I have a very brief report this
10 month.

11 In the month of May the Coastal Commission considered
12 and adopted regulations for the preparation of local coastal
13 programs by the various city and county governments involved.
14 About half of the affected cities and counties were granted
15 small sums to get started identifying the issues to be
16 addressed in preparing the local coastal plan. This repre-
17 sents workload down the pike for us.

18 In the same period, the San Francisco Bay Conserva-
19 tion and Development Commission approved a special area
20 plan for Richmond and considered and approved a plan amendment
21 in Benicia to change a portion of Benicia waterfront from
22 industrial designation to marina designation.

23 In addition, extensive testimony was taken regarding
24 the Emoryville marina project, primarily centered on the
25 disposition of that four and a half acres of alleged illegal

PETERS SHORTHAND REPORTING CORPORATION

26 NESS COURT
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383 3601

1 fill placed on the project site.

2 That concludes my report.

3 CHAIRMAN CORY: Now we go to the Consent Calendar.
4 That takes us from C1 through 20 with the exception of C11,
5 which has been removed from the calendar.

6 Is there anybody in the audience who would have
7 any objections to the approval of any of Items C1 through 20?

8 Any questions or discussion from members of the
9 Commission?

10 Without objection, the Consent Calendar will be
11 approved as presented.

12 MS. SMITH: This is C1 through 20?

13 CHAIRMAN CORY: C1 through 20 with C11 excluded.
14 C11 has been removed.

15 EXECUTIVE OFFICER NORTHROP: Been put over until
16 next month, Mr. Chairman.

17 CHAIRMAN CORY: Okay. Item 21.

18 EXECUTIVE OFFICER NORTHROP: Mr. Chairman, this
19 is a land swap between Erickson Lumber Company on our
20 timberland and a section of beach front property in Santa
21 Cruz County.

22 CHAIRMAN CORY: We give up the timber and get
23 brussel sprouts and beets, right?

24 EXECUTIVE OFFICER NORTHROP: Right.

25 CHAIRMAN CORY: Anybody in the audience on Item 21?

PETERS SHORTHAND REPORTING CORPORATION

26 NESS COURT
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601

1 Any questions from members?

2 Without objection, Item 21 will be approved as
3 presented.

4 Item 22. This is the Sea Scout Base, expended
5 \$442,752 for the Sea Scout Base. I understand the staff
6 has negotiated some concessions that the general public will
7 be interested in.

8 EXECUTIVE OFFICER NORTHROP: We had very good
9 public hearings in Newport Beach wherein the Sea Scout is
10 located. While we are putting in somewhere around roughly
11 20 to 25 percent, maybe 30 percent, of total monies, the
12 balance will be raised by private subscription. Over half
13 the time on this Sea Scout Base will be used by other
14 organizations without regard to sex or other characteristics
15 in the operation of the Sea Scout Base.

16 CHAIRMAN CORY: All right. Item 22. Anybody in
17 the audience?

18 Without objection, Item 22 will be approved as
19 presented.

20 Item 23. The Executive Officer is trying to
21 usurp some more power, authorizing him to enter into contracts,
22 take other actions necessary to facilitate the removal of
23 obstructions located in lakes, rivers, and streams without
24 prior Commission review.

25 EXECUTIVE OFFICER NORTHROP: We have an addition

1 to that as well. Mr. Hight -- well, we want to put something
2 back in. Mr. Ron Robie has said that he has some saltwater
3 intrusion projects that he may want to put in the river.
4 I think we better be prepared to --

5 CHAIRMAN CORY: You want to be given permission to
6 do what?

7 EXECUTIVE OFFICER NORTHROP: I want permission in
8 case --

9 MR. HIGHT: In the event that, Mr. Chairman, that
10 the Water Resources must move very fast, the Executive
11 Officer would request authorization to authorize the place-
12 ment of rock dams to prevent saltwater intrusion.

13 MR. McCAUSLAND: Did we get this in writing? That's
14 not on the calendar.

15 MR. HIGHT: No. I have some proposed language
16 which I will submit to you.

17 CHAIRMAN CORY: Without objection --

18 MS. SMITH: One question. Do we want to put a
19 limit on the amount of expenditures without approval?

20 EXECUTIVE OFFICER NORTHROP: No idea. Mr. Chairman,
21 the Legislature has indicated that there is a possibility
22 some \$500,000 will be allocated to be used immediately while
23 the water is low. It's out of the Assembly and has not
24 cleared the Senate as yet. I'm not sure of the timing on
25 that. Last Monday is what we're looking at right now.

PETERS SHORTHAND REPORTING CORPORATION

26 NESS COURT
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601

1 CHAIRMAN CORY: We're worried it may rain.

2 EXECUTIVE OFFICER NORTHROP: It may rain. It may
3 not be timely for another Commission meeting.

4 CHAIRMAN CORY: What about with an understanding
5 if you're going to spend more than some figure that you
6 would poll the Commission to get some feeling?

7 EXECUTIVE OFFICER NORTHROP: I have no objection.

8 MR. McCAUSLAND: Mr. Robie doesn't need that power
9 if it rains.

10 (Laughter.)

11 MR. TAYLOR: The matter isn't with Mr. Robie.
12 It's a matter of being where we are entering into contracts
13 for State clearance. Robie would be asking us for permission
14 to use our land to put his rocks on.

15 EXECUTIVE OFFICER NORTHROP: So there is no dollar
16 value involved.

17 MR. TAYLOR: It would be his money. It would be
18 Water Resources money.

19 EXECUTIVE OFFICER NORTHROP: That was really an
20 afterthought.

21 CHAIRMAN CORY: It's not real money if it's theirs.

22 (Laughter.)

23 EXECUTIVE OFFICER NORTHROP: Mr. Chairman, I
24 think \$25,000 would be an adequate sum with the proviso that
25 at the next meeting I will confirm all actions with the

PETERS SHORTHAND REPORTING CORPORATION

26 NESS COURT
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601

1 Commission.

2 CHAIRMAN CORY: Sid wanted to give you a hundred.

3 MS. SMITH: Is that for contracts or --

4 CHAIRMAN CORY: But don't take it to Vegas.

5 (Laughter.)

6 CHAIRMAN CORY: Without objection, it will be
7 approved, including Robie's rocks, not to exceed a hundred
8 grand.

9 Okay. Item 24.

10 EXECUTIVE OFFICER NORTHROP: Mr. Chairman, Item 24
11 is the result of cooperation between the State of Nevada
12 and --

13 CHAIRMAN CORY: We're suing them. How can we be
14 cooperating?

15 EXECUTIVE OFFICER NORTHROP: Well, we put on the
16 other hat. As a matter of fact, the State of the State
17 message this year was very critical of California for not
18 joining with Nevada and the Corps of Engineers in doing a
19 survey on the piers. As a result of actions that we had
20 already started, and I am sure the comments of the Governor
21 himself, we now have \$15,000 that we are ponying up with
22 Nevada at \$750,000, and if my memory serves me correctly,
23 25,000 from the Army Corps of Engineers.

24 CHAIRMAN CORY: They're putting up 7860.

25 EXECUTIVE OFFICER NORTHROP: 7500. We're putting

PETERS SHORTHAND REPORTING CORPORATION

26 NESS COURT
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601

1 up 15.

2 CHAIRMAN CORY: I was going to say that I was
3 impressed that the State of Nevada was --

4 EXECUTIVE OFFICER NORTHROP: They're putting in
5 half of what we're putting in. It's a prorated share.

6 CHAIRMAN CORY: Anybody in the audience on Item 24?
7 Without objection, it will be approved as presented.

8 Item 25, Lion Oil, renewal and amendment to the
9 lease, which includes volumetric considerations that there
10 will be a reservation suspense account for that dispute
11 until resolved.

12 Anyone in the audience on Item 25? Yes, sir.

13 MR. MORTON: Rex Morton, Lion Oil Company. We
14 have no comment to make.

15 CHAIRMAN CORY: We are about ready to go whizzing
16 away. If you have got a problem, speak up.

17 MR. MORTON: There is no problem.

18 CHAIRMAN CORY: Without objection, Item 25 will
19 be approved as presented.

20 Item 26, renewal and amendment of industrial lease
21 for five years with Holly Corporation. Volumetric rental
22 is included, including minimum rental of \$4,800.

23 Anybody in the audience of Item 26?

24 Any questions?

25 Without objection, Item 26 will be approved as

PETERS SHORTHAND REPORTING CORPORATION

26 NESS COURT
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601

1 presented.

2 Item 27, a contract. This is competitive bidding?

3 EXECUTIVE OFFICER NORTHROP: Yes, sir.

4 CHAIRMAN CORY: Atlas Blueprint to provide services
5 not to exceed \$20,000. There is some question whether or
6 not that would be sufficient.

7 EXECUTIVE OFFICER NORTHROP: We'll come back, right.

8 CHAIRMAN CORY: Anybody in the audience on Item
9 27?

10 Without objection, Item 27 will be approved as
11 presented.

12 Item 28, contract for Aerial Surveys. Again
13 competitive bidding?

14 EXECUTIVE OFFICER NORTHROP: Mr. Chairman, at this
15 point it might be pointed out that because of what is
16 required in photographic equipment the staff informs me
17 that there are only two people in the Sacramento or Greater
18 Sacramento Area who can handle it. We've sent bids to both.

19 The company who currently has the contract did
20 not submit another bid, so we took the only bid that came
21 in.

22 CHAIRMAN CORY: They have dealt with us before.

23 EXECUTIVE OFFICER NORTHROP: Yes.

24 CHAIRMAN CORY: Anybody on Item 28?

25 Without objection, it will be approved as presented.

PETERS SHORTHAND REPORTING CORPORATION

24 NESS COURT
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601

1 Item 29, Southern California Edison, Louisiana-
2 Pacific, temporary right-of-way permit. Hundred dollars
3 per annum.

4 EXECUTIVE OFFICER NORTHROP: This is to give
5 power back to a water project or project that has been shut
6 down because of water quality in that area.

7 CHAIRMAN CORY: They've cleaned up their act.

8 EXECUTIVE OFFICER NORTHROP: Cleaned up their act,
9 and they need the power to run it.

10 CHAIRMAN CORY: Anybody in the audience on Item 29?
11 Without objection, it will be approved as presented.

12 Item 30, Sea Explorer Troop, Ship Dolphin for
13 fireworks. This is Seal Beach next to -- on the property
14 we own?

15 EXECUTIVE OFFICER NORTHROP: On the property we
16 own.

17 CHAIRMAN CORY: And they want to sell fireworks.

18 MR. McCAUSLAND: Since the Executive Officer
19 comes to us and asks for authority to damage the ecology
20 of the Sacramento River, why doesn't he ask for authority
21 to grant firework permits on his own volition? Why are we
22 doing it?

23 MR. GOLDEN: It's required by statute.

24 CHAIRMAN CORY: It's required by statute.

25 Any objection?

PETERS SHORTHAND REPORTING CORPORATION

26 NESS COURT
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601

1 Anybody in the audience?

2 Let's hear it for the fireworks. Item 30 is
3 approved as presented.

4 Item 31, County of Marin wants a 30-year Public
5 Agency Permit to restore marsh.

6 Anybody in the audience on Item 31?

7 Questions from the Commissioners?

8 Without objection, it will be approved as presented.

9 Item 32. Union Oil is completing a --

10 EXECUTIVE OFFICER NORTHROP: Drilling a well in
11 a steam field. As part of our approval authority --

12 CHAIRMAN CORY: Existing lease and everything is
13 in order.

14 EXECUTIVE OFFICER NORTHROP: Yes, sir.

15 CHAIRMAN CORY: Anybody in the audience on Item 32?
16 Commissioners?

17 Without objection, it will be approved as presented.

18 Okay. You want to extend the request of the
19 County of Santa Barbara and Aminoil for the period of
20 issuance of issuing a demand notice to Aminoil to remove
21 the Ellwood Pier.

22 EXECUTIVE OFFICER NORTHROP: The Ellwood Pier
23 was due to be removed according to our recent, our last
24 extension, May 1st. They've asked to go to August 1 because
25 they have a study that is nearly complete, and they will be

PETERS SHORTHAND REPORTING CORPORATION

26 NESS COURT
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601

1 able to make their decision at that time.

2 CHAIRMAN CORY: Anybody in the audience on this
3 item?

4 MR. DALL: Mr. Chairman, Norbert Dall, from the
5 Sierra Club. We're wondering, is that a pier that is being
6 used now to transfer oil from Platform Holly through the
7 Aminoil facilities out to the tankers? Is this not that
8 pier?

9 EXECUTIVE OFFICER NORTHROP: Mr. Chairman, I am
10 getting an indication no from Mr. Everitts, but I would like
11 to have him address that directly.

12 MR. EVERITTS: The pier that we're discussing used
13 to be the pier that contained about half a dozen wells on
14 it, producing wells from an Aminoil lease. It's in the
15 same area as that Platform Holly's production is shipped by
16 tanker from. It has nothing to do with that loading terminal.

17 MR. DALL: For what use would the pier be -- to
18 what use would it be used?

19 EXECUTIVE OFFICER NORTHROP: The City of Santa
20 Barbara is doing a study to see whether it would be feasible
21 to convert the pier to a fishing recreation pier or to have
22 it taken out. Aminoil is taking it out if Santa Barbara
23 doesn't want to use it in that fashion.

24 MR. DALL: Thank you.

25 CHAIRMAN CORY: Further questions? Commissioners?

PETERS SHORTHAND REPORTING CORPORATION

26 NESS COURT
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601

1 Without objection, extension will be granted as
2 requested.

3 Item 34. We exempt from competitive bidding
4 procedure --

5 EXECUTIVE OFFICER NORTHROP: Mr. Chairman, we
6 have a parcel of 11 acres on which the staff informs me there
7 is not enough for us to put a platform. It is out for bid
8 and further, it is less than the minimum facing requirement
9 for a gas well. So, the surrounding property is owned by
10 or leased by Shell Oil Company; and so, therefore --

11 CHAIRMAN CORY: It's the only game in town.

12 EXECUTIVE OFFICER NORTHROP: It's the only game
13 in town.

14 MR. McCAUSLAND: How do we come up with a parcel
15 like that?

16 EXECUTIVE OFFICER NORTHROP: The parcel belongs
17 to the Reclamation Board. It's not ours; it's theirs.

18 CHAIRMAN CORY: Reclamation districts are generally
19 operated as private entities by the landowners, but there
20 is a statutory provision that says they can't lease out
21 their property without our approval. But these guys down
22 in the Delta, it's like their own deal, and one lawyer runs
23 them all. It's a weird deal.

24 Anybody in the audience on Item 34?

25 Without objection, then, we'll violate the public

PETERS SHORTHAND REPORTING CORPORATION

26 NESS COURT
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601

1 interest and approve Item 34.

2 MR. McCAUSLAND: I don't want to vote on that.

3 CHAIRMAN CORY: We will approve the only course
4 open to us to protect what meager interest the Reclamation
5 District 551 has.

6 MR. McCAUSLAND: I don't know if I want to vote
7 for that either. Give me a clean motion.

8 (Laughter.)

9 CHAIRMAN CORY: We will determine that it is in
10 the best interest of the State to exempt from competitive
11 bidding procedure the 11 acres of the district, and they
12 should do with it as best they can.

13 MR. McCAUSLAND: I'll vote for that.

14 CHAIRMAN CORY: Without objection, that will be
15 approved.

16 Item 35.

17 EXECUTIVE OFFICER NORTHROP: We have dealt with
18 Item 35.

19 CHAIRMAN CORY: Item 36. Do we need some modifica-
20 tion on that?

21 EXECUTIVE OFFICER NORTHROP: Yes, I believe we do
22 on that.

23 CHAIRMAN CORY: And our brains left.

24 (Laughter.)

25 MR. McCAUSLAND: It was basically the report that

PETERS SHORTHAND REPORTING CORPORATION

26 NESS COURT
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601

1 he presented to us, too. We can adopt the revised figures,
2 and I move adoption.

3 CHAIRMAN CORY: Without objection, it will be
4 adopted as presented.

5 EXECUTIVE OFFICER NORTHROP: Mr. Chairman, the
6 review of the third quarter of Parcel "A" of Long Beach, it
7 is as projected with a possible exception. Mr. Thompson,
8 would you care to comment on it?

9 MR. THOMPSON: We are trying to get an illustration
10 there of what's happened to the revenue projection made
11 before. We've had to actually refund part of that money,
12 we're in the process right now, five or six million dollars.

13 CHAIRMAN CORY: That's the court case, right?

14 MR. THOMPSON: That was referred to.

15 CHAIRMAN CORY: But in the process by losing that
16 we preserve the option of getting treble damages, and if
17 the judge found otherwise, we have lost that.

18 MR. THOMPSON: The cash flow will be adjusted. As
19 the City of Long Beach pays it back, we have held money
20 in protest. That will be released at the same time.

21 CHAIRMAN CORY: Okay. 37. Caustic waterflooding
22 techniques.

23 MR. THOMPSON: There is a report in progress that
24 is going satisfactorily, except for our drilling crew strike
25 which has delayed us about four or five months. We've had

1 a strike down there, and we've only been able to drill one
2 new well this year.

3 CHAIRMAN CORY: Who is striking?

4 MR. THOMPSON: The crew -- our legal crew is down
5 there. Academy Drilling.

6 CHAIRMAN CORY: The employees are striking against
7 Academy Drilling --

8 MR. THOMPSON: Against Academy Drilling.

9 CHAIRMAN CORY: Can we get another contract?

10 MR. THOMPSON: We are in the process right now.

11 CHAIRMAN CORY: I don't think we want to do any-
12 thing on that item.

13 MR. THOMPSON: That was an informational calendar
14 item, Item 38.

15 CHAIRMAN CORY: Ignorance is bliss.

16 (Laughter.)

17 MR. THOMPSON: 38 is the closing of a subsidence
18 item in which because of subsidence damages we had to replace
19 a parking lot. This money could be deducted without prior
20 approval --

21 CHAIRMAN CORY: Any objection? Anybody in the
22 audience?

23 Without objection, Item 38 is approved as presented.

24 Item 39. Translated this means that you have
25 four heads for 140k and it's a bargain.

PETERS SHORTHAND REPORTING CORPORATION

26 NESS COURT
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601

1 MR. THOMPSON: Well, the number of heads may be
2 more than that, but it's four locations.

3 CHAIRMAN CORY: Why aren't we in the business of
4 contracting for comfort stations?

5 MR. THOMPSON: This has actually been checked
6 through other State agencies.

7 CHAIRMAN CORY: Yes, I understand it. It's \$75
8 per square foot per can, and Transportation is paying \$78?

9 MR. GOLDEN: Beaches and Parks.

10 CHAIRMAN CORY: What is Transportation paying or
11 Highways paying on the roadside?

12 MR. GOLDEN: We couldn't get an answer from
13 Transportation, but we did get an answer from Parks and
14 Recreation. They indicated that bids are going much above
15 \$75 at this point.

16 MR. THOMPSON: This essentially comes out of the
17 city's share title in the Trust monies.

18 CHAIRMAN CORY: I hope the public takes note
19 that there is opportunity in the private sector for anybody
20 wants to bid on these.

21 Without objection, 39 is approved as presented.

22 Boundary line agreement, Item 40. Approximately
23 one mile of the Colorado River south of Blyth in the Lake
24 Davis area, Imperial County. Who has the details on that?

25 EXECUTIVE OFFICER NORTHROP: Mr. Chairman,

PETERS SHORTHAND REPORTING CORPORATION

26 NESS COURT
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601

1 Mr. Trout has the details on that.

2 CHAIRMAN CORY: Is there agreement?

3 MR. TROUT: It's an agreement that resulted from
4 our boundary study. It's an agreement on the line as
5 recommended by your staff adopted by the Commission.

6 CHAIRMAN CORY: Anybody in the audience on this
7 item?

8 Any questions from members?

9 MR. TAYLOR: The party is agreeing to the high
10 water mark. Very happy to do so, as a matter of fact.

11 CHAIRMAN CORY: Wants to build in a hurry.

12 Without objection, Item 40 is approved as presented.

13 Item 41, approved boundaries of the proposed
14 annexation by the City of Concord of tide and submerged
15 lands located within Suisun Bay, Contra Costa County.

16 Anybody in the audience on Item 41?

17 Any comment from Commissioners?

18 MR. McCAUSLAND: The question as to why the city
19 would want to annex tide and submerged lands.

20 EXECUTIVE OFFICER NORTHROP: We have to.

21 CHAIRMAN CORY: Why do they want to? We know we've
22 got the right to say no, but why do they want it?

23 MR. TROUT: Mr. Chairman, there are some improve-
24 ments in that area that would be susceptible to possessory
25 interest taxes that are now going to the county.

PETERS SHORTHAND REPORTING CORPORATION

26 NESS COURT
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601

1 MR. McCAUSLAND: No objection.

2 CHAIRMAN CORY: Without objection, Item 41 is
3 approved as presented.

4 Item 42. An informational item concerning Tomales
5 Bay. Inform us.

6 MR. TROUT: Well, Mr. Chairman, some years ago
7 the Supreme Court came down with Marks vs. Whitney case
8 which in effect said that the trust for commercial navigation
9 and fisheries was not a static thing but could meet the
10 changing needs of society. As a result of this, the Court
11 said that among other things, the Trust included --

12 CHAIRMAN CORY: Could afford Greg Taylor for years.
13 (Laughter.)

14 MR. TROUT: The trust involved such things as
15 open space, environmentals, wildlife habitat, bathing,
16 various kinds of things like that. Following that suit,
17 the Marin County Council suggested that the county be very
18 careful in dealing with the development of tidelands, trust
19 lands. In other words, lands where the State sold the area
20 between the high and low tide. As a result, the property
21 owners up there found it very, very difficult to sell property
22 that has been improved on the tidelands.

23 The second point is that on some tideland areas
24 that are unimproved, the county has been unwilling to issue
25 building permits until the Commission makes a determination

PETERS SHORTHAND REPORTING CORPORATION

26 NESS COURT
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601

1 that the proposed project is consistent, or at least not
2 inconsistent, with the Trust.

3 This, together with the nontitle waterway problem
4 and high water-low water and the developing trust for
5 navigational servitude, has made this a very difficult problem
6 to come up with in a short period of time. Meanwhile,
7 people in Marin County have been waiting for some direction.

8 We're recommending to you that the Commission
9 begin to process some of these backlogged projects in Tomales
10 Bay on an individual basis where two requirements are met.
11 One is that the proposed project would be consistent with
12 the Commission's own practice. In other words, if it were
13 not patented tidelands, but tidelands under the Commission's
14 jurisdiction, it would meet the Commission's leasing require-
15 ments and, too, that there be no significant environmental
16 effects.

17 We have two projects now before us, one of which
18 has not been to the Coastal Commission. But we believe we
19 can present to you next month of Mr. Robert Cassell, another
20 one involving Kagel and Kagel Company which has been rejected
21 by the Coastal Commission. We haven't processed that far
22 enough to give you some advice. So, it's an informational
23 item.

24 CHAIRMAN CORY: That's nice information, but if
25 the Coastal Commission has rejected, why should we consider

PETERS SHORTHAND REPORTING CORPORATION

26 NESS COURT
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601

1 it?

2 MR. TROUT: It has been appealed to the State
3 Commission so the project is not dead as far as the Kagel and
4 Kagel project. We will wait and see. We won't take any
5 further action on it.

6 CHAIRMAN CORY: Greg?

7 MR. TAYLOR: I would just say that the process
8 we have here, the county has adopted a certain line which is
9 as far back as the high water mark has ever been found to go.
10 Any improvements waterward of the line we refused to give
11 permits to without some advice from the Commission as to
12 whether or not the area is necessary or of sufficient interest
13 in preservation of the Bay for the State to exercise its
14 easement over it or not.

15 What we're informing the Commission by this calendar
16 item is that on a case-by-case basis, until there is an
17 overall plan for the area development in connection with
18 the Coastal Plan, we'll take those applications because
19 they've been building up for some time and there doesn't
20 seem to be a resolution of the problem unless we do it that
21 way.

22 MR. TROUT: The North Central Coastal Commission
23 has expressed orally by telephone last night support to
24 this concept, and they stand ready to work with us in
25 developing an overall plan for Trust administration of

PETERS SHORTHAND REPORTING CORPORATION

26 NESS COURT
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601

1 Tomales Bay.

2 MS. SMITH: What problems will we run into doing
3 it on a case-by-case basis?

4 CHAIRMAN CORY: We're just going to a Planning
5 Commission.

6 MR. TAYLOR: There may be special circumstances
7 in some areas that will permit us to do that. In other
8 areas, we may have to wait for the overall plan which is
9 mandated by the Commission.

10 CHAIRMAN CORY: What we're saying is we're going
11 to look at them and if there's really no significant impact,
12 it's probably going to fly anyway, we can let those people
13 out so they aren't harassing us as being overbearing and
14 uncooperative and all of that.

15 MR. TROUT: That's the basic proposal, yes.

16 CHAIRMAN CORY: It's nice information to have.
17 Status of major litigation.

18 MR. TAYLOR: We wore you out last month. I think
19 we'll give you a rest this month. We've given you one report
20 that Mr. McCausland asked for the Laguna Beach item.

21 CHAIRMAN CORY: The briefs have been filed in
22 the major action, the boundary dispute, and Jan wants us
23 to indemnify him if he buys a new appropriate suit to
24 litigate this matter before the Supreme Court. If the
25 suit is damaged, he gets reimbursed. I gave him my personal

PETERS SHORTHAND REPORTING CORPORATION

26 NESS COURT
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601

1 guarantee.

2 (Laughter.)

3 MR. McCAUSLAND: I want to know what we do with
4 the suit if he loses the suit in the first place?

5 (Laughter.)

6 EXECUTIVE OFFICER NORTHROP: Mr. Chairman, in line
7 with this and the next item before the meeting in June,
8 Mr. Taylor does feel that he has a very good chance of wrap-
9 ping up the West Bay case, and we would like to ask if the
10 July meeting could not be held in San Francisco to put the
11 final touches on that at that time.

12 CHAIRMAN CORY: July meeting?

13 MR. TAYLOR: That's subject to everyone being
14 cooperative on the edges, but it appears that the parties
15 are in agreement and hopefully we will get the edges taken
16 care of.

17 EXECUTIVE OFFICER NORTHROP: This is the end of
18 how many years, Mr. Taylor?

19 MR. TAYLOR: Since '68.

20 CHAIRMAN CORY: That's why he's been stirring up
21 all this new stuff.

22 (Laughter.)

23 CHAIRMAN CORY: Any other items to come before
24 the Commission?

25 MR. TAYLOR: I might report the Throughput case

PETERS SHORTHAND REPORTING CORPORATION

26 NESS COURT
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3601

1 tried by WOGA to dismiss State issues in a stay in Federal
2 Court. The Court said no, the State issues would remain
3 and we will file this action in State court. We are
4 awaiting WOGA refiling the action in State court.

5 CHAIRMAN CORY: We stand adjourned.
6 (Thereupon the State Lands Commission meeting
7 of May 26, 1977, was adjourned at 3:30 p.m.)
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

1 State of California)
2 County of Sacramento)

3 I WENDY E. SCHILLER, a Notary Public in and for
4 the County of Sacramento, State of California, duly appointed
5 and commissioned to administer oaths, do hereby certify:

6 That I am a disinterested person herein; that
7 the foregoing State Lands Commission Meeting was reported
8 in shorthand by me, Wendy E. Schiller, a Shorthand Reporter
9 of the State of California and thereafter transcribed into
10 typewriting.

11 I further certify that I am not of counsel or
12 attorney for any of the parties to said meeting, nor in any
13 way interested in the outcome of said meeting.

14 IN WITNESS WHEREOF, I have hereunto set my hand
15 and affixed my seal of office this 17th day of June,
16 1977.

17 Wendy E. Schiller
18 WENDY E. SCHILLER
19 Notary Public in and for the
20 County of Sacramento, State of
21 California

22
23
24
25

PETERS SHORTHAND REPORTING CORPORATION

26 NESS COURT
SACRAMENTO, CALIFORNIA 95826
TELEPHONE (916) 383-3401