

A meeting of the State Lands Commission was held in the office of the Department of Finance, State Capitol, Sacramento, at 11 a.m., November 4, 1938.

Present were:

A. E. Stockburger, Chairman
George J. Hatfield, Member
Harry B. Riley, Member

The Executive Officer presented to the Commission a report of Dr. E. K. Soper, Consulting Geologist and Petroleum Engineer to the Commission, with respect to bids received pursuant to notice of intention of the Commission to offer agreement or agreements to extract oil, gas and other hydrocarbons from certain tide and submerged lands located easterly of 23d Street, Huntington Beach, California.

By motion of Mr. Riley, seconded by Mr. Hatfield, and unanimously carried, it was ordered that the said report of Dr. E. K. Soper be set forth in full in the minutes of this meeting. The report in words and figures is as follows:

ANALYSIS OF BIDS RECEIVED OCTOBER 29, 1938
FOR NEW WELL LOCATIONS EAST OF THE FOOT OF 23RD STREET
IN THE HUNTINGTON BEACH TIDELANDS OIL POOL

Pursuant to the published advertisement for bids for the drilling of ten additional wells to be located in that portion of the Huntington Beach State tidelands oil pool lying easterly of the foot of 23rd Street, bids were received from each of three companies for locations designated Location 400 and Location 401. No bids were received for the remaining eight locations to-wit: 402 to 409 inclusive. The names of the bidders and the locations bid upon are as follows:

1. Wilshire Oil Co., Inc. - bid upon Locations 400 and 401.
2. The Termo Company - bid upon Locations 400 and 401.
3. McVicar-Rood, Inc. - two bids upon Location 400 (original bid and alternative bid); and one bid upon Location 401.

The bid form specifies that the oil royalty which the Grantee shall pay to the State shall be according to the following formula:

$$R = P \frac{- 36.67}{2.5 - .016667P} \times \text{factor}$$

where R is the royalty rate in per cent applicable to the total value of the production of oil from each well during the month, and

P is the average daily production of the well, determined by dividing the total production for the month by the total number of production days of twenty-four hours each;

provided, however, the Grantee shall pay at all times a minimum royalty of twelve and one-half (12½) per cent upon such average daily production. The factor of the above equation was inserted by the bidder to establish the oil royalty which the bidder shall pay to the State.

The bid form specified that the royalty on gas and natural gasoline shall be payable to the State of California at the times and in the manner specified for the payment of royalty on oil and that the royalty on all dry gas and natural gasoline shall be 15% of the market value at Huntington Beach, California, of such dry gas and natural gasoline.

In view of the fact that the terms of the agreements impose identical requirements upon all prospective bidders, and in view of the fact that no problems are involved regarding number of wells to be drilled or offset wells, the evaluation of the various bids is reduced to a consideration of the numerical factors inserted by the bidders in the royalty formula.

A comparison of the oil royalties offered under the various bids is shown in the following tabulations I and II. Tabulation I shows the royalties offered for Location 400. Tabulation II shows the royalties offered for Location 401.

COMPARISON OF OIL ROYALTIES
OFFERED UNDER THE VARIOUS BIDS
FOR LOCATION 400

Average Daily Pro- duction in Barrels	Per Cent Royalty Bid of Wilshire Oil Co.	Per Cent Royalty Bid of The Termo Co.	Per Cent Royalty Bid of McVicar-Rood, Inc.
0	12.50	12.50	12.50
25	12.50	12.50	12.50
50	12.50	12.50	12.50
75	12.50	12.50	12.50
79.10	12.50		
*82.77	13.37		
100	17.10	12.50	12.50
125	21.68	13.49	15.63
150	25.50	15.87	18.38
175	28.73	17.88	20.71
200	31.50	19.60	22.71
225	35.20	21.09	24.44
250	36.00	22.40	25.95
275	37.85	23.55	27.29
300	39.50	24.58	28.48
325	40.98	25.50	29.54
350	42.30	26.32	30.50

Average Daily Production in Barrels	Per Cent Royalty Bid of Wilshire Oil Co.	Per Cent Royalty Bid of The Termo Co.	Per Cent Royalty Bid of McVicar-Rood, Inc.
375	43.50	27.07	31.36
400	44.59	27.74	32.15
425	45.59	28.37	32.87
450	46.50	28.93	33.53
475	47.34	29.46	34.13
500	48.12	29.94	34.69
750	53.50	33.29	38.57
1000	56.54	35.18	40.77
1500	59.86	37.25	43.16
2000	61.64	38.35	44.44
2500	62.74	39.04	45.24
3000	63.50	39.51	45.78
4000	64.46	40.11	46.48
5000	65.05	40.48	46.90
7500	65.85	40.97	47.48

* Minimum royalty of 12 $\frac{1}{2}$ % applies.

**COMPARISON OF OIL ROYALTIES
OFFERED UNDER THE VARIOUS BIDS
FOR LOCATION 101**

Average Daily Production in Barrels	Per Cent Royalty Bid of Wilshire Oil Co.	Per Cent Royalty Bid of The Termo Co.	Per Cent Royalty Bid of McVicar-Rood, Inc.
0	12.50	12.50	12.50
25	12.50	12.50	12.50
50	12.50	12.50	12.50
75	12.50	12.50	12.50
79.10	12.50		
82.77	12.50		
100	15.99	12.50	12.50
125	20.28	15.42	12.50
150	23.84	18.13	13.60
175	26.86	20.43	15.32
200	29.45	22.40	16.80
225	31.70	24.11	18.08
250	33.66	25.60	19.20
275	35.40	26.92	20.19
300	36.94	28.09	21.07
325	38.32	29.14	21.85
350	39.56	30.08	22.56
375	40.68	30.93	23.20
400	41.70	31.71	23.78
425	42.63	32.42	24.31

Average Daily Production in Barrels	Per Cent Royalty Bid of Wilshire Oil Co.	Per Cent Royalty Bid of The Termo Co.	Per Cent Royalty Bid of McVicar-Rood, Inc.
450	43.48	33.07	24.80
475	44.27	33.67	25.25
500	44.99	34.22	25.66
750	50.03	38.04	28.53
1000	52.87	40.21	30.16
1500	55.98	42.57	31.93
2000	57.64	43.83	32.87
2500	58.67	44.62	33.46
3000	59.38	45.16	33.87
4000	60.28	45.84	34.38
5000	60.83	46.26	34.69
7500	61.58	46.83	35.12

*Minimum royalty of 12½% applies.

The royalty offered on dry gas and natural gasoline was the same on all bids submitted, i.e., 15% of the market value of all dry gas produced and 15% of the market value of all the natural gasoline and other products extracted and saved from the gas produced. This is equal to the minimum royalty on dry gas and natural gasoline specified in the agreements.

The alternate bid received from McVicar-Rood, Inc., for Location 400 did not follow the specifications set up in the oil royalty formula inserted by the State in the bid form. Instead of inserting a numerical factor in the royalty formula as required, the McVicar-Rood, inc., alternate bid on Location 400 contained a royalty factor expressed as follows: $.5 + \frac{110}{P}$ where P. equals the average daily production of the

well. It will be seen at once that this factor would be variable and would depend upon the average daily production of the well which would vary from month to month. Consequently, it would be impossible to accurately evaluate in advance the royalty to be paid if calculated by such an indefinite formula. For that reason the alternative bid of McVicar-Rood, inc., on Location 400 should be rejected.

It is worth noting, however, that if the average daily production is assumed to be 220 barrels per day the "Royalty factor" contained in the McVicar-Rood, Inc., alternative bid would be equal to 1.0. If the average daily production is more than 220 barrels per day, the factor would be less than 1.0. If the average daily production is less than 220 barrels per day, the factor would be greater than 1.0. In other words, under this royalty formula, the bidder would pay progressively lower royalties for progressively higher rates of production, and progressively higher royalties for progressively lower rates of production, until the minimum royalty of 12½ per cent would apply.

A comparison of the oil royalties offered under the various bids contained in the foregoing tables clearly shows that the bids of the Wilshire Oil Company for both locations are considerably higher than any others received.

(SIGNED) E. K. SOPER

E. K. Soper

November 1, 1938.

Consulting Geologist and Engineer.

Mr. Hatfield put the following resolution:

RECITAL:

Pursuant to notice of intention of the State Lands Commission to enter into agreement or agreements for the extraction of oil, gas and other hydrocarbons, from certain tidelands and submerged lands of the State situate in Orange County, California, identified by Locations, Nos. 400, 401, 402, 403, 404, 405, 406, 407, 408, and 409, published in accordance with law, bids were received from Wilshire Oil Company, Inc., a corporation, The Termo Company, a corporation, and McVicar-Rood, a corporation, which bids were opened at a meeting of the State Lands Commission held October 29, 1938, in Room 301, State Building, Los Angeles. It appears that the bids of Wilshire Oil Company, Inc., a corporation, for Locations Nos. 400 and 401 are the highest bids received by the Commission, and it further appears that said Wilshire Oil Company, Inc., a corporation, has the qualifications set forth in the "State Lands Act of 1938," and has met all the requirements of the "State Lands Act of 1938" and said notice of this Commission, and that the bid of said corporation has received the approval of the Attorney General as to form, and it further appears that the bids of The Termo Company, a corporation, and McVicar-Rood, a corporation, are lower than the bids received from said Wilshire Oil Company, Inc., a corporation, for the respective locations.

NOW THEREFORE BE IT RESOLVED That the bids of Wilshire Oil Company, Inc., a corporation, be accepted as submitted for said Locations Nos. 400 and 401, and

BE IT FURTHER RESOLVED That the bids of McVicar-Rood, a corporation, and The Termo Company, a corporation, as submitted, be, and the same are, hereby rejected, and

BE IT FURTHER RESOLVED That the Attorney of the Division of State Lands be, and he is hereby, authorized, empowered and directed to execute upon behalf of the State Lands Commission with Wilshire Oil Company, Inc., a corporation, those certain Agreements for Easements Nos. 400 and 401, Huntington Beach, constituting the bids of said Wilshire Oil Company, Inc., a corporation, and

BE IT FURTHER RESOLVED That the Attorney be, and he is hereby authorized, empowered and directed, to do any and all things necessary to effectuate the intents and purposes of this resolution and the "State Lands Act of 1938" in so far as applicable thereto.

The roll was called and the resolution was adopted by the following vote:

Ayes - George J. Hatfield
Harry B. Riley
Arlin E. Stockburger

Noes - None

Upon motion of Mr. Hatfield, seconded by Mr. Riley, and unanimously carried, it was ordered that application to abandon wells described in Agreements for Easements 294 and 304, Huntington Beach, be approved upon condition that the respective grantees thereof surrender easements and quitclaim to the State of California the areas covered thereby.

Mr. Hatfield put resolution as follows:

BE IT RESOLVED That the Attorney of the Division of State Lands be, and he is hereby, empowered, authorized and directed, to enter into an agreement between the State of California and the Pacific Electric Railway Company, a corporation, the Huntington Beach Company, a corporation, Pacific Electric Land Company, a corporation, and Standard Oil Company of California, a corporation, to establish ordinary high water mark which shall be in accordance with that certain line commonly known as the "Leeds line", within the City of Huntington Beach, California, in connection with Agreement for Easement No. 392, Huntington Beach, Agreement for Easement No. 400, Huntington Beach, and Agreement for Easement No. 401, Huntington Beach.

The roll was called and the resolution was adopted by the following vote:

Ayes - George J. Hatfield
Harry B. Riley
Arlin E. Stockburger

Noes - None

Upon motion of Mr. Hatfield, seconded by Mr. Riley, and unanimously carried, the Executive Officer was authorized, empowered and directed, to

- (a) Issue approval of the Commission to the City of Seal Beach to construct a municipal pier over tidelands and submerged lands within the exterior boundaries of said city, the application of the City of Seal Beach having been granted by County of Orange pursuant to Section 4001 of the Harbors and Navigation Code:
- (b) Prepare lease for execution by the Governor to A. Dowrelio under Chapter 69, Statutes of 1929, covering certain premises near Vallejo in Solano County, State of California, more particularly described as follows, to wit:

An area of submerged land in Carquinez Strait approximately 200 feet in length and 25 feet in width, the most westerly corner of which is S. 45° E., 525 ft. from a point on Dike No. 9, 350 ft. shoreward of the bulkhead area on which the Carquinez Strait Light House is situated,

for a term of ten years and at an annual rental of \$120.00;

(c) To issue to E. A. Dunn a State mineral prospecting permit to prospect for molybdenum, tungsten, gold and silver, on the NW $\frac{1}{4}$ of NE $\frac{1}{4}$ of Section 36, T. 30 S., R. 35 E., M.D.M., Kern County, with the right to preferential lease upon discovery of commercially valuable mineral at 10% of the value thereof;

(d) To issue to Philip M. Zannaras a State mineral prospecting permit to prospect for copper, gold and silver, on the NW $\frac{1}{4}$ of SW $\frac{1}{4}$ of Section 36, T. 7 N., R. 22 E., S.B.M., San Bernardino County, California, with the right to preferential lease upon discovery of commercially valuable mineral at 10% of the value thereof;

(e) To issue certificate of the Commission to the Governor for execution of patent to George P. Dyer covering Lot 3 of Sec. 11, T. 9 N., R. 7 W., M.D.M., Napa County.

(f) To certify and approve vacation of 4 working days to Arthur H. Alexander and 8 $\frac{1}{2}$ working days to J. M. Midgley.

There being no further business to come before the Commission, the meeting was adjourned.