

3. (PROPOSED OIL AND GAS LEASE, TIDE AND SUBMERGED LAND, HUNTINGTON BEACH, ORANGE COUNTY - W.O. 1864.)

The Executive Officer explained that subsequent to the preparation of Item 1 on the calendar representations had been made to the staff of the Commission and to Lieutenant Governor Powers by the Signal Oil and Gas Company to the effect that the latter had acquired certain upland rights opposite a portion of the intervening stretch of tide and submerged lands between the area proposed to be leased under Item 1 of the calendar and the area authorized for lease by the Commission at its meeting of January 21, 1955. Sufficient data was presented to justify a qualified recommendation to the Commission for the offering of the offshore area involved for lease. This matter was then incorporated into a separate calendar item.

Both calendar items were then reviewed for the benefit of the Commission by the staff and were in substance as follows:

Item 1:

"Tide and submerged lands adjoining the central town lot area of Huntington Beach, Orange County, are being drained or may be drained by nine wells completed and 16 drilling as of January 27, 1955 in the onshore area between First Street and Eighth Street, Huntington Beach.

"The limited production history and available geologic data for these wells have been reviewed by the staff with the conclusion that 320 acres of tide and submerged lands could be recommended for lease pursuant to competitive public bidding in accordance with the Public Resources Code. The offshore area westerly of Eighth Street is included in Parcel "B" of existing Oil and Gas Lease P.R.C. 91.1, while the westerly limit of the oil and gas leases authorized to be offered under W.O. 1809 is located approximately 0.8 mile easterly of First Street.

"Wells for the development of the area recommended for lease could be located upon upland drill sites zoned for oil development by the City of Huntington Beach, or upon filled submerged lands as provided for in Section 6873, Public Resources Code, in which area the municipal zoning ordinances are not effective. The only procedure available to protect the adjoining State tide and submerged lands from drainage and threatened trespass wells is to lease the lands as the Commission is authorized to do.

"Under Sections 6005, 6216, 6501.1, 6501.2 and 6827 the Commission is authorized to offer leases for the extraction of oil and gas pursuant to competitive public bidding on a royalty and rental basis and such other terms and conditions as the Commission deems for the best interests of the State. Under existing circumstances, the lands to be offered can be developed from upland drill sites without the necessity for large capital investment in offshore filled lands. Therefore, determination of

the lease royalty rate by rate of production, with a subsequent award to the highest qualified bidder on that basis, appears to offer bidding opportunities to small as well as large operators alike which an award based solely upon the size of a bonus does not."

Item 2:

"As reported for the preceding item relating to tide and submerged lands adjoining the central town lot area of Huntington Beach, Orange County, the tide and submerged lands lying easterly of the area proposed to be offered for lease under W.O. 1864(A) and extending to the area authorized to be offered for lease under W.O. 1809, may be drained in part by wells drilled or drilling in the town lot area and wells proposed to be drilled on the upland easterly therefrom.

"Protection of the tide and submerged lands can be achieved only by lease of approximately 640 acres of tide and submerged land pursuant to competitive public bidding in accordance with the Public Resources Code, in the area between recommended lease W.O. 1864(A) and authorized lease offer W.O. 1809.

"Again, wells for the development of the area recommended for lease could be located upon upland drill sites zoned for oil development by the City of Huntington Beach, or upon filled submerged lands as provided for in Section 6873, Public Resources Code, in which area the municipal zoning ordinances are not effective.

"Under these circumstances, determination of the lease royalty rate by rate of production, with a subsequent award to the highest qualified bidder on that basis, appears desirable to offer bidding opportunities to small as well as large operators alike which an award based solely upon the size of a bonus does not."

The Executive Officer informed the Commission of receipt that morning of four telegrams protesting against drilling from offshore islands from the following:

H. F. Kenny, Secretary  
Orange County Coast Association  
Huntington Beach, California

Selim Franklin, President  
Associated Chambers of Commerce, Orange County  
Huntington Beach, California

Huntington Beach Chamber of Commerce  
Huntington Beach, California

Roy Seabridge, Mayor  
City of Huntington Beach  
Huntington Beach, California

Representatives of the industry in attendance were requested to present their views, which are set forth below:

H. F. Clary, on behalf of Signal Oil and Gas Company, suggested that known geophysical data and the precedent of the prior lease authorization westerly from Newport Beach provide all of the bases required for lease offer of the 640-acre parcel under W.O. 1809(B).

J. K. Wootan reported that on a nearby lease the Signal Oil and Gas Company is developing tide and submerged land leases two miles offshore by directional drilling from shore and therefore it appears that development of the areas proposed to be offered could be done effectively and economically from onshore drill sites.

A. G. Fockwell, for the Union group, stated that there was no objection to the proposed lease offers except as to the recommended substitution of a royalty bid for award of lease contrasted with a bonus bid as authorized by the Commission under W.O. 1809. He made the point, however, that his clients would protest any elimination of offshore island drilling should such elimination not be known by bidders prior to time of filing bids.

G. F. Schroeder, for Standard Oil Company of California, indicated a preference for a bonus bid as the basis for award of an oil and gas lease, but emphasized that the primary concern should be that the areas of State land being drained should be offered for lease expeditiously.

Lynn O. Hossom, on behalf of Hancock Oil Company, also indicated a preference for bonus bid award of leases, although in general the royalty bid basis would not deter his company from bidding.

Gordon Goodwin, representing Richfield Oil Corporation, stated that the protest telegrams received appeared to be from organizations who were objecting to offshore development on the basis of the effect that such operations might have if conducted at other locations and therefore the objections should not be considered as applicable to the Huntington Beach area.

In view of the protests received from interests in Orange County and Huntington Beach, it was decided that a hearing would be arranged for to be held at 10 a.m., February 24, 1955 in the State Building, Los Angeles, California, at which protestants could present their views in more detail. Meanwhile, the Chairman suggested to the staff that the offers and bids should be made with the understanding that the Commission would reserve the right to reject any or all bids involving the construction of offshore islands. With this understanding, the recommendations of the staff for Items 1 and 2 of the calendar were unanimously adopted as follows:

ITEM 1:

1. THE COMMISSION FINDS THAT IT APPEARS THAT OIL OR GAS DEPOSITS ARE KNOWN OR BELIEVED TO BE CONTAINED IN THE TIDE AND SUBMERGED LANDS TO BE OFFERED FOR LEASE AND THAT SUCH LANDS MAY BE OR ARE BEING DRAINED BY MEANS OF WELLS UPON ADJACENT LAND.

2. THE EXECUTIVE OFFICER IS AUTHORIZED TO PREPARE A FORM OF OIL AND GAS LEASE AND PUBLISH A NOTICE OF INTENTION TO RECEIVE BIDS IN CONFORMANCE WITH SECTIONS 6834, 6835, 6873 AND 6874, PUBLIC RESOURCES CODE. THE LEASE TO BE OFFERED SHALL CONFORM TO THE FOLLOWING:

A. ONE PARCEL OF TIDE AND SUBMERGED LANDS IN ORANGE COUNTY, BOUNDED ON THE WEST BY THE EASTERLY LINE OF OIL AND GAS LEASE P.R.C. 91.1, ON THE EAST BY A LINE ONE-HALF MILE DISTANT AND PARALLEL WITH THE EASTERLY BOUNDARY OF OIL AND GAS LEASE P.R.C. 91.1, ON THE NORTH BY THE ORDINARY HIGH WATER MARK OF THE PACIFIC OCEAN, AND ON THE SOUTH BY A LINE ONE MILE DISTANT FROM AND PARALLEL WITH SAID ORDINARY HIGH WATER MARK.

B. THE LEASE OPERATING TERMS AND CONDITIONS SHALL CONFORM TO THE CONDITIONS AUTHORIZED AND SPECIFIED PREVIOUSLY FOR THE TIDE AND SUBMERGED LANDS OIL AND GAS LEASE TO BE OFFERED AT HUNTINGTON BEACH, W.O. 1809 (MINUTE ITEM 5, PAGES 2057-58; MINUTE ITEM 4, PAGES 2195-96; AND ITEM 6, PAGES 2241-46) WITH THE FOLLOWING MODIFICATIONS:

(1) SPECIFICATION OF THE LEASE OIL ROYALTY RATE TO BE IN ACCORD- AND WITH THE FORMULA:

$$R = \frac{S - 36.67}{2.5 + .016667 S} \times F$$

WHERE R = ROYALTY RATE IN PER CENT

S = AVERAGE DAILY SHIPMENTS FROM THE LEASE DURING A CALENDAR MONTH

= TOTAL LEASE SHIPMENTS FOR THE CALENDAR MONTH DIVIDED BY TOTAL WELL PRODUCTION DAYS

F = BID FACTOR OFFERED BY BIDDER

MINIMUM ROYALTY RATE = 16-2/3%

MAXIMUM ROYALTY RATE = 75%

(2) SUCCESSFUL BIDDER TO BE DETERMINED BY HIGHEST BID FACTOR OFFERED FOR THE LEASE BY A QUALIFIED BIDDER.

C. THE STANDARD FORM OF OFFER SHALL PROVIDE THAT AS A CONDITION PRECEDENT TO THE CONSIDERATION OF THE BID, EACH PROSPECTIVE BIDDER SHALL PRESENT EVIDENCE SATISFACTORY TO THE COMMISSION OF THE BIDDER'S PRESENT ABILITY TO FURNISH ALL NECESSARY SITES AND RIGHTS-OF-WAY AND TO CONDUCT ALL OPERATIONS CONTEMPLATED UNDER THE PROVISIONS OF THE PROPOSED LEASE.

ITEM 2:

1. THE EXECUTIVE OFFICER IS AUTHORIZED TO PREPARE A FORM OF OIL AND GAS LEASE AND PUBLISH A NOTICE OF INTENTION TO RECEIVE BIDS IN CONFORMANCE WITH SECTIONS 6834, 6835, 6873 AND 6874, PUBLIC RESOURCES CODE. THE LEASE TO BE OFFERED SHALL CONFORM TO THE FOLLOWING:

A. ONE PARCEL OF TIDE AND SUBMERGED LANDS IN ORANGE COUNTY, BOUNDED ON THE WEST BY THE EASTERLY LINE OF OIL AND GAS LEASE OFFER W.O. 1864(A), ON THE EAST BY THE WESTERLY BOUNDARY OF OIL AND GAS OFFER W.O. 1809, ON THE NORTH BY THE ORDINARY HIGH WATER MARK OF THE PACIFIC OCEAN, AND ON THE SOUTH BY A LINE ONE MILE DISTANT FROM AND PARALLEL WITH SAID ORDINARY HIGH WATER MARK.

B. THE LEASE OPERATING TERMS AND CONDITIONS SHALL CONFORM TO THE CONDITIONS AUTHORIZED AND SPECIFIED PREVIOUSLY FOR THE TIDE AND SUBMERGED LANDS OIL AND GAS LEASE TO BE OFFERED AT HUNTINGTON BEACH, W.O. 1809 (MINUTE ITEM 5, PAGES 2057-58; MINUTE ITEM 4, PAGES 2195-96; AND ITEM 6, PAGES 2244-46) WITH THE FOLLOWING MODIFICATIONS:

(1) SPECIFICATION OF THE LEASE OIL ROYALTY RATE TO BE IN ACCORDANCE WITH THE FORMULA:

$$R = \frac{S - 36.67}{2.5 + .016667 S} \times F$$

WHERE R = ROYALTY RATE IN PER CENT

S = AVERAGE DAILY SHIPMENTS FROM THE LEASE DURING A CALENDAR MONTH

= TOTAL LEASE SHIPMENTS FOR THE CALENDAR MONTH DIVIDED BY TOTAL WELL PRODUCTION DAYS

F = BID FACTOR OFFERED BY BIDDER

MINIMUM ROYALTY RATE = 16-2/3%

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(2) SUCCESSFUL BIDDER TO BE DETERMINED BY HIGHEST BID FACTOR OFFERED FOR THE LEASE BY A QUALIFIED BIDDER.

C. THE STANDARD FORM OF OFFER SHALL PROVIDE THAT AS A CONDITION PRECEDENT TO THE CONSIDERATION OF THE BID, EACH PROSPECTIVE BIDDER SHALL PRESENT EVIDENCE SATISFACTORY TO THE COMMISSION OF THE BIDDER'S PRESENT ABILITY TO FURNISH ALL NECESSARY SITES AND RIGHTS-OF-WAY AND TO CONDUCT ALL OPERATIONS CONTEMPLATED UNDER THE PROVISIONS OF THE PROPOSED LEASE.

2. THE COMMISSION DIRECTS THAT THE STAFF RECOMMENDATION RELATIVE TO A FINDING THAT OIL OR GAS DEPOSITS ARE KNOWN OR BELIEVED TO BE CONTAINED IN THE TIDE AND SUBMERGED LANDS OFFERED AND THAT SUCH LANDS MAY BE OR ARE BEING DRAINED BY MEANS OF WELLS ON ADJACENT LANDS, SHALL BE SUBMITTED PRIOR TO PRESENTATION OF ANY RECOMMENDATION FOR AWARD OF LEASE PURSUANT TO THE OFFER AUTHORIZED HEREBY.

4. (PROPOSED LEGISLATION, 1955 - W.O. 1495.)

After a short discussion regarding legislative bills affecting the authority and duties of the Commission:

UPON MOTION DULY MADE AND UNANIMOUSLY CARRIED, THE STAFF WAS AUTHORIZED TO REQUEST DEFERMENT OF SUCH HEARINGS OR OTHER ACTION BY LEGISLATIVE COMMITTEES ON PENDING BILLS PRIOR TO CONSIDERATION AND DETERMINATION BY THE COMMISSION OF ITS POSITION THEREON.

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

*Rufus W. Putnam*

RUFUS W. PUTNAM  
Executive Officer