

"An inspection and appraisal by a member of the Commission's staff on July 8, 1956 establishes the value of the subject land at an average of \$5.50 per acre. The applicant posted the necessary amount to meet this value. Said appraisal also indicates that said land is not suitable for cultivation without artificial irrigation.

"The selection of the subject land is considered to be to the advantage of the State in that the selection thereof will assist the State in satisfying the loss to the School Land Grant and in addition will place said land on the tax rolls of the county in which it is situated.

"The State's application to select the land has been accepted by the Bureau of Land Management, subject to future approval and listing."

UPON MOTION DULY MADE AND UNANIMOUSLY CARRIED, IT WAS RESOLVED AS FOLLOWS:

THE COMMISSION DETERMINES THAT IT IS TO THE ADVANTAGE OF THE STATE TO SELECT THE FEDERAL LAND COMPRISED IN THE NW $\frac{1}{4}$ , SW $\frac{1}{4}$  OF NE $\frac{1}{4}$ , NW $\frac{1}{4}$  OF SE $\frac{1}{4}$  AND SE $\frac{1}{4}$  OF SE $\frac{1}{4}$  OF SECTION 15, T. 6 S., R. 22 E., S.B.M., CONTAINING 280 ACRES IN RIVERSIDE COUNTY; THE COMMISSION FINDS THAT SAID FEDERAL LAND IS NOT SUITABLE FOR CULTIVATION; THE COMMISSION SELECTS AND AUTHORIZES THE SALE OF SAID LAND, FOR CASH, TO HENRY JOHN WEEKS, AT THE APPRAISED CASH PRICE OF \$1,540, SUBJECT TO ALL STATUTORY RESERVATIONS INCLUDING MINERALS, UPON THE LISTING (CONVEYANCE) OF SAID LAND TO THE STATE BY THE FEDERAL GOVERNMENT.

37. (OIL AND GAS LEASE APPLICATION, SECTION 6871.3, PUBLIC RESOURCES CODE, VENTURA COUNTY - W. O. 2243.) The following report was presented to the Commission:

"On May 18, 1956 (Minute Item 16, page 2685) the Commission authorized the Executive Officer to proceed with the processing for lease offer for the extraction of oil and gas from approximately 16,700 acres of tide and submerged lands lying between the common Ventura-Los Angeles County line and a line nine miles westerly thereof and between the ordinary high water mark and a line three miles seaward and parallel to the ordinary high water mark. After inspection of the subject area, the planning consultant has recommended that the control conditions established by Sections 2120 through 2124 of the Rules and Regulations and included in lease offer W. O. 2253 (5,500 acres, Summerland area, Santa Barbara County) be applied to any lease offer of the 16,700-acre tract under consideration. The consulting geologist has reported that 'It is my opinion...that the tide and submerged lands, comprising a total of 16,700 acres, more or less...are not within any known geologic structure of a producing oil or gas field.'

"IT IS RECOMMENDED THAT THE COMMISSION:

1. DETERMINE THAT THE 16,700 ACRES OF TIDE AND SUBMERGED LANDS IN THE LOS ANGELES-VENTURA COUNTY-PT. MUGU AREA, VENTURA COUNTY, UNDER CONSIDERATION UNDER W. O. 2243 ARE LANDS NOT WITHIN THE KNOWN GEOLOGIC STRUCTURE OF A PRODUCING OIL OR GAS FIELD.

2. AUTHORIZE THE EXECUTIVE OFFICER TO OFFER FOR LEASE, PURSUANT TO SECTION 6827 OF THE PUBLIC RESOURCES CODE, THE SUBJECT 16,700 ACRES OF TIDE AND SUBMERGED LANDS AS THREE LEASES CONTAINING 5,550, 5,600, AND 5,550 ACRES, MORE OR LESS, RESPECTIVELY.
3. AUTHORIZE THE EXECUTIVE OFFICER TO OFFER THE FORM OF LEASE FINALLY APPROVED FOR W. O. 2253 (5,500 ACRES OF TIDE AND SUBMERGED LANDS, SUMNERLAND AREA, SANTA BARBARA COUNTY)."

Assemblyman Allen Miller asked if, besides the opinion from its consulting engineers with respect to the area in question not being in a producing oil and gas field, the staff had any other data that it utilized in preparation of its recommendation, to which Mr. Hortig replied "No". Mr. Miller then suggested, in view of that statement and of the opinions of the Attorney General and of the Legislative Counsel that there should be no classification of oil and gas lands until all data that can be available is presented to the Commission for consideration, there should not be any classification. He recommended, if the Commission planned to proceed solely on the basis of the report of the consulting geologists, that only one of the three parcels be offered for lease, so that the checkerboard theory could be carried out. Mr. Hortig informed Mr. Miller that the recommendation of the consulting geologists confirmed the staff's recommendation, based upon a survey of all geological information for the area, but absent any geophysical data. He went on to explain that if it were necessary to await geophysical data, this would require waiting for the completion of work under permits previously authorized, and that it must be recognized that the staff has the continuing problem that classification is dependent solely upon the criteria as to whether lands are or are not within the known geologic structure of a producing oil and gas field. As there are no producing oil and gas fields within many miles of the area under consideration, the area cannot be in fact included within an oil and gas field and therefore under the Public Resources Code can be classified only one way.

The Executive Officer interjected the explanation that the staff had in mind presenting to the Commission a 62,000-acre tract near Point Conception in the not too distant future, and that it is expected at that time to recommend offering leases on a checkerboard pattern. However, in the present instance, there is no information available upon which to base a checkerboard, and it appears that the best thing to do is to wait until bids come in, as at that time the Commission would still have the right to reject any or all bids.

Mr. Richard Fenton appeared next, on behalf of the California Drilling Contractors Association, with respect to the over-all picture on offering oil and gas leases (not merely this specific item), and urged the Commission to proceed with all possible dispatch in offering areas for lease, as a serious situation exists in the drilling industry at present due to lack of work, as a result of which the trained working force is being dissipated and lost to other industries, and these trained workers will be hard to replace.

Mr. Kirkwood indicated that he could not see any advantage to the State in offering all three areas for lease at one time, and explained that he thought it would be a poor policy to put out areas for lease with the idea of waiting

to see what bids are submitted and then perhaps turning them down. He would rather offer one area at a time, and is interested in obtaining the best returns for the State. He felt that putting out the areas in question and accepting bids might, in effect, establish the precedent of accepting a 12 $\frac{1}{2}$ % royalty.

In response to a question by Mr. Kirkwood as to whether there was a possibility of adjoining leases, Mr. Hortig explained that there could be a possibility for a lease offer of adjoining area to the east on a future drainage basis, whereas the area to the west was open to exploratory drilling under lease. Mr. Hortig then pointed out that if only one area were put out for lease, the State might not be able to get any future offers for the other areas, in the event the first area did not produce oil.

Mr. Kirkwood asked, if all three areas were put out for lease, what bonus the staff would suggest as acceptable, and on what basis a recommendation would be made by the staff that the Commission reject all bids, and was informed by Mr. Hortig that no such computation had been made to date, but that a yardstick as to whether bonuses were adequate would be a comparison of the offers per acre with the going rate in California, and as indicated by the experience along the Gulf Coast for lands of similar quality.

Assemblyman Jesse M. Unruh asked what precise geological information was available in making the determination, and was informed by Mr. Hortig that it was not possible to give him a complete statement at this meeting of all information available, but that it had been tabulated, was in the report of the consulting geologists, was voluminous, and that the staff would be happy to furnish him with a tabulation of the scope and extent of the information which had been reviewed.

Mr. Unruh then asked if the information indicated that there was a known geological structure in the area, and Mr. Hortig replied, "No, it does not". In response to a further question by Mr. Unruh as to whether the 16,000 plus acres in question encompassed one general type area, Mr. Hortig replied in the affirmative. Mr. Unruh then asked if it was the intent of the staff in offering three parcels to have some criteria for evaluating the various bids by balancing the three parcels against each other. In response to this question, the Executive Officer explained that if for one of the three parcels a \$500 bonus was offered, and for another, a \$10,000 bonus, this in itself would be a good answer. Mr. Unruh wondered if this could be done just as well by offering only two of the three parcels.

The Executive Officer, upon being asked by the Commission if in the light of Mr. Unruh's comment he would be willing to modify his recommendation, stated that he did not think so.

Mr. Miller, upon being asked if he had any further comments to make, indicated that those he had made originally were still applicable; that first there should be more geophysical data available as a guide. He thought the State would be better off to put out only one parcel for bid, as there would then be a chance, if it should prove to have oil and gas, for the State to obtain a higher royalty on the other two parcels.

Mr. Paul Lower, appearing on behalf of the Superior Oil Company, explained that his company was interested because it had originally requested that the area in question be put up for bid. He assured the Commission that the entire area is a pure, unadulterated wildcat of the first order. He stated that his company did not know, and he did not think any of the other companies knew whether there was a structure in the area that would produce. He indicated that while he understood the difficulty, he was of the opinion that the issue was being confused, and that consideration re checkerboarding should more properly be directed toward a proven or semi-proven area. It was his contention that if only one or two parcels were put out for lease, it would affect the cash bonuses offered, and that even assuming the State did get a satisfactory bid on just one parcel, the ratio of a successful wildcat drilling operations is about one well to twenty. He stated that the only way the State can obtain a substantial bid is to make it worthwhile for some operator to spend the amount of capital necessary to develop the area; if only one parcel were put out and it was disproven, then the State would have lost the cash bonus advantage it could enjoy by simultaneous offer of all three parcels.

Mr. Uhrub, commenting on Mr. Lower's statement, felt that the smaller the parcel the State offered at this time, the safer the State would be, stating that at present the State is averaging about 25% on royalties, and that if the entire area in question were put out on the basis of 12½%, this would bring down the average.

Mr. Kirkwood indicated that he would be happy to put out the center parcel, and stated that there was no guarantee that any one company would get all three leases.

Mr. Lower, referring to Mr. Kirkwood's remarks, indicated that if all three parcels were out at one time his company expected to bid on all of them, and as they could not arbitrarily choose any one as being more worthwhile than any other, they would hope to be the high bidder on all three parcels.

Mr. J. G. Leovy of the Western Gulf Oil Company stated that he did not see, if only one parcel were to be offered, how anyone could arbitrarily decide which of the three parcels it should be, and that he thought the State would end up by getting a smaller total bonus if the parcels were put out separately, as it would make the area more attractive for the oil companies to bid on it all three were put out at one time.

UPON MOTION DULY MADE AND UNANIMOUSLY CARRIED, A RESOLUTION WAS ADOPTED THAT THE RECOMMENDATION OF THE STAFF WITH RESPECT TO THESE LEASE OFFERINGS BE APPROVED WITH THE AMENDMENT THAT IT APPLY ONLY TO THE CENTRAL 5600-ACRE PARCEL OF THE AREA UNDER CONSIDERATION UNDER W. O. 2243.