

25. (PROPOSED LEGISLATION - 1957 SESSION - W. O. 2115.7 (RE P.R.C. 478.1 AND W. O. 2106).) The following report was presented to the Commission:

"By Chapter 647 of the Statutes of 1955, the Legislature granted Inner San Luis Obispo Bay to the Port San Luis Harbor District. The statute provided that certain enumerated leases, whereunder the State leased tide and submerged lands to private parties, were given to the Harbor District with the grant.

"Through an inadvertence, Lease P.R.C. 478.1, which covers a right-of-way easement to the Union Oil Company for the installation and maintenance of cathode protection for its submerged pipelines in the Bay, was not included in the grant. This lease results in revenue to the State in the amount of \$40.70 per annum, and it expires November 21, 1964.

"In view of the attitude of the State Legislature in giving to the District the State leases on the lands that were granted to the Port San Luis Obispo Harbor District by Chapter 647 of the Statutes of 1955,"

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

THE STAFF IS AUTHORIZED TO PREPARE AN AMENDATORY BILL TO CHAPTER 647 OF THE STATUTES OF 1955 WHICH WILL PROVIDE THAT LEASE P.R.C. 478.1 AND ITS REVENUE SHALL LIKEWISE BE GRANTED TO THE HARBOR DISTRICT, THE EFFECTIVE DATE OF THE TRANSFER TO BE NOVEMBER 21, 1957.

26. (1957 SESSION LEGISLATION - W. O. 2115.8.) The following report was presented to the Commission:

"The Commission has had difficulties in processing leases under the Cunningham-Shell Tidelands Act of 1955, particularly with regard to the classification of lands as being within a known geologic structure of a producing oil or gas field vs. being in wild-cat areas. It is suggested that at the next regular session of the Legislature the provisions of the Cunningham-Shell Act be amended so as to make it clear in the statute that the royalty determination is to be made by the Commission, at the time of advertising for bids, irrespective of whether the lands to be leased are or are not within a known geologic structure of a producing oil or gas field. With this in mind, it is suggested that the Commission authorize the staff, on its behalf, to have legislation introduced to amend the following sections of the Public Resources Code as indicated:

"Section 6827. Award to highest bidder: Term: Royalties.

"(Award to highest bidder: Term: Extension.) Leases for the extraction and removal of oil and gas deposits may be made by the commission to the highest qualified bidder, or joint bidders, as provided in this chapter. Such a lease shall include all oil

and gas deposits in the leased land and be for a term of 20 years and for so long thereafter as gas or oil is produced in paying quantities from the leased land, or lessee shall be diligently conducting producing, drilling, deepening, repairing, re-drilling or other necessary lease or well maintenance operations on the leased land. Any lease heretofore issued under this chapter for a term of 20 years, or any renewal or extension thereof, may at any time or times prior to its expiration be extended upon such terms and conditions and for such period of time as the commission deems for the best interests of the State or as the Legislature may provide; provided further, that upon the lessee's timely application therefor the commission may issue a new lease in exchange for any lease issued for a term of 20 years, or any renewal or extension thereof; such new lease shall be issued at the same royalty and upon the same terms and conditions as the lease for which it is exchanged, unless the commission and the lessee shall otherwise agree, except that the term of such exchange lease shall be for a term of five years and for so long thereafter as oil or gas is produced in paying quantities, or lessee shall be conducting producing, drilling, deepening, repairing, re-drilling or other necessary lease or well maintenance operations on the leased land.

"(Royalties: Lands not in known geologic structure of a producing field.) When state tide and submerged lands offered for lease by the commission are lands not within the known geologic structure, as determined by the commission, of a producing oil or gas field at the date of issuance by the commission of an invitation to bid for an oil or gas lease thereon, the commission shall specify a flat-rate royalty to be paid under such lease of 12½ percent in kind, or of 12½ percent of the current market price or the price received for the production removed or sold from the leased land, subject to an allowance for oil treatment and dehydration of not to exceed five cents (\$.05) per net barrel for the royalty oil and shall specify a flat royalty of 10 percent of the current gross market value or price received for all dry gas, natural gasoline, and other products extracted and saved from the gas produced from the leased land, except gas used for lease use or reinjection in state lands, and an annual rental payment in advance of not to exceed one dollar (\$1) for each acre of the land subject to the lease at the rental date. Unless the commission decides to reject all bids pursuant to Section 6836, the lease of the parcel or tract which is the subject of the bid shall be awarded to the qualified bidder who undertakes to pay the highest cash bonus in addition to satisfying the royalty and rental requirements and all other provisions of the lease.

"(Same: Lands in known geologic structure of a producing field.) When state lands, including tide and submerged lands, are offered for lease by the commission are lands within the known geologic structure, as determined by the commission, of a producing oil or gas field at the date of issuance by the commission of an invitation to bid for an oil and gas lease thereon, the commission

shall specify a fixed royalty on oil of not less than $16\frac{2}{3}$ $12\frac{1}{2}$ percent or a sliding scale royalty commencing at not less than $16\frac{2}{3}$ $12\frac{1}{2}$ percent up to a maximum percentage specified in the invitation to bid to be paid on the average production of oil per well per day under such lease, and a royalty of 15 $12\frac{1}{2}$ percent as specified in the invitation to bid on dry gas, natural gasoline, and other products extracted and saved from the gas produced under such lease, except gas used for lease use or reinjection into the leased state lands. Such royalties shall be paid in kind or as a percentage of the current market price at the well of, and of any premium or bonus paid on, the production removed or sold from the leased land, subject to a reasonable allowance for oil treatment and dehydration of not to exceed five cents (\$0.05) per barrel for royalty oil, and an annual rental payable in advance of not to exceed one dollar (\$1) for each acre of the land subject to the lease at the rental date. Unless the commission decides to reject all bids pursuant to Section 6836, the lease of the parcel or tract which is the subject of the bid shall be awarded to the qualified bidder who undertakes to pay the highest cash bonus in addition to satisfying the royalty and rental requirements and all other provisions of the lease.

"(Continuation of lease upon cessation of production.) If, at any time or from time to time, before or after the expiration of the primary term of such lease, the leased lands cease to produce oil or gas, the lease shall, nevertheless, continue in full force and effect if within six months after the cessation of production, or such longer period of time as the commission may authorize, lessee shall commence and thereafter prosecute with reasonable diligence drilling, deepening, repairing, redrilling or other operations which shall result in the restoration of production of oil or gas from the leased lands.

"Section 6834. Notice of intention to lease lands: Publication and contents.

"(Commission to give notice of intention: Publication: Contents.) Whenever the commission determines that lands shall be leased for oil and gas as provided in this chapter and when the form of lease therefor has been prepared by the commission, the commission shall give notice of intention to lease such lands. The notice shall be published in a newspaper of general circulation in the county in which the lands or the greater portion thereof are situated and shall state the time (which shall not be less than 14 days after the last date of publication of the notice) and place for receiving and opening bids, a description of the lands, either as a tract or by parcels, whether the lands offered for lease are within or are not within the known geologic structure of a producing oil or gas field, and that the form of lease for the purpose of bidding may be procured at the designated office of the commission.

"(Days of publication and interval.) If the notice is published in a weekly newspaper, it must appear therein on at least two different days of publication and if in a newspaper published oftener, there must be at least five days from the first to the last day of publication, both days included.

"Section 6873.2. Notice: Hearing: Determination: Evidence. Before offering any tide or submerged land area for an oil and gas lease, the commission shall publish notice thereof, and any affected city or county may, within thirty (30) days after the publication of such notice, request in writing to the commission that a hearing be held with respect thereto. Upon receipt of such request, the commission shall hold such a hearing and give not less than ten (10) days written notice thereof to the city or county, or both such city and county, making such request, and to the Department of Natural Resources, and shall publish such notice. The commission in its discretion and irrespective of any such request may hold such hearings as it shall determine. Published notices shall be given in the manner prescribed in Section 6834 of this chapter.

"~~Within~~ In not less than thirty (30) days after such hearing the commission shall determine whether or not to offer the land for lease, as provided under Sections 6871.3, 6872 and 6872.1. unless in such determination the commission shall determine consider that whether the issuance of a lease as to all or a part of such land would result in an impairment or interference with the developed shore line recreational or residential areas adjacent to the proposed leased acreage, or the commission may determine whether to offer such land for lease as to all or a part thereof and include in the offer for lease such reasonable rules and regulations which, in the opinion of the commission, are necessary for the exploration, development, and operation of said lease in a manner which will not impair or interfere with said developed shore line recreational or residential areas; provided, however, that no tide or submerged lands shall be offered for lease under any conditions, rules, or regulations which will result in a discrimination between bidders as prohibited by Section 6874.

" . . .

". . . (Note: Remainder of this section not to be amended.)"

UPON MOTION DULY MADE AND UNANIMOUSLY CARRIED, THE COMMISSION DEFERRED ACTION ON THE FOREGOING REPORT, AND DIRECTED THE EXECUTIVE OFFICER TO ARRANGE A MEETING, TO BE HELD DURING DECEMBER OF 1956, AT WHICH FULL ATTENTION IS TO BE DIRECTED TO THIS PARTICULAR SUBJECT, WITH DUE NOTICE OF THE MEETING TO BE GIVEN TO ALL INTERESTED PARTIES.