

2. (OIL AND GAS LEASING POLICIES - GEN. DATA, OIL & GAS.) Referring to proposed legislation introduced by the staff at the last meeting of the Commission, Mr. Kirkwood suggested:

1. That in connection with the form of oil and gas lease being used, the Commission should invite people who are familiar with leasing practices and who have prepared lease forms for some of the large landlords in the State, to work with the Commission in examining its leasing policies and the royalty schedules under existing leases, in an attempt to obtain suggestions as to whether or not the present policies of the Commission are appropriate, whether there are changes which should be made in the leasing provisions, or whether a different approach should be taken in some of the leases. He felt that such a group could be very helpful in the management of the State's oil and gas properties, and indicated that while the legislation to be introduced is desirable, the Commission would be in a better position to proceed after it had such advice. He stated that he had not yet studied the bills being introduced, but felt that those presented at the last meeting of the Commission were too restrictive and should be broader.
2. That it would be well for the Commission, through its Chairman, to seek an opportunity to confer with the Governor to discuss legislative problems, inasmuch as the Governor has made a recommendation for a special commission to be set up to deal with the problem of applying conservation control to all oil properties. He further stated that with immediate action by the current session of the Legislature, treating this as an urgency matter, the proposed Governor's Commission could be set up before the legislative recess, and could be prepared to make recommendations at a special session a year hence.

Mr. Watson pointed out that most of the big land operators deal with transactions which heretofore the State has kept out of; namely, joint ventures; and he asked that the staff be instructed in connection with this investigation as to whether or not these should be included.

Mr. Kirkwood stated that he could not see the feasibility of a joint venture by a governmental agency, but that he thinks such operators can be helpful in other parts of the program.

The Chairman advised that his understanding of the Governor's recommendation was that he had in mind the broad questions of oil and gas conservation, and the desirability of exploring this subject scientifically and impartially, so that the people of the State of California might be assured concerning either the adequacy or the inadequacy of existing laws relating to conservation. He thought the Governor had in mind applying the rules to production on both private and State-owned lands, because the same rules of conservation and of avoidance of waste should apply in both cases. He did not know whether it was practical to have legislation enacted quickly enough to bring into being a commission such as the Governor has recommended with the expectation that that commission could explore the questions fully enough to be able to make recommendations to the current session of the Legislature.

Mr. Kirkwood thereupon indicated that he was not thinking of the current session, but of a Special Session to run concurrently with the Budget Session in 1958, and the Chairman stated that in his personal judgment this would be very much in order.

The Chairman went on to say that he did not believe, however, the Governor had in mind precluding from the current session any legislation which is urgent in nature and which is designed to take care of situations involving the State's interest; that, as a matter of fact, the Governor had indicated his interest in having the current session of the Legislature review the Cunningham-Shell Act on the basis of the past, and said he interpreted the Governor's recommendations in this field as being rather broad in scope. He commented on the fact that the Governor had expressed a desire to him to meet with members of the State Lands Commission; that the Governor's office is naturally in search of advice, which he is certain the Commission would be able to give, to meet the recommendations which the Governor has set forth in his message to the Legislature. The Chairman thereupon asked for comments and recommendations.

Mr. Powers asked if the intent was to have the advisory committee suggested by Mr. Kirkwood composed strictly of laymen, or of a combination of laymen and others, or just what type members were to be included, and was informed by Mr. Kirkwood that he was thinking in terms of inviting a few people to review the Commission's leasing policies and give advice purely on an informal basis and only on problems in connection with leases, having in mind representatives of the Southern Pacific Land Company, the Kern County Land Company, and others who have large holdings and who have had the same leasing problems. He did not think that this advisory committee should have the weight of the commission which the Governor has suggested setting up, but should be strictly informal, and stated that if agreement could be reached at the start as to what people should be asked to serve, the Chairman could then invite their participation and the Commission could meet with them informally. He made clear that the committee he was suggesting was separate and apart from the commission being proposed by the Governor, and should not be confused with the legislative program, as he was merely thinking in terms of an advisory group that would work with the State Lands Commission.

In response to a request by Mr. Powers for further explanation of the Special Session of the Legislature in 1958, and whether any specific type of Governor's Commission was recommended, Mr. Kirkwood indicated that the Governor had suggested that legislative members should be included, whereupon Mr. Powers pointed out the experience that has been had in the past with various types of commissions. Mr. Kirkwood replied that what he had in mind, aside from the Governor's recommendation, was for the Commission itself to seek the counsel of experts in the field whose advice would relate primarily to the administrative problems that the Commission has in carrying out the laws, and the other two members of the Commission agreed that this was an excellent suggestion.

Thereupon the Chairman queried Mr. Kirkwood as to whether he had in mind retaining a group of experts similar to that which the Commission had employed in the past, and was informed by Mr. Kirkwood that he had in mind seeking voluntary advice only, from some of the experts in the field, to be given to the State free of charge.

The Executive Officer asked if, in the pursuance of such a program, it was the desire of the Commission that the staff make studies and submit recommendations to the Chairman of the names of those who should be considered for membership on the advisory committee, with the actual invitations to participate to be extended by the Chairman. The Chairman suggested that the staff be requested to do this, with the formalities to be handled by him on behalf of the Commission.

The Chairman reminded those present that the entire subject was full of technical problems, and stated that he for one would invite the best help it was possible to obtain to assist in solving the problems that exist.

Mr. E. E. Pyles of the Monterey Oil Company referred to the Commission's suggestion about seeking advice from the Southern Pacific and the Kern County Land Company, and asked if the Commission had in mind including members of the oil industry. Mr. Kirkwood replied that he felt sure that group would be invited to make suggestions, and that before any suggestions of the advisory group were adopted they would have to be fully discussed and explored with industry, but that his thought would be to request three or four people from the landowners' side of the problem to make suggestions for lease terms, and thereafter review with the people in industry the problems involved, with particular reference to offshore drilling in California.

Mr. R. F. Bauer, of the Continental-Union-Shell-Superior group, informed the Commission that the proposal being made was confusing to him, inasmuch as they considered themselves experts in the field, and were, as a matter of fact, competitive with such groups as the Kern County Land Company and the Southern Pacific.

The Chairman felt it might be advisable to seek the impartial advice of conservation experts through such organizations as the California State Chamber of Commerce, the Los Angeles Chamber of Commerce, and organizations of that character, but that it would be most important to obtain technical information from qualified personnel who are actually in the business of producing oil and natural gas, and that to ignore representatives of the industry who have technical knowledge in this regard would be very short sighted, whereas a well balanced advisory group would provide the Commission with assurance that the information obtained was impartial and in the best interests of the State.

Mr. Kirkwood stated that apparently he had not made his point clear; that what he was talking about was property management, the issuance of leases, and the problem of trying to obtain, from the State's point of view, the most favorable lease that was still going to meet the basic objective of developing the State's oil reserves. He felt that the State was in the same position as a private landlord; that is, knowing what he has and getting the most favorable lease for it, and that in developing the terms of such a lease he did not believe that at the start the landlord would sit down with the people in industry, although he would hear their case, but rather would seek counsel and advice with reference to handling the basic leasing problems; that what he was thinking about was getting the benefit of the advice of the land departments of large landowners in connection with the Commission's leasing policies.

At this point it was brought out that the State is somewhat foreclosed from the type of operations carried on by private owners, because the State's lands have to be offered for public bid, but that before offering lands for public bids the basic problems of what the State has to offer should be explored, and the particular advice and help needed should first be had from those who are experts as landlords, not as operators.

The Chairman pointed out that the Southern Pacific Land Company is the largest private land company in the State, and that their advice should be very helpful. Mr. Pyles stated that he felt Mr. Kirkwood had made his position clear and that, speaking personally, he thought it commendable, but called to the attention of the Commission that, in seeking advice from an advisory committee, it should be kept in mind that the State lands under consideration are of a different nature and character from those of the private landowners, being all under water, whereas the lands of the companies referred to are on shore.

Mr. Kirkwood pointed out that the State was trying deliberately to stay away from comparisons with types of operations in other areas, such as the Middle East, which would not compare.

Mr. James G. Leovy, of the Western Gulf Oil Company, mentioned that the different methods of giving leases used by the State and by private companies should be kept in mind at all times; in other words, the private land companies do not go out and call for bids, but an operator would approach a landowner and ask for a lease, with no bonus involved, whereas the State has to ask for bids and give the lease to the one offering the highest bonus.

Mr. Kirkwood responded that he had not said that he was satisfied that the present method of operating was the basis on which the State should request bids.

Mr. R. R. Templeton, of the Reserve Oil & Gas Company, stated that he thought the Governor's Commission and the advisory committee to be set up by the State Lands Commission should work together. In reply, it was pointed out that the Governor's recommendation is that there be a special commission to investigate the broad question of conservation and of existing laws, in order to determine whether the laws are adequate, and, if they are inadequate, to submit recommendations as to how they might be made adequate through legislation; whereas the committee being proposed by the State Lands Commission would consider administrative problems only. It is contemplated that the Governor's Commission would be comprised of representatives from the oil industry, of citizens generally, and of members of the Legislature, and that this commission might employ consultants or invite counsel from the Department of the Interior and from the United States Government and from other oil-producing states, in order to develop complete information and so that their information would be as impartial as possible. Mr. Templeton still insisted that he thought the two groups would have to work together, whereupon it was explained that the committee being proposed by the Commission (as distinguished from the Governor's Commission) would be for the purpose of dealing with nothing but the leasing policies of the Commission, and those primarily in connection with State-owned tide and submerged lands, and it was felt that this was a separate and distinct problem from that of considering oil conservation and avoidance of waste, which would be the problem of the Governor's Commission.

Mr. Bauer suggested the possibility of adding the Federal Bureau of Land Management to the list of landowners to be consulted by the State Lands Commission.

The Chairman instructed the Executive Officer to prepare a memorandum to implement Mr. Kirkwood's recommendation for setting up an advisory committee of landowners to assist the State Lands Commission with its oil leasing policies.