

MINUTE ITEM

19. (1957 LEGISLATION - ASSEMBLY BILLS 47, 2237, AND 3869 (MILLER, SHELL, AND BRUCE ALLEN) - W. O. 2115.)

Following presentation to the Commission of Calendar Item 22 attached, the Chairman introduced Mr. E. E. Pyles, Vice-President of the Monterey Oil Company, indicating that Mr. Pyles had expressed a desire to address the Commission and to give background information regarding his company's experience in exploration work in the vicinity of Huntington Beach.

Mr. Kirkwood interjected a question as to whether Assembly Bills 47, 2237, and 3869, together with Senator Cunningham's Bill No. 795, would be heard before the Legislative Subcommittee scheduled to meet that evening. The Assistant Executive Officer responded that he assumed Senator Cunningham's bill would be included, and that he knew definitely that the other three bills were to be considered.

Mr. Pyles then presented a prepared statement (copy of which is attached hereto as Exhibit "A"), in which he emphasized that although Oil and Gas Leases P.R.C. 1549 and P.R.C. 1550 were issued to cover what had been assumed by all interested to be proven oil lands, and that although very large sums of money had been spent, the wells which had been drilled on these leases had all been dry, which he claimed "constitutes proof ... that even those properties which the most accurate and complete surveys indicate to be the likely repository of oils, can still be sore disappointments, production-wise."

Mr. Pyles amplified his prepared statement by stressing the tremendous increase in costs involved in offshore drilling, indicating that on many items -- transportation of personnel, drilling, transportation of equipment, etc. -- the costs had run from six to eleven times what they would have been for on-shore operations. Because of the tremendous costs involved and the amount of risk, he felt that the oil industry should be given some real incentive to bid on offshore leases.

At the conclusion of his statement, the Chairman asked Mr. Pyles if, when his company took its geophysical measurements, it had concluded that the areas involved in Leases P.R.C. 1549 and P.R.C. 1550 were capable of producing oil, and whether the later drilling proved the existence of the structure that the geophysical explorations indicated was there, and was told by Mr. Pyles that the bottom seismic work showed that "they had a structure".

Pursuant to a comment made by Mr. Kirkwood about the first part of Mr. Pyles' statement, to the effect that it seemed to indicate that the State did not have adequate protection from a royalty standpoint, Mr. Pyles stated that he thought the oil companies would look at land in the light of its being proven property if oil was found in an adjoining area, and would bid on that basis. He added that although he agreed with Mr. Kirkwood, he would again like to call the Commission's attention to the heavy cost of investigating offcoast areas, and that he felt some real incentive was needed if the oil companies were to spend tremendous amounts of money.

Mr. Kirkwood indicated that he felt the special bills before the Legislature affecting oil and gas leasing should be discussed, and that the Legislature

should be given information by the Commission as to its particular thinking and its problems. He then outlined his views on the Cunningham-Shell Act, referring to the fact that earlier he had suggested that the Commission obtain outside expert advice on which to base sound suggestions to the Legislature, but that apparently the Commission took the wrong course in hoping that expert advice could be obtained on a voluntary basis. He felt that what probably was needed was for the Commission to hire three experts, on a paid basis as consultants, from whom to obtain sound advice before entering into any extensive leasing program that would bind the State as to what are its most likely producing offshore areas, so as to be in a position to best protect the State's interests. The experience of people who have had to negotiate for private companies should, he thought, be of benefit to the State.

Mr. Kirkwood then presented to the Commission a copy of suggested amendments to the Cunningham-Shell Act (see Exhibit "B" attached), prepared in the form of a new bill which would incorporate many of the bills already passed by the Assembly, which he thought the Commission might be willing to approve for recommendation to the Legislature. He stated that he felt the hands of the Commission had been unduly or improperly tied on the question of obtaining appropriate royalties that would be in the interests of the State and still be an inducement to the operators, and that in his proposed bill he had incorporated a minimum royalty of 16-2/3 percent, plus a step-scale royalty based on production, with a provision for downward scaling of royalties to take care of a situation when wells were no longer producing at the maximum rate, with the thought in mind of removing some of the gamble on the part of the oil companies and still assuring a fair return on the part of the State. Incentive to proceed rapidly with exploration could be gained by having higher rental charged under the lease during the early period of a lease, and the amendments suggested would permit minimum cash bonuses to be established. He suggested that the language of these amendments should be checked by the Attorney General, but that it should be kept in mind that any bill passed by the Legislature should be flexible so that any opinions of experts could later be used. He did not intend to open the question of using a bid factor, feeling that the State's experience with this had not been good, and stated that although a constant over-riding royalty would be best, his other suggestion for a step-scale royalty might have the advantage of flexibility.

Mr. Kirkwood explained that the original lease should spell out the basis under which the State could reacquire leased property, with the exact terms for so doing to be put in the lease rather than in legislation, and also suggested that the drilling term be cut from five to three years.

Following a brief recess, Mr. Powers, at the suggestion of the Chairman, gave his views on Mr. Kirkwood's proposal, stating that, although he was not pleased with all provisions of the Cunningham-Shell Act, he felt, in view of the fact that the Commission had just received the recommendations and had not had time to consider them, that the proposed new bill should be presented personally to the Legislative Committee by Mr. Kirkwood, and further indicating that he did not know whether he would agree on all points outlined.

Mr. Kirkwood made the point that basically the question was whether the Commission would want to have its hands tied by a particular leasing program, or

whether it should have some discretion, and pointed out that if all the Commission had to work with was the Cunningham-Shell Act, it would be wasting money on hiring consultants, as anything they might suggest could not be used.

Mr. Powers added that perhaps the checkerboarding question should be explored further, with the area to be included in a lease cut to a much smaller acreage.

In reply to a question by Assemblyman Shell about whether the area of leases had been included in his proposed bill, Mr. Kirkwood stated that he had included this point. Mr. Shell then discussed the question of reducing the size of the leaseholds, and stated that he thought a step-royalty program could be handled under Assembly Bill 2237, but that perhaps the Attorney General would have to clarify this. He said that he had put in a spot bill, A.B. 4141, to take care of some necessary amendments, and that he thought under all three bills being considered (A.B. 47, A.B. 2237, and A.B. 3869), the ability of the Commission to set minimum cash bonuses was clarified. Mr. Kirkwood doubted this, and felt that the Attorney General should be consulted on this point also, to see if there was unanimity of thought.

Assemblyman Shell asked if Mr. Kirkwood's proposal that the State should be allowed to take over equipment upon abandonment of a lease was intended to include exploration equipment, or only development equipment, and was informed by Mr. Kirkwood that he thought it should be only development equipment, but that this point had not yet been fully explored, nor had it been discussed with the staff of the Commission.

Assemblyman Miller stated that he was happy to have Mr. Kirkwood's viewpoints expressed so definitely, especially his suggestions which would broaden the bidding and allow for more competition, and hoped that these might be included in the legislation currently being considered, but commented on the fact that the Legislature would have very little time to work on these proposals, as it would only be in session for another three weeks.

Assemblyman Shell agreed that the State Lands Commission should have some discretion when issuing oil leases.

Assemblyman Holmes commented on the hiring of three consultants, and wondered why Mr. Kirkwood had waited until three weeks before the close of the legislative session to make his recommendations and to present his proposed bill. Mr. Kirkwood, after pointing out the importance of the oil leasing program and the difficulties involved, reminded the group present that he had originally made the suggestions about using checkerboarding and about providing for a higher royalty, and informed Mr. Holmes that the reason for not having made his present definite suggestions earlier was that it had been hoped that the Commission could obtain competent advice on a voluntary basis. However, it had been found impossible to get a voluntary group together, which was the reason for his current suggestion that the Commission hire paid consultants to study the problems involved. He pointed out that all the Commission needs is a bill that would let it put into effect the recommendations that the consultants indicated as sound.

Assemblyman Shell asked if the term "step-scale" was regularly used, and was informed by Mr. Kirkwood that he did not know -- that there might be a better term.

Senator Hollister suggested including only the "island" in the equipment to revert to the State upon abandonment of a lease.

Mr. Kirkwood again asked that the Commission give consideration to the question of using consultants, and in addition stated that he felt that problems had arisen which would justify some stand being taken by the Commission on the Cunningham-Shell Act, and on which the Legislature should be given some information.

Mr. Pyles, as the only oil operator representative at the meeting, made an expression on behalf of the oil industry, referring to Mr. Powers' comment on reducing the acreage of a lease, and calling attention to the fact that the Southern States have larger minimums than does California. He felt that if the Commission were to cut its lease acreage below the present minimum and ask the oil industry to go out in 100 or 200 feet of water and drill on small pieces of ground, it would not get any bids. He urged the Commission not to reduce the acreage, but to give the industry some incentive to bid.

The Chairman, commenting on the suggestion that had been made at a previous meeting by Mr. Kirkwood about setting up a landowners committee of five voluntary consultants, pointed out that through various circumstances the Commission finally ended up with only two of five being available, stating that that effort had "gone on the rocks", and that it appeared to be necessary to arrange for consultants on a fee basis.

In response to a question by the Executive Officer as to whether he could request money through the Department of Finance to cover the cost of hiring consultants, Mr. Kirkwood suggested making the necessary fund transfer. He stated that it was the intention to hire as consultants to the Commission men who had had experience on leases of larger properties of wildcat areas and who would report to the Commission either individually or as a group. He emphasized, in fairness to the oil industry, the importance of moving as rapidly as possible, and thought that the Commission and its staff would be familiar with people who could be consulted.

It was clarified by the Chairman that it was the intention in hiring the consultants to use the information obtained from this group in helping to carry out the laws that would be passed by the current session of the Legislature, not to give current advice. The question of whether two or three consultants should be hired was raised and left open.

UPON MOTION DULY MADE AND UNANIMOUSLY CARRIED, THE FOLLOWING RESOLUTION WAS ADOPTED:

THE STAFF OF THE STATE LANDS COMMISSION IS AUTHORIZED TO COMPILE A LIST OF QUALIFIED EXPERTS IN THE FIELD OF OIL LEASING AND OIL LAND MANAGEMENT, FROM WHICH LIST MAY BE SELECTED, AS CONSULTANTS, TWO OR MORE QUALIFIED INDIVIDUALS TO GIVE ADVICE TO THE COMMISSION WITH RESPECT TO CARRYING OUT THE PROVISIONS OF LAW CONCERNING TIDELANDS OIL DEVELOPMENT UNDER THE JURISDICTION OF THE COMMISSION.

Attachments:

Calendar Item 22 (2 pages)

Exhibit "A" - Statement by Pyles (3 pages)

Exhibit "B" - Proposed Amendments submitted by Kirkwood (8 pages)

CALENDAR ITEM

SUPPLEMENTAL

INFORMATIVE

22.

(1957 LEGISLATION ASSEMBLY BILLS 47, 2237, AND 3869 (MILLER, SHELL, AND BRUCE ALLEN) - W. O. 2115.)

Assembly Bills 47 (Miller), 2237 (Shell), and 3869 (Allen) (amended copies attached) were considered by the Assembly Committee on Manufacturing, Oil & Mining Industry on April 16 and April 23, 1957. The Committee vote was 8 - 8 on each bill, thereby holding all bills in Committee. A.B. 47 (Miller) and A.B. 2237 (Shell) were withdrawn from Committee by vote of the Assembly on April 29. On April 30 the Committee on Manufacturing, Oil & Mining Industry passed A.B. 3869 (Allen) without recommendation. The three bills were heard in the Assembly as Special Order on May 7 and all bills were passed through the Senate by the following votes:

A.B. 47: 56 - 13

A.B. 2237: 52 - 20

A.B. 3869: 46 - 14

The comparative effect of these bills is summarized on the following tabulation:

<u>P.R.C. Section</u>	<u>A.B. 47 (Miller)</u>	<u>A.B. 2237 (Shell)</u>	<u>A.B. 3869 (Allen)</u>
6827	Eliminates classification of land.	Eliminates classification of land.	Eliminates classification of land.
	Establishes:	Establishes:	Establishes:
	(a) 16-2/3% minimum plus sliding scale oil royalty.	(a) 16-2/3% minimum and optional sliding scale oil royalty.	(a) 16-2/3% minimum plus sliding scale oil royalty.
	(b) 16-2/3% minimum gas and gasoline royalty.	(b) 16-2/3% minimum gas and gasoline royalty.	(b) 16-2/3% minimum gas and gasoline royalty.
	(c) \$1.00 per acre minimum annual rental.	(c) \$1.00 per acre minimum annual rental.	(c) \$1.00 per acre minimum annual rental.
	(d) \$0.05 per barrel dehydration maximum.	(d) \$0.05 per barrel dehydration maximum.	(d) \$0.05 per barrel dehydration maximum.
	(e) Alternative lease award on royalty bid only.		(e) Alternative lease award on royalty bid only.

SUPPLEMENTAL ITEM 22. (CONTD.)

<u>P.R.C. Section</u>	<u>A.B. 47 (Miller)</u>	<u>A.B. 2237 (Shell)</u>	<u>A.B. 3869 (Allen)</u>
6829.1	Establishes 3-year term to commence drilling.	(3-year term to commence drilling established in A.B. 4141)	Establishes 3-year term to commence drilling.
6830	Substitutes right to <u>determine</u> for right to <u>restrict</u> spacing of wells and rate of drilling.	Substitutes right to <u>determine</u> for right to <u>restrict</u> spacing of wells and rate of drilling.	Substitutes right to <u>determine</u> for right to <u>restrict</u> spacing of wells and rate of drilling.
6834	Eliminates reference to land classification.	Eliminates reference to land classification.	Eliminates reference to land classification.
6871.4	Eliminates: (a) Reference to land classification. (b) 1920 acre "wildcat" lease minimum.	(Reference to land classification and 1920 acre "wildcat" lease minimum eliminated in A.B. 4141)	Eliminates: (a) Reference to land classification. (b) 1920 acre "wildcat" lease minimum.
6873.2	Substitutes "in not less than thirty (30) days" for "within thirty (30) days" as period for making determination pursuant to public hearing.	Substitutes "in not less than thirty (30) days" for "within thirty (30) days" as period for making determination pursuant to public hearing.	Substitutes "in not less than thirty (30) days" for "within thirty (30) days" as period for making determination pursuant to public hearing.

EXHIBIT "A"

Statement of

E. E. PYLES,
Vice President of Monterey Oil Company
before the
California State Lands Commission
Sacramento

May 13, 1957

Gentlemen:

I appreciate very much the opportunity of appearing before this Commission because I believe that I am in possession of certain facts that are highly relevant to any discussion of royalty rates on leases covering tide and submerged lands. I expect to emphasize and support the contentions of some other operators with some startling figures that I might say have not been arrived at by deduction but are the result of actual experience over the past two years on two State leases, PRC 1549 and PRC 1550. These leases, as I am sure you gentlemen know, lie offshore between Newport Beach and Huntington Beach.

Seaboard Oil Company, Humble Oil & Refining Company and Monterey Oil Company are associated in this joint leasing venture, with Monterey Oil Company being named as Operator. Before these leases were obtained, Humble and Monterey had made a discovery on adjoining tide and submerged land held under contract with the City of Newport Beach and had successfully completed some 6 or 7 wells. The sub-surface information developed during this drilling program was amplified by offshore geophysical and subsea geological surveys on both the underwater land parcels mentioned.

On the basis of these combined data there was good reason to believe that a producing structure underlay the leases. The three companies that were party to the enterprise were in entire agreement on this, and a request was therefore made to the Lands Commission to put the two leases up for bid.

Prior to this time and at considerable expense, these companies acquired a number of upland properties, including subsurface rights, from Willow Land and Water Company, Pacific Electric Railway Company, and Mills Land and Water Company. These were required in order to assure on-shore sites for directional drilling operations should we prove to be the successful bidder on the two leases.

Following all this exploratory work and careful planning, the two parcels were put up for bid and the three companies, Seaboard, Humble and Monterey, being high bidders, were awarded the leases. The successful bids were \$3,333,000 for parcel 1549, and \$1,333,000 for parcel 1550.

Almost immediately after the granting of the leases, Monterey, as operator, began drilling from upland locations on PRC 1549, the parcel nearest to the shore. Four wells were drilled directionally to depths between 8,000 and 10,000 feet, bottomed on the lease, but they were all bone dry.

Because of this ill-fortune the Commission granted an extension of time to permit the lessees to procure the special construction of and to bring a drilling platform around from the Gulf coast. This was for the purpose of drilling on Parcel PRC 1550, which lies more than a mile from shore and along the westerly edge of 1549. After the arrival of the platform, core holes were drilled on property covered by this lease, also to depths of 8,000 to 10,000 feet, but these, too, were entirely unproductive.

Now, the cost of this operation was as follows:

Lease acquisition	\$ 4,780,501
Geophysical and subsea geological expense	\$ 45,501
Rentals	\$ 89,622
Drilling costs	<u>\$ 1,779,205</u>
Making a total of	\$ 6,694,829

This I cite simply to show that here we have three well-established oil companies having available in their own ranks the highest qualified geoscientific personnel, equipped with the most modern of exploration instruments and know-how.

Amplifying the findings of these and agreeing with their conclusion were independent geologists and geophysicists of wide experience and excellent repute.

That, I am sure you will agree, was justification for something more than mere hope. Coupled with the successfully completed wells drilled by Monterey and Humble on immediately adjoining Newport Beach property, it amounted almost to proof that the leases would produce. But they didn't!

It seems to me, gentlemen, that this Commission should take cognizance of these facts and should weigh them carefully. They constitute irrefutable proof of the tremendous financial risk that is involved in the search for offshore oil reservoirs, a risk that is greatly enlarged by the inherent difficulty and increased cost of almost every phase of sub-marine exploration and drilling. It constitutes proof also that even those properties which the most accurate and complete surveys indicate to be the likely repository of oils, can still be sore disappointments, production-wise.

I would like to point out here, by the way, that the State of California is well protected against improper royalty provisions in its offshore oil leases by the terms of the Cunningham-Shell Act. The Act permits the leasing of alternate blocks only and the retention of the unleased portion until the leased portions have been drilled. If production is developed in any one section, of course, there are four contiguous sections that can be leased under higher royalty conditions for the benefit of the State.

Finally, I feel it necessary to accentuate three important conclusions that are justified by the foregoing facts:

1. The financial risk and, in fact, all other types of risk involved in offshore operations are so much greater than in normal upland operations that the two processes are quite unrelated. One should not therefore, under any circumstances, be used to set a pattern for the other.
2. Even with all the scientific data that can be made available in these modern times, no person or group of persons can successfully predict the oil possibilities of any sub-surface area until enough wells have been drilled to prove or disprove the presence of oil, and to give some idea of its quantity and quality.
3. There is nothing to indicate that the experience of the three reliable and substantial oil companies cited here will not be repeated by others regardless of how well they may be informed.

It seems very clear to me, in view of these facts, that unless the State is willing to offer adequate incentives to encourage industry to assume the great risk involved in offshore exploration and development, or to reduce it to some rational proportion, there is great danger that capital investors will be lured into more lucrative channels of enterprise. The cost is already so great that even the largest oil companies find it expedient to join together to reduce the individual hazard. With prevailing unrest in other parts of the world, and the vulnerability of foreign petroleum sources in the Middle East, it would be nothing short of a national catastrophe if California's offshore reserves remained undeveloped for lack of adequate incentive.

EXHIBIT "B"

An Act to amend Sections 6827, 6829.1, 6830, 6834, 6871.4, and 6873.2 of, and to add Section 6828.1 to, the Public Resources Code, relating to oil, gas and mineral leases of state lands.

The people of the State of California do enact as follows:

Section 1. Section 6827 of the Public Resources Code is amended to read:

6827. 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, redrilling 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,

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drilling, deepening, repairing, re-drilling or other necessary lease or well maintenance operations on the leased land.

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 $12\frac{1}{2}$ percent in kind, or of $12\frac{1}{2}$ 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.

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 $16\frac{2}{3}$ percent or :

(1) a sliding or step scale royalty on oil commencing at not less than $16\frac{2}{3}$ 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, or on the gross production of oil removed or sold from the land under such lease, or a combination of the two; and,

(2) a royalty of 15 not less than $16\frac{2}{3}$ 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 in state into the leased lands. Such royalties under (1) and (2) 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 ; and,

(3) rental payable in advance in annual amounts as fixed by the commission in the invitation to bid of not to exceed less than one dollar (\$1) for each acre of 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:

(1) 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, which cash bonus may, at the discretion of the

commission, be in the form of advance rental payments, for a maximum of five (5) years, represented by a bid stated in terms of a percentage increase over the rental payments specified in the invitation to bid; or,

(2) in the alternative, when specified in the invitation to bid, to the qualified bidder who undertakes to pay the highest rate of royalty in addition to satisfying all other provisions of the lease.

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, re-drilling or other operations which shall result in the restoration of production of oil or gas from the leased lands.

Sec. 2. Section 6826.1 is added to said Code to read:

6826.1. Every oil and gas lease executed under this chapter may include a provision specifying that the commission has the option of acquiring all or any part of the lessee's operating equipment used on the leased land prior to the time of abandonment or quitclaim to the state pursuant to, and notwithstanding, the provisions of Sections 6804.1 or 6805.

Sec. 3. Section 6829.1 of said Code is amended to read:

6829.1. Every oil and gas lease, including leases of tide and submerged lands, executed under this chapter, shall specify a period of not to exceed five (5) years, as specified by the commission in the invitation for bids, subject to extension by the commission as provided in this chapter, as

the drilling term of the lease within which the lessee may commence operations for the drilling of a well for oil or gas if the lease shall embrace lands which were not within the known geologic structure 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, or a period, fixed by the commission, of not to exceed three years, subject to extension by the commission as provided in this chapter, as the drilling term of the lease within which the lessee may commence operations for the drilling of a well for oil or gas if the lease shall embrace lands which were within the known geologic structure 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, and, in either case, providing that, if lessee fails to commence such operations and to thereafter diligently prosecute them, the lease shall terminate.

Sec. 4. Section 6830 of said code is amended to read:

6830. The lease shall contain a reservation to the commission of the right to restrict by appropriate rules and regulations determine the spacing of wells and the rate of drilling and rate of production of such wells so as to prevent waste of oil and gas and promote the maximum recovery of oil and gas from, and the conservation of reservoir energy in, each zone or separate underground source of supply of oil or gas covered in whole or in part by leases issued under this chapter. The commission shall issue rules and regulations which may be amended from time to time to effectuate the purpose of this section, and in connection therewith shall restrict the rate of production from any such zone or separate underground source of supply to that provided by Federal or State laws or rules or regulations thereunder, or by any

reasonable conservation or curtailment plan ordered by the commission or agreed to by a majority of the total production from any such zone or separate underground source of supply.

Sec. 5. Section 6834 of said Code is amended to read:

6834. 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 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.

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.

Sec. 6. Section 6871.4 of said Code is amended to read:

6871.4. The commission may divide the lands within the area proposed to be leased into parcels of convenient size and shape and shall prepare a form of lease or leases therefor embracing not to exceed 5,760 acres in any one lease, and if the lands are not within the known geologic structure 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, such lease shall embrace not less than 1,920 acres, or the whole thereof if less than 1,920 acres are available for leasing.

Sec. 7. Section 6873.2 of said Code is amended to read:

6873.2. 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 requests 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 Section 6871.3, 6872 and 6872.1, unless . In such determination the commission shall determine that consider 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.

The commission in determining whether the issuance of such lease or leases would result in such impairment or interference with the developed shore line, recreational or residential areas adjacent to the proposed leased acreage or in determining such rules and regulations as shall be necessary in connection therewith shall at said hearing receive evidence upon and consider whether such proposed lease or leases would

(a) Be detrimental to the health, safety, comfort, convenience, or welfare of persons residing in, owning real property, or working in the neighborhood of such areas;

(b) Interfere with the developed shore line, residential or recreational areas to an extent that would render such areas unfit for recreational or residential uses or unfit for park purposes;

(c) Destroy, impair, or interfere with the esthetic and scenic value of such recreational, residential or park areas;

(d) Create any fire hazard or hazards, or smoke, smog or dust nuisance, or pollution of waters surrounding or adjoining said areas.

Authority to hold the hearings provided in this section may be delegated by the commission to its officers or employees.