

1 TRANSCRIPT OF  
2 MEETING  
3 STATE LANDS COMMISSION  
4 SACRAMENTO, CALIFORNIA - APRIL 14, 1958

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6 PARTICIPANTS

7 (THROUGHOUT BOTH MORNING AND AFTERNOON SESSIONS)

8 THE COMMISSION:

9 Messrs. John M. Peirce, Chairman  
10 Harold J. Powers  
11 Robert C. Kirkwood

12 STATE LANDS DIVISION:

13 Messrs. F. J. Hortig, Executive Officer  
14 Kenneth C. Smith, Supervising Land Title  
15 Abstractor  
16 Mrs. Julia T. Stahl, Secretary

17 ATTORNEY GENERAL'S OFFICE:

18 Jay Shavelson, Esq.

19 CONSULTANTS:

20 Messrs. H. H. Kaveler  
21 J. M. Wanenmacher

22 \*\*\*\*\*

23 APPEARANCES (In the order of such appearance)

24 MORNING SESSION:

	Pg. of Transcript (First Appearance only)
25 Senator Richard Richards	4
26 Assemblyman Richard T. Hanna	14
Assemblyman Bruce F. Allen	18
Paul K. Home, Standard Oil Co. of Calif.	32
Martin Erck, Monterey Oil Company	40
Paul A. Lower, Superior Oil Company	41

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3	Glenn R. Watson, representing Edwin H.	
4	Pauley and Phillips Petroleum Company	47
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6	James G. Leovy, Western Gulf Co.	64

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8	John C. Spence, Jr., City Attorney's Office, Long Beach	75
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HEARING REPORTER:  
Louise H. Lilloco  
Division of Administrative Procedure



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MR. PEIRCE: The meeting will come to order.

I want to give recognition to the presence of our two consultants, Doctor Kaveler and Mr. Wanenmacher! and I believe Assemblyman Hanna is present and Senator Richards. We are glad to have both of you members from the Legislature here -- and feel free to participate in our discussion. I believe, Mr. Hortig, we are now ready to proceed with the agenda. Will you take over, please?

MR. HORTIG: Mr. Chairman, the first page of the agenda following the cover sheet, entitled PROPOSED OIL AND GAS LEASES --

On February 11, 1958 the Commission directed that the staff review the bases for issuance of oil and gas leases with members of the Assembly Judiciary Subcommittee on Tidelands and with representatives of industry and to present final analyses as to recommended oil and gas leasing procedure to the Commission. A complete review of proposed oil and gas lease terms and conditions was held February 26 and 27, attended by four members of the Assembly Judiciary Subcommittee, thirty-six industry representatives, and State Controller Kirkwood.

As you gentlemen know, a copy of this transcript was transmitted to you previously. The transcript was also submitted to the office of the Attorney General, together with proposed form of oil and gas lease, as a basis for the form of the lease and requisite conformance with the

1 provisions of Division 6 of the Public Resources Code  
 2 Additionally, an informal opinion was requested on four  
 3 proposed lease terms developed in the staff review. Copy  
 4 of this is attached as Exhibit A and the pertinent portions  
 5 of the opinion are reflected in terms and conditions of  
 6 the proposed lease form as it is being considered by you  
 7 gentlemen this morning. A proposed form of oil and gas  
 8 lease which has been approved by the office of the Attorney  
 9 General in conformance with Division 6 of the Public Re-  
 10 sources Code is attached as Exhibit B.

11 Substantive differences with the recommendations by  
 12 the Commission's special board of consultants are outlined  
 13 in Exhibit C attached --- and I might comment at that point  
 14 that there are no differences in the lease form from the  
 15 consultants' recommendations except as to two items on  
 16 which it was not clear there was a legal basis for the  
 17 Commission to include them, therefore they were the only  
 18 ones eliminated out of the entire scope of recommendation  
 19 by the staff.

20 Similarly, the scope of industry recommendations --  
 21 differences with industry recommendations -- are in  
 22 Exhibit D attached. These differences are with reference  
 23 to a form of lease form presented by the Western Oil and  
 24 Gas Association, which was the frame of the discussion  
 25 February 26 and 27. At the moment these are still of  
 26 historical interest as to the transitions the form of lease

1 has taken. They do not directly include all the remain-  
 2 ing differences here, if any, with reference to the form  
 3 of lease discussed this morning because there has been  
 4 informal discussion since that tabulation has been pre-  
 5 pared.

6 Therefore, it is recommended that the Commission  
 7 approve the form of lease attached as Exhibit B as the  
 8 basic lease form to be issued on oil and gas leases pur-  
 9 suant to Section 6 of the Public Resources Code.

10 As you gentlemen are aware, representatives of the  
 11 industry are here numerously this morning and are prepared  
 12 to comment; and I see Mr. Home, who was the chairman of  
 13 the special subcommittee of the Western Oil and Gas Asso-  
 14 ciation, which group have certainly labored long and dili-  
 15 gently with the staff of the State Lands Commission in  
 16 attempting to arrive at an equitable, workable, practical  
 17 lease form, which are the criteria we believe are incor-  
 18 porated in the draft before you this morning.

19 MR. PEIRCE: Mr. Hortig, may I ask, before we call  
 20 on representatives of the industry, whether in your judg-  
 21 ment it would be in order to ask for comments from our  
 22 consultants with regard to the lease form as it now stands?

23 MR. HORTIG: I believe it would be very much in  
 24 order. We would appreciate their concurrence.

25 MR. PEIRCE: Now, for the information of all concerned,  
 26 we have retained two nationally recognized consultants in

1 the field of petroleum engineering and petroleum geology  
 2 and they have met with us several times, and they have  
 3 advised us with respect to the steps we should take with  
 4 regard to carrying out the law regarding tideland oil  
 5 development; and again these two gentlemen, representing  
 6 their respective firms, are with us, and before we get  
 7 into a discussion of the lease form which is now before us  
 8 and which if adopted by the Commission will serve as the  
 9 guide in carrying out our future leasing program, I would  
 10 like to invite them to make any comments that they may  
 11 desire to make before we proceed further. Dr. Kaveler,  
 12 would you like to say something in regard to the lease  
 13 form as it now stands?

14 DR. KAVELER: Mr. Chairman and gentlemen of the  
 15 Commission, I haven't read this final draft through but  
 16 it is my understanding that Exhibit C reflects the three  
 17 points involved in the consultants' recommendations which  
 18 could not be adopted for legal reasons, and with that  
 19 understanding it is my opinion that the lease form as  
 20 drafted by the staff and recommended to you is to the best  
 21 interests of the State and I would join them in recommend-  
 22 ing to the Commission that it be adopted.

23 MR. PEIRCE: Senator Richards.

24 SENATOR RICHARDS: Mr. Chairman, may I be heard very  
 25 briefly at this time for one reason? I think perhaps be-  
 26 fore the rest of the testimony from your consultants or



1 the rest of the industry, pro and con, there is one small  
 2 problem that may have been met in your mind, but if it  
 3 isn't should be brought to your attention. I apologize  
 4 to Mr. Hortig for not taking the opportunity of discussing  
 5 this before coming to you. On the other hand, I didn't  
 6 have that opportunity because only now did the lease form  
 7 come to my attention.

8 I note the Attorney General's opinion on which your  
 9 action is predicated is dated March 28th. As you know,  
 10 the Legislature is now in session and, therefore, through  
 11 no fault of anyone here, there might be something that  
 12 might affect your lease form.

13 I call your attention to Assembly Bill 5 by  
 14 Assemblyman Grant, representing the City of Long Beach;  
 15 and Long Beach, as you know, is my territory and I carry  
 16 it in the Senate. Assembly Bill 5 has been passed and  
 17 is now out of the Senate. A. B. 5 has to do with the  
 18 matter of subsidence to the extent that subsidence has to  
 19 do with oil extraction. There may be some quick answers  
 20 to this, but I do think it should come to your attention.

21 In your present lease form, on page 1 thereof, you  
 22 have first the matter of referring to the two contracting  
 23 parties, the lessee to be designated in the future and  
 24 the lessor "acting by and through the State Lands Commission,  
 25 sometimes hereinafter called the State..." Throughout  
 26 the entire document we assume, of course, that the Land

1 Commission is the agency acting on behalf of the State as  
2 a contracting party, which would be normal. Or the other  
3 hand, there is potential conflict, which is pointed out  
4 more clearly when you get over to page 21.

5 Page 21, paragraph 10 points out that the State --  
6 and it has already been indicated that the "State" means  
7 the Land Commission -- reserves and retains the right when  
8 it receives any evidence of subsidence of the surface of  
9 either the leased or adjacent lands to determine that any  
10 or all operations of this lease would or might cause sub-  
11 sidence. In other words, the subsidence question is left  
12 to the State by and through the State Lands Commission.

13 This is again emphasized on the next page, top of  
14 page 22, in subsection (1) -- that "such determination may  
15 be made by the State Lands Commission ..." and what I  
16 wish to point out: When AB 5 becomes law, the question  
17 becomes, the question of subsidence becomes the responsi-  
18 bility of the Supervisor.

19 MR. PEIRCE: May I ask Mr. Hortig to explain the  
20 changes in Section 10 that might be affected? Are you  
21 reading from Section 10?

22 SENATOR RICHARDS: Yes.

23 MR. PEIRCE: You are referring to March 28th?

24 SENATOR RICHARDS: March 28th was the date of the  
25 opinion. This action follows the opinion. And the approval  
26 of this lease form, unless I am incorrect in regard to the

1 conflict, should not be made until such time as Mr. Hortig  
 2 and the staff and the experts and, certainly, the Commis-  
 3 sion itself is satisfied that a conflict does not exist  
 4 and no vitiation would occur in your contracts. Unless I  
 5 am mistaken, I think there is a clear, statutory conflict.  
 6 I don't think it would be any problem to correct, but I  
 7 don't think you should give approval until you are satis-  
 8 fied there is no conflict, because I am familiar with AB 5,  
 9 the way in which it was passed.

10 MR. PEIRCE. Thank you, Senator Richards. Mr. Hortig,  
 11 would you like to comment on Senator Richards' comments  
 12 before we proceed?

13 MR. HORTIG: Yes, Mr. Chairman. My comments will  
 14 not go to the legal complications potential, on which the  
 15 Senator is certainly more qualified to speak. Certainly  
 16 I speak without specific advice from counsel. However,  
 17 the practical problems of the situation were considered  
 18 by the staff, by the industry representatives who worked  
 19 with the staff, and by the office of the Attorney General,  
 20 and the criteria that led to the conclusion of adopting or  
 21 recommending the particular lease form which is before you  
 22 in the face of the existence of AB 5 were as follows:

23 One: As of today, Assembly Bill 5 has not been  
 24 signed by the Governor. We do not have a statute before  
 25 us with certainty that could be considered as to its  
 26 application.

1           Second: AB 5, at least in its fundamental presenta-  
 2           tion to the Legislature, was presented on the basis that  
 3           it was necessary to aid the City of Long Beach in connec-  
 4           tion with solving an actual, existent subsidence problem.  
 5           There are no other coastal fields within the State of  
 6           California within the scope of AB 5, to which AB 5 would  
 7           apply today, therefore would not apply to any new leases  
 8           being considered currently. That is, as of today it would  
 9           not apply to any new lease being considered currently,  
 10          nor does it have any application, in fact, to the other  
 11          leases which the State Lands Commission has heretofore  
 12          adopted.

13           Therefore, our leases being considered this morning  
 14          are no different than a number of leases already in  
 15          existence, to which the problem of AB 5, which it should  
 16          become law, must be resolved. In the light we see it,  
 17          in both the physical and legal circumstances as they arise  
 18          at some future date, and they may never arise, to that  
 19          extent we feel our new lease form is no different as to  
 20          whether AB 5 may have to be studied in the future; although  
 21          the probabilities are rather remote, in view of the now  
 22          thirty-odd years of tideland oil fields in which the  
 23          Commission by inheritance has had no subsidence problems,  
 24          on lands to be offered under this particular lease form.

25           It is our understanding that the normal bill report  
 26          to the Governor, which the Attorney General makes, has not

1 yet been completed nor submitted to the Governor by the  
2 office of the Attorney General. Therefore, the staff did  
3 not feel that we could properly consider the area of  
4 application and what factors of AB 5 might be applicable  
5 to this lease, so these leases are perhaps entirely  
6 independent of the framework of AB 5, to be operated in  
7 whatever manner the law might provide in the future.

8 If AB 5 does provide amendments that have to be applied  
9 to these leases and other State leases in the future, this  
10 we won't know until we have subsidence in fact -- which is  
11 a condition precedent in qualifying an area under AB 5.

12 MR. PEIRCE: Would it be premature for the Commission  
13 to proceed with the adoption of this lease form without  
14 knowing whether AB 5 will become law?

15 MR. HORTIG: I was going to suggest that I would  
16 appreciate a statement of opinion from Mr. Shavelson, and  
17 also from possibly the Western Oil and Gas Association Sub-  
18 committee. At the present time, from the operational stand-  
19 point that in view of the fact that AB 5 covers general  
20 authorities, does not specifically relate to State lands  
21 as such, and from our prior operating experience its  
22 application will probably be a minimum in the future, we  
23 would be in an extremely difficult position at this time  
24 to attempt to forecast just what AB 5 is going to do with  
25 respect to any oil and gas leasing operations; because,  
26 again, the particular factors related to a subsidence

1 factor in the future are elements which will be reviewed  
2 under AB 5, and determining the applicability of AB 5,  
3 having no conditions under which to evaluate the conditions  
4 of AB 5 until we do have subsidence, it appears to be  
5 extremely difficult -- at least it appears to me to be  
6 extremely difficult -- to determine what language would  
7 cover the same type of lands which are already under opera-  
8 tion and already under lease and have been for thirty  
9 years.

10 MR. PEIRCE: Mr. Shavelson, you have heard Senator  
11 Richards' statement and you have heard Mr. Hortig's  
12 response and appraisal in regard to the status of Assembly  
13 Bill Number 5, which is now awaiting the Governor's con-  
14 sideration. What are your comments in this regard?

15 MR. SHAVELSON: We, of course, knew of the status  
16 of Assembly Bill 5 when we worked on this lease. It's  
17 my personal feeling that it is proper for the State Lands  
18 Commission to reserve some degree of control. This Section  
19 10 vests in the Commission the power to suspend production  
20 immediately on proper notice, to take very prompt action to  
21 stop production in those situations where there is liable  
22 to be damage onshore and there is possible pecuniary damage  
23 to the State. I have read AB 5, but it is an extremely  
24 complicated thing and I don't want to represent that all  
25 of the ramifications are embodied in any statement I make;  
26 but, generally, I think that the Division of Oil and Gas

1 has responsibility to protect the public against subsidence,  
 2 whereas the State Lands Commission has an obligation to  
 3 protect the State against any possible pecuniary liability  
 4 that may result out of a lease of tidelands, and I think  
 5 the responsibilities are not exactly the same; and for  
 6 that reason I think that this provision is proper, even  
 7 if Assembly Bill 5 does become law. And, of course, as  
 8 Mr. Hortig pointed out, we have many, many preceding leases  
 9 and to the extent that they are going to be affected by  
 10 Assembly Bill 5 they are going to be affected anyway; and  
 11 for those reasons I think this provision is proper at  
 12 this stage.

13 MR. KIRKWOOD: In other words, since March 28th,  
 14 the date of the A.G.'s opinion, this has been reviewed by  
 15 the staff of the A. G.'s office, having in mind the opera-  
 16 tion or possible operation of AB 5, and this seems a  
 17 proper lease form. Is that ....

18 MR. SHAVELSON: Yes, except that I would have to  
 19 point out that we were under a very stringent deadline  
 20 in approving this lease and we did a tremendous amount of  
 21 work on the lease itself and the thorough study of Assembly  
 22 Bill 5 was not possible in this time. I have read it,  
 23 but haven't made a thorough study of it.

24 MR. PEIRCE: Mr. Hortig.

25 MR. HORTIG: If I may add on that point -- and this  
 26 Mr. Shavelson is thoroughly familiar with -- and I think



1 it has not been stated -- In the course of considering  
2 appropriate language for this specific Section 10 of  
3 Exhibit A of the lease, there was a period in the develop-  
4 ment where there were actual references to Assembly Bill  
5 5 in the proposed language, but because of the uncertain-  
6 ties of what actually may be gained by Assembly Bill 5 and  
7 uncertainties prior to the time that the Attorney General's  
8 Bill Report has been made, and the limited probability  
9 that in any event Assembly Bill 5 will actually be applic-  
10 able to any of the State's lands, the provisions here were  
11 re-cast to give the protection for the features which, as  
12 Mr. Shavelson has already pointed out, are probably pecu-  
13 liarly the responsibility of the State Lands Commission  
14 and in such form is intended to not conflict with whatever  
15 application of AB 5 may ultimately become necessary as a  
16 matter of the actual statutory nature of AB 5.

17 MR. PEIRCE: Senator Richards, you have heard this  
18 discussion. Now, in the light of it, what are your comments?

19 SENATOR RICHARDS: Might I say, gentlemen, in the  
20 first place, I agree with substantially all of what both  
21 Mr. Hortig and Mr. Shavelson have said to you. I, however,  
22 feel that in view of their same statements, there should  
23 have been -- and that was my sole motive in coming here --  
24 presented to this Commission the potentiality of this very  
25 conflict. I call to your attention, since both houses  
26 have passed AB 5 it is more than simply an idea in being,

1 it is more than a potential statute; and if the Governor  
2 should sign AB 5 this week and in ninety days it becomes  
3 statute -- and this is approximately the time your leasing  
4 forms are an actuality -- you then have before you that  
5 existing conflict. I would, therefore, present a legal  
6 idea of necessity of review of that potential conflict,  
7 in view of the clear fact that AB 5 does subject the deter-  
8 mination of whether or not subsidence exists, coupled with  
9 three alternatives if they do so determine, coupled with  
10 the potential of unitization. The prospect that any one  
11 of these companies and the State would reconcile themselves  
12 to what appears to be a conflict in the lease form proposed  
13 by the Attorney General, I think there is no great difficulty  
14 in meeting; but I think it should be looked at, and if in  
15 your sound judgment ....

16 There certainly was no motive in AB 5 to cause delay  
17 in lease forms. It simply happened because, as Mr. Shavelson  
18 pointed out, it is a complex statute and does not cover  
19 just Long Beach, but the entire State of California, that  
20 I think there is this legal problem that has to be faced.  
21 I think Mr. Hortig is quite correct that in terms of  
22 practicality, there would probably be little or no applica-  
23 tion beyond Long Beach, but it is there and the law clearly  
24 subscribes the authority to the Supervisor and this lease  
25 form subscribes it to the Lands Commission. I would be  
26 just as willing to give it to the Lands Commission as the

1 Supervisor, but you can't leave it to both. I think you  
 2 have to have an interpretation. Until it is solved, there  
 3 is a practical conflict that hasn't been surmounted and  
 4 that is all I want to bring to your attention, to decide  
 5 as you think best.

6 MR. PEIRCE: Thank you, Senator, and I will say  
 7 before we conclude this meeting consideration is going to  
 8 be given to the points you have raised and any other  
 9 points raised, because we don't want to make any mistake  
 10 on any action taken this morning. Mr. Hanna -- Assemblyman  
 11 Hanna.

12 ASSEMBLYMAN HANNA: I simply want to clarify some-  
 13 thing Mr. Shavelson said. Did I interpret out of one of  
 14 your remarks, Mr. Shavelson, that you thought perhaps the  
 15 situation Senator Richards might describe -- we might have  
 16 within the lease form and within AB 5 dual jurisdiction  
 17 predicated on two different types of responsibility insofar  
 18 as subsidence is concerned?

19 MR. SHAVELSON: Yes, that was what I stated -- the  
 20 two agencies I felt had slightly different responsibilities  
 21 in regard to land leased by the State.

22 ASSEMBLYMAN HANNA: If this were in fact the case,  
 23 there would be possibly no conflict, but simply we would  
 24 have sometimes State and Federal rule overlapping in juris-  
 25 diction of these problems?

26 MR. SHAVELSON: Yes, and to the extent any conflict

1 would develop, I think certainly the statute would govern  
2 the lease provision.

3 MR. HORTIG: Mr. Chairman, if I may, so that we keep  
4 these things in context on a particular point -- if I  
5 understood Senator Richards' primary basis correctly, this  
6 factor of possibility of conflict was always recognized and  
7 was considered and the provisions of Section 10 were drafted  
8 in the hopeful attempt to meet the question without in any  
9 way restricting the activities of the State Lands Commission  
10 or the lessee, but directing them to the point where they  
11 ultimately might be governed by the provisions of AB 5 if  
12 AB 5 did become a law and was actually applicable. As you  
13 recognize, Senator, from your very intimate knowledge of  
14 AB 5, there must be a very considerable period of time  
15 elapsed before the condition of initial qualification for an  
16 area under AB 5 took place. It is in that period and pre-  
17 ceding that period, before the things happen that can put  
18 AB 5 in effect, that the Commission could determine to  
19 suspend operations if it were not in the State's interests  
20 to continue operations, following which resumption of the  
21 operations under this law would then take place only under  
22 proviso 3, as agreed to by the State and lessee, and which  
23 could very well be a program designated as satisfactory by  
24 a State Supervisor -- thereby integrating the provisions of  
25 the lease with whatever criteria might be necessary to be  
26 stated under AB 5.

1 As a practical matter -- this may not be good  
2 legalistically -- but as a matter practical, I don't see  
3 we have any substantial potential future operating conflict.

4 MR. PEIRCE: At this time I want to recognize the  
5 presence of Assemblyman Bruce Allen and Assemblyman Francis  
6 Lindsay, who are very interested in the discussion. They  
7 both came in after we started the discussion. We are happy  
8 to have you with us and will be glad to have you partici-  
9 pate in the discussion. Thank you, Senator Richards.

10 SENATOR RICHARDS: Thank you.

11 MR. PEIRCE: Mr. Wanenmacher, do you have any further  
12 comments in addition to what Dr. Kaveler stated in connec-  
13 tion with this lease form?

14 MR. WANENMACHER: I'd like to say we are very pleased  
15 our recommendations were followed as fully as they were  
16 and wish to apologize that we bumped into some legal ob-  
17 stacles which we did not foresee. I'd like to say that in  
18 all other states a well which is dually completed is con-  
19 sidered as two wells. That is one point of difference.  
20 That prevails in every producing state. In other words,  
21 if a well is completed in two different zones, it is con-  
22 sidered as a substitute for two different wells, as if  
23 two wells were drilled. I am not criticizing the present  
24 legal interpretation, but merely trying to explain why we  
25 went astray.

26 MR. PEIRCE: There is plenty opportunity to go astray

1 in a subject as complicated as this.

2 MR. WNANEMACHER: Thank you.

3 MR. PEIRCE: Thank you, Mr. Wanenmacher. Now, Mr.  
4 Hortig, do you have anything further to say before we call  
5 on representatives of the industry?

6 MR. HORTIG: Not at this time.

7 MR. KIRKWOOD: Could I ask one question of the con-  
8 sultants -- and this is on a phase of it that I have  
9 wondered about a little bit -- and that is on Section 18,  
10 just as to your impression as to the desirability from the  
11 State's point of view as to Section 18, as to how it fits  
12 into our future program. You are familiar with what I am  
13 talking about without taking a few minutes? Are the con-  
14 sultants satisfied with these provisions?

15 DR. KAVELER: If I may speak for Mr. Wanenmacher and  
16 myself, Mr. Kirkwood, the consultants are satisfied with  
17 that position because we understand the length to which it  
18 goes is limited by statute here in the State. As you know,  
19 the consultants have previously voiced the opinion that  
20 certainly, in respect to State lands, all information gathered  
21 in the drilling, completion and operation of wells should  
22 become public. We understand there is a statutory limi-  
23 tation on the distribution of that information publicly,  
24 but to the extent that the lessee permits any employee of  
25 the State to have that information, I think it's an  
26 improvement over past statutes and we are satisfied with

1 it as the law stands today in this state.

2 MR. PEIRCE: Mr. Kirkwood, have you any further  
3 questions or points to raise before we call on representa-  
4 tives of the industry?

5 MR. KIRKWOOD: No. MR. PEIRCE: Governor Powers,  
any questions? GOVERNOR POWERS: No.

6 MR. PEIRCE: Mr. Allen.

7 ASSEMBLYMAN ALLEN: Mr. Chairman, members of the  
8 Commission, I am going to have to leave in a few minutes --  
9 just one comment I would like to make before I go. In  
10 looking over this proposed lease, figuring out the way the  
11 proposed royalty scale, sliding scale, would operate, I  
12 have the personal opinion that the proposed sliding scale  
13 is low. A production of a hundred barrels per well, the  
14 royalty rate would be 18%, for example, compared to some-  
15 thing like the Wilmington Oil field, which has a production  
16 of a hundred barrels per day; the State would get less than  
17 18% compared to a prospective royalty that the State  
18 profits -- 55% under one lease, 70% under another. I  
19 suppose there are industry representatives present who  
20 will tell the Commission the sliding scale is too high,  
21 but I do have the opinion of my own that this scale is  
22 rather low.

23 I realize this is a matter of judgment and it is  
24 very difficult to predict what is the proper scale when  
25 you are leasing land. With that in mind, I would urge the  
26 Commission, if you go ahead with this lease and this scale



1 proposed, that you do so with caution and judge by experi-  
2 ence.

3 I would also urge that the Commission give some use  
4 to the alternative of royalty bidding, because while we  
5 are in the dark in talking about what royalty the State  
6 should get on leasing of new tidelands, the only way you  
7 can find out really what the land is worth in terms of  
8 royalty is by putting it up for a bidding and seeing what  
9 the highest bidder feels it is worth and what the property  
10 would pay.

11 With that in mind, and feeling that cash bonus bid  
12 does not give the adequate return that we could get with  
13 royalty bidding, I would urge the Lands Commission in pro-  
14 ceeding with this to give some use on these tidelands --  
15 including lands that aren't known to be part of producing  
16 fields -- that the Land Commission give some use to the  
17 royalty bidding, so we can see what kind of royalties the  
18 highest bidder would offer in his own judgment.

19 MR. PEIRCE: Thank you, Mr. Allen. Do you want to  
20 comment on Mr. Allen's statement, Mr. Hortig?

21 MR. HORTIG: Yes, I should, Mr. Chairman. With the  
22 exception of Mr. Allen's last proposal with respect to  
23 royalty bidding on wildcat parcels, which I should like to  
24 comment on separately, I can report that the staff has  
25 given consideration and even reviewed the other points which  
26 Mr. Allen made with Mr. Allen previously and prior to

1 preparing this particular recommendation to the Commission.  
2 With respect to the royalty bidding, previous consideration  
3 has been given both by the staff and by the consultants,  
4 with the conclusion that in general -- and this may be  
5 too much of an oversimplification -- but that in general  
6 probably the only advantageous procedure on the part of  
7 the State would be to apply that to known and proven lands.  
8 Admittedly, without knowing ----- the eighteen to one  
9 chance of never producing any oil isn't going to give the  
10 State any substantial return. With the probabilities of  
11 a particular parcel producing -- when it is wildcat and is  
12 unknown, as the areas which we hope to recommend for lease  
13 at this time are, when the opportunity for developing  
14 production is so low -- a royalty bid appears to be a rela-  
15 tively poor method of assuring adequate return to the  
16 State on the parcel. Hence the recommendation that these  
17 parcels which are at this time for consideration be limited  
18 to cash bidding.

19 In the area of proceeding with caution, the  
20 staff will recommend to the Commission that only a limited  
21 number of parcels be considered at this time for lease, to  
22 which royalty bidding may well be applied in the future,  
23 but certainly not disposing of all the State lands wholesale  
24 under this procedure, in order that we may have that oppor-  
25 tunity for learning and experience as Mr. Allen has  
26 recommended.

1 MR. PEIRCE: Would you like to comment on  
2 Assemblyman Allen's statement, Dr. Kaveler?

3 DR. KAVELER: Mr. Chairman, gentlemen of the Com-  
4 mission, Mr. Allen -- the consultants, believe it or not,  
5 share Mr. Allen's viewpoint substantially. We feel the  
6 State of California should get the highest possible bonus,  
7 whether it be dollars directly or dollars indirectly out  
8 of a higher royalty. As Mr. Allen made his statement, I  
9 was struck by this situation -- you are going through a  
10 very substantial transition period with respect to at least  
11 your minerals in this State of California. If I recall  
12 the date correctly, it was only in the year 1957 that per-  
13 mits were required for exploration ... Is that correct?

14 MR. HORTIG: For core drilling.

15 DR. KAVELER: Prior to that time it was open  
16 country, open range. Now, the thought you have in mind,  
17 in my opinion, is entirely proper; but until the State  
18 builds up a background or a catalog of information with  
19 respect to those lands, you are far, very far, away from  
20 that critical decision you suggest we should take. Two  
21 or three or four or five years from now, the State is going  
22 to be in an entirely different situation than it is today,  
23 because it is going to have geological information. The  
24 Legislature has been stepping in lately, whereby it has  
25 been setting up certain rules. That's one element you have  
26 to give weight to. The other element is this -- that high

1 royalties are not, per se, to the benefit of the State.  
2 I don't think that you could derive much satisfaction if  
3 on a lease with respect to lands not explored -- and these  
4 lands are not explored to the State's knowledge even geo-  
5 logically -- if someone came in with a lease of 90% royalty.  
6 You could not, as a result of that bid, feel that the State  
7 had fair treatment. Five years from now you may be pleased  
8 that the State took twenty million dollars for the leases  
9 that may be offered here because they may be dry as a bone.  
10 In spite of what one may wish or may read about, you only  
11 find oil by boring in the ground. I have a chap here  
12 (bringing out newspaper clipping) that will tell you where  
13 oil is but you have to spend your money to have him tell  
14 you. That's the situation the State is now in. This chap --  
15 (looking at clipping) 916 George Street -- he says "Oil  
16 hunters, why drill dry holes?" He's not getting any busi-  
17 ness. Now, the only way I know of proving consultation  
18 advice is to employ that fellow. I am not trying to be  
19 overly facetious, but we are in the dark, and it is only  
20 by having drilling on there that we can put in your ideas,  
21 Mr. Allen. I think in the second run, the State can put  
22 out leases on the royalty bid. I think the substantial  
23 change that has come about as a result of the Legislative  
24 action is to permit this business of two kinds of leases  
25 on State lands. I think that's substantial and I think your  
26 ideas will prevail later.

1 MR. PEIRCE: Thank you, Mr. Kaveler. Do you have  
2 any comment, Mr. Wanenmacher?

3 MR. WANENMACHER: Mr. Allen, we have recommended  
4 at first a lease for the high cash bonus and retain some  
5 of the lands, and later lease those on a high royalty basis  
6 after the oil is found.

7 ASSEMBLYMAN ALLEN: In other words, you are suggest-  
8 ing checkerboard leasing?

9 MR. WANENMACHER: Yes. Now, this meeting is not a  
10 discussion of the policy of this Commission in leasing,  
11 but a matter of lease form and I'd like to call attention  
12 if our recommendations are followed there will be a period  
13 when royalty bidding will be solicited, but this is the  
14 first stage and we feel that the State should by all means  
15 get all the cash they can on this first step because it is  
16 very speculative. It is not like drilling in the Wilmington  
17 Field.

18 MR. PEIRCE: Mr. Allen.

19 ASSEMBLYMAN ALLEN: Mr. Chairman, one more thing and  
20 I have to leave. I am not recommending that the Lands  
21 Commission resort to this gentleman's services. I am not  
22 proposing that the Lands Commission delay this matter any  
23 further, but I do feel that the extent to which there are  
24 oil lands unleased in the tidelands is not so unknown in  
25 the industry as it is to those of us in public office.  
26 In hearings we had before the 1957 bill was enacted, we

1 discovered there was a great deal of coredrilling going  
 2 on in the tidelands under no permit and the operators  
 3 refused to tell us how deep they were drilling. We do  
 4 urge this Commission proceed with this form, this cash  
 5 bonus bidding, proceed with caution. I wouldn't want to  
 6 wake up five years from now when the major portion of  
 7 oil-bearing lands had been leased and the State is getting  
 8 18% royalty where it could have gotten a very much higher  
 9 return if we had allowed the oil company with the best  
 10 information to bid a royalty. I do think the Commission  
 11 has taken a wise action in retaining these consultants  
 12 and wish you luck.

13 MR. PEIRCE: Thank you, Mr. Allen. Now, I believe  
 14 the time has come for us to hear from representatives of  
 15 the industry and Mr. Paul Home, chairman of the special  
 16 committee of the Western Oil and Gas Association is here  
 17 and we would like to hear from you, Mr. Home.

18 MR. HOME: Mr. Chairman, members of the Commission  
 19 I would like to take this opportunity to express the very  
 20 sincere appreciation of the members of the Subcommittee of  
 21 the Western Oil and Gas Association for the cooperation  
 22 which we have had in trying to arrive at a satisfactory  
 23 lease form, both from the staff and from the consultants  
 24 who were retained by the State. This has been a long and  
 25 arduous process to arrive at some semblance of a form that  
 26 will be satisfactory, we hope, to the industry generally

1 and will meet the State's requirements.

2 After our last series of meetings in Sacramento,  
3 the staff published a rough draft of lease form -- which,  
4 in general, we felt carried out most of the things which  
5 had been discussed and upon which tentative agreement had  
6 been reached at that meeting. Thereafter, in review of  
7 such rough draft, the Attorney General's office brought  
8 forward certain suggestions that resulted in changes in  
9 the initial rough draft, which we felt were in certain  
10 respects wholly unsatisfactory.

11 Following receipt of that second draft with these  
12 changes or deletions, there was little time within which  
13 to review. We selected the three major points at which  
14 we felt the lease form had been seriously impaired.

15 One of those was the liability clause. Initially,  
16 that clause was drafted so as to relieve the lessee of  
17 potential liability for non-negligent damage to subsurface  
18 reservoirs. That language got changed in the second draft,  
19 but thanks to the Attorney General's office and the staff  
20 it is back in, in revised form, in the lease form we are  
21 considering this morning.

22 Another element of considerable dissatisfaction  
23 was the provision relative to the time between wells....  
24 I believe that's paragraph 3 of Exhibit A, the matter of  
25 120 days from cessation of drilling to commencement of the  
26 next well -- because cessation of drilling, if it simply



1 means stopping turning the bit, is not the point of com-  
2 pletion of a well, you are not past your trouble at that  
3 point in drilling a well. So the lessee could well have  
4 found himself with a fishing job or other troubles in the  
5 wells while his 120-day period was running, so he would  
6 not have reasonable opportunity to start the next successive  
7 well. After discussion and trying out a number of alterna-  
8 tives, it was decided to define drilling operations in the  
9 lease in such a way to include therein most of the opera-  
10 tions that take place in the boring of the well during  
11 which there can be troubles that result in delays, and  
12 such a definition has been prepared and placed in para-  
13 graph 3 of Exhibit A.

14 Then, there was one further and perhaps more  
15 serious difficulty. That was this matter of paragraph 10,<sup>1</sup>  
16 the requirement, or actually the authorization, I should  
17 say, of the State Lands Commission merely upon the finding  
18 that it would be in the best interests of the State to  
19 require the lessee to engage in a program of second recovery  
20 or pressure maintenance without any participation whatso-  
21 ever by the State in the cost of such an operation.

22 In the face of that requirement, it was felt that  
23 so long as the Commission merely had to find that it would  
24 be in the best interests of the State or the public inter-  
25 est to require such a program, that there were no criteria  
26 to base such a determination -- obviously economics did not

1 enter into it -- if the State could make an additional  
2 thousand dollars, it would probably be your duty to require  
3 the lessee to engage in such a program even though it  
4 might cost the lessee a million dollars in loss. That  
5 was pointed out to the staff and was discussed with the  
6 members of the Commission and a new paragraph 10 has been  
7 placed in the lease which places a substantive requirement  
8 upon the Commission that they find, when subsidence is  
9 occurring, that damage or loss to onshore property may  
10 result. After a hearing, then they can require the lessee  
11 to suspend or curtail his operations which are so resulting  
12 in loss or subsidence.

13 Now, that was designed not unmindful of Assembly  
14 Bill 5. The staff, the Association representatives work-  
15 ing with them, and the Attorney General's office, all  
16 considered "How would this provision work in with Assembly  
17 Bill 5 in the event that bill becomes law?" The present  
18 provision places in the hands of the Commission the power  
19 to make a finding that subsidence is occurring, that  
20 damage may result, and to compel the lessee to shut down  
21 his operations. It does not go beyond that. The lessee  
22 must shut down until a program is put in to alleviate  
23 subsidence damage. That places a powerful weapon in the  
24 hands of the Commission. It enables them to stop the lessee  
25 in thirty days' time. It enables them to require the  
26 lessee to conform with whatever requirement may exist under

1 Assembly Bill 5 at that time before he may resume his  
2 operations.

3 So, with those changes and elimination of the old  
4 requirement whereby the Commission could order a lessee  
5 into a full scale pressure maintenance operation, and with  
6 many other minor, lesser changes throughout the lease  
7 form which have been made, I have no hope that this form  
8 will meet all of the desires of all the persons present  
9 in this room but I feel in general we should have a form  
10 that should be generally acceptable to the industry and  
11 on which we could proceed.

12 MR. PEIRCE: Would you recommend that we proceed  
13 to adopt or approve this form today?

14 MR. HOME: That would be my recommendation.

15 MR. PEIRCE: Are you speaking for your committee  
16 or yourself?

17 MR. HOME: I am speaking primarily for myself in  
18 this matter because we have not had opportunity in the  
19 short time since release of the last draft to review it  
20 with all of the committee and get the views of all the  
21 Association members.

22 MR. PEIRCE: You are of the opinion, however, that  
23 the present draft of the proposed lease form would meet  
24 with the general approval of the industry, though there  
25 may be some dissent?

26 MR. HOME: That is my opinion, although I believe

1 the general representation of the industry is present  
2 today. You will undoubtedly hear those views, particularly  
3 those who wish to dissent.

4 MR. PEIRCE: Mr. Kirkwood.

5 MR. KIRKWOOD: I was curious -- This 10 is a pro-  
6 vision I am looking at for the first time this morning.  
7 I was curious as to why it was in the exact language it  
8 was in instead of the language presented here. And this  
9 is both to you and Mr. Shavelson -- Why was the damage  
10 restricted to onshore developed recreational or residential  
11 property rather than on "property"?

12 MR. HOME: I believe that's the language of Assembly  
13 Bill 5.

14 MR. SHAVELSON: No, that's the language of 6874.

15 MR. KIRKWOOD: I have an idea .... we had onshore  
16 residential, but we do have the S.P. tracks; we do have  
17 that liability. I assume they would come after us. You  
18 spoke of "property". In our imposing limits on offshore  
19 things, we are restricted on those hearings to residential  
20 and recreational, but I wouldn't think in this area .....

21 MR. SHAVELSON: We had in mind property on submerged  
22 lands under a lease and there would have to be some kind of  
23 monetary damage, pecuniary loss rather than damage to the  
24 ocean.

25 MR. KIRKWOOD: Wouldn't a statement "developed  
26 property" rather than "residential or recreational" meet that?

1 MR. HOME: I would think so.

2 MR. KIRKWOOD: We are talking of "adjacent."  
3 Would that materially change the thinking on this?

4 MR. HOME: I do not think so, no.

5 MR. HORTIG: As a matter of fact, in terms of  
6 definition, the way this came up -- Particularly being  
7 conscious of specific language of qualification in AB 5,  
8 unless there be any future attempt to tie this operation  
9 specifically to AB 5 in a matter which might be determined  
10 not applicable by AB 5 itself, we elected to specify other  
11 conditions and seized upon specific language out of the  
12 Public Resources Code which you recognized, without any  
13 thought, however, of using it in its limited sense. As  
14 you indicate, and upon cold rereading it here, it can well  
15 be so interpreted.

16 MR. HOME: The Public Resources Code uses this termi-  
17 nology: "The Commission in determining whether the issuance  
18 of such lease would result in such impairment or interfer-  
19 ence with the developed shore line, recreational or resi-  
20 dential areas adjacent to the proposed leased acreage or in  
21 determining such rules and regulations as shall be necessary  
22 in connection therewith shall at said hearing receive evidence  
23 upon and consider whether such proposed lease ... would be  
24 detrimental to the health, safety, comfort, convenience or  
25 welfare of persons residing in, owning real property, or  
26 working in the neighborhood of such areas; (b) interfere

1 with the developed shore line, residential or recreational  
2 areas to an extent that would render such areas unfit for  
3 recreational or residential uses ...."

4 MR. KIRKWOOD: I know it's in there and I would  
5 think that's a different applicability. Here, we are  
6 looking at protecting the State against liability and  
7 this would not be a restriction on that.

8 MR. HOME: I would think there would be no broader  
9 terminology, provided we get away from the idea that the  
10 mere fact of subsidence itself is a damage. It certainly  
11 may not be in the area at which we are now looking. A  
12 great deal of subsidence could occur without damage to  
13 property.

14 MR. KIRKWOOD: On page 21, line 23, for example:  
15 "... might aggravate or cause subsidence to the impairment  
16 or interference with the developed shoreline recreational  
17 or residential areas adjacent to the leased lands" --  
18 instead, saying "... to the impairment or interference  
19 with property of areas adjacent to the leased lands" rather  
20 than having "... the developed shoreline recreational or  
21 residential areas." There would have to be one other place  
22 that would have to be done. Unless there were substantial  
23 reason to have it the other way, I think it should be from  
24 that point of view.

25 MR. HORTIG: Might I suggest retaining the language  
26 and adding "or damage to other property"?

1 MR. KIRKWOOD: All right. I thought "areas adjacent  
2 to the leased lands...."

3 MR. HORTIG: On shore properties.

4 MR. PEIRCE: All right. You have made a note of  
5 that, Mr. Hortig and Mr. Shavelson?

6 MR. KIRKWOOD: I don't think that's anything to  
7 cause us to hold this over. May I come back again ....  
8 I find the only problem I have in this thing -- I mentioned  
9 it to you the other day briefly -- is on this Section 18.  
10 Are you in agreement -- again, I may propose this to you  
11 and Jay -- that this is as far as we can go under existing  
12 law in requiring this information to be made public, or  
13 is this a policy we are adopting here? What bothers me  
14 here, it seems to me this Section 18 gives to the operator  
15 who gets this first lease a tremendous foot in the door  
16 and, in effect, it excludes anybody else wanting to bid  
17 on the subsequent leases on proven areas, so called,  
18 proven in the minds of the operator and proven in the minds  
19 of the Commission, without anybody else having access to  
20 the information. This one worries me a bit. Is this as  
21 far as we can go? By this lease we are tying the hands  
22 of the State. Maybe the Legislature could come along --  
23 but maybe we would be dealing without due process. Either  
24 one of you can answer.

25 MR. HOME: I would mention this. This is an ancient  
26 and honorable custom in the oil business to start with;

1 that Section 6826 of the Code relative to conduct of  
2 geological and geophysical surveys, taking of samples,  
3 does indicate an expression of legislative intent that:  
4 "The Commission shall require, as a condition for the  
5 issuance of any permit ... that the permittee make avail-  
6 able to the Commission, upon request, all factual and  
7 physical exploration results, logs, and records resulting  
8 from the operations under the permit. Any such factual  
9 or physical exploration results, logs, or records which  
10 the permittee is required to make available to the Commis-  
11 sion shall be for the confidential use of the Commission  
12 and shall not be open to inspection .... without the  
13 written consent of the permittee."

14 That, of course, is in reference to the permits for  
15 geological and geophysical operations. It does not nec-  
16 essarily affect the terms of the lease; but we felt, at  
17 least, that it was the legislative intent that these  
18 factual results obtained in the offshore area would be  
19 treated in a confidential manner.

20 MR. KIRKWOOD: Frank, would you or Jay like to  
21 comment?

22 MR. SHAVELSON: I would just like to say, as far  
23 as our office was concerned the original requirements were  
24 a little more stringent and we wanted to make it clear, at  
25 least in case of litigation, that the State wouldn't have  
26 its hands tied in cases of litigation between the lessee



1 and the State. It's my opinion -- which I can't absolutely  
2 bind our office to -- it's my personal opinion that under  
3 the waiver provisions of the 3000 sections of the Public  
4 Resources Code, relating to the confidential nature of  
5 material filed on oil and gas, that we can abstract a  
6 complete waiver from the lessee. Therefore, we could go  
7 farther as a matter of law if it is a matter of principle.  
8 But the angle our office approached it from this time was  
9 the policy to make it confidential and we just wanted to  
10 make it available to the extent it was necessary in matters  
11 of litigation.

12 MR. KIRKWOOD: Policy of the Legislature?

13 MR. SHAVELSON: No, the State Lands Commission.

14 MR. KIRKWOOD: Frank, do you want to comment?

15 MR. HORTIG: Yes. The factors, for your information,  
16 that went into setting the scope of this; the factors that  
17 were considered by the State Lands Commission; why this  
18 section goes as far as it goes and doesn't go any farther --  
19 were, as Mr. Home indicated, there definitely would have  
20 been dissatisfaction on the part of a potential bidder with the  
21 extreme deviation from the ancient and honorable custom  
22 (as he stated) of the information being available subsequent  
23 to his own investments in the property. We are actually  
24 proposing in this lease form to clearly set forth, which  
25 has been the program of the Commission before, that which  
26 is already an expansion away from that activity, in that in

1 lines 9 and following on page 2 of the lease form it will  
 2 be provided that the State, however, will "permit others  
 3 (that is, others than the lessee) to conduct geological  
 4 or geophysical surveys on the leased lands or drill core  
 5 holes into said lands . . . ." So, when the time comes  
 6 there are adjoining parcels which the State wants to lease  
 7 and persons on the adjoining land feel it is proper to have  
 8 information on the leased parcel to help them evaluate the  
 9 parcel for lease, they can, at their own expense and with  
 10 the permission of the State Lands Commission, acquire such  
 11 data. So under this proposed lease form, he normally  
 12 wouldn't be in the position he is in under other than  
 13 State leases where he would have exclusive control of  
 14 data on the prospective lands.

15 MR. KIRKWOOD: Our only control would be, in effect,  
 16 on an evaluation, to set up what we think ought to be the  
 17 minimum royalty scale bid. It would still give the advan-  
 18 tage to the operator at that time. In a private operation,  
 19 the landlord has the right to sit down and negotiate --  
 20 it isn't a question of open bids. This one puzzles me a  
 21 bit.

22 MR. HORTIG: Where we fall off that, Mr. Kirkwood,  
 23 is that at certain times -- and certainly this has been  
 24 demonstrated heretofore, particularly in State leases --  
 25 the possession of the operating or the production data  
 26 doesn't always determine who the successful bidder is

1 going to be. There are so many elements of the economic  
2 position of the oil supply situation at the time that a  
3 bid is received, all of which situations are highly differ-  
4 ent in this highly competitive industry, that we have  
5 actually had .... well, I can think of one not too distant  
6 oil and gas lease offer where the potential lessee with  
7 most of the geological data was the undisputed low bidder  
8 out of thirteen bidders.

9 MR. KIRKWOOD: Do the consultants want to comment  
10 on this?

11 MR. WANENMACHER: I would like to say that every-  
12 where else except in California, as far as I know, informa-  
13 tion is released and .....

14 MR. KIRKWOOD: You mean by that across the board, on  
15 private as well as on public?

16 MR. WANENMACHER: The State records are public  
17 records. The operators turn their electric logs into the  
18 log bureau or allow the logging companies to sell copies  
19 of these logs. Wherever there is a state where there is a  
20 severance tax and the pipelines are reported, they become  
21 public. There are scouting services that give complete  
22 information. The well information and the log that are  
23 turned into the state are considered public information and  
24 are available by simply ordering them and paying the cost  
25 of production.

26 Our firm first came to California some ten years ago

1 to help Frederick Harris when they were studying the sub-  
2 sidence at Wilmington and we were amazed at the way Cali-  
3 fornia operators held on to their information. We eventu-  
4 ally got it because we were working for the U. S. Navy;  
5 but it is a time-honored tradition here that the operator  
6 keeps everything secret. It is my own personal opinion  
7 that the operator would be better off if the information  
8 was released because it gives the appraiser something to  
9 work with and he finds oil.

10 In this particular instance, I believe that it  
11 might be to the benefit of the State if the information  
12 from the wells on the leases which are granted was released --  
13 not promiscuously, but at the date bids were solicited.  
14 In other words, the State would keep it confidential until  
15 they wanted to release a bid on a high royalty bid on a  
16 nearby parcel.

17 MR. PEIRCE: Any further questions.

18 MR. SHAVELSON: I believe, in connection with Dr.  
19 Kaveler's (sic) statement -- perhaps I didn't make myself  
20 clear as to my personal opinion; that we aren't limited by  
21 Section 6826, which isn't applicable to leases at all, and  
22 that we can put as liberal provision as we want as to dis-  
23 closure in light of the waiver provisions of the Public  
24 Resources Code filed with the D.O.G. If I didn't make  
25 myself clear before -- if it is clear now .....

26 MR. KIRKWOOD: You mean it can be in the .....

1 MR. SHAVELSON: Yes, I think it's a matter of  
2 discretion with the Commission is what I meant to say.

3 MR. KIRKWOOD: I don't at this date want to throw  
4 any monkeywrenches into our getting a lease, an invitation  
5 out to lease, but this one -- If there were some way along  
6 the line that Mr. Wanenmacher suggested of a restricted  
7 availability as of the time that we are using this as a  
8 pattern ... In other words, if we ever go out with a lease  
9 adjoining, except as a wildcat, this wouldn't be made  
10 available; but somehow so this could be evaluated by the  
11 prospective bidders. That would be the purpose of it.

12 MR. WANENMACHER: Yes.

13 MR. PEIRCE: Mr. Hortig?

14 MR. HORTIG: May I comment?

15 MR. PEIRCE: Yes.

16 MR. HORTIG: The primary difficulty the staff has  
17 recognized on that problem -- if we could carry a program  
18 as you have suggested -- the primary difficulty is the  
19 difference in statutory provisions and the practice which  
20 has grown up, to suggest to the Commission that it should  
21 be provided that this data be released under a State Lands  
22 Commission lease when the identical data are required to  
23 be filed as confidential information with the Division of  
24 Oil and Gas and aren't even available under subpoena. So  
25 from a State policy, it would appear to be incongruous  
26 to require on the one hand that a document be filed as

1 confidential and on the other hand another agency proceeds  
2 to broadcast the information. This could well be a problem  
3 that the Legislature should reconcile.

4 MR. PEIRCE: Any further discussion? Dr. Kaveler.

5 DR. KAVELER: Mr. Chairman, in view of Mr. Hortig's  
6 last statement, and in sympathy with Mr. Kirkwood's state-  
7 ment, it might be well -- the Commission might well con-  
8 sider putting an open door in this paragraph, so in the  
9 event there was legislative action to clear the point or  
10 make other provisions, that this lease would come under  
11 that future act of the Legislature -- at least give you an  
12 open door to do the things you have in mind.

13 MR. KIRKWOOD: Would that be feasible, Jay?

14 MR. SHAVELSON: If I am correct that it can be  
15 done now, it seems to me that would be a lot simpler --  
16 not meaning to intrude on policy, but as a statement of  
17 legislative intent. It seems to me there is a difference  
18 between a statute making these things secret as to every-  
19 one primarily concerned probably with private oil leases  
20 and private operators who want to keep the information  
21 confidential, and a lease applying to State lands; that  
22 a legislative policy applying to all oil lands necessarily  
23 applies to a lease by the State Lands Commission.

24 MR. PEIRCE: Any further discussion?

25 MR. KIRKWOOD: What is the problem, Jay, what  
26 would be the problem if no mention is made in this lease --

1 if the lease goes as it is now -- and subsequently a law  
2 were enacted applicable, requiring this to be done on  
3 State-owned lands and under State leases? Could it affect  
4 the findings under this lease after the adoption of that  
5 act?

6 MR. SHAVELSON: I think to the extent this lease  
7 makes the information confidential, conceivably that  
8 would be an impairment of a contractual obligation and  
9 would therefore be invalid. I don't want to commit our-  
10 selves to that.

11 DR. KAVELER: This lease is subject to the condi-  
12 tions available under date of bidding, so if you issue  
13 new regulations by legislative act you have to leave the  
14 door open in order to make this lease come under anything  
15 like that.

16 MR. ERCK: Martin Erck, Monterey Oil Company. Mr.  
17 Chairman, members of the Commission, at the moment I don't  
18 know the answer to the question that has been propounded.  
19 I am sensitive to your problem and I am also sensitive to  
20 the ancient and honored custom in California. My company  
21 represents interests in California and abroad and I suppose  
22 most of the gentlemen here do. As a result, I don't know  
23 what the answer would be as to which they would prefer.  
24 I do have the feeling it is a very basic question that has  
25 been discussed here. It is not a question that has been  
26 raised in previous lengthy discussions of the form. It is

1 a question of policy. While it may have arisen, it is not  
 2 a matter that has been given the attention that it should  
 3 be given and because of the fact that I don't know, for  
 4 example, for my company what my answer would be -- we  
 5 operate in both places -- I think if other representatives  
 6 knew what their companies' policy would be that they would  
 7 be up letting you know, that's what they are here for  
 8 today, to let you know what they want you to know about --  
 9 I think this is so deep and the policy so fundamental, it  
 10 should not be changed just prior to the eleventh hour of  
 11 this lease.

12 MR. LOWER: After that invitation by Mr. Erck, I think  
 13 I should say that for my company, Superior Oil Company,  
 14 we are opposed to free dissemination of drilling and geo-  
 15 logical information. I can understand the viewpoint of  
 16 Mr. Wanenmacher and how, in all deference to him and his  
 17 associates, how they might look at a situation of this  
 18 kind, being in consulting practice. The oil companies who  
 19 are spending their money have traditionally, in California,  
 20 considered their geological information as part of their  
 21 investment in the property. This concept has been carried  
 22 over into the State law. The Legislature has always  
 23 recognized the confidential nature of information filed  
 24 with the Division of Oil and Gas; and it has gone so far  
 25 as to allow the operator to withhold filing his logs on  
 26 wildcat wells until six months after they have been



1 completed.

2 Now, I think for this Commission to take any other  
3 viewpoint is just inviting further disinterest on the  
4 part of industry in these properties. I get the impres-  
5 sion from two things that were said -- first by Senator  
6 Richards, regarding the possible conflict on this subsidence  
7 question. I am inclined to agree with Senator Richards.  
8 I think if there is one authority in this State that's  
9 vested with an authority to make a decision and another  
10 Commission that's vested with the same authority, the  
11 operator can be in violation of his lease terms by comply-  
12 ing with the State statute. It seems to me from that and  
13 what has been said about State lands being different from  
14 private lands and therefore they should be able to publicize  
15 this information, it looks like an effort is being made to  
16 give special treatment to the lands of the State of Cali-  
17 fornia. In other words, it's all right for the Legislature  
18 to pass laws but it's all right if they don't apply to  
19 State lands.

20 I wouldn't want the inference left that the lease  
21 form in its present form is acceptable as far as my company  
22 is concerned. We think the royalty rate as established is  
23 way too high. We think it will discourage bidding. We  
24 think it will dissuade an operator in producing his wells  
25 at maximum rate so as not to get into an unprofitable  
26 operation. Thank you.

1 MR. PEIRCE: Are there any other representatives of  
2 the industry who would like to discuss the subject that Mr.  
3 Kirkwood raised before we come back to the body of the  
4 lease form itself?

5 MR. SHAFER: Mr. Chairman -- Shafer of the Texas  
6 Company. I think this would be a good time to back away  
7 a little from these specific problems and look at the  
8 over-all. As Mr. Lower said, some of these things we  
9 don't like are not too bad...By this I mean so bad that  
10 they would cause us to back away from this problem. But  
11 you've got one paragraph that is almost unacceptable, and  
12 another one almost unacceptable and on top of that you  
13 add something here that is contrary to our operating habits  
14 and practices for many, many years -- and one of us is  
15 required to bid on these lands. So I suggest that con-  
16 sideration be given to the over-all picture as the oil  
17 companies have to look at it and see whether by adding  
18 these little things here and there that you are not over-  
19 loading this thing to the point where it becomes unattractive  
20 as a whole.

21 MR. PEIRCE: Mr. Hanna.

22 ASSEMBLYMAN HANNA: Is it my .... I would like to  
23 make a statement. It appears to me if it is a fact that  
24 the practice under similar situations in other oil areas  
25 of the United States requires the public dissemination of  
26 this information we are talking about, that there should

1 be some showing of different circumstances in the State  
 2 of California, so that we could come to a proper evalua-  
 3 tion of this historical practice. I don't think we can  
 4 justify a practice simply because it has been done for a  
 5 long period of time. We certainly should have substantial  
 6 evidence of its desirability and I think it is incumbent  
 7 upon the industry to show that to the Commission, so they  
 8 can make a proper policy decision -- if this is going to  
 9 be a policy question. I think it's certainly information,  
 10 too, for the Legislature, if they were going to contemplate  
 11 changes -- and I am almost sure there will be some changes  
 12 contemplated in the 1959 session, related to this whole  
 13 problem.

14 MR. PEIRCE: Any further discussion?

15 MR. WANENMACHER: I would like to tell you, sir,  
 16 that all of this is not compulsory -- most of it is  
 17 voluntary. In other words, not all of the records are  
 18 submitted to the State and released by the State authorities.  
 19 For example, electric logs are exchanged and in the old days,  
 20 twenty years ago, it used to be they would trade. In order  
 21 to make it convenient, they turned them over to a blueprint  
 22 company and they print them. In other words, if a man  
 23 drills a well he may hold that information a few months.

24 MR. HOME: I would like to point out again that it  
 25 would be totally inconsistent with the regulations relative  
 26 to core drilling and other types of information such as

1 seismic information -- which under the present lease form  
2 anyone may go on to the leased premises and obtain pursuant  
3 to permit core information, seismic information, that  
4 which is to be treated as such under the statute. Why  
5 should it be a different rule with respect to wells drilled  
6 by the lessee on ... lands? This information is available  
7 to a person if they go on to the premises. I see no  
8 justification and certainly a horrible conflict if the  
9 lessee is forced to submit all his information and third  
10 persons are permitted to go on and obtain information of  
11 the same or similar type.

12 MR. PEIRCE: Mr. Hortig, what is your comment at this  
13 stage of the discussion?

14 MR. HORTIG: Well, with respect to the particular  
15 section under consideration at this time relative to the  
16 availability of data, I have already reviewed in general  
17 the criteria or the factors which the State Lands Division  
18 thought were relevant thereto, all except one; and that is,  
19 that in the resolution of the conflict, as Mr. Home men-  
20 tioned, if data were required to be disseminated and a  
21 particular lessee felt he had not achieved by his invest-  
22 ment a competitive advantage, I believe it must necessarily  
23 follow -- although it cannot be demonstrated precisely --  
24 on a lease offer on that basis, a lessee making a critical  
25 evaluation would include some insurance for the condition  
26 that he no longer had a competitive advantage; and this

1 insurance would be in a lower bid to the State for such  
2 a lease.

3 MR. PEIRCE: Mr. Kirkwood, you raised this question  
4 of disclosure of information. What is your position at  
5 this point with respect to its applicability to the lease  
6 form?

7 MR. KIRKWOOD: Let's take a look at whatever else  
8 we are putting in the lease. I certainly realize this is  
9 one of a series of things that balance each other. I cer-  
10 tainly wouldn't want to go beyond the conclusions here,  
11 all certainly which would indicate that if the law of  
12 regular application were subsequently adopted, making  
13 public similar material, this would be covered or sub-  
14 sequently developed information would be covered by that  
15 law. That would be as far as I would want to go. Let's  
16 see where we end up. I judge .... we have one blank in  
17 the lease on the size of the parcels ...

18 MR. HORTIG: If I may suggest, this would follow  
19 in the next calendar item which would go to proposed  
20 specific application of this lease form as adopted, as a  
21 basis for proceeding. Both size of parcels and rental  
22 provisions will be discussed in the next calendar item.

23 MR. KIRKWOOD: You are not talking in terms of  
24 this exhibit, whatever it is?

25 MR. HORTIG: Yes, it would be ...

26 MR. KIRKWOOD: That does give the rental formula?

1 MR. HORTIG: No. The rental is a blank on page 3  
2 of the lease.

3 MR. KIRKWOOD: I would certainly reserve at this  
4 point, John .... I would say let's take a look at the  
5 other things; and I am not making any suggestion or  
6 proposing any amendment of the lease until I have a  
7 chance to look at the other things and have a chance of  
8 discussion with the consultants and so forth as to what  
9 they are recommending here.

10 MR. PEIRCE: Are there other representatives who  
11 wish to be heard with respect to the proposed lease form?  
12 If so, we would be delighted to hear from you now.

13 MR. WATSON: Mr. Chairman, for the record my name  
14 is Glenn R. Watson. I am appearing today as attorney for  
15 Edwin H. Pauley and Associates and Phillips Petroleum  
16 Company. We have two points bearing on the proposed lease  
17 which we feel should be considered by the Commission.

18 Mr. Hortig just referred to the annual rental  
19 figure as still blank. We note that \$1.00 per acre has  
20 been recommended by the staff but has not yet been inserted  
21 in the lease. We would simply say we support the staff's  
22 recommendation of \$1.00 in that respect.

23 With reference to the size of the parcels, we feel  
24 it is entitled to great consideration, at least while the  
25 terms of the lease are under consideration; and if it is  
26 agreeable, I would like to discuss the feeling of these

1 two companies with respect to size of the parcels. That  
2 is important to the Commission .. and, well, Edwin Pauley  
3 and Phillips Petroleum Company are of the opinion that  
4 fixing the size of these wildcat parcels at 5,760 acres  
5 would be in the best interests of the State of California.  
6 Certainly, parcels of that size would be more attractive  
7 to industry and, therefore, should result in high amount  
8 of cash bonus bid. We believe that not only would the  
9 total bonus per parcel be greater but that the industry  
10 would bid more cash bonus per acre on the larger size.  
11 The amount of bonus is affected by the probable revenue  
12 of the lessee if the parcel is obtained. The size of the  
13 parcel will influence the size of expenditure on platforms  
14 and other operational requirements. Such expenditures  
15 would be greater for a small parcel than for a larger  
16 parcel -- which, of course, would result in a smaller net  
17 profit on the smaller parcels. The larger parcels should  
18 produce the greater dollar return per dollar spent per  
19 acre, thus making more dollars available for the payment  
20 of a higher cash bonus to the State.

21 Therefore, we are of the opinion that fixing the  
22 size of the original parcels at 5,760 acres is sounder  
23 from a business and economic viewpoint, will have the  
24 effect of increasing the bonus to the State of California  
25 and will decrease the number of platforms and installations  
26 and thus be beneficial to Santa Barbara and onshore interests.

1 Further, the Legislature has expressed parcels of 5,760  
 2 acres in size by the Cunningham Shell Act in 1955 and re-  
 3 enacted this in 1957. The Legislature apparently contem-  
 4 plated that parcels not 5,760 acres in size would be  
 5 appropriate in proper cases. This offer, we feel, is the  
 6 logical place of following the legislative intent by  
 7 fixing the size of the parcels at 5,760 acres.

8 The second point which we wish to bring before you,  
 9 which we are most concerned with and which concerns the  
 10 Commission, concerns the royalty formula. The staff has  
 11 recommended a bonus bid and sliding royalty, but there  
 12 has been publicly little discussion regarding the suitable  
 13 royalty formula. We believe that the royalty formula  
 14 proposed in Exhibit B for consideration is not proper for  
 15 these wildcat lands. In fact, this formula is comparable  
 16 to the ones on the majority of the State lands in the  
 17 Santa Barbara lands and Ventura, on which leases have been  
 18 made on proven lands, except in one case in cash bonus.

19 We would like to submit a formula which, in our  
 20 opinion is more suitable to wildcat lands. This formula  
 21 lies somewhere between the extremes that have been advo-  
 22 cated, one suggesting a flat 16-2/3 and the other a sliding  
 23 scale up to 50%, which appears on Exhibit B for considera-  
 24 tion.

25 For the purpose of clarity, I would like to hand the  
 26 Commission a sheet showing our proposed formula and its



1 effect on proposed production. There is one for about every-  
2 one to have one and in about five seconds I can put in on  
3 the board so the other gentlemen can see it.

4 Now, you will note that under this formula 16-2/3%  
5 royalty remains effective until a production of 196 barrels  
6 per well per day has been reached. The royalty then in-  
7 creases on a sliding scale up to the maximum to be fixed  
8 by the Commission. We recommend a maximum of 25% on  
9 this offshore wildcat acreage. In our opinion, this  
10 formula would make the lease more attractive, would in-  
11 crease the competition, and would result in a higher cash  
12 bonus payment to the State. This sliding scale royalty  
13 that we are proposing in our formula is higher than the  
14 royalties demanded by Louisiana, Texas, the Federal govern-  
15 ment in the Gulf of Mexico, and other jurisdictions, with  
16 which the oil industry must compete. We feel it is  
17 important for California to be in competitive position with  
18 other jurisdictions. This formula we propose is a fair  
19 one. The company will spend millions of dollars for cash  
20 bonus, platforms, exploration and testing. At least, the  
21 cash bonus, exploration and drilling costs will be a total  
22 loss if drilling is unsuccessful. Every bidder must con-  
23 sider these factors in the event production is not obtained,  
24 in determining the cash bonus. The potential reward must  
25 take care of those losses. The less the potential reward,  
26 the less the cash bonus to the State.

1 In our opinion, this should have the careful  
2 consideration of the Commission. We trust our recommenda-  
3 tions on the size of the parcels and a suitable formula  
4 will be considered before final action is taken.

5 MR. PEIRCE: May I ask, Mr. Watson, did you or some-  
6 one representing the companies you are representing today  
7 present your thinking on this subject to the committee of  
8 the Western Oil and Gas Association?

9 MR. WATSON: I don't believe the committee has met  
10 since the royalty formula was first proposed by the Lands  
11 Commission and came out with a tentative draft in March.  
12 To answer you directly, sir, I don't believe it has been  
13 discussed with the Commission.

14 MR. PEIRCE: Were your companies represented at the  
15 discussion at which members of our staff met with members  
16 of the industry here in Sacramento on February 26 and 27,  
17 I believe, with the consultants present, discussing various  
18 ramifications of this problem?

19 MR. WATSON: The two companies were represented at  
20 the hearing and according to the writer, there was no  
21 discussion concerning the particular formula. All of the  
22 discussions were directed toward cash basis, and so on.  
23 This has not received public discussion.

24 MR. PEIRCE. In other words, your presentation today  
25 is the first time that this particular proposal has been  
26 presented to our staff or to our consultants?

1 MR. WATSON: No, I wouldn't say that. It's the  
2 first public discussion. The formula has been presented  
3 to Frank, but this is the first opportunity, actually this  
4 is the first time the formula has been publicly discussed  
5 to our knowledge.

6 MR. PEIRCE: Mr. Hortig, have you any comments to  
7 make with regard to this matter?

8 MR. HORTIG: Yes, sir. As Mr. Watson reported,  
9 representatives of Phillips Petroleum did discuss with  
10 me this proposed royalty formula sometime back. This was  
11 one of a multitude of formulas and proposals which have  
12 been evaluated against the tests of the Commission's experi-  
13 ence, the recommendations of the special board of the  
14 consultants to the Commission; and inasmuch as -- I  
15 point out, I probably shouldn't admit this -- I am one of  
16 the parents or the parent of this particular form back in  
17 1938, I felt I had particular familiarity with this formula.

18 The basic problem, making this short, is that the  
19 staff has recommended to the Commission, after considera-  
20 tion of all aspects, from all aspects, the particular  
21 formula which is in the lease form before you today. All  
22 other variations are desirable, and supportably desirable,  
23 depending upon the particular end desired to be achieved  
24 by the specific proponent. You have here today, on one  
25 hand, Mr. Lower unqualifiedly stated the royalty formula  
26 proposed by the staff is too high; Mr. Watson in behalf

1 of his clients has another one lower, and, therefore, the  
2 recommended formula is too high; Senator Allen stated un-  
3 qualifiedly the royalty formula is too low.

4 You have, out of the total considerations and the  
5 representations made by everyone, the staff's considered  
6 recommendation and the considered recommendation of your  
7 special board of consultants; and even in the light of the  
8 support for the particular formula which Mr. Watson has  
9 advanced, that nevertheless the royalty formula that  
10 should be adopted by the Commission is that set forth in  
11 the lease form before you.

12 I might add, additionally, for those proponents  
13 of the situation who feel that potential high cash bonus  
14 bids are restrictive and undesirable in connection with a  
15 State lease, that adoption of the royalty formula proposed  
16 to the Commission would be more desirable in the royalty  
17 form here proposed, in that I think it is recognized as  
18 axiomatic that with the high royalty formula, the cash  
19 bonus bids would be lower.

20 MR. PEIRCE: Dr. Kaveler, would you like to comment  
21 on Mr. Watson's statement?

22 DR. KAVELER: Mr. Chairman, I don't believe I could  
23 add anything over what Mr. Horig has said. There is no  
24 basis for determining what a royalty should be. It is a  
25 matter of business judgment. As you have discussed ex-  
26 tensively from time to time in this hearing, Mr. Horig

1 calls attention to the fact that the lease is a thing in  
2 sum total. If the royalty is higher, the bonus will be  
3 lower. I think Mr. Wanenmacher joins me. Both as to the  
4 size of the lease and the royalty to be applied, they have  
5 unto themselves a policy problem. The diverse opinion  
6 what exists in this State, I think, would drive the Commis-  
7 sion to a compromise position. I think you should derive  
8 a great deal of satisfaction out of the fact that if both  
9 sides are dissatisfied with the result that equity has  
10 probably been done. It would be fatal, in my opinion, that  
11 either side walked out of here satisfied. Then, I think,  
12 equity would not be done.

13 One has to weigh his words in this ticklish  
14 situation . . . but I am persuaded . . . the statement I  
15 made to Mr. Allen, the statement I made in respect to the  
16 statutes on minerals in the State of California has under-  
17 gone transition. At the last meeting we had, it was all  
18 understood that what we decided today is not fixed -- it  
19 is in an evolutionary process. I think what the staff has  
20 recommended today is as good a middle-of-the-road lease  
21 that you could have. I would recommend that the staff's  
22 recommendations on lease size and other things be approved.

23 MR. PEIRCE: Mr. Wanenmacher?

24 MR. WANENMACHER: I concur.

25 MR. PEIRCE: You concur. Now, we have been here  
26 for nearly two hours. I would observe that this matter

1 has been studied for many, many months. We have tried  
2 to bring into our considerations of a very difficult  
3 problem every possible viewpoint and, as Dr. Kaveler has  
4 observed, perhaps it is too much to expect that everyone  
5 shall be entirely satisfied either from the State's view-  
6 point or the industry's viewpoint. We have a law under  
7 which we are operating and we have endeavored to interpret  
8 that law, with the advice of the Attorney General and  
9 our consultants, in a manner that will protect the inter-  
10 ests of the State and yet to give recognition to proper  
11 inducements which will cause the industry to explore for  
12 and find oil such as may exist under the tidelands of  
13 this State. Now, Mr. Kirkwood and Governor Powers, I  
14 believe we have, at least, exhausted in a preliminary  
15 fashion the testimony that is offered by those present.  
16 What is your pleasure with regard to the staff's recommen-  
17 dation that we approve the lease form as amended?

18 MR. KIRKWOOD: Could I ask a question, please, first,  
19 John? Mr. Watson, I would be curious on one thing. You  
20 are Senator Richards' partner?

21 MR. WATSON: I am.

22 MR. KIRKWOOD: Have you had opportunity to discuss  
23 with him the point he raised with reference to possible  
24 operation of AB 5?

25 MR. WATSON: I have not read AB 5 and I have inquired  
26 of him what effect it would have; but I am not otherwise

1 familiar.

2 MR. KIRKWOOD: Do you feel, after the discussion  
3 you heard this morning, that it is proper for us to go  
4 ahead with this lease, with the provision of 10 of the  
5 exhibit; that we are not getting into a problem there?  
6 Is that anything you can express a view on?

7 MR. WATSON: No, it is not. Phillips Petroleum  
8 and Pauley have no position on that. The only ones we  
9 wish to comment on are the ones within our presentation.

10 MR. PEIRCE: Mr. Shavelson.

11 MR. SHAVELSON: I'd like to point out that Section  
12 5 reserves to the State the right to exercise a power.  
13 In other words, it's not something that is automatically  
14 operative.

15 MR. KIRKWOOD: You mean AB 5?

16 MR. SHAVELSON: Excuse me, I meant Section 10 of  
17 Exhibit A; and for that reason it is not, it does not  
18 have a head-on sort of conflict with the statute. I have  
19 a statement, a one-sentence proviso, which really says  
20 no more than would be implied anyway, but it might be a  
21 good idea just to clarify this matter saying "The rights  
22 reserved and retained by the State under this Section 10  
23 shall be exercisable to the extent and only to the extent  
24 that such exercise is permitted by law at the time of such  
25 exercise." I think that would certainly eliminate -- if  
26 by minute study of AB 5 there should be some question, we should



1 conclude there is a legal conflict between this retained  
2 power in Section 10 -- then I believe this would make it  
3 clear that we are not trying to do anything inconsistent  
4 with the law and, of course, that would be the thing anyway.  
5 We don't like to have any provision of doubtful validity --  
6 even though it is undoubtedly severable, it doesn't affect  
7 the validity of the lease.

8 MR. PEIRCE: Mr. Hutchins.

9 MR. HUTCHINS: My name is J. Barton Hutchins. I  
10 represent Edwin Pauley. I am not trying to cut the ground  
11 down under a lawyer. It is true that Phillips and Pauley  
12 have not had a discussion about this, but I discussed it  
13 with Pauley last night and he is very apprehensive that  
14 down the road there is probably going to be a head-on  
15 collusion ... (laughter) ... my apologies, collision. (I  
16 am glad you are listening to me anyway.) I have discussed  
17 this with the Senator himself; I have read the act. I am  
18 not a lawyer but it seems to me you have got two sets of  
19 rules to go by. Looking at this -- it doesn't have to  
20 take a month, a year, but I think more detail should be  
21 gone into than Mr. Shavelson remarks. I feel like Mr.  
22 Lower. I believe we ought to take a good look at this  
23 thing.

24 MR. KIRKWOOD: Did Mr. Lower make that statement?

25 MR. PEIRCE: Mr. Kirkwood has asked, did you make  
26 that statement that was referred to by Mr. Hutchins -- that



1 is, that we delay action on the approval?

2 MR. LOWER: I didn't ask that the Commission delay  
3 action. What I said was that I thought there was a con-  
4 flict in AB 5 and Section 10 as previously written.

5 MR. KIRKWOOD: Wouldn't this insertion of Mr.  
6 Shavelson take care of any possible conflict?

7 MR. LOWER: I think it would, yes. If it makes  
8 Section 10 subject to the effect of AB 5 and the rights  
9 of the Commission to act thereunder subject to any legis-  
10 lative enactment which might be contrary to its provisions,  
11 I think it would.

12 GOVERNOR POWERS: That is the part I would be  
13 interested in. We certainly don't want to pass a rule in  
14 conflict of the law.

15 MR. KIRKWOOD: I can't see there is any conflict.  
16 I think this would take care of it.

17 MR. HORTIG: If I may, Mr. Chairman, I should like  
18 to add something that isn't generally advised. AB 5 or  
19 not, and assume AB 5 is a panacea for Long Beach, which  
20 it is designed to be, Section 10 of the lease form is still  
21 going to be desirable for the control of operations on any  
22 State lands, particularly from the standpoint that there  
23 cannot be extensive damage resulting from operation of a  
24 State lease, which extensive damage could otherwise still  
25 result under the criteria of AB 5 long before AB 5 can be  
26 triggered into action.

1 MR. KIRKWOOD: Might I ask, Frank, what is our  
2 agenda here? You say the lease parcel size doesn't come  
3 up until items later in the agenda?

4 MR. HORTIG: The item succeeding this.

5 MR. KIRKWOOD: Is it calendered?

6 MR. HORTIG: Yes, it follows immediately behind.  
7 If you gentlemen wish preferentially to consider them  
8 together .....

9 MR. KIRKWOOD: I think that gives us the whole  
10 picture of what we are talking about and what we haven't  
11 gotten into discussion of. Wouldn't you say that, John?

12 MR. PEIRCE: I think we ought to take them together.  
13 Mr. Watson links them together.

14 MR. KIRKWOOD: Are we suggesting five parcels be  
15 put out?

16 MR. HORTIG: Yes sir.

17 MR. KIRKWOOD: And each one is 3,840 acres?

18 MR. HORTIG: Yes sir.

19 MR. KIRKWOOD: \$1.00 per acre per year?

20 MR. HORTIG: Yes sir.

21 MR. PEIRCE: And the lease form we are discussing  
22 would apply.

23 MR. KIRKWOOD: And the royalty also.

24 MR. HORTIG: Here is a map with the geographical  
25 locations. (Short discussion off-the-record, looking at  
26 map)

1 MR. PEIRCE: All right. The meeting will then  
2 come to order. Before we conclude on Agenda Item No. 1,  
3 Mr. Hortig, will you now pass to Item No. 2, which involves  
4 five proposed lease offerings?

5 MR. HORTIG: Yes, Mr. Chairman. On September 13,  
6 1957, the Commission initiated consideration of offering  
7 oil and gas leases pursuant to Division 6, Public Resources  
8 Code, in an area of approximately 54,000 acres of tide and  
9 submerged lands extending from westerly of the Elwood area  
10 to Point Conception, Santa Barbara County. The County  
11 of Santa Barbara was notified pursuant to Section 6873.2  
12 Public Resources Code of the pending consideration of  
13 lease offers. The county did not request a public hearing.  
14 Time required for filing such request expired November 15,  
15 1957. Recommendations as to royalty rates, lease sizes  
16 and lease locations were presented to the Commission by a  
17 special board of consultants on February 3, 1958. The  
18 following staff recommendations are within the scope of  
19 the consultants' recommendations:

20 It is recommended that the Commission authorize the  
21 Executive Officer to offer parcels of tide and submerged  
22 land in Santa Barbara County for oil and gas lease pursuant  
23 to Division 6 of the Public Resources Code. The lease  
24 award is to be made to the qualified bidder offering the  
25 highest cash bonus payment in consideration of the issuance  
26 of an oil and gas lease. The bid lease to be offered for

1 the parcels shall be the form authorized pursuant to  
2 Item 1 of this calendar. The areas are not within the  
3 geological structure of any known oil or gas field, there-  
4 fore they are in the areas listed by the consultants as  
5 wildcat and exploratory.

6 There follows three parcels of 3,840 acres each, the  
7 parcels being approximately two miles along shore, three  
8 miles into the sea. The specific map coordinates, so  
9 these parcels can be precisely located on the earth, are  
10 listed. The three parcels under discussion all lie easterly  
11 of Gaviota and extend to approximately  $1\frac{1}{2}$  miles west of  
12 the westernmost lease of the existing Elwood Oil Field.  
13 The landward and northerly boundary of each parcel is the  
14 ordinary high water mark of the Pacific Ocean. The seaward  
15 or southerly boundary would be parallel to the ordinary  
16 high water mark and seaward three miles.

17 The lease rental is to be set at \$1.00 per acre  
18 per year.

19 As provided in the lease form, no permanent filled  
20 lands, platforms or other fixed or floating structures for  
21 well sites or other operations for operating oil and gas  
22 development from the area leased shall be constructed, used  
23 or operated at any location less than one mile seaward of  
24 the ordinary high water mark of the Pacific Ocean.

25 The bid lease form to be offered for the next fol-  
26 lowing described parcels shall be the same form, of course

1 omitting any limitations as to location, placement or use  
2 of pier structures or filled lands by deleting the appro-  
3 priate restrictive language from the lease form -- which  
4 provides for the restriction of these operations in the  
5 lease form -- for these two parcels westerly of Gaviota  
6 and easterly of Pt. Conception. Parcel description follows.  
7 There are two parcels, 3,840 acres each. Again, the  
8 northerly boundary is to the ordinary high water mark and  
9 the seaward boundary or southerly boundary to be parallel  
10 to the ordinary high water mark seaward three miles; with  
11 the ordinary rental \$1.00 per acre per year.

12 For the record, if I may, Mr. Chairman, at this  
13 point note that in the lease form which has been discussed  
14 this morning -- on page 19 we should like to have the  
15 record reflect that page 19, line 5, should read "at  
16 least" rather than "lease" -- with a "t"; and page 19,  
17 line 10, should read "at least."

18 MR. PEIRCE: We have before us the recommendation  
19 of the staff that the Executive Officer be authorized to  
20 offer for lease five parcels of tide and submerged lands  
21 in Santa Barbara County. Are there any questions on the  
22 part of the members of the Commission?

23 MR. KIRKWOOD: Well, to get the matter formally  
24 before us, I move the recommendation of the staff.

25 GOVERNOR POWERS: I'll second.

26 MR. PEIRCE: Does that apply to both recommendations?

1 MR. KIRKWOOD: Well, yes, I think if we adopt this  
2 we are accepting the form.

3 MR. HORTIG: For this particular lease only.

4 MR. KIRKWOOD: But I want to ask the consultants  
5 before I vote on that.

6 MR. PEIRCE: If I understand correctly, Mr.  
7 Kirkwood has moved that the State Lands Commission approve  
8 the two recommendations of the staff -- first, with respect  
9 to the lease form as amended; and, secondly, with respect  
10 to offering of these five parcels of tide and submerged  
11 lands. Those are the two recommendations before us, is  
12 that not right, Mr. Hortig?

13 MR. HORTIG: That is correct. At this point, may I  
14 ask that the record show that the lease form as amended,  
15 referred to, includes on page 21, line 24, after the word  
16 "lands" the addition of the phrase "or other shoreline  
17 properties" as was suggested by Mr. Kirkwood.

18 MR. PEIRCE: Mr. Shavelson:

19 MR. SHAVELSON: I was just wondering also if we  
20 want to include that little phrase at the end of Section  
21 10 that I suggested.

22 MR. PEIRCE: Will you read it aloud, please?

23 MRS. STAHL: The rights reserved and retained by  
24 the State under this Section 10 shall be exercisable to the  
25 extent and only to the extent that such exercise is per-  
26 mitted by law at the time of such exercise.

1 MR. SHAVELSON: That would follow the words  
2 "Section 10" on line 33, page 22.

3 MR. KIRKWOOD: Won't the same -- shouldn't the  
4 same addition that's made on page 21 be made on page 22,  
5 line 9?

6 MR. SHAVELSON: That's right.

7 MR. HORTIG: Exactly.

8 MR. KIRKWOOD: All of the amendments we are adopt-  
9 ing are in this one section?

10 MR. HORTIG: Yes. Page 22, line 9 -- actually it  
11 should go in line 8, Mr. Kirkwood, after "residential  
12 areas" -- ... "or other shoreline properties."

13 MR. KIRKWOOD: That one, we want to be sure is the  
14 exact language. I am a little bothered in the reading of  
15 that.

16 MR. LEOVY: I wonder if we could read the language  
17 of that change a little louder?

18 MR. PEIRCE: Can you read that, Mr. Hortig?

19 MR. HORTIG: Which one?

20 MR. LEOVY: The one at Section 10.

21 MR. HORTIG: The rights reserved and retained by  
22 the State under this Section 10 shall be exercisable to the  
23 extent and only to the extent that such exercise is permitted  
24 by law at the time of such exercise.

25 MR. LEOVY: I was wondering if it would be better  
26 to say "shall be exercised by the State Lands Commission



1 only to the extent ..." In other words, the State is  
2 still going to do it.

3 ASSEMBLYMAN HANNA: It's in the lease, it would  
4 have the same .... in other words, the conflict here is  
5 going to be by the State -- the D.O.G. or State Lands  
6 Commission.

7 MR. PEIRCE: Are we all of the same mind with  
8 respect to the text of these changes in the lease form?

9 MR. KIRKWOOD: Now, I might ask, then, John, of  
10 the consultants whether you are in a position to recommend  
11 this and having particularly in mind the discussion on  
12 Section 18, whether you feel with these other provisions  
13 and with the balance we have, that you are prepared to  
14 recommend this as appropriate.

15 DR. KAVELER: Yes, Mr. Chairman. In response to  
16 Mr. Kirkwood's question, yes, I would recommend the lease  
17 adoption as now written.

18 MR. PEIRCE: Mr. Wanenmacher?

19 MR. WANENMACHER: Our firm will also recommend the  
20 lease as changed and amended.

21 MR. PEIRCE: The motion has been made ....

22 GOVERNOR POWERS: I seconded it, yes.

23 MR. PEIRCE ... and it has been seconded. Is there  
24 any further discussion on the part of the members of the  
25 Commission? (No response) Has anyone else anything to  
26 say before we take action with respect to these two



1 of the Public Resources Code was amended, providing more  
 2 flexible operating and developing conditions for leases  
 3 thereafter, and with the option in the Commission to include  
 4 any such conditions in any pre-existing lease by amendment.  
 5 Such amendment may be included in pre-existing leases also  
 6 in the opinion of the Attorney General.

7 Application has been received from Standard, as  
 8 operator, requesting approval of the amendments to provide  
 9 for the additional operating conditions and it is recom-  
 10 mended that the Commission approve such modification.  
 11 This is identical with the modifications approved by the  
 12 Commission heretofore in upwards of twelve existing leases.

13 MR. PEIRCE: Any questions? (No response).

14 MR. PEIRCE: Recommendation is approved.

15 MR. HORTIG: Page 24, gentlemen. The staff is  
 16 happy to report that with respect to the calendar item on  
 17 page 24 this represents a consolidated report of the  
 18 closing of certain projects which have been completed  
 19 pursuant to prior authorization by the Commission for  
 20 expenditure of subsidence funds. The determination of  
 21 the allowable subsidence deductions in the light of the  
 22 operations that have been conducted has been completed in  
 23 accordance with the requirements that there be an engineer-  
 24 ing review and final audit at the time the items are com-  
 25 pleted. The results of the final engineering review and  
 26 audit are tabulated on page 26 and represent only four

1 projects, show for four projects in the final column  
 2 "Credit Due State" the amount of funds heretofore withheld  
 3 by the City of Long Beach on an estimated subsidence basis,  
 4 which have now become due to the State, in view of the  
 5 fact that allowable deductions are found to be less than  
 6 those paid the City of Long Beach. So, for the projects  
 7 as listed, the amounts due the State are indicated in the  
 8 right hand column and it is recommended that the Commission  
 9 determine that the subsidence costs in these respective  
 10 fund designations be authorized on the basis of this  
 11 determination, and that the Executive Officer be authorized  
 12 to execute appropriate written instruments requiring that  
 13 appropriate adjustments on the accounts considered herein  
 14 be made to the State of California as necessary and indi-  
 15 cated on Exhibit A on page 26.

16 MR. PEIRCE: Does this meet with the approval of  
 17 the City of Long Beach?

18 MR. SPENCE: Meets the approval of the City of  
 19 Long Beach.

20 MR. KIRKWOOD: How does this happen? Are these  
 21 all under the original estimates?

22 MR. HORTIG: This will be the situation in the  
 23 majority of instances.

24 MR. KIRKWOOD: We are not closed from our original  
 25 finding from adjusting upward?

26 MR. HORTIG: No sir, we are not. As we have gone

1 along, you gentlemen have approved additional amounts and  
2 ultimately it could well be that. As the tabulation was  
3 originally set up, it reflected "Credit due State or  
4 Long Beach" and it can go either way, but in this particu-  
5 lar instance, since the credits are due the State only,  
6 the column was omitted for clarity.

7 MR. KIRKWOOD: We don't have any further documenta-  
8 tion on this except this?

9 MR. HORTIG: Solely the working papers.

10 MR. KIRKWOOD: Those are in the hands of the staff?

11 MR. HORTIG: They are in the files of the State  
12 Lands Division. Copies are in the files of the Long Beach  
13 Harbor Department, and the results here are also the final  
14 determination after rather extensive reviews and agreement  
15 and determination with the Long Beach Harbor Department  
16 staff. In other words, these are not unilateral deter-  
17 minations.

18 MR. KIRKWOOD: Jay, in your opinion is this  
19 sufficient documentation to act on without in effect  
20 delegating someone to go into it? Should we have some  
21 sort of outline from the staff as to their procedure?  
22 This is the first one we have done?

23 MR. HORTIG: Yes.

24 MR. SHAVELSON: The Commission has, of course,  
25 given its prior approval to these expenses subject to  
26 subsequent engineering and accounting review. I don't

1 know what would be intermediate between this general  
2 summary and actually going into the tabulation of the  
3 working papers. I don't think that .....

4 MR. KIRKWOOD: You think this is sufficient as a  
5 basis for us to determine that this is the proper division?

6 MR. SHAVELSON: In this instance, where it doesn't  
7 go above your original estimate, I feel pretty comfortable  
8 with it. As far as the future, if the costs do exceed it,  
9 it's quite possible we ought to formulate a procedure under  
10 which, when the City sees that it is going to exceed the  
11 estimated cost, that the Commission is informed so that it  
12 may, if possible, act before the excess funds are spent.

13 MR. HORTIG: That has been our .....

14 MR. SHAVELSON: That has been. I think you have  
15 given your prior approval of the expenditure of up to this  
16 amount at least and under these circumstances I think it  
17 is satisfactory.

18 MR. HORTIG: I may have complicated this unduly, if  
19 I may suggest -- I did not read the full calendar, but the  
20 calendar item itself outlines the steps that were taken  
21 and including the final review with the Harbor Department.  
22 This, I believe, was something in the nature of something  
23 intermediate, as Jay has suggested.

24 MR. KIRKWOOD: None of these are particularly  
25 controversial areas -- they are not ones where we would  
26 get into serious problems.

1 MR. HORTIG: No, they were clearly within the  
2 Harbor Commission, so we have no difficulty as to loca-  
3 tion. They were definitely in an area that has and is  
4 continuing to subside and the funds were clearly spent  
5 for the purpose of subsidence remedial work. Many dis-  
6 cussions were necessary to clear up how you subsidize a  
7 portion of a project, and, as a matter of fact, the reason  
8 these are all credits due the State was the fact that  
9 there had been considerable difference of opinion in the  
10 City's estimate as to what were subsidence items and our  
11 determination arrived at subsequently.

12 MR. KIRKWOOD: M-m-mhm.

13 MR. PEIRCE: Any further questions?

14 MR. KIRKWOOD: No.

15 MR. PEIRCE: The recommendation is approved.

16 MR. HORTIG: Page 27 is a continuation of the  
17 month-to-month program, or the program analogous to and  
18 necessary in conjunction with those programs approved  
19 heretofore by the Commission on a month-to-month basis  
20 because the total program data are not yet sufficiently  
21 developed in order to permit the particular segment to  
22 be included on a fiscal year basis; and in this instance  
23 additional subsidence studies are deemed to be critically  
24 necessary in connection with evaluation of subsidence work  
25 planned for the future; and while there has been prior  
26 approval of this type of project in principle and for a

1 limited time and funds, it has developed that additional  
2 costs will have to be incurred by the Harbor Department  
3 for the sub-project "Consultants and Contingencies" which  
4 is outlined at an estimated total of \$10,000 on page 28;  
5 and it is recommended that the Commission approve such  
6 costs to be expended by the City of Long Beach, subject  
7 to the standard reservations for determination of allow-  
8 ability upon engineering review and final audit subsequent  
9 to the time when these operations have actually been com-  
10 pleted.

11 MR. KIRKWOOD: M-m-mhm.

12 MR. PEIRCE: Any questions? (No response)

13 Recommendation is approved.

14 MR. HORTIG: Page 29 -- an <sup>item</sup> analogous to the pre-  
15 ceding item. This is also a request for approval for  
16 additional funds for a project heretofore approved under  
17 the title of "Subsidence Maintenance" and this request is  
18 being made to insure that emergency repairs can be made  
19 to terminal facilities if required prior to the end of  
20 this fiscal year, June 30, 1958.

21 MR. KIRKWOOD: M-m-mhm.

22 MR. PEIRCE: The recommendation is approved.

23 MR. HORTIG: Again ... the Commission heretofore  
24 approved on a fiscal year basis a project under the title  
25 of "Roads and Streets". It has now developed that addi-  
26 tional unforeseen costs will be incurred by the Harbor



1 Department for work on the sub-project of the pontoon  
2 bridge relocation. The west approach to the Pontoon  
3 Bridge remains low and the request is made to obtain  
4 prior approval for raising the site of Seaside Boulevard  
5 and the surrounding area which will be necessary to meet  
6 the Pontoon Bridge. No approvals are being requested in  
7 connection with work on the bridge as such, which is not  
8 qualified. It is recommended the additional costs be  
9 approved as detailed . . . . .

10 MR. KIRKWOOD: Move the approval.

11 MR. HORTIG: . . . . page 32, subject to the standard  
12 limitations.

13 MR. PEIRCE: O.K.?

14 GOVERNOR POWERS: Yes, that's O.K.

15 MR. PEIRCE: Recommendation is approved.

16 MR. HORTIG: The Commission has also approved  
17 (page 33) the Pier E area project for the 1957-58 fiscal  
18 year, but it has been determined from proceeding with the  
19 project that additional costs will have to be incurred  
20 for earth filling the area between bulkheads and the road  
21 in the center of the pier, which were not clearly foreseen  
22 at the time of presentation of the original Pier E project  
23 estimates to the Commission. It is recommended that con-  
24 ditional authorization or approval be given for expendi-  
25 ture of the additional funds.

26 MR. KIRKWOOD: O. K.

1 MR. PEIRCE: Any questions? (No response)

2 Recommendation is approved.

3 MR. HORTIG: Page 35 is strictly the monthly  
4 continuation of the Town Lot project which still is not  
5 processed sufficiently to be proposed in its entirety and  
6 therefore the Harbor Department is again ....

7 MR. KIRKWOOD: Approved.

8 MR. HORTIG: ... submitting a request on a monthly  
9 basis.

10 MR. PEIRCE: Any questions? (No response) The  
11 recommendation is approved. That takes care of Long  
12 Beach?

13 MR. HORTIG: I believe that takes care of all  
14 personal appearances, if you would care to raise the  
15 question.

16 MR. PEIRCE: Does anybody have any matter before  
17 the Commission upon which you would like to be heard?  
18 Otherwise, we will return to the agenda and consider it  
19 in order. (No response)

20 MR. HORTIG: Page 6, then. Mineral Extraction  
21 Lease P.R.C. 1498.2 was issued in anticipation of the  
22 development and shipment of commercial grade uranium ore.  
23 The lessee has labored diligently to develop such a process  
24 that would be economically feasible but has been unable to  
25 meet the specifications of the Atomic Energy Commission,  
26 who have since also curtailed purchases of uranium oxide



1 from new mills. There are no royalties due on the lease  
2 and advance rental for the year 1957 has been paid.

3 MR. PEIRCE: Recommendation is approved.

4 MR. KIRKWOOD: Are all of those dates right in  
5 there? Some of those are subsequent, but I guess that's  
6 O. K.

7 MR. HORTIG: Well, the next one that comes up is  
8 May 31, 1958. We are not there yet, and the Commission's  
9 prior approval of deferment was for the preceding year  
10 rather than the advance year.

11 The Commission has heretofore approved a prospect-  
12 ing permit covering certain areas in San Luis Obispo  
13 County, initiated for the development of chrome ore. It  
14 has been found that commercially valuable deposits of  
15 minerals have been developed under the prospecting permit.  
16 The prospecting permittees have requested that a prefer-  
17 ential mineral extraction lease be issued as provided for  
18 in the permit. The royalty rates were also set forth in  
19 the prospecting permit at the time of issuance and are  
20 repeated here. It is recommended that the Commission  
21 authorize issuance of a preferential mineral extraction  
22 lease to Carl Pierce, Ferec Pierce and Frank Pierce  
23 covering Lots 1 and 7, in accordance with those sections  
24 of the prospecting permit that are delineated in Prospecting  
25 Permit 1899.2, subject to the deposit of performance bond  
26 in the amount of \$1,000.00.

1 MR. KIRKWOOD: O. K., I guess.

2 GOVERNOR POWERS: M-m-mhm.

3 MR. PEIRCE: All right. The recommendation is  
4 approved.

5 MR. HORTIG: Ken, Page 9.

6 MR. SMITH: Page 9 -- Sale of vacant school land.  
7 Application has been received for the purchase of 40 acres  
8 in San Diego County. The appraisal is established at  
9 \$500.00 or \$12.50 an acre. Under the competitive bidding,  
10 seven separate bids were received, ranging from a low of  
11 \$520 to a high of \$1001.20. Two of those bids were faulty --  
12 that by Esther Bradberry, since it was not submitted on the  
13 form prescribed by the Commission in the public notice,  
14 and also the bid of James G. Ronis -- the envelope did not  
15 contain the notation "School Land Bid - Offer No. 183" as  
16 specified in the public notice. The first applicant, who  
17 had the right to meet the highest bid, indicated he did  
18 not wish to do so.

19 It is recommended that the Commission find that  
20 the 40 acres in San Diego County are not suitable for  
21 cultivation without irrigation, reject the following bids  
22 for failure to comply with the regulations set forth  
23 and required: The bid of Esther Bradberry -- form of bid  
24 not submitted on the form prescribed by the Commission;  
25 bid of James Ronis -- sealed bid did not contain the  
26 notation on the outside thereof "School Land Bid - Offer

1 No. 183;" and by reason of the first applicant having  
 2 relinquished his right to meet the highest bonafide bid,  
 3 authorize the sale to the highest bidder -- authorize the  
 4 sale to the next highest bidder, Samuel M. Caplin, at  
 5 \$1,000, with all usual reservations.

6 MR. PEIRCE: Recommendation is approved.

7 MR. SMITH: Page 11 -- sale of vacant school land.  
 8 It is recommended that the Commission authorize the sale  
 9 of school land for cash at the highest offer, in accordance  
 10 with the following tabulations, such sales to be authorized  
 11 according to all standard reservations including minerals.

12 MR. PEIRCE: Any question? (No response) The  
 13 recommendation is approved.

14 MR. SMITH: Page 18. This is a sale of vacant  
 15 Federal land, where the applicant to the State has cancel led.  
 16 It is recommended that the Commission determine it is to  
 17 the advantage of the State to select 80 acres in San Ber-  
 18 nardino County; that the Commission authorize the sale of  
 19 said land and authorize sale thereof in accordance with  
 20 the rules and regulations governing the sale of vacant  
 21 school lands.

22 MR. PEIRCE: Any questions? (No response)n  
 23 Recommendation is approved.

24 MR. SMITH: Page 19. Sale of vacant Federal land.  
 25 It is recommended that the Commission determine it is to  
 26 the advantage of the State to select 40 acres in Los Angeles

1 County; that the said Commission find the said land is  
 2 not suitable for cultivation without artificial irrigation;  
 3 that the Commission authorize the sale for cash to Wesley  
 4 P. Beans at the appraised price of \$600, subject to all  
 5 statutory reservations including minerals, upon the  
 6 conveyance of the land to the State.

7 MR. PEIRCE: Any questions?

8 GOVERNOR POWERS: O. K.

9 MR. PEIRCE: The recommendation is approved.

10 MR. HORTIG: Page 20. An application has been  
 11 received for permit to conduct seismic surveys in San  
 12 Francisco Bay off Candlestick Point, which is the same  
 13 area that the Legislature has authorized the Commission to  
 14 sell to San Francisco, and such lands will be used for  
 15 utilization as a parking lot for the Giants' baseball  
 16 stadium. Inasmuch as these shots will be jetted in un-  
 17 occupied lands, in other words holes in the Bay, permit  
 18 will be authorized by Fish and Game, who will have an  
 19 inspector on the site, the only thing that will be hurt  
 20 by this operation. It is recommended that permit be  
 21 issued for the seismic .....

22 MR. KIRKWOOL: O.K.

23 MR. PEIRCE: Recommendation is approved.

24 MR. HORTIG: Page 37. Sorry -- back to 23.....

25 MR. PEIRCE: Page 23?

26 MR. HORTIG: ... which represents what was done by

1 the State Lands Division in cooperation with and at the  
2 request of the City of Santa Barbara and Division of  
3 Beaches and Parks, because an upland owner decided to  
4 grade his lot and pour his excess fill material on the  
5 beach, to the alleged detriment of Arroyo Burro Beach  
6 Park; and in order to determine the equities and the  
7 rights, it was necessary that we know the boundaries of  
8 the State lands, and so our staff recorded the survey  
9 of the high water mark and it was necessary that this map  
10 be recorded as future evidence of the boundary of the  
11 tidelands.

12 MR. KIRKWOOD: O.K.

13 MR. PEIRCE: Recommendation is approved.

14 MR. HORTIG: Now, we will try 37. There follows,  
15 from 37 through 50, tabulation of the actions taken by  
16 the Executive Officer under delegation of authority and  
17 issuance of standard permits, easements and rights of way.

18 MR. PEIRCE: It has been moved and seconded that  
19 these items be approved. So will be the order.

20 MR. HORTIG: Following, on page 51, a supplementary  
21 calendar item -- Ken?

22 MR. SMITH: That involves a sale of sovereign lands  
23 pursuant to Chapter 1437 of the Statutes of 1957. The  
24 Commission is authorized to sell a parcel of sovereign land  
25 in Arcata Bay consisting of 3.27 acres. The act provides  
26 that the owner or owners of the land abutting the described

1 parcel shall, upon application, be the preferred purchaser  
 2 for a period of one year from the act. The Commission on  
 3 August 8, 1957 authorized the Executive Officer to proceed  
 4 with the sale at the appraised market value, subject to  
 5 all statutory reservations, except that mineral rights  
 6 shall be conveyed with the surface rights and subject to  
 7 final approval by the Commission.

8 In view of the fact that the act is silent on  
 9 mineral rights, the reservation of all minerals by the  
 10 State under any sale is considered mandatory pursuant to  
 11 applicable sections of the Public Resources Code.

12 An application to purchase has been received from  
 13 Bracut Lumber Company. A review of the records indicates  
 14 that A and F Lands Company, Inc. is an abutting landowner  
 15 to the extent of 300 feet on the northerly portion of the  
 16 parcel to be sold. This parcel is approximately half a  
 17 mile in length. A waiver of the preferred right to pur-  
 18 chase by reason of being an abutting landowner has been  
 19 obtained on March 17, 1958.

20 The appraisal of the land is \$75.00 an acre, and  
 21 it is recommended that, in accordance with the provisions  
 22 of Chapter 1437, Statutes of 1957, the Commission authorize  
 23 the sale to the abutting landowner at a cash price of  
 24 \$245.25, subject to including all statutory reservations  
 25 including minerals, of the land described; and it is  
 26 further recommended . . . .

1 MR. KIRKWOOD: O. K.

2 MR. PEIRCE: Recommendation is approved.

3 MR. KIRKWOOD: Isn't that a different type of  
4 setup than we have had?

5 MR. HORTIG: Yes sir, this is one that is unusual.  
6 We have had others like it scattered over the years.  
7 What occurred was -- two different surveyors surveyed two  
8 supposedly adjoining parcels and actually left a space  
9 between the parcels, where there shouldn't have been a  
10 space. Fifteen years later, under a title report, people  
11 who thought they owned it and had paid taxes on it, found  
12 out they didn't own it. And through this legislation  
13 we have the authority to sell the equitable interest in it.

14 MR. PEIRCE: Does that conclude the agenda?

15 MR. HORTIG: It does except one point. Shall we  
16 proceed as usual with your secretaries to arrange for a  
17 meeting early in May?

18 MR. PEIRCE: I think you should proceed in the  
19 usual way. Mr. Hortig, I don't think we concluded our  
20 discussion this morning -- or did we -- on the matter of  
21 your suggestion with respect to our future employment of  
22 our consultants. Do you want to discuss that now or is  
23 this something that should be taken up at a later time?

24 MR. HORTIG: I can discuss it now because I also have  
25 had the advantage of a conference during the luncheon  
26 recess with the consultants, so I know on what basis things



1 can be recommended to the Commission. We are not com-  
2 pletely certain whether the existing service contracts  
3 with the consultants are going to require modification  
4 at this time in terms of funds allotted to those contracts.  
5 It is anticipated there may be a necessity for augmenting  
6 those contracts and I would propose at that time that  
7 that augmentation also approve -- subject to the approval  
8 of the Commission and yours as the Director of Finance --  
9 a revision in those contracts to extend to the end of  
10 this fiscal year, with the anticipation then that should  
11 it be desirable for the Commission to have a consultant  
12 review of bids, if a basis for evaluation of rejection  
13 ever arose, that we have the contract for services of  
14 these gentlemen -- and they have evinced a willingness to  
15 continue with the contract on that basis.

16 MR. PEIRCE: Now, Dr. Kaveler and Mr. Wanenmacher,  
17 in behalf of myself -- and I am sure I speak for my two  
18 fellow members of the Commission -- I want to express to  
19 you our deep appreciation of the services you have  
20 rendered to us under circumstances that could otherwise  
21 have been very, very difficult. We have been wrestling  
22 with this problem for several years, as a matter of fact,  
23 and to have had the advice and counsel of two men nationally  
24 recognized, as you two are, and your respective firms, has  
25 been a source of great comfort to us; and I am sure your  
26 counsel will have proved invaluable to us as time goes on



1 and we proceed with our leasing operations. I, personally,  
2 feel most comfortable with regard to your looking over  
3 our shoulders during these difficult times, and I am sure  
4 that the results will greatly benefit the people of the  
5 State of California; and yet I am sure that your counsel  
6 has given equal importance to the interests of the oil  
7 industry in having those inducements that are necessary  
8 for them to go out there and risk their capital and find  
9 oil, if oil is to be found.

10 I want to pay special tribute to Mr. Kirkwood for  
11 having originated the idea of employing special consultants.  
12 It has worked out wonderfully well and I am glad he thought  
13 of it originally.

14 We are grateful to you and, as Mr. Hortig has  
15 indicated, with the passing of time we can determine the  
16 extent to which we will need further advice from the two  
17 of you. Have you any comments, Mr. Kirkwood?

18 MR. KIRKWOOD: Yes. I'd like to join with you in  
19 your expression of gratitude to the consultants. I cer-  
20 tainly feel they have been extremely helpful and I know  
21 I have had a great deal out of the discussions I have had  
22 with them and feel it has been very helpful to me. I do  
23 want to ask one question of Mr. Kaveler off-the-record --  
24 I think this is something we are going to need on evalua-  
25 tion. I think it does point to our problem. This sort of  
26 thing is going to be tough on us, I am sure, at the time

1 these bids in and I think we want as much support for our  
2 action as we can get.

3 DR. KAVELER: I might say, on behalf of Mr.  
4 Wanenmacher and myself, that we appreciate the words of  
5 the Chairman of the Commission. Seldom do our clients  
6 tell us our work is beneficial, so we appreciate it.  
7 Of course, we found here an extreme courtesy on the part  
8 of the Commission and the staff, so we found everything  
9 to facilitate our work. We appreciate the courtesies  
10 extended us by the staff.

11 MR. PEIRCE: Is there any further business?

12 MR. KIRKWOOD: Let's find out now on this staffing  
13 thing. Is that ready for review?

14 MR. HORTIG: Not completely. We have Keplinger  
15 and Wanenmacher's recommendations in hand in my office in  
16 Los Angeles. I have to review further what is to come  
17 from Dr. Kaveler, which he expects to be here some time  
18 next week. We will make additional copies and get them  
19 to you gentlemen for additional discussion and review with  
20 you.

21 MR. KIRKWOOD: The other thing is this Kraft thing.

22 MR. HORTIG: In view of the change in geography,  
23 I was unable to arrange to have him present here today, so  
24 with the high hope that you gentlemen will meet in Los  
25 Angeles in May ....

26 MR. KIRKWOOD: It can be deferred until then?

1 MR. PEIRCE: It doesn't complicate things to  
2 defer it?

3 MR. HORTIG: Not for him -- just that much longer  
4 I don't have an assistant.

5 MR. PEIRCE: All right. I guess that concludes  
6 the meeting.

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8 MEETING ADJOURNED 3:22 P.M.

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CERTIFICATE OF REPORTER

I, LOUISE H. LILLICO, reporter for the Division of Administrative Procedure, hereby certify that the foregoing ninety-two pages contain a full, true and correct transcript of the shorthand notes taken by me at the meeting of the STATE LANDS COMMISSION held in Sacramento, California, on April 14, 1958.

Dated at Sacramento, California April 30, 1958.

Louise H. Lillico

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