

TRANSCRIPT OF
MEETING
of
STATE LANDS COMMISSION
SACRAMENTO, CALIFORNIA
May 23, 1963

PARTICIPANTS:

THE COMMISSION

Hon. Alan Craunston, Controller, Chairman
Hon. Glenn M. Anderson, Lieutenant Governor
Hon. Hale Champion, Director of Finance

Mr. F. J. Hortig, Executive Officer
Mr. Alan Sieroty, Executive Secretary to
Lieutenant Governor Anderson

OFFICE OF THE ATTORNEY GENERAL

Mr. Jay L. Shavelson, Deputy Attorney General

APPEARANCES:

(In the order of their appearance)

Mr. Gerald Desmond, City Attorney
City of Long Beach

Mr. R. G. Smith, President, Natomas Company
on behalf of their subsidiary,
Western Geothermal Corporation

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1 MR. CRANSTON: The meeting will please come to
2 order. First item is confirmation of minutes of meeting of
3 February 28, 1963.

4 GOV. ANDERSON: So move.

5 MR. CHAMPION: Second.

6 MR. CRANSTON: The minutes are approved unanimously.
7 In view of the fairly large number of people here interested
8 in Item 15, if there is no objection we will take that up
9 first.

10 Item 15 is Informative Status Report on Long Beach
11 Unit, Wilmington Oil Field. Frank?

12 MR. HORTIG: Mr. Chairman, the Commission has
13 received requests that these letters be read into the record --
14 four letters, specifically: Two from Richfield Oil Corporation
15 dated May 2 and 7, respectively; one from Pauley Petroleum
16 dated May 9; and one from Jade Oil and Gas, dated May 10.

17 What is the pleasure of the Commission? Shall
18 these be read verbatim at this time? Or, as established as
19 a precedent, possibly, at the last meeting, they might be
20 considered for introduction into the record without the
21 necessity of reading them verbatim.

22 MR. CHAMPION: I move we enter them without reading
23 them verbatim.

24 GOV. ANDERSON: Second.

25 MR. CRANSTON: The motion is made, seconded and so
26 ordered. The letters have been received by members of the

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Commission and have or will be read by them.

(Letters referred to are reproduced below):

All letters are in reference to LONG BEACH UNIT, WILMINGTON OIL FIELD.

Addressed to Honorable Alan Cranston, dated May 2, 1963, from Richfield Oil Corporation:

" Richfield Oil Corporation holds oil and gas leases covering approximately 1024 acres of land in the Townlot Area lying within the 'Participating Area' of the proposed Long Beach Unit of the Wilmington Oil Field. This constitutes a little over 53% of the participating Townlot Area. We write this letter in our capacity as the holder of the working interests in such oil and gas leases in the Townlot Area.

We have just received a copy of the transcript of the 'Public Review of Proposed Field Contractor Agreement' conducted by Mr. Frank Hortig, Executive Officer of the Commission, on April 15, 1963 in connection with the Commission's consideration of the subject Unit, and have noted an argument made by Mr. D. E. Clark, representing Shell Oil Company, which is reported from pages 52 to 64 inclusive of the transcript.

As we understand Mr. Clark's argument, it may be summarized as follows:

- (a) Ordinances of the City of Long Beach forbid the drilling of oil and gas wells from surface locations in the Townlot area of the proposed Unit;
- (b) the development of the Townlot Area will result in a net profit, after royalties to the landowners, of \$120,000,000;
- (c) such profit cannot be realized unless drillsites are made available to the Townlot Area from the offshore drilling islands provided for in the enabling ordinance;
- (d) therefore the City should charge the working interests in the Townlot Area the amount of the profit to be realized by them as a 'drillsite royalty' for use of the drilling islands;
- (e) otherwise, holders of the Townlot Area working interests will have an advantage in bidding for the Offshore Area Field Contractor Agreement measured by the profits to be realized by them from the Townlot Area.

1 " The foregoing argument is specious, but it is in-
2 valid for many reasons, and falls of its own weight when
3 only two basic considerations are taken into account.

4 The first such consideration is that the Offshore
5 Area cannot be developed for oil and gas unless the
6 Townlot Area is also developed concurrently therewith
7 without incurring danger of subsidence in the downtown
8 business section of Long Beach; and this fact constitutes
9 abundant consideration moving from the Townlot Area to
10 the Offshore Area for drillsites.

11 The second such consideration follows from the
12 first. It is that the Townlot Area will be developed
13 regardless of who is the successful bidder for the Field
14 Contractor Agreement, and if there is a profit to be
15 made from such development the holders of the working
16 interests will make such profit, whether or not they are
17 parties to the Offshore Agreement. It is illogical to
18 assume that the holders of the working interests in the
19 Townlot Area will bid more for the Offshore Field Con-
20 tractor Agreement because of profits they anticipate
21 from development of the Townlot Area, because they would
22 thereby forego or dilute such Townlot Area profit. In
23 any case, they would still have no advantage over com-
24 petitors in bidding for the Field Contractor Agreement
25 because such competitors could likewise bid more because
26 of profits they anticipate from oil development in some
other oil field. What is the difference between A being
willing to forego some portion of its profits from the
development of the Townlot Area in order to bid more
than it otherwise would for the Offshore Area, and B
being willing to forego some portion of its profits from
development in the Mideast in order to bid more than it
otherwise would for the Offshore Area? It is entirely
unlikely that either A or B would be foolish enough to
treat anticipated profits from oil development as 'money
in the bank,' but if such an assumption is to be made
at all it should be applied equally to A and to B.

21 The two basic considerations referred to above stem
22 from the Initiative Ordinance adopted by the people of
23 Long Beach at an election held on February 27, 1962.
24 Section 1 of that Ordinance reads as follows:

25 Section 1. It is hereby found and determined:

26 (a) That it would be in the best interests of
the City of Long Beach and the State of California to
authorize and approve the institution of a plan for the
controlled exploration and exploitation of the oil and
gas reserves underlying the presently undeveloped portion

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"of the tide and submerged land areas heretofore granted to the City by the State of California, and located easterly of and outside the Harbor District of the City, as said district boundaries are defined as of the effective date of this ordinance. Said presently undeveloped portion of tide and submerged lands (which shall not be deemed to include any of the tide and submerged lands committed to the Richfield Oil Corporation Parcel 'A' Drilling and Operating Contract and presently under development from the Harbor District) shall, for convenience, be sometimes hereinafter referred to as the 'Offshore Area'.

(b) That the results of detailed engineering reports and the interpretations of geologic and seismic data indicate that undeveloped oil and gas reserves in economically recoverable quantities underlie certain portions of the publicly and privately owned upland properties located easterly of Pine Avenue in this City, and adjacent to and northerly of the Offshore Area. Said upland properties shall, for convenience, be sometimes hereinafter collectively referred to as the 'Townlot Area'.

(c) That the said Offshore Area and Townlot Area are included within the geographic boundaries of a Subsidence Area, as heretofore fixed and established by the State Oil and Gas Supervisor pursuant to the provisions of Section 3336 of the Public Resources Code of the State of California, (emphasis supplied)

(d) That the results of studies by qualified engineers which have been conducted in certain segments of said Subsidence Area, and the demonstrated beneficial effects derived as a consequence of putting the recommendations so made into operation, indicate that the only feasible method that can be expected to prevent or arrest subsidence in such an area is by repressuring the subsurface oil and gas formations thereunder; and that such repressuring operations, in addition thereto, should increase the amount of oil ultimately recoverable from the formations underlying such area and protect the oil or gas in such lands from unreasonable waste.

(e) That unit or cooperative development and operation of the pool or pools (as hereinafter defined) underlying the said Offshore Area and Townlot Area is necessary in order to prevent and insure against the occurrence of subsidence. (emphasis supplied) 'Pool' shall mean an underground reservoir containing or appearing at the time of determination to contain, a common accumulation of crude petroleum oil or natural

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"gas or both. Each zone of a general structure which is separated from any other zone in the structure is a separate pool.

By the foregoing section of the Ordinance the people of Long Beach have determined that the Offshore Area and the Townlot Area shall be developed concurrently, because both are included within the geographic boundaries of a 'subsidence area,' as established by the State Oil and Gas Supervisor pursuant to the provisions of Section 3336 of the Public Resources Code; that 'the only feasible method that can be expected to prevent or arrest subsidence in such an area' (i.e. the Subsidence Area above referred to) 'is by repressuring the subsurface oil and gas formations thereunder; and that such repressuring operations, in addition thereto, should increase the amount of oil ultimately recoverable from the formations underlying such area and protect the oil or gas in such lands from unreasonable waste'; and 'that unit or cooperative development and operation of the pool or pools (as hereinafter defined) underlying the said Offshore Area and Townlot Area is necessary in order to prevent and insure against the occurrence of subsidence.'

Such determinations made by the people of Long Beach in the Ordinance were based upon sound grounds. If the Townlot Area is not developed in a unit with the Offshore Area many technical problems will be created for the Offshore Field Contractor and for the City of Long Beach and the State of California. Subsidence control would be uncertain; the recovery of oil would be reduced; and operating costs would be increased.

The Ranger Zone and all productive zones underlying the entire undeveloped area are continuous inter-connected reservoirs and are pressure-connected throughout except for possible faulting. Any pressure barrier faults that exist trend north-south and would not separate the Offshore Area from the Townlot Area. This geologic fact is demonstrated throughout the Wilmington Field and nearby in the Fault Block VI Area, including Richfield's Offshore Parcel 'A' and the area developed by Producing Properties, Inc. onshore adjacent on the west to the Townlot Area.

It is beyond question that the reservoir pressure underlying the Townlot Area should be maintained because of the danger of subsidence. The only possible alternative to the development and repressuring of the Townlot Area would consist of drilling a series of water injection wells designed to create a 'water curtain' between

1 "the two areas. If such an alternative is physically
2 feasible at all (and there is some doubt about this),
3 the injection wells would have to be drilled principally
4 from the offshore drilling islands and would approach
5 the line separating the Offshore and Townlot Areas at
6 right angles or high angles and create a wide and hence
7 inefficient 'water curtain.' To avoid ultimately moving
8 water to the Townlot Area, it would be necessary to
9 drill the injection wells some distance south of the
10 separating line and the City and State would sacrifice
11 recovery of an enormous amount of oil from the portion
12 of the reservoir lying between the injection wells and
13 the separating line.

8 The problem of creating and maintaining a 'water
9 curtain' that would permanently separate the Offshore
10 and Townlot Areas and enable reservoir pressures in both
11 areas to be maintained would be extremely complex. For
12 example, reservoir pressure in the aquifer lying north
13 of the Ranger Zone productive limits of the Townlot
14 Area is below original pressure because of withdrawals
15 of oil, gas and water from the Signal Hill Oil Field,
16 the Monterey State Lease, and from other parts of the
17 Wilmington Oil Field. Thus, if a 'water curtain' were
18 to be maintained at original pressure between the Off-
19 shore and Townlot Areas, inevitably oil would be pushed
20 from the productive Townlot Area north across the water
21 table into the lower pressure aquifer and it would be
22 necessary to inject still more water into the water
23 curtain, further expanding it. To prevent this, it
24 might be necessary for the City to drill an additional
25 set of water injection wells into the aquifer north of
26 the productive Townlot Area and to attempt to maintain
reservoir pressure in the Townlot Area and the Townlot
oil in position by balanced injection on either side
of the Townlot Area. To say the least, this would be
difficult.

20 It is certain that by arbitrarily placing an other-
21 wise unnecessary 'water curtain' across the Ranger reser-
22 voir the over-all effectiveness of the water injection
23 program in the Offshore Area would be reduced and less
24 oil would be recovered. The maintenance of the 'water
25 curtain' would be an over-riding and continuing factor
26 to consider in all planning, both for production and
injection.

24 Costs would be increased because the same number
25 of drilling islands and the same facilities (with pos-
26 sible minor exceptions) would be required for the Off-
shore operation as would be required for the combined
Off-shore Townlot unit operation. If the Townlot Area

1 "does not participate then all capital expenditures and
2 costs would be borne by the Offshore Area, and the
3 amount of such excess costs and expenditures would be
4 equivalent to the portion thereof which would be borne
5 by the Townlot Area if it participated, but without any
6 additional benefit to the Offshore Area.

7 It is clear from the foregoing that the use of the
8 offshore drilling islands is not a gift to the Townlot
9 Area. Furthermore the suggestion by Shell that a charge
10 be made to the Townlot Area for drillsites is entirely
11 inconsistent with sound unit operation theory and prac-
12 tice. It is paradoxical to contend that under a plan
13 of unit operation, some participants in the unit plan
14 should pay drillsite rentals or should pay for any sort
15 of 'pass-through rights.' It is of course implicit in
16 a unit plan that all participants share in proportion
17 to their interests in every barrel of oil produced from
18 every well located in the unit area and in all expenses.
19 Drillsites and wells in a unit plan belong to all parti-
20 cipants and are operated for their mutual benefit in
21 the development of the unit area as a whole. This was
22 expressly recognized in the Initiative Ordinance of
23 February 27, 1962. Section 3 thereof provides as
24 follows:

25 Sec. 3. Subject to the conditions, limita-
26 tions and restrictions hereinafter in Section 4 provided,
the necessary number of offshore islands, in no event
to exceed four, are hereby authorized to be located and
constructed within the geographic boundaries of the
said Offshore Area, as above described in Section 2
hereof, and to be utilized as surface drillsite areas
for the exploration and exploitation of the oil and gas
reserves underlying said undeveloped Offshore Area and
the adjacent Townlot Area. (emphasis supplied)

While the Ordinance makes the drilling islands
available for wells to be bottomed under the Townlot
Area, it also provides in Section 4 that the northerly
boundary of said islands shall not be closer than 2,000
feet measured from the center line of Ocean Boulevard.

The result of this provision is that wells to be
bottomed under the Townlot Area must be directionally
drilled at much higher angles and for much longer dis-
tances, on the average, than wells to be bottomed under
the Offshore Area. The proposed Long Beach Unit con-
tains a formula (which in unit agreements is called
the 'equity formula') for allocating oil and allocating
costs to three major areas, namely; (a) the Offshore

1 "Area, except Tract No. 2; (b) Tract No. 2, which is
2 the Alamitos State Park owned by the State of Cali-
3 fornia; and (c) the Townlot Area; and for similar allo-
4 cations between tracts in the Townlot Area.

5 In most cases, an oil field is not unitized until
6 after it has been developed, and costs of drilling are
7 not included as a factor in an equity formula. But, since
8 the proposed Long Beach Unit is to be formed prior to
9 development, drilling costs are included as a factor in
10 the equity formula. The operation of this factor in
11 the equity formula, as applied to wells bottomed under
12 the Townlot Area, has the same effect as though the
13 owners of such wells were required to pay drillsite rent-
14 als because of the penalties incurred due to the greater
15 costs of drilling wells involving higher angles and
16 greater footage. The net effect of including drilling
17 costs in the equity formula at the proposed Long Beach
18 Unit is to reduce the value of the total acre feet of
19 oil sand in the Townlot Area by 17% when compared with
20 the acre feet of oil sand in the Offshore Area. This
21 constitutes a substantial penalty to the Townlot Area
22 in favor of the Offshore Area and is more than equiva-
23 lent to what drillsite rentals would amount to, if
24 this were a proper case (which it is not) for charging
25 drillsite rentals. If any greater penalty were imposed,
26 the northern one-third of the Townlot Area would be
rendered uneconomic and the value of the remaining two-
thirds would be materially reduced.

16 The Townlot Area owners (except the City with
17 respect to its Townlot Area property) unanimously pro-
18 tested against inclusion of drilling costs in the Equity
19 Formula, but finally acquiesced when they became con-
20 vinced that there was no possibility of reaching early
21 agreement with the City on a form of unit without making
22 this concession. We have never withdrawn, and do not
23 now withdraw, opposition to this 17% penalty, but,
24 nevertheless, we have stated that we are willing to
25 sign the Unit documents in their present form.

21 The working interests owners in the Townlot Area
22 will share a still further penalty for the use of the
23 offshore drilling islands in that they will pay their
24 pro rata share of the cost of the islands but will
25 acquire no ownership therein. 'Unit Expense' as de-
26 fined in Section 1.41 of the Unit Agreement includes
all costs and expenses in connection with the 'planning,
constructing, reconstructing, erecting, equipping,
operating, maintaining, repairing or enlarging Offshore
Islands for Unit Operations whether incurred before or

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"after the effective date of this agreement," whereas 'Unit Facilities' as defined in Section 1.42 specifically excepts the Offshore Islands.

Your attention is also directed to the fact that under the proposed Unit documents the Townlot Area working interests have yielded complete control over the rate of development and the rate of production and over the repressuring program to the City in order that fears of subsidence may be allayed. This constitutes additional consideration moving to the City and State from the Townlot Area owners for the drilling of wells from the offshore islands to be bottomed under the Townlot Area.

In summary, and without reference to the serious question as to whether the City has the legal power to develop the Offshore Area without including the Townlot Area in a unit, we respectfully submit that there is no competitive advantage in the position of the Townlot Area working interests in bidding for the Field Contractor Agreement, and in view of the substantial contributions required of them under the terms of the Ordinance and of the Unit documents, there is no justification whatsoever for a drillsite or 'pass-through' charge.

We will appreciate it if this letter is incorporated in the record at the next meeting of the Commission.

Yours very truly,
RICHFIELD OIL CORPORATION
By /s/ R. W. Ragland, Vice President"

Letter addressed to Honorable Alan Cranston, dated May 7, 1963, from Richfield Oil Corporation:

" Just prior to the conclusion of the 'Public Review' of the documents which would constitute the subject Unit, conducted by Mr. Frank Hortig, Executive Officer of the Commission, on April 22, 1963, Mr. Alan Sieroty, representing Lt. Gov. Anderson made the following statement:

'I think it should be on the record here that the State Lands Commission is concerned greatly, if not primarily, with the correction and prevention of subsidence. And I think we are very much interested in what effect this contract might have on subsidence. And particularly it has been alleged that

1 " 'dividing up Tract 1 into undivided interests would
2 create a subsidence problem. This is perhaps one of
3 the foremost policy questions before the Commission at
4 this time. I think we ought to have a little more
5 definite information on this.'

6 One of the many difficulties with the concept of offer-
7 ing for bid undivided interests in the Field Contractor
8 Agreement is that it deprives, but at the same time
9 relieves, the Field Contractor of the full measure of
10 responsibility which it should have in connection with
11 the prevention of subsidence. This is illustrated by
12 the following example:

13 Suppose the Field Contractor has only an undivided
14 65% interest in the Field Contractor Agreement and
15 there are several smaller interests making up the remain-
16 ing 35%. Each of the smaller interests would, of course,
17 have the obligation to put up his pro rata share of the
18 expenses of the repressuring operations. Then suppose
19 that one of the smaller interests defaults in such
20 obligation. Who is going to put up the money for the
21 defaulting party's share of the repressuring expenses?
22 The Field Contractor cannot reasonably be expected to
23 do so, particularly because the defaulting party's
24 participation in the Field Contractor Agreement was
25 due to the method of bidding and not to the Field
26 Contractor's selection or agreement. Neither the City
27 nor the State would have funds which it is authorized
28 to use for assuming the obligations of the defaulting
29 party. The City could not use tideland funds, and
30 surely would not desire to use general funds obtained
31 from taxation. Nor has the State authority under
32 present law for such an expenditure.

33 Yet the repressuring operations must not be inter-
34 rupted. Once a pattern water flood of the kind that
35 will be necessary for repressuring this oil field has
36 been started irreparable harm will be done to the
37 reservoir and to the pressure system if it is discon-
38 tinued for even a short period of time. In ordinary
39 situations, a defaulting party is given some reasonable
40 period of time to cure a default, but in the case under
41 discussion there is no such thing as a reasonable
42 length of time to permit a default to continue.

43 Nor would a performance bond constitute an adequate
44 solution to the problem, because someone has to put up
45 the defaulting party's share of the money pending
46 settlement of a claim under the bond.

1 " The waterflood program for the Long Beach Unit will
2 consist of two carefully planned and integrated phases,
3 the development plan and the water injection plan. They
4 will be designed to accomplish two basic objectives:
5 (1) to maintain pressure in all productive reservoirs
6 to prevent subsidence, and (2) to produce the daily
7 quantity of oil deemed to be desirable by the City in
8 the most efficient manner. Spacing of water injection
9 and producing wells and rates of water injection and
10 oil production will be determined in the plans.

11 Operators conducting waterflood operations are al-
12 most always reluctant to reduce injection rates because
13 they have learned from experience in so doing that pro-
14 duction rates and ultimate recovery can be substantially
15 reduced. This is so since most reservoirs consist of
16 layers (or subzones) varying in permeability, oil and
17 water saturation, and other characteristics. The Long
18 Beach Unit waterflood, as in the case of all engineered
19 floods, will be designed to flood each of the many sub-
20 zones at Wilmington with maximum efficiency by controlled
21 movement of the waterfront to properly flood all parts
22 of the reservoir. The Ranger Zone is by far the largest
23 producing zone in the Unit area and will therefore pre-
24 sent most of the flooding problems. It will be on a
25 pattern basis while the other zones will be flooded
26 peripherally. A reduction in water injection rates,
particularly in a pattern flood, would damage the de-
signed uniformity of water movement, and thereby reduce
pressure control and increase the danger of subsidence.
Ultimate recovery would also be lessened. Failure to
drill required water injection wells and install re-
quired water injection facilities at the proper time
would be an additional factor that could make it diffi-
cult to maintain pressure throughout each separate
reservoir.

19 The plan originally agreed upon and placed in opera-
20 tion will be varied during the life of the flood but
21 only after careful studies based on detailed reservoir
22 analyses which demonstrate that the plan should be
23 varied to improve subsidence control or ultimate recov-
24 ery. Experience has demonstrated that most changes in
25 injection plans are to increase the water injection
26 rate, resulting in increased costs. Certainly, un-
planned changes made on short notice because of the
default of a participant could only increase the danger
of subsidence.

25 The proposed Field Contractor Agreement points the
26 way to a sound solution of the problem, and one which
protects the State and City against default. Section

1 "34 of the Agreement provides:

2 'If Field Contractor shall at any time consist of
3 more than one Person all reference to Field Contrac-
4 tor in this agreement shall be deemed to refer to
5 each and every of such Persons and each of such
6 Persons shall be jointly and severally obligated to
7 perform all the obligations of Field Contractor under
8 this agreement except as hereinafter in this section
9 otherwise provided. Each Person comprising the
10 Field Contractor may perform hereunder, any or all
11 of the obligations of the Field Contractor in be-
12 half of all Persons comprising such Field Contractor.'

13 It has been a common practice in California and in
14 other parts of the United States to form bidding groups.
15 The companies constituting the bidding group make a
16 written agreement in advance of the bidding, establishing
17 the interests of each party in the bid and fixing the
18 rights and obligations of each party in case the bid is
19 successful. In the case of the proposed Field Contractor
20 Agreement, such an agreement would contain provisions
21 adequately protecting non-defaulting parties against the
22 consequences of a default by any of the parties not ful-
23 filling its share of the obligations under the Field Con-
24 tractor Agreement. Provision would be made for the
25 parties not in default to take over a defaulting party's
26 share of all the latter's rights and obligations under
the Field Contractor Agreement in case of failure to
meet its financial obligations or to take delivery of
its share of the oil. Thus, not only non-defaulting
parties to the Field Contractor Agreement, but also the
State and the City would be protected against the conse-
quences of any default.

18 It goes without saying that any such agreement between
19 the parties constituting a bidding group must be made
20 prior to the bidding. That would be impossible, of
21 course, in the instant case, if the Field Contractor
22 Agreement should be offered for bid in undivided inter-
23 ests. No bidder would even know who its associates would
24 be in carrying out the obligations of the Field Contractor
25 Agreement.

23 Oil companies of the calibre qualified to do the
24 best job under the proposed Field Contractor Agreement
25 will want to know in advance who their associates in the
26 undertaking will be. In their group agreement they will
designate one of the companies to perform all of the
obligations of the Field Contractor on behalf of the
entire group. The company so selected must have in being

1 "a large, experienced organization capable of developing
2 and producing from 150,000 to 200,000 barrels of oil
3 per day, and having the 'know how' to perform all of
4 the repressuring techniques and operations involved. It
5 No one can go out and acquire such an organization. It
6 would have to now exist.

7 This is recognized in the proposed Field Contractor
8 Agreement. While the City Ordinance of February 27, 1962
9 and the proposed Field Contractor Agreement and the pro-
10 posed Unit Operating Agreement all give the City the
11 right of control over development and production and re-
12 pressuring programs, and while the City is designated as
13 Unit Operator under the proposed Unit Operating Agree-
14 ment, nevertheless the proposed Field Contractor Agree-
15 ment also provides in Section 9 thereof that: 'Field
16 Contractor shall perform all Unit operations which are
17 the responsibility of the City as Unit Operator which
18 the City Manager requests Field Contractor to so perform.'

19 The most efficient method of operation would be for
20 the company designated (in the agreement between the
21 parties constituting the bidding group) to carry out the
22 duties of the Field Contractor to develop a repressuring
23 program, after consultation with its associates in the
24 group, and to present his program to the State and the
25 City for analysis and approval. However, if there are
26 a number of undivided interests, each of them, undoubt-
edly, would desire to participate in the development of
the program. If differences of opinion arose between
the different undivided interests (and such differences
undoubtedly would arise because net profit is involved)
it would be necessary for the State and the City to
settle such differences and for that purpose to create
and maintain large technical staffs. The over-all re-
sult would be endless debates, delays which might be
critical, greatly increased costs, and general loss in
efficiency. It would be far better for the State and
the City to deal with one responsible organization if
they are going to exercise the highest degree of care in
avoiding the dangers of subsidence. A company which
would otherwise desire to bid or join a group in bidding
for the Field Contractor Agreement may well hesitate to
undertake the vast responsibility of avoiding the danger
of subsidence without knowing in advance who its asso-
ciates would be in carrying out the agreement.

It will be appreciated if you will have this letter
read into the record at the next meeting of the Commission.

Respectfully submitted,
RICHFIELD OIL CORPORATION
By /s/ R. W. Ragland, Vice President

1 Letter addressed to State Lands Commission, atten-
 2 tion of Mr. F. J. Hortig, Executive Officer, from Pauley
 3 Petroleum Inc., dated May 9, 1963:

4 "On March 28, 1963 the City of Long Beach filed a rebut-
 5 tal to certain of my remarks made at the February meeting
 6 of the State Lands Commission. Said document commences
 7 at Line 10, Page 63, of the transcript of the State
 8 Lands Commission Hearing of March 28, 1963: 'Subject:
 9 Comments by City of Long Beach relative to the statement
 10 of Mr. L. E. Scott, Pauley Petroleum Inc. to the State
 11 Lands Commission Meeting 2-28-63.'

12 "At the April 22 hearing by the Staff of the State Lands
 13 Commission, there was a letter from Mr. Johnny Mitchell,
 14 President of Jade Oil Company, made a part of the record
 15 which appears at Pages 63 and 64 of said transcript and
 16 reads in part, as follows:

17 'The proponents, THROUGH THE CITY OF LONG BEACH,*
 18 made a splendid documented report, answering each
 19 of Pauley's opposing remarks. *****'

20 *Capitalization added

21 "If Mr. Mitchell's statement is correct, it is requested
 22 that the statement by Long Beach be modified to set forth
 23 the names, addresses, and identity of the other propon-
 24 ents whom the City of Long Beach was representing in
 25 order that everyone knows who they are in the event
 26 there are future proceedings. No one should object to
 the correction of such an obvious oversight.

"It is requested that this letter be read into the
 records of the May meeting of the State Lands Commission.

Yours very truly,
 /s/ L. E. Scott "

Letter addressed to Alan Cranston, Chairman, State
 Lands Commission, from Jade Oil & Gas Co., dated Houston,
 Texas, May 10, 1963:

" It would be appreciated if you would have this
 letter read into the record of your next meeting on the
 proposed Long Beach Oil Development program, or forward

1 "it at once to the Senate Committee or any committee
2 now actively meeting with regard to the Field Contractor's
3 Agreement or the Unit Operating Agreement of this program.
4 It is my desire that this letter become a matter of
5 record along with my letters of March 6, 1963, March 27,
6 1963, and April 2, 1963, all directed to the State Lands
7 Commission, and my letter of March 29, 1963, to Governor
8 Edmund G. Brown.

9 Since my letter to Governor Brown of March 29, 1963,
10 two additional hearings have been held by the Commission.
11 At both of these meetings the utter disregard for prac-
12 tical, intelligent industry practices was shown in the
13 arguments presented by Pauley Petroleum, Shell and
14 Texaco. In the interest of the State of California, the
15 City of Long Beach, and the taxpayers who will benefit
16 from the revenues of this large oil reserve, I must write
17 this letter and object to the present actions of the
18 Senate Watchdog Committee headed by Senator Virgil
19 O'Sullivan of Glenn County, California.

20 To reiterate to you and Senator O'Sullivan, the Unit
21 Operating Agreement was drafted and agreed upon only
22 after months of careful and deliberate study. In the
23 course of completing the Unit Operating Agreement, each
24 meeting was conducted with the onshore lease operators,
25 the City of Long Beach's legal and engineering staff and
26 a State representative present. The Field Contractors
agreement was as carefully drafted by the City of Long
Beach and the State of California as the Unit Agreement
and the Unit Operating Agreement. It must be emphasized
that both of these agreements were written with great
consideration, primarily to protect the City of Long
Beach and then to benefit the State of California. These
agreements permitted arms-length relations for the bidding
oil companies. Remember, these contracts are for a 35-
year operation of oil and gas and should first protect
the City of Long Beach, then benefit the State of Cali-
fornia as well as the successful bidding combine of the
Field Contractors Agreement.

21 Senator O'Sullivan's committee has assumed the
22 responsibility to review the existing Field Contractors
23 Agreement and the Unit Operating Agreement. I find it
24 quite strange and quite unusual that instead of engaging
25 a legal firm which has substantial experience in oil and
26 gas contract agreements, Senator O'Sullivan's committee
has instead engaged the services of Mr. Oscar Chapman
and Mr. Milton Friedman. I seriously question the abil-
ity of any practicing law firm, regardless of reputation
or integrity, to interpret the terms of the Unit Agreement
or the Field Contractors Agreement unless they are highly

1 "experienced oil and gas attorneys, experienced in agree-
2 ments of such magnitude.

3 The Unit Operators Agreement and the Field Contrac-
4 tors Agreement are of such great importance to the State
5 of California that only the best qualified oil and gas
6 law firm should be invited to review and approve the
7 terms of these contracts.

8 I do not have to tell you, the Commissioners or the
9 Governor, that Mr. Chapman is the former Secretary of the
10 Interior under President Truman. Also, at that particular
11 time Mr. Ed Pauley was a dominant figure in the Democratic
12 Party. According to my understanding, Mr. Oscar Chapman
13 and Mr. Milton Friedman are members of the same law firm,
14 specializing in matters other than oil and gas. It seems
15 odd that Mr. Chapman and Mr. Friedman would be called in
16 to review the dispute between Pauley Petroleum, Shell and
17 Texaco vs. the City of Long Beach. Under these circum-
18 stances and conditions, it would appear to me that Mr.
19 Chapman and his firm should disqualify themselves from
20 this matter due to Mr. Chapman's prior position in the
21 Democratic Party and apparent friendship and connection
22 with Mr. Pauley, one of the participants in these hearings.

23 In all of the meetings before the State Lands Commis-
24 sion, the most important item has been completely ignored
25 by Shell, Pauley Petroleum and Texaco. The City of Long
26 Beach and its metropolitan population are the only poten-
tial losers in the drilling for oil and gas in the East
Wilmington Extension. The Senate and the State Lands Com-
mission know that this fine city suffered a great catas-
trophe when subsidence occurred due to unregulated produc-
tion of oil and gas and a lack of preplanned administrative
control to prevent such subsidence. It is estimated that
aside from the ugly, irreparable physical damage to this
beautiful city, additional material damage amounting to
over \$90 million was suffered. During all of the Commis-
sion meetings that I attended, Pauley Petroleum, Shell
and Texaco had the audacity to criticize the City of Long
Beach's contract as if this city had no authority to chart
its own protection from subsidence and decide the terms
it demanded from the bidding companies in order for the
successful bidder to be able to produce oil and gas in
the East Wilmington Unit and still protect the surface
features of the city.

24 The city voters once before experienced the actual
25 damages of subsidence and, even after such a crucial ex-
26 perience, decided by a city election to permit this East
Wilmington Field to be developed. In this election, they
voted and approved certain requirements that they felt

1 "necessary for the protection of the future of their
2 great metropolitan city.

3 We onshore lease owners (Jade, Standard, Richfield,
4 Signal, Union, Superior, Continental, Eastern and Reverend
5 Brower and his Land Owners Association) reviewed the
6 stringent terms of the Long Beach contract and as prudent
7 operators we accepted these requirements, acknowledging
8 a sense of responsibility to the City of Long Beach. I
9 regret that I am unable to say the same about Shell,
10 Pauley Petroleum and Texaco, who, in their testimony, have
11 continued to tear down the protective provisions that
12 were included in the contract to protect this city from
13 inefficient operations. If certain provisions of the
14 contracts are altered, subsidence is possible.

15 I want to impress in this letter and underscore the
16 requirements on the part of the people of Long Beach.
17 The City, in passing this ordinance, voted in favor of a
18 one unit operator and voted that the City of Long Beach
19 supervise this operation. There were other vital issues
20 voted by the citizens of Long Beach. Anything less than
21 compliance with the voters approval of these issues could
22 prove a future responsibility of the present State Lands
23 Commission and equally so of O'Sullivan's Senate Watch-
24 dog Committee. Playing politics on such vital issues
25 makes it possible for the future protection and growth of
26 one of California's great metropolitan cities to be seri-
ously impaired by the State Lands Commissioners' decisions
today. The same responsibility could be placed on Sena-
tor O'Sullivan's Committee and the Governor's decision.
This matter concerns more than just who gets the oil.

17 You and your Commissioners are dedicated to uphold
18 the mandates of the City of Long Beach.

19 Senator O'Sullivan is a representative of Glenn
20 County and a defender of the rights of the people in his
21 district. I am sure he is enough of a statesman to
22 recognize and respect the rights of the people of Long
23 Beach.

24 I personally believe that the revenue to be derived
25 from this oil field by the State, the willingness on the
26 part of the people of Long Beach to accept possible dam-
ages and physical losses, should relieve the claims of
Pauley Petroleum, Shell and Texaco that the City of Long
Beach is not entitled to write their protective contract.
To be truthful, Long Beach's share of the oil will be a
minor compensation because this city will be under con-
stant hazards of drilling, production, blowouts, cave-ins

1 "and possible subsidence during the next 35 years,
2 This validates the necessary provision of the Field Con-
3 tractors Agreements (and the side agreement between the
4 City of Long Beach and the State of California covering
5 review and approval by the State), that the City and State
6 must have full control over the operation in order to
7 minimize such hazards.

8 By now you are aware that I and my company are
9 ~~grass root oil men who have fought for their rights and~~
10 ~~survival in rugged, two-fisted tradition.~~ However, this
11 is my first experience with mixing politics and the oil
12 business. Especially against a competitor such as Mr.
13 Pauley, with his record of long, devoted service and
14 contribution to the Democratic Party. Coming from the
15 ranks of true independent oil men who always fight for
16 their rights, we intend to fight for the future of our
17 small company and for its future security against any
18 political odds.

19 It is hoped that your Commission, Senator O'Sullivan
20 and the Senate Committee are aware that the future pro-
21 tection of the City of Long Beach, the welfare of the
22 State of California and the taxpayers' future compensa-
23 tion in the Long Beach unit is much more valuable to
24 your state than any political consideration that may be
25 involved.

26 It is not apparent that Senator O'Sullivan recog-
nizes the magnitude of the Long Beach oil field and his
responsibility to the State, as well as to the City of
Long Beach. This issue is the City of Long Beach's risk
and the State of California's gain and should not be
allowed to become a political football.

The State Lands Commission and Senator O'Sullivan's
Committee have been advised by Mr. Pauley that he wishes
a delay on the decision of the State Lands Commission on
the Field Contractors Agreement. For this reason I will
predict the decision of the legal firm engaged by Sena-
tor O'Sullivan's Watchdog Committee. I predict that Mr.
Chapman and Mr. Friedman will recommend a delay and
further study. Naturally, Senator O'Sullivan's Committee
will accept this recommendation and ask for a delay. I
further predict that the Governor will urge you to delay
your decision and, finally, that your Commission will
agree to such a delay and further study. There is no
reason for a delay, except that Mr. Pauley wishes it.

If such a decision is rendered, as I have predicted,
it will definitely prove my point that politics play a

1 "powerful role in your state, far above the interest of
2 the State, the City of Long Beach and the taxpaying pub-
lic. It is a sad situation.

3 It may be wise to re-evaluate the real merits of
4 the Field Contractors Agreement and rightfully permit
the City of Long Beach to manage its own destiny.

5 Respectfully,

JADE OIL & GAS CO.

6 /s/ Johnny Mitchell, President"

7 *****

8 MR. HORTIG: Since the completion in April of the
9 staff hearings which had been directed by the Commission to
10 be held, to assure full review of the Long Beach contracts --
11 the staff hearing transcripts, the preceding Commission hear-
12 ing transcripts, and all supplemental written information
13 received have been under staff analysis for the development
14 of recommendations to the Commission as to proposed contract
15 format and content to be considered for approval. Compati-
16 bility with a Senate Special Research Committee report by
17 May 15th has been considered an essential factor in this
18 analysis.

19 A copy of the report, or a report by counsel to the
20 Special Research Subcommittee, was received last night by the
21 Members and the Executive Officer of the State Lands Commis-
22 sion, with an announcement that the Special Research Committee
23 has scheduled a hearing on June 3rd to receive comments on
24 the report from the City of Long Beach and the Commission.

25 Therefore, it is recommended that the Executive
26 Officer be authorized to participate in the scheduled hearing

1 on behalf of the Commission.

2 Parenthetically, as a result of a first-time read-
3 ing of the report last night, I can report to the Commission
4 that there are no elements in the report relating to operat-
5 ing, technical and administrative features that have not here-
6 tofore been included in the staff analyses being prepared for
7 the State Lands Commission.

8 The principal area of newness, for lack of a better
9 word, is a preponderance of different interpretations as to
10 the legal effect of some of the existing contracts, as inter-
11 preted by the special counsel and as heretofore interpreted
12 by the City of Long Beach and the Office of the Attorney
13 General. Therefore, I would expect that this area will be
14 the principal area on which report will be made to the Senate
15 Committee on June 3rd -- as to these disparities in interpre-
16 tation of specific legal contractual effects.

17 MR. CRANSTON: I don't believe any formal action is
18 required, authorizing you to appear. Of course, it would be
19 appropriate.

20 MR. CHAMPION: Counsel for the Commission will also
21 appear -- Mr. Shavelson?

22 MR. HORTIG: That's correct.

23 MR. SHAVELSON: Yes, sir.

24 MR. CRANSTON: Is there anything else to report as
25 far as the staff is concerned?

26 MR. HORTIG: With respect to the Long Beach Unit at

1 this time, no sir -- except in response to further questions.

2 MR. CHAMPION: I have one further question. I don't
3 know whether the matter is elsewhere on the agenda, but there
4 has been considerable discussion of the use of tidelands funds
5 in connection with the guarantee for this fair proposal in
6 Long Beach, and I'd like a report on the status of that --
7 whether it is before us; whether it is being brought to us.

8 MR. HORTIG: Well, the report had been intended for
9 another position on the agenda but is appropriate at this time
10 as long as it is made clear that this report does not relate,
11 per se, to the problems inherent in the consideration of the
12 Wilmington Unit nor the Special Senate Research Committee
13 study on that Unit.

14 The City of Long Beach electorate will consider on
15 June 4th a Proposition "A" which will authorize, primarily,
16 the future impounding of not to exceed sixty million dollars
17 of tideland oil funds -- of the City's share of tideland oil
18 funds -- to serve as collateral for underwriting revenue bonds
19 proposed to be issued to finance the proposed World's Fair
20 program to be held in Long Beach in 1967-1968.

21 There is nothing specifically before the Lands Com-
22 mission with respect to this item. The matter came to the
23 attention of the State Lands Division by reason of an invita-
24 tion to the Director of Finance to participate in an explora-
25 tion conference and progress report for the benefit of the
26 Citizens' Advisory Committee with respect to the World's Fair

1 in Long Beach; and the literature and discussion with respect
2 to this Proposition "A" indicate that it is the intent and
3 desire and hope of the City to be able to utilize tidelands
4 funds for this purpose in the manner outlined, subject to the
5 approval of the State Lands Commission -- and, indeed, the
6 literature with respect to the provisions of Proposition "A"
7 all indicate that this will be subject to Lands Commission
8 approval as and when an application is made to the Lands
9 Commission to utilize these funds. No such application has
10 been made to the Lands Commission yet and, as a matter of
11 fact, Proposition "A" as such was never discussed with the
12 State Lands Division, being a matter at this point possibly
13 of purely local concern; but in view of future inevitable
14 involvement in the results of Proposition "A" by the Lands
15 Commission, it was felt desirable to report the status of
16 this matter to the Commission this morning in order to deter-
17 mine what action should be taken, if any, beyond filing in
18 the Commission's records the memorandum report which you have
19 before you this morning with respect to Proposition "A" as it
20 has been prepared for State Lands Division by the Office of
21 the Attorney General.

22 MR. CHAMPION: May I ask Mr. Shavelson: Is there
23 any request to you to determine whether this comes within the
24 scope of the grant, or any other inquiry from the City of
25 Long Beach?

26 MR. SHAVELSON: No, Mr. Champion; to my knowledge

1 nothing whatsoever has been presented to our Office. Is
2 that correct?

3 MR. DESMOND: It has not.

4 MR. CHAMPION: The City's position with respect to
5 this is that this is an internal decision as to whether they
6 want to make this application? As to whether they want to
7 make it before it has been approved?

8 MR. DESMOND: That's correct.

9 GOV. ANDERSON: They would have to come to us; after
10 they have approved it, then it will come to us at that time.

11 MR. CHAMPION: That's the record I want to make
12 clear -- that this has been, so far, a matter in the City....

13 MR. DESMOND: If the voters a week from Tuesday
14 say so, this matter will be up for approval.

15 GOV. ANDERSON: If they say "yes," and it will come
16 before the Commission and we are informed that we cannot
17 legally or otherwise approve it, how would the Fair go?

18 MR. DESMOND: Of course, if the Commission says
19 they are not in a position to approve it, well, the Fair will
20 be held anyway. This is a method of underwriting which will
21 obtain for the City an extra ten or fifteen million dollars
22 worth of buildings -- permanent structures which will be built
23 for the Fair, but which will be a legacy to the City.

24 MR. CHAMPION: When, in order to have this secured -
25 when must this security be approved in order for you to pro-
26 ceed with your financing plan for the Fair?

1 MR. DESMOND: Of course, the financing is entirely
2 by a nonprofit corporation. The City is not directly con-
3 nected with the Fair as such, although the Fair does have a
4 lease which will become effective upon the completion of
5 Pier J. Pier J was to be built regardless -- in fact, it has
6 been under planning for the last ten to twelve years' time
7 and because it was under construction, why, it came to the
8 attention of the World's Fair group and they applied and
9 were issued a lease on that.

10 Now, as far as the financing arrangements themselves,
11 I would say some time in the latter part of this year; assum-
12 ing that the voters approve, then I would say some time the
13 latter part of this year there probably will be an application
14 before the Commission.

15 MR. CRANSTON: Are there any questions or comments
16 from anyone present in regard to the East Wilmington Long
17 Beach Oil Field. (No response) I thought it might be helpful
18 if we could seek just to outline what would probably be the
19 timetable. Nobody can state for certain what it will be;
20 but the fact that, as Frank Hortig said, nothing brand new has
21 come up from the counsel's report to the Senate Committee,
22 would lead to the conclusion that no extraordinary new amount
23 of time would be required. We cannot tell what the Senators
24 themselves may come up with at the meeting of June 3rd, but
25 we will find out at that time.

26 Meanwhile, I think the Lands Commission, through

1 its processes and the hearings of the full Commission and
2 meetings of the City and of industry have gone over every
3 part of the contract and collected a large number of thoughts
4 both pro and con, on various portions of the original con-
5 tract as presented to us. I hope that at the meeting in
6 June of the State Lands Commission, after all of these pro-
7 cesses have been gone through, we can come to grips with the
8 fundamental issues before us insofar as possible revisions
9 of the contract are concerned and make the decisions at that
10 time as far as the State Lands Commission is concerned.

11 I think that we can anticipate that there will be
12 some changes in principle insofar as the contracts are con-
13 cerned and that after the Lands Commission makes those deci-
14 sions as best they can there will have to be some drafting
15 done before there can be final definitive action on the final
16 form of the contract.

17 I think it is conceivable that action could be
18 taken at the July meeting, but not too likely; but I would
19 hope we could finally act on the contract in July and then
20 put the contract up for bid. Those are the thoughts of
21 some people on the timetable. I hope and believe they will
22 not be upset.

23 MR. HORTIG: Mr. Chairman, I think to completely
24 clarify the record it might be well to report that in connec-
25 tion with the classification of the report to the special sub-
26 committee by special counsel, this report has been considered

1 by the Senate Committee not to be their report, but has been
2 received without endorsement; and, indeed, the review of this
3 report on June 3rd will then in turn serve as a base for a
4 determination by the committee as to the type of committee
5 report which it will issue in the future; and thereafter, in-
6 asmuch as that time is uncertain except under the designation
7 of Senate Resolution Number 100 that that report be submitted
8 this session of the Legislature, there is another element of
9 uncertainty in the timing as to the final Senate Committee
10 report -- and as the staff said previously, and they reported
11 previously, it has been considered that it is essential that
12 there be compatibility between the staff analysis and the
13 recommendations of the Senate report.

14 MR. CHAMPION: We can still anticipate the final
15 Senate Committee report at this session of the Legislature?

16 MR. HORTIG: Right.

17 MR. CHAMPION: So that would come before the
18 June 27th meeting.

19 MR. HORTIG: Right. How much analysis that report
20 will require as against the time it is received is the
21 imponderable.

22 MR. CHAMPION: We now have all the information
23 that will be before the Senate Committee except the views
24 raised in the report?

25 MR. HORTIG: That is correct.

26 MR. CHAMPION: We can get from the staff and Mr.

1 Shavelson what is raised in that report, but otherwise the
2 Senate has nothing that has not been presented to us?

3 MR. HORTIG: Not to my knowledge.

4 MR. CRANSTON: If there is nothing more on this
5 matter, we will revert to the general order of business,
6 which is Item 3 -- Permits, easements, and rights-of-way to
7 be granted to public and other agencies at no fee, pursuant
8 to statute.

9 Applicant (a) Lucerne Recreation and Park District --
10 Life-of-structure permit for breakwater and boat-launching
11 ramp, 3.04 acres submerged lands of Clear Lake, Lake County;

12 (b) The Pacific Telephone and Telegraph Company --
13 Approval of location of submarine telephone and telegraph
14 cable with necessary appurtenances, 100-foot-wide by 5200-
15 foot-long strip of ungranted tide and submerged lands of
16 Arcata Bay, Humboldt County;

17 Item (c) County of Riverside -- Amendment of legal
18 description of life-of-structure permit P.R.C. 2799.9, sub-
19 merged lands of the Colorado River, Riverside County, to
20 increase area by additional 1.218 acres, for operation of a
21 small-boat marina;

22 Item (d) State of California, Department of Fish
23 and Game -- Lett permit for construction of four underwater
24 quarry-rock reefs for fish propagation, 14.69 acres submerged
25 land of San Pedro Channel off the coast of Orange County.

26 MR. HORTIG: Mr. Chairman, Item (e) should properly

1 be considered under Classification 4; it should not have been
2 included under Classification 3.

3 MR. CRANSTON: Item (f) U. S. Army, Corps of Engi-
4 neers -- Right-of-entry permit for period until June 1, 1964
5 for construction of groin and placement of 86,000 yards of
6 artificial fill on seven acres tide and submerged lands in
7 Gulf of Santa Catalina waterward of Doheny Beach State Park,
8 Orange County (to replenish presently eroded beach and to
9 attempt to control erosion).

10 Motion is in order.

11 GOV. ANDERSON: I move it.

12 MR. CHAMPION: Second it. The understanding is
13 that (e) is removed from this?

14 MR. CRANSTON: Yes. Approval is moved, seconded,
15 made unanimously.

16 Item Classification 4 -- We will start with that
17 item (e): State of California, Division of Highways --
18 Right-of-way easement, 3.33 acres school lands, Imperial
19 County, for construction and protection of State Highway
20 Route 146.

21 Then, item (a) Holiday Harbor Co. -- three-year
22 lease 0.415 acre submerged lands of Napa River, Napa County,
23 for small-boat facility, annual rental \$150;

24 Item (b) R. W. Kelsey -- five-year grazing lease
25 3,520 acres school lands Inyo County, annual rental \$70.40;

26 Item (c) Donald D. Updegraff -- 15-year lease,

1 0.275 acre tide and submerged lands of Sacramento River at
2 Clarksburg, Yolo County, for a marine service station facility,
3 annual rental \$150;

4 Item (d) Crescent City Harbor District -- Approval
5 of sublease to Charles W. Howe of portion of Lease P.R.C.
6 502.1, Crescent City Bay, Del Norte County, for operation of
7 marine supply business, restaurant, and allied facilities;

8 Item (e) (second item (e)) Lindsey H. Spight, dba
9 Diablo Communications Center -- Approval of sublease to
10 Metromedia, Inc. of portion of Lease P.R.C. 2364.2, State
11 school lands Contra Costa County, to be used for a mobile
12 repeater, transmitter and receiver;

13 Item (f) A. Bruce Kutcher -- Assignment from James
14 A. Gallagher and Mary A. Gallagher of Lease P.R.C. 2987.2,
15 Lot 37 Fish Canyon Cabin Sites, Los Angeles County, in trust
16 for Troop 121 of the Boy Scouts of America;

17 Item (g) Voca Crete Mining and Engineering Corpora-
18 tion, et al. -- Assignment from Estate of Robert Livingstone
19 of undivided one-half interest in Mineral Lease P.R.C. 392.2,
20 San Bernardino County, and consent to subleasing agreement by
21 co-tenants;

22 Item (h) Humble Oil and Refining Company -- Defere-
23 ment of drilling requirements, Oil and Gas Lease P.R.C. 186.1,
24 Belmont Offshore Field, Orange County, through December 31,
25 1963, to permit further geologic and seismic data studies for
26 determining feasibility of drilling additional wells;

1 Item (i) Richfield Oil Corporation -- Deferral of
2 drilling requirements, Oil and Gas Leases P.R.C. 308.1 and
3 P.R.C. 309.1, Coal Oil Point Santa Barbara County, through
4 December 31, 1963, to afford opportunity to review proposed
5 unit agreement;

6 Item (j) Shell Oil Company -- Four 49-year flow-line
7 easements for ocean-floor oil-well completions, tide and sub-
8 merged lands of Santa Barbara Channel, to onshore points near
9 Arroyo Hondo Creek, Santa Barbara County: (1) 11,368 acres,
10 annual rental \$322.93; (2) 8,880 acres, annual rental \$252.25,
11 (3) 6,602 acres, annual rental \$187.54; (4) 7,195 acres,
12 annual rental \$204.39.

13 GOV. ANDERSON: May I ask a question? Does that
14 easement go along the shore line?

15 MR. HORTIG: This actually takes the production from
16 the well to the first onshore location.

17 GOV. ANDERSON: Would this include the well location
18 and the line?

19 MR. HORTIG: No sir, because the well location and
20 a part of these lines is also on a lease issued in this case
21 to Shell Oil Company. These easements are for those portions
22 of the line getting to shore where tide and submerged lands
23 are traversed which are not part of the oil and gas lease;
24 so for this otherwise unleased area, these easements are
25 simply pipeline easements over tide and submerged lands of
26 the State.

1 GOV. ANDERSON: In other words, these are lands
2 which are not presently leased.

3 MR. HORTIG: Or leased to other parties.

4 GOV. ANDERSON: And here we are just giving them the
5 right to go over the top of the ground.

6 MR. HORTIG: That is correct, as shown on the pipe-
7 line map following page 16.

8 MR. CRANSTON: Item (k) R. W. Cypher -- One-year
9 extension through June 8, 1964 of Prospecting Permits P.R.C.
10 2705.1, P.R.C. 2706.1, P.R.C. 2707.1, and P.R.C. 2708.1,
11 Imperial County, for geothermal steam and all minerals other
12 than oil and gas and water, to further evaluate the area
13 potential and to complete requisite engineering and design
14 studies.

15 A motion is in order.

16 MR. HORTIG: Mr. Chairman, with respect to item (k),
17 a correction is in order as to the description -- the legal
18 description contained on page 20. The typewriter stuttered
19 and for the record the description should read, in the first
20 paragraph:

21 "Prospecting permits P.R.C. 2705.1, P.R.C. 2706.1,
22 P.R.C. 2707.1, and P.R.C. 2708.1, covering approxi-
23 mately 535 acres of State land lying in the south
24 half of Section 23, the northwest quarter and a
portion of the northeast quarter of Section 26,
Township 11 South, Range 13 East, S.B.B. & M.,
Imperial County, were issued *****" et cetera

25 MR. CRANSTON: As amended, a motion is in order.

26 MR. HORTIG: Also, Mr. Chairman, we have had a

1 request from a Mr. R. G. Smith, President of the Natomas Com-
2 pany, to present a statement to the Commission with respect to
3 the proposal contained in Item (k).

4 MR. CRANSTON: Is there somebody here wishing to
5 testify?

6 MR. SMITH: My name is R. G. Smith. I am President
7 of the Natomas Company, a California corporation. I am speak-
8 ing in behalf of a subsidiary of the Natomas Company, Western
9 Geothermal Corporation, and we request your respectful con-
10 sideration of a deferment of this extension for at least ten
11 days for the reason that Natomas -- Western Geothermal, rather,
12 just learned of this request for an extension last night.

13 We are actively engaged in exploration within two
14 miles of this area in Imperial County. Western Geothermal has
15 put down a test well and tested it out, and we believe that
16 the potential of the area will give us the right, or give us
17 the motive, to extend our exploration in the area, in which
18 we hold quite a large area.

19 For this purpose, we would -- during the interval,
20 if you would grant this deferment, Western Geothermal Corpora-
21 tion would like to make an application for a permit in this
22 particular area.

23 MR. HORTIG: Mr. Chairman, for the record, the sub-
24 ject permits on which a one-year extension is requested, which
25 is provided for in the Public Resources Code, are held by the
26 applicant. Similar development work to that which has been

1 outlined by Mr. Smith has been performed in connection with
2 other lands held by the same group that hold the subject
3 prospecting permits, the permits having been issued by the
4 State Lands Commission pursuant to law -- which provides for
5 a two-year prospecting permit upon payment of the proper fees,
6 which means these permits were issued two years ago. The
7 consideration before the Commission is whether, in the judg-
8 ment of the Commission, sufficient development work has been
9 done; and if, in the opinion of the staff, applicant has met
10 the requirements to justify extension, the Lands Commission
11 may extend such permit. This is the basis for the recommenda-
12 tion of the staff.

13 This is also part of other holdings by the same
14 group under prospecting permits issued by the State Lands Com-
15 mission pursuant to law, which other permits having been
16 issued earlier were the subject of extension applications
17 earlier -- all of which have been granted.

18 Therefore, there does not appear to be any equitable
19 basis for staff recommendation for denial of the one-year ex-
20 tension with respect to these subject permits, and the permits
21 would otherwise expire before the next meeting of the Lands
22 Commission if this extension is not granted.

23 MR. CHAMPION: May I ask a question? When we grant
24 the two-year permit, what is the nature -- You say we may, on
25 sufficient evidence of development, if there is sufficient
26 evidence of development we then have the right to extend these?

1 MR. HORTIG: That is right, but it is not mandatory.

2 MR. CHAMPION: It is not mandatory and there is no
3 commitment on the part of the Lands Commission that they
4 should do it?

5 MR. HORTIG: That is right.

6 MR. CHAMPION: What are the circumstances where we
7 have rival interests? On what grounds do we judge these?
8 Say we were to feel that both parties had equal standing in
9 this case, I think it would be our prerogative to regard them
10 as in equal standing. What is the procedure then?

11 MR. HORTIG: The procedure would be, number one, to
12 consider the State's applicant who had paid for the prospect-
13 ing permits which contained in their conditions, pursuant to
14 law, the right to a preferential mineral lease if commercially
15 valuable deposits of mineral are discovered and developed
16 within the area of the permit. Therefore, there are more
17 equitable rights attendant to the existing State permittee
18 than there are to any subsequent applicant who comes in at a
19 later date. In other words, these areas, during the time of
20 their prospecting permit, are not subject to being awarded
21 pursuant to competitive public bidding, but to being awarded
22 to the first applicant.

23 MR. CHAMPION: But do I understand this gentleman
24 to say they are not asking for prospecting permits -- they
25 would like to proceed with development of the section? Or
26 would you be asking for a prospecting permit?

1 MR. SMITH: Let me say, first, it would be explora-
2 tory. Whether you call it prospecting or development, it is
3 exploratory. In fact, the work we have done down there in
4 putting down one well is exploratory and it is only part of
5 the exploratory work that would be done.

6 MR. CHAMPION: What would you be asking us for?
7 Would you be asking for a prospecting permit or for something
8 else?

9 MR. SMITH: I believe, as I understand it, we would
10 be asking for a prospecting permit, an exploratory permit.
11 As I understand the member of the staff - I hadn't been
12 informed as to whether the applicant had performed his duties
13 or not. It was probably our idea that they had not within
14 the two years, and if so it was reasonable they could be
15 denied. Then Western Geothermal would want to make an appli-
16 cation. If they have fulfilled their requirement, Western
17 Geothermal would not make an application.

18 MR. HORTIG: There would be no staff recommendation
19 but for the fact it is felt that the applicant is entitled to
20 the extension by the Commission because of the fulfillment of
21 the exploration requirements. As a matter of fact, for com-
22 parative statistics, to Mr. Smith's one exploration well
23 which has been drilled by Western Geothermal, the group hold-
24 ing the State prospecting permits have drilled, and have pro-
25 ducible, two steam wells on their land.

26 MR. SIEROTY: May I ask Mr. Hortig: Is there a

1 requirement that valuable minerals be found?

2 MR. HORTIG: Yes.

3 MR. SIEROTY: Have they complied with that?

4 MR. HORTIG: No. The necessity for finding valuable
5 minerals relates to whether a preferential mineral lease will
6 be issued as a result of the prospecting permits. If, in
7 the next year, this can be developed and established in the
8 prospecting permit areas, including those under extensions
9 here recommended, then the permittees would be entitled to a
10 preferential mineral lease under royalty provisions which are
11 already spelled out in the permit, which would be in the
12 preferential lease when issued. The fact that this has not
13 been accomplished to the point where an application can now
14 be considered by the State Lands Commission has led to this
15 request for a one-year extension, hoping to perfect that
16 right during that time -- which one-year extension by the
17 Commission is authorized in the statute.

18 MR. CHAMPION: Under those circumstances, I would
19 move approval of the recommendation of the staff on all items.

20 MR. CRANSTON: Motion is made

21 GOV. ANDERSON: Second.

22 MR. CRANSTON: ... and seconded on all items in
23 Classification 4, including item (e) carried over from 3.
24 Is there any further discussion? (No response) If not, the
25 approval is made unanimously.

26 Item 5 -- Selection and sale of vacant Federal

1 lands: Applicant (a) Lincoln Clark -- Appraised value
2 \$10,256.35, bid the same. That's the only item.

3 GOV. ANDERSON: Move it.

4 MR. CHAMPION: Second.

5 MR. CRANSTON: Moved, seconded, made unanimously.

6 Item Classification 6 -- Selection on behalf of the
7 State of 39.73 acres Federal land, San Bernardino County;
8 authorization to cancel application of Jean Lyons Flynn and
9 to refund deposits less expenses incurred to date of cancel-
10 lation. Motion is in order.

11 MR. CHAMPION: Move approval.

12 MR. CRANSTON: Approval is moved ...

13 GOV. ANDERSON: I'll second it.

14 MR. CRANSTON: ... seconded, approved unanimously.

15 Item 7 -- Approval and adoption of combined bid-
16 lease form for submerged land leases in San Francisco Bay
17 and similar areas for minerals other than oil and gas.
18 Frank, any comments on that?

19 MR. HORTIG: Yes, Mr. Chairman. In view of ques-
20 tions which have been raised by public agencies in the San
21 Francisco Bay area as to the lease format devised by the
22 Lands Commission for issuing leases pursuant to competitive
23 public bidding, particularly questions raised by the San
24 Francisco Port Authority, City of Richmond, and the City of
25 Berkeley, extensive conferences were held to develop a format
26 which would satisfy all the requirements of all agencies --

1 particularly in connection with the Port Authority, where
2 joint approval is necessary, where they could approve any pro-
3 posed lease as a matter of form on a standard form satisfactory
4 to all agencies.

5 The draft which is before you is such a form which
6 is satisfactory to all agencies and would be proposed to be
7 used in the San Francisco Bay area in connection with issu-
8 ance of any future leases issued pursuant to competitive
9 public bidding. It has been approved by the Office of the
10 Attorney General as to form and, indeed, would be the subject
11 of a lease offer which is the next item -- for another sand
12 and gravel lease in Contra Costa County.

13 GOV. ANDERSON: Is there any substantive change in
14 the form?

15 MR. HORTIG: No, sir. It is a matter of procedure
16 and format, so that it is standardized, so the other agencies
17 know what is in it, rather than a unilateral representation
18 by the State Lands Commission.

19 MR. CRANSTON: Motion is in order.

20 GOV. ANDERSON: Moved.

21 MR. CHAMPION: Second.

22 MR. CRANSTON: Moved, seconded, approved unanimously.

23 Item 8 -- Authorization for Executive Officer to offer for
24 lease, for extraction of sand at minimum royalty of eight
25 cents per cubic yard, 370 acres submerged land Contra Costa
26 County, pursuant to application of United Sand and Gravel
Company.

1 MR. HORTIG: And this is the item, Mr. Chairman, on
2 which I just reported, to which the proposed combined bid-lease
3 form just approved by the Commission would be first applied.

4 MR. CRANSTON: Motion is in order.

5 MR. CHAMPION: Move approval.

6 GOV. ANDERSON: Second.

7 MR. CRANSTON: Approval is moved, seconded, made
8 unanimously. Item 9 -- Authorization for Executive Officer to
9 approve and have recorded Sheet 1 of 1 of map entitled "Map of
10 the Grant to the City of Pittsburg," dated May 1963. Motion
11 is in order.

12 MR. CHAMPION: Move approval.

13 GOV. ANDERSON: Second.

14 MR. CRANSTON: Moved, seconded, made unanimously.
15 Item 10 -- Termination of Right-of-Way Easement P.R.C. 2868.1,
16 submerged lands of Old River, San Joaquin and Contra Costa
17 counties; approval of refund to Pacific Gas and Electric Com-
18 pany of prepaid rental in the sum of \$463,98; and authoriza-
19 tion for presenting claim to Board of Control.

20 GOV. ANDERSON: What is the story on this?

21 MR. HORTIG: As detailed on page 32, Governor
22 Anderson, the easement was to have been used for a pole-line
23 crossing to Bra's Island. However, the Board of Trustees of
24 Reclamation District 802 was awarded a judgment against the
25 owner of Bra's Island, whom the Pacific Gas and Electric Company
26 had proposed to serve. The P. G. and E. is now prohibited from

1 using the rights granted by the State because they have no
2 dry land on the other side of the river. So it is proposed
3 that the easement be cancelled; and inasmuch as the rental
4 was prepaid, it seems equitable that this be refunded.

5 GOV. ANDERSON: Move approval.

6 MR. CHAMPION: Second.

7 MR. CRANSTON: Moved, seconded, approved unanimously.

8 Item 11 -- Authorization for Executive Officer to execute an
9 interagency agreement with the Colorado River Boundary Commis-
10 sion for engineering, administrative and other services for
11 the 1962-63 fiscal year, at a cost not to exceed \$11,000.

12 MR. HORTIG: These matters are brought to the Com-
13 mission's attention this late in the fiscal year because at
14 this time, then, there is always a reasonably accurate esti-
15 mate of what the costs of the services which have been rendered
16 by the Lands Commission to the Colorado River Boundary Commis-
17 sion will accumulate to for the fiscal year. The counterpart
18 of this contract will be executed on behalf of the Colorado
19 River Boundary Commission and is subject to approval by the
20 Director of Finance and in the appropriate interagency billing
21 process.

22 GOV. ANDERSON: I'll move it.

23 MR. CHAMPION: I'll abstain as a matter of custom,
24 since it calls for my further approval.

25 MR. CRANSTON: I'll second the motion and, without
26 objection, so ordered. Voted for by the Lieutenant Governor
and myself.

1 Item 12 -- Authorization for Executive Officer to
2 execute compromise price agreement with Signal Oil and Gas Co.,
3 et al, Oil and Gas Easement 392.1, Huntington Beach, Orange
4 County; and determination that for purposes of calculating
5 State royalties, the reasonable price of the production at the
6 well during the period September 1, 1958 to October 31, 1959,
7 inclusive, was the price posted in the Huntington Beach Field
8 for oil of like gravity by the Standard Oil Company of
9 California.

10 MR. CHAMPION: I'd like a little more explanation.

11 MR. HORTIG: I will introduce the problem and then
12 Mr. Shavelson, who prepared the form of compromise and agree-
13 ment relative thereto, can give the Commission further details.

14 The books of record, the amount for oil royalties
15 due the State from various lessees at Huntington Beach, sud-
16 denly found themselves faced with the dilemma that, whereas
17 most of the leases at Huntington Beach -- and these are of
18 long standing -- required payment of royalties calculated on
19 the reasonable market price of oil at the well, which price
20 shall not be less than the highest price at which a major oil
21 company buying oil of like gravity and quality in substantial
22 quantity at the Huntington Beach Field is offering, this re-
23 sulted in a difference in computations because an operator
24 was offering a higher price than Standard Oil Company of
25 California for a brief period of time. The question became
26 whether or not this operator was a substantial purchaser in

1 accordance with the definition of "substantial quantities"
2 and it turned out during the time the agreement was in effect
3 the purchaser purchased only 1.32 per cent of the total pro-
4 duction; but, nevertheless, in the opinion of the Office of
5 the Attorney General, this is still substantial under the
6 contract terms and, therefore, royalty should be paid on this
7 higher price.

8 Further review and analysis has resulted in a basis
9 for a compromise agreement, establishing what the price should
10 be in connection with the actual majority purchaser of the
11 crude oil and the highest price offered by the highest major-
12 ity purchaser of the crude oil; and for the details and the
13 equity of this proposed compromise, I would like to have
14 Deputy Attorney General Shavelson give the basis.

15 MR. CHAMPION: Before he does, however, what kind
16 of money is involved in this?

17 MR. HORTIG: Total of \$42,387 is the present amount
18 indicated as due on the books, due to the State Lands Commis-
19 sion, of which on the basis of the compromise we would still
20 receive \$25,123 of the amount above mentioned.

21 MR. CHAMPION: \$42,000 is the difference involved;
22 the compromise would bring it to \$25,000?

23 MR. HORTIG: \$25,123 -- because of different pro-
24 visions with respect to pricing in different leases issued
25 at different periods of time by your predecessors in the
26 Lands Commission.

1 MR. SHAVELSON: We are talking, in other words,
2 about \$17,000. Our original opinion dealt solely with one
3 question and that was whether the amount of oil purchased by
4 the Union Oil Company, which had posted a slightly higher
5 price than Standard -- which was purchasing virtually all of
6 the oil that was purchased in the Huntington Beach Field --
7 whether that 1.32 per cent could be considered a substantial
8 quantity. At that time we advised the State Lands Commission
9 that the criterion for determining a substantial quantity was
10 not necessarily a relative amount, but could be considered an
11 absolute amount. In other words, was the amount purchased by
12 this company sufficiently large that it would be subject to
13 the same pricing considerations as a much larger quantity?
14 Since 1.32 per cent of the total production in a large field
15 like the Huntington Beach Field we still felt was a substan-
16 tial quantity of oil, we did advise the Commission that it
17 could consider that the determinative price for purposes of
18 determining the royalties under the leases in this particular
19 easement.

20 There was another issue involved in any controversy
21 here which we were not called upon to discuss and which we
22 did not discuss at that time, and that is whether a posting
23 is also an offer. I don't want to go into the details unless
24 the Commission would like me to, but a posting is not in a
25 legal sense an offer. It is more or less a statement as to
26 what the company will pay under its existing contract. It is

1 not an offer to take additional oil at that price.

2 In other words, there are two difficult legal issues.

3 MR. CHAMPION: It isn't an obligation. In other
4 words, the posting is not an obligation?

5 MR. SHAVELSON: That is right, not with persons with
6 whom they don't have contracts at that time. It is not an
7 offer that, in a legal sense, can be accepted. So there were
8 two very difficult legal problems. Litigation would be
9 costly, involving many defendants; and, as Mr. Hortig pointed
10 out, under the one easement which had the largest single
11 amount of \$17,000, the language was to the effect that the
12 price upon which royalty was to be computed "shall not be
13 greater than" the highest price posted. Under those circum-
14 stances, we have advised the Commission that it could exercise
15 its discretion and find that the fair market value for the
16 purpose of that one easement might be the Standard Oil price
17 at which the great majority of oil was purchased, and not the
18 price paid for this very small quantity.

19 On those two bases we have recommended a settlement,
20 under which we would collect \$25,000 and that would be in pay-
21 ment of all amounts due under all of the easements -- all the
22 leases and the easements -- and the Commission would find
23 that the fair market value for the purpose of this one ease-
24 ment was the Standard Oil Price. This will be subject to
25 approval by the Governor under the provisions of the Public
26 Resources Code, after the State Lands Commission approves it,
if it does.

1 MR. CHAMPION: This does not in any way jeopardize
2 in the future our interpretation?

3 MR. SHAVELSON: Not at all. It does not bind us.
4 It is expressly limited to this particular period.

5 GOV. ANDERSON: How long does the lease run?

6 MR. HORTIG: As long as oil and gas are produced
7 in commercial quantities, and this could be hopefully another
8 forty years.

9 MR. CHAMPION: I'll move it.

10 GOV. ANDERSON: Is there a potential suit on this
11 if we do not approve this?

12 MR. SHAVELSON: Yes. We would be compelled to
13 bring suit against all the companies who have not paid us
14 and I think it comes to about seven or eight companies; and
15 it would be very difficult litigation on both sides, and
16 expensive. I think the costs would be comparable to any
17 further amount that we might hope to collect, plus the uncer-
18 tainties involved in the collection. We think the settlement
19 is very good, both from the standpoint of the State and the
20 other parties involved.

21 GOV. ANDERSON: If there are seven or eight com-
22 panies involved, the total of all of them will not amount to
23 more than \$17,000?

24 MR. HORTIG: Twenty-five thousand.

25 GOV. ANDERSON: That is what the settlement is for?

26 MR. SHAVELSON: Yes. In other words, if we brought

1 litigation, the most we could hope for is recovery of \$17,000
2 over and above the \$25,000 we are getting under this settlement.

3 GOV. ANDERSON: From all of these companies?

4 MR. SHAVELSON: Yes.

5 MR. SIEROTY: Is it their contention that 1.32 is
6 not a substantial quantity?

7 MR. SHAVELSON: That is their contention.

8 MR. SIERCTY: How many barrels would that be?

9 MR. SHAVELSON: During one month I think it came to
10 twenty thousand barrels.

11 MR. SIEROTY: 1.32 was twenty thousand?

12 MR. SHAVELSON: That's right.

13 MR. SIEROTY: Is there still a problem at this
14 time? I'd like to know if there is now a small buyer in terms
15 of percentage who gives us a difference between the other
16 prices in the area.

17 MR. SHAVELSON: Mr. Hortig, will you answer this?

18 MR. HORTIG: No. This was for a period of time
19 when this posting was made. Now, the smaller buyer is post-
20 ing a substantially smaller price. This relates to a particu-
21 lar period only, during which time this posting was in.

22 I don't presume to add to the legal discussion here,
23 but I think a very essential point is the fact that the people
24 who posted are on record as having said that they had not
25 posted in the sense that they thought was intended by our own
26 contracts.

1 MR. SHAVELSON: In other words, they did not say it
2 was a contract offer.

3 MR. HORTIG: Therefore, on that basis it would be an
4 extremely difficult collection to make, which would be an im-
5 portant part of that which would come up in any litigation.

6 MR. CHAMPION: I'll move approval. Is there any
7 advantage, as a result of the Lands Commission having this
8 come up, of establishing a policy for this purpose?

9 MR. SHAVELSON: If I may answer that, we have dis-
10 cussed that with the secretary of the Signal Oil and Gas Com-
11 pany and I think we were both hopeful that we could work some-
12 thing out. We felt that this should be gotten out of the way
13 first and then we should try to come along with an amendment
14 on all of the leases in the Huntington Beach area, at least,
15 and come up with some more satisfactory provision. I think it
16 was one of the earliest leases...

17 MR. HORTIG: The language was generated in 1938.

18 MR. SHAVELSON: ... so we hadn't the experience at
19 that time. I think it can be improved.

20 MR. HORTIG: I think that is an important point. I
21 think the subsequent leases and those currently issued by the
22 State Lands Commission do not have this pitfall.

23 GOV. ANDERSON: Do they have this in there?

24 MR. HORTIG: No, sir -- not to get in this same
25 condition.

26 MR. STEROTY. There is a proposal or suggestion that

1 we use the highest posted price on the Long Beach contract we
2 are now using.

3 MR. HORTIG: This would be directly comparable with
4 the provisions in current State Lands Commission provisions.

5 MR. SIEROTY: Well, isn't this what we are talking
6 about here?

7 MR. HORTIG: Yes, except with relation to this word
8 "substantial."

9 MR. SIEROTY: Well, the highest price.

10 MR. HORTIG: Highest posted price in applicability
11 to the majority of purchases, to get away from "substantial."
12 It would be our staff recommendation to relate to the highest
13 price offered for the majority purchases. This has not yet
14 been before the Commission, except in terms of discussion
15 with the staff.

16 MR. SHAVELSON: In the Long Beach Unit and the Field
17 Contractor Agreement, the term "substantial quantities" is
18 specifically defined; three thousand barrels per day in the
19 Long Beach Field Contractor Agreement is my recollection,
20 seven thousand in the Long Beach Unit Agreement.

21 GOV. ANDERSON: What percentages are those?

22 MR. HORTIG: Probably on the order of three per cent.

23 GOV. ANDERSON: Actually, we are talking about the
24 difference between 1.3 and 3 per cent, as to whether one is
25 substantial or the other. Aren't we begging a point, if three
26 per cent is substantial and 1.3 isn't? What is the difference?

1 MR. SHAVELSON: In our opinion, the question is not
2 necessarily one of relative amounts, but rather absolute
3 amounts. The Wilmington Field produces much more oil than the
4 Huntington Beach Field; 1.32 of the Huntington Beach Field
5 production is considerably less than what 1.32 of the Wilming-
6 ton production would be; and, furthermore, in our

7 GOV. ANDERSON: I don't follow that.

8 MR. SHAVELSON: In other words, since the production
9 in the Wilmington Oil Field is much greater than that in the
10 Huntington Beach Field, then the absolute quantity represented
11 by one per cent of the Wilmington Field would be much greater
12 than the absolute quantity represented by one percent of the
13 Huntington Beach Field.

14 MR. SIEROTY: Except you mentioned, it has been
15 stated, that we are talking in terms of twenty thousand barrels
16 a day.

17 MR. SHAVELSON: No, no -- for a whole month.

18 MR. SIEROTY: Twenty thousand barrels a month still
19 sounds like a sizable quantity, which is one point. The
20 second question I'd like to raise: You are using as a standard
21 the majority buyer, the price paid by the majority buyer in
22 the field.

23 MR. HORTIG: The highest price

24 MR. SIEROTY: What do you mean by "majority buyer"?

25 MR. HORTIG: Well, the purchase of the majority oil,
26 rather than relating it to the price being offered by a minority

1 buyer and whether that minority buyer is substantial; in other
2 words, the highest price paid for more than fifty per cent of
3 the oil.

4 MR. SIEROTY: How many purchasers would there be
5 within that majority?

6 MR. HORTIG: Well, this varies; some fields have as
7 few as one operator posting; some fields have actually no
8 operators posting, in which event the price is determined by
9 the Commission in relation to what is being offered by majority
10 buyers in adjoining fields processing the same quality of oil;
11 and there are some fields where there as much as seven opera-
12 tors posting.

13 MR. SIEROTY: Isn't there a danger if your majority
14 is one buyer? If one buyer buys fifty per cent of the oil in
15 the field, isn't there danger?

16 MR. CHAMPION: We are getting away from the problem
17 because essentially we are talking about an existing contract,
18 which is quite different from the Long Beach proposal we are
19 going to make. We are talking about the conditions in the
20 Long Beach contract and we propose they will be different than
21 this. We are trying to deal here with wording we would not
22 approve in an existing lease. So the two things don't go
23 together.

24 MR. HORTIG: We are taking care of a situation which
25 existed, but which no longer exists actually, simply to dispose
26 of this past problem. It could recur, but

1 MR. CHAMPION: We are setting no precedent here
2 for anything else we may do.

3 MR. SIEROTY: Let me relate this question to this
4 particular situation. You have mentioned Standard Oil's price
5 as a gauge. Now, does Standard Oil buy fifty per cent or more
6 of the production in this field?

7 MR. HORTIG: Yes, higher than that.

8 MR. SHAVELSON: It is about ninety-nine per cent or
9 ninety-eight per cent of the production. This is my recollec-
10 tion. In other words, some companies take their own produc-
11 tion and about seventy-five per cent of the total production
12 of the field is my recollection. So it is the overwhelming
13 quantity involved.

14 I might say that for the greater portion of this
15 amount that's due we are applying the price posted by the
16 small company; and as I pointed out before, even if in any
17 litigation we got over the hurdle of substantial quantity, we
18 have this other issue, which is equally difficult, and I think
19 taking both together a compromise settlement like this is best
20 for the State and does not establish a precedent. As Mr.
21 Champion pointed out, in a transaction like the Long Beach
22 Unit, we specifically define substantial quantities; but in
23 these, it is not defined at all so we would be left to the
24 vicissitudes of legal opinion.

25 GOV. ANDERSON: It may not set a legal precedent,
26 but doesn't it set a policy they can hang their hat on?

1 MR. SHAVELSON: I don't think so, Governor, because
2 as far as the greater quantity is concerned we have applied
3 the higher price posted by the Union Oil Company. In other
4 words, taking the fraction, it would be 25/42 of the amount we
5 are applying the Union Oil price to and only as to the re-
6 mainder, 17/42, we are applying the Standard price. So I
7 don't think we have committed ourselves at all to saying that
8 the Standard price would determine it.

9 GOV. ANDERSON: I don't like it.

10 MR. CHAMPION: I have already moved.

11 GOV. ANDERSON: I don't want to second it.

12 MR. CRANSTON: I'll second the motion. You wish
13 to vote against it?

14 GOV. ANDERSON: I won't make a fuss about it.

15 MR. CRANSTON: If there is no further discussion,
16 two positive votes, one negative vote.

17 Next item -- Informative status report on legislation.

18 MR. HORTIG: Mr. Chairman, I should like to direct
19 the attention of the Commission particularly to page 44 of the
20 supplemental calendar item, and particularly with reference,
21 first, to both Senate Bills 139 and Senate Bill 142 that are
22 reported thereon. These are part of a series of nine bills
23 for clarification of existing statutes, which were authorized
24 by the Lands Commission to be introduced at this session for
25 legislative consideration.

26 With respect to only Senate Bills 139 and 142 we

1 have received questions and requests from other public agencies
2 for proposed amendments to these bills. In view of the fact
3 that, in the first instance, 139 proposed to eliminate statutes
4 which we have been informed are obsolete, it appeared that it
5 would only add to the confusion to propose an amendment to
6 what we considered obsolete legislation. Incidentally, that
7 objection was raised by the Port Authority of the City of
8 Oakland.

9 As to Senate Bill 142, the San Francisco Port Auth-
10 ority, in connection with our general discussions with them,
11 proposed an amendment and would object to Senate Bill 142 only
12 if they were exempted from the application of the act -- again
13 complicating it.

14 In view of the fact that both of these were proposed
15 to clarify, I believe we are in a better position to just let
16 the statutes sit as they are, rather than amend them at this
17 time; and, therefore, recommend that the Commission approve
18 that we do not proceed with the processing of Senate Bills
19 139 and 142 and the staff will continue the discussions with
20 the agencies who raised questions to see if a clarified form
21 cannot be developed for introduction without objection at the
22 next session of the Legislature.

23 MR. CHAMPION: I move authorization of the staff to
24 proceed on that basis.

25 GOV. ANDERSON: Second.

26 MR. GRANSTON: Moved, seconded, made unanimously.

1 MR. CHAMPION: May I ask the status of S.B. 298?
2 As I understand the new report which the Special Senate Research
3 Subcommittee obtained yesterday, it indicated approval of S.B.
4 298 - Rees.

5 MR. HORTIG: Actually of the intent, in terms of
6 suggesting the possible desirability of having the State's
7 lands committed to a unit before the entire operation is of-
8 fered for the very first bid; so in principle this supports
9 the intent of S.B. 298.

10 MR. CHAMPION: Would you take what the report said
11 or the reaction to it as making it possible to proceed with
12 the enactment of S.B. 298?

13 MR. HORTIG: It would be helpful to it and this, I
14 must assume, is one of the considerations which went into the
15 fact that yesterday S.B. 298 was deferred from committee
16 consideration until next Wednesday.

17 MR. CHAMPION: But it is set for next Wednesday.

18 MR. HORTIG: All of the other bills remaining on the
19 list authorized by the State Lands Commission are in various
20 stages of committee approval and none of the other bills have
21 drawn a single objection from any agency or private party.

22 MR. CRANSTON: How about A.C.R. 64 -- Speaker Unruh's
23 study?

24 MR. HORTIG: It has been amended to broader scope
25 and it is still under study as it was amended.

26 MR. CRANSTON: Does that have to be amended before

1 it goes to the Senate?

2 MR. HORTIG: It has not to my recollection been
3 through any Senate committee.

4 MR. CHAMPION: I'd like to raise a question in con-
5 nection with this general subject. We have the memorandum
6 report that we asked the staff for on the bills affecting
7 tidelands, turning them over to local jurisdictions, and it
8 is very clear that there are so many different proposals with
9 conflicting policies there seems to me, at least, to be a need
10 for a general policy on the terms that the Lands Commission
11 would recommend these, accept these, and pass these on an
12 individual basis -- with increasing interest in taking over
13 the revenues in some cases.

14 In some cases it is just a grant; in some cases they
15 want to take certain of the revenues. I'd like to propose
16 that the Commission direct its staff during this time to work
17 on a study -- there is no such proposal before the Legislature
18 but I would hope there would be one -- that there be an interim
19 study on turning over tidelands to local jurisdictions; and
20 that the staff work on the Lands Commission's position to
21 present to such an interim study. Whether this can be done
22 in this session - - It is pretty clear many of these are going
23 to bog down in the rest of the session and such a study would
24 give us a chance to study these carefully.

25 Looking over the list, I was surprised to see the
26 policies listed under some of those proposed grants.

1 GOV. ANDERSON: Are they being handled altogether
2 by the same committee?

3 MR. CHAMPION: Unfortunately not; they are all over
4 the landscape.

5 MR. HORTIG: Generally this is true. Generally,
6 they go to the Senate G.E., but in the Assembly they are apt
7 to pop up anywhere.

8 MR. CHAMPION: I don't think this can be established
9 at this time; but those that are deferred, we ought to get to
10 work on a policy.

11 GOV. ANDERSON: How many are we talking about?

12 MR. HORTIG: I think fifteen.

13 GOV. ANDERSON: Fifteen different communities with
14 different proposals?

15 MR. HORTIG: Some of them are rather far-reaching --
16 as, for example, all the tide and submerged lands including
17 all the State Lands Commission existing leases in an entire
18 county, a county with an extensive waterfront.

19 MR. CHAMPION: Then we have this other proposal that
20 they take over one per cent of all revenues from tidelands and
21 use them for really not a very fixed purpose -- a kind of
22 open purpose; So, in effect, it is an open appropriation to
23 be used almost at the discretion of the community -- even
24 though this is being handled through the State, which is bad
25 budgeting so far as I am concerned.

26 MR. SIEROTY: Mr. Chairman doesn't this also affect

1 the Beaches and Parks program throughout the State? Would we
2 want to include them on the study?

3 MR. CRANSTON: That gets to allocation by the State
4 itself of the revenue, which is certainly a legal question.

5 MR. HORTIG: Additionally, as to the availability
6 of the lands for recreational use under the jurisdiction of
7 the State Division of Beaches and Parks as against local auth-
8 ority after a grant.

9 MR. CRANSTON: Do you want to concur that there be
10 a general study -- staff study of a Commission policy? I
11 think that can be our decision without a formal motion.

12 Do we have a supplemental item?

13 MR. HORTIG: Yes, a supplemental item on page 55
14 of your agenda, gentlemen; and, as pointed out, the United
15 States had -- in an area which was currently under lease or
16 had been under lease from the State, with the lease expiring
17 June 30, 1962 -- an area which had been designated as a camp,
18 which has been upgraded to a fort, a permanent facility.

19 The Army Engineers, as real estate agent for the
20 Army, would desire to obtain fee title to the said lands in
21 the area through the negotiation of an exchange through the
22 Department of Interior, Bureau of Land Management. This, as
23 the Commission is aware, is a time-consuming process and in
24 the interim an offer has been made for the payment for the
25 fiscal year of a rental of \$21,120 -- which is based upon
26 actual appraised value, as against the prior rental which had

1 been determined in 1951 under then existing appraised values
2 and rental schedules of the Commission at only thirteen hundred
3 dollars.

4 Additionally, we have underway a re-appraisal because
5 of the rapid appreciation of values in the area, which would
6 be applicable to future lease rentals during the period of time
7 these exchange negotiations are being consummated; and it is
8 the opinion of the staff that the offer of \$21,120 for the
9 lease rental for the year should be accepted, because it
10 appears fair and equitable, and next year we will be back to
11 the Commission with discussion for rental rates to be applic-
12 able during that year and ensuing years until such time as
13 the negotiation for exchange of lands could be consummated.

14 GOV. ANDERSON: How long would this take? Wouldn't
15 it be to our advantage to make this transfer?

16 MR. HORTIG: This transfer isn't under our control
17 as far as time is concerned, Governor. It depends upon the
18 Bureau of Land Management of the Department of Interior and
19 how fast the U. S. Army Engineers can convince the Bureau.
20 The normal exchange transaction or lieu selection transaction
21 on whatever application before the Commission now takes an
22 average of thirty days of processing in State Lands Division
23 and State Lands Commission -- possibly not in excess of forty-
24 five days before it is in Washington, D.C.; and it is then
25 processed in Washington in an average now of five to six years.

26 GOV. ANDERSON: I am in favor of it.

1 MR. CHAMPION: Second.

2 MR. CRANSTON: Approval moved, seconded, made
3 unaniously.

4 GOV. ANDERSON: I'd like to see us do it as fast as
5 we could, so that we get something in exchange that is worth
6 while.

7 MR. CRANSTON: I believe we are ready for the final
8 item, which is 14 -- Reconfirmation of date, time and place
9 of the next Commission meeting -- Thursday, June 27, 1958
10 at 10:00 a.m. in Los Angeles. There being no further
11 business we now stand adjourned.

12 ADJOURNED 11:25 a.m.

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REPORTER'S CERTIFICATE

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I, LOUISE H. LILLICO, hereby certify that the foregoing fifty-nine pages contain a full, true and correct transcript of the shorthand notes taken by me in the meeting of the STATE LANDS COMMISSION held at Sacramento, California on May 23, 1963.

Dated: Los Angeles, California, May 31, 1963.

Louise H. Lillico