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TRANSCRIPT OF
MEETING
of
STATE LANDS COMMISSION

SACRAMENTO, CALIFORNIA

March 1, 1966

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MEETING OF
STATE LANDS COMMISSION
SACRAMENTO, CALIFORNIA
March 1, 1966

PARTICIPANTS:

THE STATE LANDS COMMISSION:

- Hon. Alan Cranston, Controller, Chairman
- Hon. Glenn M. Anderson, Lieutenant Governor
- Hon. Hale Champion, Director of Finance
- Mr. F. J. Hortig, Executive Officer

APPEARANCE:

- Mr. John Cowan
- Manager of Grey Lodge Waterfowl
Management Area

I N D E X

(In accordance with Calendar Summary)

3	<u>ITEM CLASSIFICATION</u>	<u>ITEM ON</u>	<u>PAGE OF</u>	<u>PAGE OF</u>
4		<u>CALENDAR</u>	<u>CALENDAR</u>	<u>TRANSCRIPT</u>
5	1 Call to order			
6	2 Confirmation of minutes of meeting November 18, 1965			1
7	3 PERMITS, EASEMENTS, RIGHTS-OF-WAY, NO FEE:			
8	(a) State Dept. of Public Works, Div. of Highways	4	1	1
9	(b) "	21	2	1
10	(c) "	19	3	1
11	(d) "	26	4	1
12	(e) County of Humboldt	2	5	2
13	(f) County of Riverside	33	6	2
14	(g) County of Stanislaus	18	12	2
15	(h) City of Martinez	20	13	2
16	(i) Leon O. Mason	37	14	2
17	(j) Ray Shaw	38	15	3
18	(k) U. S. Dept. of Interior Bureau of Reclamation	34	16	3
19	4 PERMITS, EASEMENTS, LEASES, RIGHTS-OF-WAY, FEE:			
20	(a) Sam W. Renner	3	17	3
21	(b) Joseph I. O'Neill, et al	32	18	3
22	(c) Tidewater Oil Company	15	20	4
23	(d) Tidewater Oil Company	17	22	4
24	(e) E.I. DuPont DeNemours & Co.	35	24	4

continued

I N D E X(In accordance with Calendar Summary)
continued

3	<u>ITEM CLASSIFICATION</u>	<u>ITEM ON</u>	<u>PAGE OF</u>	<u>PAGE OF</u>
4		<u>CALENDAR</u>	<u>CALENDAR</u>	<u>TRANSCRIPT</u>
4	PERMITS, EASEMENTS, LEASES, RIGHTS-OF-WAY, FEE continued			
5				
6	(f) Tidewater Oil Company	16	25	4
7	(g) R. W. Cypher	24	27	5
8	(h) Phillips Petroleum Co. et al	22	29	5
9				
10	(i) San Diego Gas & Elec. Co.	41	30	5
11	(j) Standard Oil Co. of Calif., et al	23	31	5
12	(k) Texaco Inc.	10	32	6
13	(l) Union Oil Co. of Calif.	13	33	6
14	5 CITY OF LONG BEACH			
15	(a) Entrance channel Gerald Desmond bridge, etc.	7	34	6
16	(b) Seaside Blvd. Storm Drain	8	38	7
17				
18	(c) THUMS Approval Request 53-65 revised	9	40	7
19	6 LAND SALES AND WITHDRAWALS			
20	(a) Withholding from sale State school lands San Ber- nardino & Contra Costa counties for Dept. Parks and Recreation	12	41	7
21				
22	(b) Sale of Parcels 2 and 3 to County of Placer	11	44	8
23				
24	(c) Withholding from sale 23,500 acres school lands in San Bernardino County for Dept. of Fish and Game	5	46	8
25				
26				

continued

I N D E X
(In accordance with Calendar Summary)
continued

<u>ITEM CLASSIFICATION</u>	<u>ITEM ON</u>	<u>PAGE OF</u>	<u>PAGE OF</u>
	<u>CALENDAR</u>	<u>CALENDAR</u>	<u>TRANSCRIPT</u>
6 LAND SALES AND WITHDRAWALS continued			
(d) Sale 640 acres Imperial County to Dept. Public Works, Div. Highways	1	50	8
7 MINERAL LEASING AND LEASES			
(a) Modified form prospecting permit minerals other than oil and gas and geothermal resources	6	51	8
(b) Modification oil and gas lease form, State-owned uplands and lands under jurisdiction other agencies	30	52	8
(c) Authorization to offer 320 acres Owens Lake, Inyo Co. mineral extraction lease	36	53	9
(d) Authorization offer 200 acres school land, San Luis Obispo County, for oil and gas lease	39	54	9
(e) Authorization offer 320 acres, portion Grey Lodge Waterfowl Management Area in Butte County for oil and gas lease	40	56	9
(f) Authorization offer for oil and gas lease Parcel 33, Ventura County	42	60	12
(g) Authorization offer for oil and gas lease Parcel 34, Ventura County	44	61	12
(h) UNCALENDARED: Rescission moratorium on processing applications for geo- thermal development			11

continued

I N D E X

(In accordance with Calendar Summary)
continued

	<u>ITEM CLASSIFICATION</u>	<u>ITEM ON</u>	<u>PAGE OF</u>	<u>PAGE OF</u>
		<u>CALENDAR</u>	<u>CALENDAR</u>	<u>TRANSCRIPT</u>
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5	8 APPROVAL MAPS & BOUNDARY AGREEMENTS			
6	(a) Map of Grant to City of Oakland, Vicinity of Lake Merritt	28	62	13
7				
8	(b) Boundary agreement with Atlas Chemical Industries Inc. and Bethlehem Steel (San Pablo Bay)	25	63	13
9				
10	9 ADMINISTRATION			
11	(a) Service agreement with City of Avalon	27	65	13
12				
13	(b) Service Agreement with Peralta Jr. College Dist.	14	66	13
14				
15	(c) Service Agreement City of Redondo Beach	29	67	14
16	10 CONFIRMATION TRANSACTIONS OF EXECUTIVE OFFICER	31		14
17	Continental Oil Co.		69	
18	Humble Oil & Refining Co.		68	
19	Pacific Gas & Electric		71	
20	Phillips Petroleum Co.		68	
21	Richfield Oil Corp.		70	
22	Texaco Inc.		70	
23	11 INFORMATIVE - Major Litigation	43	72	14
24	12 NEXT MEETING			22
25	<u>SUPPLEMENTAL</u>			
26	13 Establishment contingency fund L.B. 1966 Plan of Development	45		15
27	14 Second Modification 1966 Plan of Development L.B. Unit	46		18

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I N D E X
(In accordance with Calendar Summary)
continued

ITEM CLASSIFICATION CALENDAR CALENDAR TRANSCRIPT

SUPPLEMENTAL continued

15 Modification of resolution 9/23/65
re limiting bidding on pipe to
pipe manufactured in U.S. for
certain pipe L.B. Unit 47 19

UNCALENDARED

Item 7(h) -- see under that
classification

Proposed legislation re local
leasehold taxes on State
interests in gas contracts 22

1 MARCH 1, 1966 - 2:12 p.m.

2
3 MR. CRANSTON: The meeting will please come to
4 order. Lieutenant Governor Glenn Anderson will be with us
5 shortly and we will proceed meanwhile.

6 First item is confirmation of the minutes of the
7 meeting of November 18, 1965. If there is no objection
8 they will be approved as submitted.

9 Item 3 -- Permits, easements, and rights-of-way to
10 be granted to public and other agencies at no fee, pursuant
11 to statutes. Consideration is the public benefit.

12 (a) State Department of Public Works, Division of
13 Highways -- Temporary right-of-entry permit, ungranted sover-
14 eign land, Eel River, Humboldt County, for removal of de-
15 stroyed bridge structure and related debris.

16 (b) State Department of Public Works, Division of
17 Highways -- Execution of agreement for reservation of a strip
18 of sovereign land as a bridge right-of-way over the Eel
19 River, Humboldt County.

20 (c) State Department of Public Works, Division of
21 Highways -- Acceptance, effective February 24, 1966, of
22 Director's Deed (Quitclaim) conveying leasehold interest in
23 Lease P.R.C. 965.9, covering two parcels of sovereign land in
24 Carquinez Strait, Contra Costa and Solano counties.

25 (d) State Department of Public Works, Division of
26 Highways -- Execution of agreement for reservation of five

1 parcels of sovereign land in the Klamath River, Del Norte
2 County, as right-of-way and for the protection of a State
3 highway.

4 (e) County of Humboldt -- Issuance of 49-year ease-
5 ment, 0.964-acre sovereign land of Eel River, Humboldt County
6 for maintenance of a bridge.

7 (f) County of Riverside -- Termination of Permit
8 P.R.C. 2799.9, Riverside County, effective March 1, 1966, and
9 issuance of 49-year lease, effective March 1, 1966, for three
10 parcels of sovereign land in the Colorado River, Riverside
11 County, totaling 43.808 acres, for construction of a small
12 boat marina with attendant facilities.

13 (g) County of Stanislaus -- Issuance of 49-year
14 easement, 0.275 acre submerged land in the Stanislaus River,
15 Stanislaus and San Joaquin counties, for construction of a
16 bridge.

17 (h) City of Martinez -- Amendment of Lease P.R.C.
18 3194.9, ungranted sovereign land in Carquinez Strait, Contra
19 Costa County, by deleting the legal descriptions and substi-
20 tuting corrected legal descriptions, enlarging the site to
21 178.556 acres, for the development of a harbor.

22 (i) Leon O. Mason -- Extension of term of dredging
23 permit, P.R.C. 2883.9, Bodega Bay, Sonoma County, to December
24 31, 1968, to dredge an estimated 12,000 cubic yards of material
25 from granted tide and submerged lands, without payment of
26 royalty.

1 (j) Ray Shaw -- Extension of term of dredging
2 permit, P.R.C. 2885.9, Bodega Bay, Sonoma County, to
3 December 31, 1968, to dredge approximately 69,882 cubic
4 yards of material from tide and submerged lands, without
5 payment of royalty.

6 (k) U. S. Department of Interior, Bureau of
7 Reclamation -- Issuance of 49-year bridge right-of-way ease-
8 ment over 0.689 acre submerged land, Colorado River, River-
9 side County, for a timber-pile bridge with laminated floor
10 construction.

11 Motion is in order.

12 MR. CHAMPION: Move approval.

13 MR. CRANSTON: Approval is moved, seconded, and
14 made unanimously.

15 4 -- Permits, easements, leases, and rights-of-way
16 issued pursuant to statutes and established rental policies
17 of the Commission.

18 (a) Sam W. Renner -- Issuance of five-year recrea-
19 tional minor-structure permit, 0.016 acre tide and submerged
20 lands, Taylor Slough, Contra Costa County, for floating wharf
21 and walkway; total fee \$25.

22 (b) Joseph I. O'Neill, et al. -- Issuance of
23 15-year lease, 40 acres sovereign lands, Imperial County, for
24 solar-evaporation ponds for storage of geothermal brine and
25 the extraction of minerals therefrom. Unadjusted annual
26 rental of \$200, subject to adjustment on a retroactive basis

1 if State's evaluation during the coming year shows a higher
2 rental is justified.

3 (c) Tidewater Oil Company -- Issuance of 15-year
4 lease, 16.0 acres tide and submerged land in Suisun Bay,
5 Contra Costa County, effective December 19, 1961, and cancel-
6 lation of right to renew Lease P.R.C. 187.1. Annual rental
7 at unadjusted rate of \$999.64 until a firm rental figure is
8 established, at which time retroactive adjustment is to be
9 made.

10 (d) Tidewater Oil Company -- Issuance of 15-year
11 lease, effective July 26, 1964, 10.635 acres ungranted sover-
12 eign land, Suisun Bay, Contra Costa County, and cancellation
13 of right to renew Lease P.R.C. 419.1. Annual rental at un-
14 adjusted rate of \$385 until a firm rental figure is estab-
15 lished, at which time retroactive adjustment is to be made.

16 (e) E. I. DuPont DeNemours and Company -- Amendment
17 of Lease P.R.C. 2986.1, parcel of sovereign land, San Joaquin
18 River, Contra Costa County, by deleting the date of December
19 31, 1965, and substituting therefor the date of December 31,
20 1968.

21 (f) Tidewater Oil Company -- Amendment and renewal
22 of Lease P.R.C. 272.1, covering two strips of tide and sub-
23 merged lands in Monterey Bay, Monterey County, renewing lease
24 for a period of ten years from November 25, 1961. Annual
25 rental at unadjusted rate of \$132 until a firm rental figure
26 is established, at which time retroactive adjustment is to

1 be made.

2 MR. HORTIG: Mr. Chairman, in connection with
3 Item (f), the record should indicate that it is understood
4 that one of the elements in connection with the establishment
5 of the rental which will be part of the retroactive adjust-
6 ment when determined revolves around the specified problem
7 of evaluating charges for mooring buoy areas, in addition to
8 the right-of-way easements over the tidelands reflected in
9 this item.

10 MR. CRANSTON: Item (g) -- R. W. Cypher -- One-
11 year extension of Prospecting Permit P.R.C. 3088.2, Imperial
12 County, through March 17, 1967.

13 (h) Phillips Petroleum Company, et al. -- Deferment
14 of drilling requirements, Oil & Gas Lease P.R.C. 2933.1,
15 Santa Barbara County, through October 24, 1966, to permit
16 further review and evaluation of geological and geophysical
17 data, and the obtaining of needed additional reservoir per-
18 formance data.

19 (i) San Diego Gas and Electric Company -- Deferment
20 of operating requirements, Mineral Extraction Lease P.R.C.
21 2094.1, San Diego Bay, San Diego County, for the lease year
22 ending March 9, 1966. Additional future dredging will be
23 necessary to provide ample cooling water for five generating
24 units to be constructed.

25 (j) Standard Oil Company of California, et al. --
26 Deferment of drilling requirements, Oil & Gas Lease P.R.C.

1 2198.1, offshore Santa Barbara County, through October 13,
2 1966, to process seismic data and integrate it into the study
3 of geological data obtained from four wells previously
4 drilled.

5 (k) Texaco Inc. -- Deferment of drilling require-
6 ments, Oil & Gas Lease P.R.C. 2725.1, Santa Barbara County,
7 through October 11, 1966. (Awaiting final results of seismic
8 work that will not be available before mid-April, after which
9 it will be necessary to prepare a coordinated geological-
10 geophysical interpretation thereof.)

11 (l) Union Oil Company of California -- Deferment
12 of drilling requirements, Oil & Gas Lease P.R.C. 2879.1,
13 Santa Barbara County, through October 11, 1966. Company is
14 experiencing difficulty in negotiating for necessary rights-
15 of-way in order that oil discovered may be produced and
16 transported to market.

17 If no one wishes to be heard on these, a motion is
18 in order. (No response)

19 MR. CHAMPION: Move approval.

20 MR. GRANSTON: Approval is moved, seconded, and so
21 ordered.

22 5 -- City of Long Beach -- Pursuant to Chapter 29/56,
23 1st E. S. and Chapter 138/64, 1st E. S.

24 (a) Determination that adjusted estimated expendi-
25 tures of \$18, 20,000 proposed by the City of Long Beach from
26 its share of tideland oil revenues, for construction of the

1 entrance channel (Gerald Desmond) bridge, the purchase of
2 necessary right-of-way, and the compensation for and altera-
3 tion of oil facilities, is in accordance with Chapter 138/64
4 1st E. S.

5 (b) Approval of costs proposed to be expended, in-
6 cluding subsidence remedial work, on the Seaside Boulevard
7 Storm Drain (2nd Phase), in the estimated amount of \$63,000,
8 with \$35,280 (56%) estimated as subsidence costs, for the
9 period March 1, 1966, to termination.

10 (c) Approval of action taken by Executive Officer,
11 consenting to request for approval of procedures related to
12 modification of the 1966 Plan of Development and Operations
13 and Budget for the Long Beach Unit, as outlined in THUMS
14 Approval Request 53-65 (Revised).

15 Any comment on those items? (No response)

16 MR. CHAMPION: Move approval.

17 MR. CRANSTON: Approval is moved, seconded, so
18 ordered.

19 6 -- Land sales and withdrawals -- cleared with all
20 State agencies having a land acquisition program.

21 (a) Authorization for withholding from public sale
22 for one year, for possible purchase by the Department of
23 Parks and Recreation, of State-owned school lands, San Ber-
24 nardino and Contra Costa counties, as listed on Exhibit "A"
25 except for Section 36, T. 4 N., R. 25 E., S.B.M. which is
26 within exterior boundaries of the Chemehuevi Indian Reservation,

1 the sale of which is prohibited by the Public Resources Code.

2 (b) Authorization for sale, without advertising, to
3 the County of Placer, at appraised prices of \$2,172.00 and
4 \$1,178.40, respectively, for Parcels Nos. 2 and 3, containing
5 a total of 120 acres State school lands in Placer County.

6 (c) Authorization for withholding from public sale
7 for two years, pursuant to request of the State Department of
8 Fish and Game, 5,600 acres State school lands, San Bernardino
9 County.

10 MR. HORTIG: Excuse me, Mr. Chairman, that should
11 read 23,500 acres instead of 5,600. A corrective page was
12 sent to your office.

13 MR. CRANSTON: (d) Authorization for sale, without
14 advertising, to the State Department of Public Works, Division
15 of Highways, 640 acres State school lands, Imperial County,
16 for appraised price of \$22,400.

17 Does anyone wish to be heard on those items? If
18 not, a motion is in order.

19 MR. CHAMPION: Move approval.

20 MR. CRANSTON: Approval is moved, seconded, and so
21 ordered.

22 Item 7 -- Mineral Leasing and Leases:

23 (a) Approval and adoption of modified form of pros-
24 pecting permit for minerals other than oil and gas and geo-
25 thermal resources.

26 (b) Approval and adoption of modification of form of

1 oil and gas lease, State-owned upland areas including school
2 lands and lands under the jurisdiction of other State
3 agencies.

4 (c) Authorization for Executive Officer to offer
5 320 acres sovereign land in the dry bed of Owens Lake, Inyo
6 County, for mineral extraction lease, at annual rental of
7 \$2.50 per acre and a minimum royalty rate of 60¢ per ton
8 (pursuant to application received).

9 (d) Authorization for Executive Officer to offer
10 200 acres vacant State school land, San Luis Obispo County,
11 for oil and gas lease. (State Grazing Lease P.R.C. 2753.2
12 covers these lands.) (Pursuant to application received.)

13 (e) Authorization for Executive Officer to offer
14 320 acres of land, comprising a portion of the Grey Lodge
15 Waterfowl Management Area, Butte County, for an oil and gas
16 lease. (Pursuant to application received.)

17 MR. HORTIG: Mr. Chairman, I have received a
18 request from Mr. John Cowan, Manager of the Grey Lodge
19 Waterfowl Management Area, to make a comment with respect
20 to this item.

21 MR. CRANSTON: All right. Is he present?

22 MR. COWAN: Mr. Chairman, we would like to suggest
23 that the granting of this lease be delayed to, say, approxi-
24 mately July -- if it is going to be granted -- in that we
25 have a rather unusual situation right in the location where
26 it is proposed that they drill the well.

1 We have an egret, a snowy egret, and a black crown
2 night heron in a nest rookery -- and this may be the only one
3 in the whole Sacramento Valley; and their numbers are rare and
4 we think the disturbance - - we propose a delay to July first
5 so there will be no disturbance to the nesting rookery.

6 MR. CRANSTON: You have no objection after that
7 time?

8 MR. COWAN: No. I think the young would be satis-
9 factory, would be large enough to care for themselves without
10 the adults and our hunting there is under control -- public
11 shooting wouldn't start until late in October. This would
12 give them approximately four months to carry this out and we
13 would hope they could start about the first of July, if this
14 could be arranged and that is your pleasure.

15 MR. HORTIG: Mr. Chairman, inasmuch as this lease
16 will have to be awarded pursuant to competitive bidding, the
17 advertising time can well be adjusted and perhaps would con-
18 sume to July 1st in any event.

19 We had not heard of this problem of the manager of
20 the wildlife area until it was just reported and, particularly,
21 we were concerned because this entire item had been cleared
22 with the State Department of Fish and Game before it was
23 calendared. So apparently the news of the eggs hatching came
24 late.

25 We can cooperate.

26 MR. CHAMPION: There isn't any reason why you

1 couldn't actually have in your bid specs that you would give
2 them access after July 1st.

3 MR. CRANSTON: With the understanding that will be
4 done, we will proceed.

5 MR. COWAN: All right, fine. I might say we have
6 fairly good access roads available, so they shouldn't have
7 any problem constructing additional roads in this location.

8 Thank you.

9 MR. CRANSTON: On this item, it will be understood
10 the staff will see to it that there is that time sequence
11 followed.

12 Did you have something else, Frank?

13 MR. HORTIG: Since we are in the subject of
14 mineral leasing and leases, it might be just as appropriate
15 to insert at this time a non-agenda item.

16 The Commission will recall that on January 26th,
17 pursuant to request from the Senate Factfinding Committee on
18 Natural Resources, a moratorium was imposed upon the process-
19 ing of any applications, permits or leases for the development
20 of geothermal resources.

21 The Chairman has received the following letter
22 from the Senate Factfinding Committee on Natural Resources,
23 Fred S. Farr, Chairman, dated February 21, 1966:

24 "Honorable Alan Cranston
25 Chairman, State Lands Commission
26 State Capitol
Sacramento, California

1 "Dear Mr. Cranston:

2 In view of the progress toward achiev-
3 ing basic agreement on the form of legisla-
4 tion for permits and leases on State lands
5 for the development of geothermal resources,
6 I feel that there would be no further need
7 to continue the moratorium on processing
8 of applications, permits and leases for this
9 purpose and, therefore, request that such
10 moratorium be lifted.

11 Thank you for your cooperation.

12 Sincerely,

13 Fred S. Farr"

14 Pursuant to this request, it is the staff recom-
15 mendation that the Commission rescind the moratorium of
16 January 26th in order that the staff may proceed with the
17 processing of pending applications for presentation at the
18 regular March meeting of the Lands Commission.

19 MR. CRANSTON: Shall we include such an item as
20 (h) here in the classification of mineral leasing and leases?
21 Without objection that will be included in Item 7.

22 Item (h) has been read by Frank, in effect.

23 Item (f) is authoriz ation for Executive Officer to
24 offer 4,570 acres tide and submerged lands, Ventura County,
25 for an oil and gas lease - W.O. 6033 (Parcel 33).

26 (g) Authorization for Executive Officer to offer
5,305 acres tide and submerged lands, Ventura County, for an
oil and gas lease -- W.O. 6070 (Parcel 34).

A motion is in order on this item classification 7,
including the time sequence indicated on item (e) and the

1 additional item, (h).

2 MR. CHAMPION: I will move.

3 MR. CRANSTON: Approval is moved, seconded, and
4 so ordered.

5 8 -- Approval of maps and boundary agreements:

6 (a) Authorization for Executive Officer to approve
7 and have recorded Sheets 1 and 2 of 2 of maps entitled "Map
8 of the Grant to the City of Oakland, Vicinity of Lake Merritt,
9 Alameda County, California," dated June 1965.

10 (b) Authorization for Executive Officer to execute
11 a boundary line agreement with Atlas Chemical Industries, Inc.
12 and Bethlehem Steel Corporation for the purpose of establish-
13 ing a permanent common boundary between properties of said
14 corporations and the adjacent sovereign lands owned by the
15 State, in San Pablo Bay, in the vicinity of Point Pinole,
16 Contra Costa County.

17 MR. CHAMPION: Move approval.

18 MR. CRANSTON: Approval is moved, seconded, so
19 ordered.

20 Classification 9 -- Administration:

21 (a) Authorization for Executive Officer to execute
22 service agreement with the City of Avalon, Los Angeles County,
23 for surveying and platting services to be rendered the City
24 pursuant to the provisions of Chapter 1884/63, at the Commis-
25 sion's actual costs but not to exceed \$1700.

26 (b) Authorization for Executive Officer to execute

1 service agreement with the Peralta Junior College District,
 2 County of Alameda, for surveying and platting services to be
 3 rendered pursuant to the provisions of Chapter 1737/65, at
 4 the Commission's actual costs but not to exceed \$500.

5 (c) Authorization for Executive Officer to execute
 6 service agreement with the City of Redondo Beach, County of
 7 Los Angeles, for surveying and platting services pursuant to
 8 the provisions of Chapter 57/1915, at the Commission's actual
 9 costs but not to exceed \$980.

10 Motion is in order.

11 MR. CHAMPION: Move approval.

12 MR. CRANSTON: Approval is moved, seconded, so
 13 ordered.

14 10 -- Confirmation of transactions consummated by
 15 the Executive Officer pursuant to authority confirmed by the
 16 Commission at its meeting of October 5, 1959.

17 Did you consummate anything, Frank?

18 MR. HORTIG: Only the granting of extensions for
 19 existing geological and geophysical exploration permits pre-
 20 viously approved by the Commission, and the acceptance of a
 21 rescission of a lease not required by the Pacific Gas and
 22 Electric Company for a pipeline location which will not be
 23 utilized.

24 MR. CHAMPION: Move approval.

25 MR. CRANSTON: Second, and so ordered.

26 11 -- Informative only, no Commission action

1 required. (a) Report on status of major litigation.

2 MR. HORTIG: I would like to amplify, for the bene-
3 fit of the Commission, with respect to the case of the City
4 of Morro Bay versus the County of San Luis Obispo and the
5 State of California, as reported on page 73 of your agenda,
6 allegations having been made by the City of Morro Bay in con-
7 nection with the type of administration over the granted tide
8 and submerged lands, these allegations are now under review
9 by the staff of the State Lands Division from a technical and
10 audit standpoint, with the full cooperation of the City of
11 Morro Bay and the County of San Luis Obispo, in order to
12 determine their applicability or utility in the litigation
13 as it has been filed.

14 MR. CRANSTON: We have three supplemental items:

15 Item 13 -- Approval of action by the Executive
16 Officer, consenting to the First Modification of the 1966
17 Plan of Development and Operations and Budget, Long Beach
18 Unit, for the establishment of a contingency fund in the
19 amount of \$1,255,000 in the 1966 Budget.

20 MR. HORTIG: If I may, Mr. Chairman, stress the
21 fact that this is a re-allocation of funds, both from effect-
22 ively the 1965 budget and funds already approved in the 1966
23 budget, which it is now realized will not actually be used
24 for the purpose for which they are allocated. The total
25 amount of the budget approved by the State Lands Commission
26 is not being augmented and is not being modified.

1 The advantages of having such a contingency fund
2 will be more evident to the Commission in consideration of
3 the next succeeding item, where additional moneys are necess-
4 ary for a particular category because the bids received for
5 the authorized operation were received at a cost that indi-
6 cates about an increase of \$225,000 necessary to carry out
7 the operation.

8 Also, the establishment of this contingency fund
9 is a convenient and assured method of operation for the
10 operator at times when bids have to be awarded in between
11 State Lands Commission meetings, still subject to approval
12 and specific control over each of the items.

13 MR. CHAMPION: Now, Frank, I have some problems on
14 the operation of this contingency fund. I haven't had a
15 chance to discuss them with the staff before this -- there
16 may be no real problem; but, as I understand it, fundamen-
17 tally the Lands Commission sets its policy on the economic
18 development of this field with its primary concern being the
19 economic aspects of it in acting on the budget.

20 MR. HORTIG: That is correct.

21 MR. CHAMPION: And when we set up a contingency
22 fund of this kind that is not subject to our decision, aren't
23 we in the position of having an action possibly taken that
24 really precludes decision by this Commission as to whether or
25 not that is the economic way to handle it?

26 MR. HORTIG: No, sir -- because the contingency

1 fund is there in order to provide a reservoir from which
2 approved new projects within the budget total can be approved
3 by the State Lands Commission.

4 MR. CHAMPION: In other words, they cannot be spent
5 for anything not specifically in the budget. It can be used
6 only in the scope and to the degree to which we have committed
7 ourselves in the budget. So what we have in this contingency
8 budget is only for cost changes.

9 MR. HORTIG: It is for cost changes or item changes.

10 MR. CHAMPION: What is an item-type change?

11 MR. HORTIG: For an expenditure not in the budget
12 it requires approval.

13 MR. CHAMPION: You mean within the approved budget
14 there can be an augmentation? I don't know - - what is the
15 difference between an augmentation for one purpose or a
16 switch from one purpose to another?

17 MR. HORTIG: This provides a reservoir that will
18 provide funds for any approved change order that is approved
19 by the State Lands Commission, without the necessity of also
20 having to go back and change and process a budget modification.

21 MR. CHAMPION: Give me an example. I follow you
22 now. Give me an example of a change order.

23 MR. HORTIG: The very best example is the next
24 agenda item that appears on page 75, wherein having found
25 that establishing facilities that are approved in the budget,
26 when bids were received for establishing them it is going to

1 cost \$225,000 more and we have under this contingency fund
2 provided for funds originally allocated to use for tubular
3 goods products to be expended in 1965.

4 MR. CHAMPION: Frank, I don't care about running
5 through all that. All I am trying to establish is a rela-
6 tively simple problem -- augmentation out of a contingency
7 fund; but you are also saying you want to have a change
8 order, but the character of the change order requires approval
9 of the Commission. So if they should ask for a change in the
10 detail, we would approve that change order and then only
11 could money be spent for that new purpose already approved
12 by the Lands Commission for that change order?

13 MR. HORTIG: That's correct.

14 MR. CRANSTON: Are you satisfied?

15 MR. CHAMPION: Move approval.

16 MR. CRANSTON: Approval is moved, seconded and
17 approved unanimously.

18 Item 14 -- Approval of action by the Executive
19 Officer, consenting to the Second Modification of the 1966
20 Plan of Development and Operations and Budget, Long Beach
21 Unit, to apply the additional amount of \$225,000 for marine
22 facilities against the contingency fund established in the
23 1966 Budget.

24 MR. HORTIG: Here is your specific approval before
25 the contingency fund can be tapped.

26 MR. CHAMPION: O.K., fine. Move approval.

1 MR. CRANSTON: Moved, seconded, so ordered.

2 Finally, Supplemental Item 15 -- Modification of
3 resolution of September 23, 1965, to permit the Field Con-
4 tractor for the Long Beach Unit, Wilmington Oil Field, to
5 limit bidding to pipe manufactured in the United States on
6 line pipe required for construction of submarine pipelines
7 for the four offshore islands.

8 Frank, would the arguments used here apply to
9 other pipeline products in the area and what total of the
10 possible pipeline purchases are contemplated by this item?

11 MR. HORTIG: Relatively minor portion. As shown
12 on page 1 of the supplemental item, the THUMS Long Beach Com-
13 pany is presently soliciting bids for approximately \$400,000
14 worth of line pipe and timing is critical because these are
15 the submarine pipelines that are to be installed from the
16 islands, islands already under construction, and the line
17 pipe has to be available; whereas, as we discussed before,
18 the ultimate cost of the pipe to go down in the oil wells
19 is many millions of dollars.

20 Additionally, the problem is that if the pipe
21 that is down in the well leaks underground, this does not
22 cause any type of contamination of the ocean or of the beach.

23 MR. CHAMPION: Let me ask you this: When we had
24 all this discussion before, I thought everything we discussed
25 met A.P.I. standards. Are you saying that this foreign line
26 pipe is not in that category?

1 MR. HORTIG: No, not at all; but the A.P.I.
2 standards are minimal and pipe may be available that is
3 actually superior to A.P.I. standards, and it is felt that
4 in a critical application, where oil could be spilled either
5 in the ocean or on the beach, such superior pipe should be
6 purchased if it is available.

7 Additionally, as the Attorney General's Office has
8 pointed out to us, manufacturers' warranties and liability
9 for breakage of pipe under these circumstances, where properly
10 installed, would be much more easily enforceable against
11 a domestic manufacturer than against a foreign manufacturer;
12 and this knowledge, in turn, it is felt would prompt domestic
13 suppliers to furnish superior materials to guarantee effective
14 operation.

15 MR. CHAMPION: This comes up very quickly and we
16 went through a whole lot of things on this subject and suddenly
17 we are getting a new kind of plea that was never heard
18 during the course of those whole discussions.

19 (Governor Anderson came into meeting at this point)

20 MR. CHAMPION (continuing): Have you made any
21 engineering investigations to satisfy you that this is a
22 genuine problem? Have you explored the cost alternatives
23 involved -- how much we are paying for some additional amount
24 of protection that may or may not be required?

25 I don't want to question the engineering department
26 but it seems to me all of a sudden, in a supplementary item,

1 we are being asked to act on something on which we spent a
2 lot of time on policy, and I am hesitant, unless you can
3 satisfy me today.

4 I would prefer this item go over. I realize you
5 have a time problem.

6 MR. HORTIG: Even so, I have another suggestion. I
7 am going to ask the Commission for another meeting date, pos-
8 sibly around March 10th, in connection with the award of lease
9 on Tract 2 of the Long Beach Unit.

10 I would much prefer to give the Commission a report
11 and analysis of these questions you have raised if we can
12 have such a special early meeting date, rather than to insist
13 on consideration of this matter today in the light of your
14 questions, Mr. Champion.

15 MR. CRANSTON: I feel the same way. I have not had
16 time to consider this. We did go through a long hearing
17 before.

18 GOV. ANDERSON: It is unanimous.

19 MR. HORTIG: That being the case, then, may I
20 request at this time, Mr. Chairman ...

21 MR. CHAMPION: I will simply move to defer it until
22 a special meeting on March 10th, or, in the alternative...

23 MR. HORTIG: A date to be found satisfactory with
24 your offices, but within the next two weeks.

25 MR. CHAMPION: I would really like March 10th. I
26 have something to do that day that I don't want to do.

1 MR. CRANSTON: No, not March 10th.

2 Final item, if there is nothing else to come before
3 us, is reconfirmation of date, time and place of next regular
4 meeting, which I believe is March 31st, ten o'clock, at
5 Sacramento.

6 MR. CHAMPION: I have another matter which I would
7 like to place before the Commission for its consideration and
8 I think, probably for action at the special meeting would be
9 time enough; and that concerns the question of the proposed
10 legislation to provide relief to the State of local leasehold
11 taxes on the State's interest in the gas contracts.

12 I will provide, or ask the staff to provide to the
13 other members (I am expressing this interest as the Director
14 of Finance) a proposed piece of legislation and analysis of
15 the legislation.

16 Fundamentally, what it calls for - - First let me
17 outline what I consider the problem to be. There is now a
18 legal line to be followed in certain law suits, which if up-
19 held by the courts would divert a minimum of one hundred
20 thirty-five million dollars of what was contemplated as State
21 revenue at the time of the settlement with Long Beach into
22 local funds in the thirty-five year life of the contract, and
23 most of that diversion will come early in the life of the
24 contract.

25 Now, what is involved here is the assessment. As
26 long as we hold these interests in our own name, they are not

CERTIFICATE OF REPORTER

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I, LOUISE H. LILLICO, reporter for the Office of Administrative Procedure, hereby certify that the foregoing twenty-three pages contain a full, true and accurate transcript of the shorthand notes taken by me in the meeting of THE STATE LANDS COMMISSION held in Sacramento, California, on March 1, 1966.

Dated: Los Angeles, California, March 2, 1966.

Louise H. Lillico