

A meeting of the State Lands Commission was held in the office of the Department of Finance, State Capitol, Sacramento, at 2 o'clock P. M., June 3, 1940.

Present were:

John R. Richards, Chairman,
Ellis E. Patterson, Member,
Harry B. Riley, Member.

The Executive Officer requested action by the Commission upon minutes of meeting held May 27, 1940.

Upon motion of Mr. Patterson, seconded by Mr. Riley, and un-animously carried, the minutes of the meeting of the Commission held in Sacramento on May 27, 1940, were approved and confirmed as submitted.

The Commission's attention was next directed to further consideration of bids of the Calaveras Cement Company, a corporation, and Standard Oil Company of California, a corporation, to enter into an agreement with the State of California through the State Lands Commission to extract gas from lands under the jurisdiction of the State Lands Commission at and in the vicinity of Rio Vista, California.

Prior to the meeting, each member was furnished with a copy of supplemental report by Dr. E. K. Soper, Consultant of the Commission, in which he concluded that the bid of the Standard Oil Company of California was the higher bid, and he recommended that said bid be accepted. The said report was ordered filed.

The attention of the Commission was called to a communication of Calaveras Cement Company dated May 28, 1940, together with a map purporting to show the amounts which each of the bidders would pay to the State for gas extracted from said State lands and to a proposal of the Calaveras Cement Company, a corporation, to quitclaim to the State a portion of the State lands in the event that company should be awarded the agreement.

The Commission then heard from Louis J. Brunel of the Bishop Oil Company and H. C. Maginn of Calaveras Cement Company, upon behalf of the Calaveras Cement Company, a corporation, and J. Howard Marshal III of Messrs. Pillsbury, Madison and Sutra, Ernest Lawson and J. H. Thacher of the Standard Oil Company of California, in support of bid of Standard Oil Company of California.

The Executive Officer was then requested to report upon the bids to the Commission and thereupon reported as follows:

"From the analysis of Dr. E. K. Soper, Consultant to the Commission, and from our own study of the bids received from Calaveras Cement Company, a corporation, and Standard Oil Company of California, a corporation, to extract gas from State lands in the Rio Vista Gas Field, it appears that the

bid of the latter company is the higher in that a greater return will come to the State from the inception of the contract and for the entire period gas would be produced from the field. The Commission therefore has two alternatives as follows:

1. It must accept the bid of the Standard Oil Company of California, and reject the bid of the Calaveras Cement Company, or,
2. It must reject both bids.

"Whether the State would be able to obtain a higher bid should the Commission decide to reject all bids, of course, is not known. It could be said that 51% plus of the net profits is not sufficient to the State since the investment of the bidder would be relatively little as compared to similar oil well developments. It can be stated that this is the highest bid the State of California has ever received and, of course, is substantially higher than royalties now being paid to private parties and one State agency in the field which are in the neighborhood of 12½%."

Upon the conclusion of the reading of the report of the Executive Officer, the Chairman stated that the "State Lands Act of 1938" requires the Commission to secure the largest amount possible to the State of California, that any award must be made to the highest bidder, and the members of the Commission should accept the higher bid and reject the lower bid, or reject both bids.

Mr. Riley put the following resolution:

RECITAL:

Pursuant to notice of intention of the State Lands Commission to enter into an agreement for the extraction of gas from lands of the State of California under the jurisdiction of the State Lands Commission at and in the vicinity of Rio Vista, California, published in accordance with law, bids were received from Calaveras Cement Company, a corporation, and Standard Oil Company of California, a corporation, which bids were opened at a meeting of the State Lands Commission held May 21, 1940, in the office of the Department of Finance, State Capitol, Sacramento, California. It appears that the bid of Standard Oil Company of California, a corporation, is the higher bid received by the Commission, and it further appears that said Standard Oil Company of California, a corporation, has met all of the requirements of the "State Lands Act of 1938" and said notice of this Commission. It further appears that the bid of Calaveras Cement Company, a corporation, is the lower bid.

NOW THEREFORE BE IT RESOLVED That the bid of Standard Oil Company of California, a corporation, be accepted as submitted, and

BE IT FURTHER RESOLVED That the bid of Calaveras Cement Company, a corporation, as submitted be and the same is hereby rejected, and

BE IT FURTHER RESOLVED That the Attorney of the Division of State Lands be and he is hereby authorized, empowered and directed, to execute upon behalf of the State Lands Commission of the State of California, with Standard Oil Company of California, a corporation, that certain Agreement for Easement No. 415, Rio Vista, constituting the bid of said Standard Oil Company of California, a corporation, and to approve upon behalf of the State Lands Commission of the State of California, that certain contract entered into between Standard Oil Company of California, a corporation, and Pacific Gas and Electric Company, a corporation, dated May 16, 1940, for the disposition of gas to be produced from said State lands pursuant to said Agreement for Easement No. 415, Rio Vista, and

BE IT FURTHER RESOLVED That the Attorney be and he is hereby authorized, empowered and directed, to do any and all things necessary to effectuate the intentions and purposes of this resolution and the "State Lands Act of 1938" insofar as applicable thereto.

The roll was called and the resolution was adopted by the following vote:

Ayes - Ellis E. Patterson
Harry B. Riley
John R. Richards

Noes - None

The attention of the Commission was called to application of Calaveras Cement Company, a corporation, for easements to lay pipe lines for the transportation of gas under and over those certain navigable streams as follows:

1. Sacramento River, northeast of Isleton;
2. Georgiana Slough, northeast of Isleton;
3. North Fork of Mokelumne River, approximately four and one-half miles easterly from Isleton;
4. South fork of Mokelumne River, approximately two and one-half miles northerly from Terminous, California.

Appearing upon behalf of the Calaveras Cement Company, a corporation, were Louis J. Brunel and H. C. Maginn, and appearing upon behalf of the Standard Oil Company of California and other operators in the Rio Vista Gas Field was J. Howard Marshal, III, Esq., of Messrs. Pillsbury, Madison and Sutro. Upon the conclusion of the discussion, the Chairman called upon the Executive Officer to give his report, which the Executive Officer delivered as follows:

"The Calaveras Cement Company has had on file with the State Lands Commission for sometime an application for pipe line crossing easements under three rivers and one navigable slough of the State for the purpose of transportation of gas from the Rio Vista Gas Field to the plant of the applicant at San Andreas.

"The Commission is familiar with an agreement made between the Reclamation Board and the Calaveras Cement Company whereby the former would be paid compensation for a short pipe line crossing at the rate of 1/8 royalty on all gas transported through the line except such gas as would be produced from State lands. This agreement, should it become operative, would in a measure compensate the Reclamation Board on account of low royalty leases heretofore made by it, however, such an agreement would not be in the public interest insofar as the State Lands Commission is concerned and would be wholly incompatible with the proposed program of development of State lands under the jurisdiction of the State Lands Commission.

"Assume the State Lands Commission should enter into an agreement with X for the extraction of gas from the Rio Vista Gas Field at a fixed royalty to the State, it would thereby commit all of the State lands within the gas field to the State's lessee or grantee. It could not, therefore, with propriety, enter into another agreement whereby crossings would be granted with the result that gas to which the State's lessee or grantee would be entitled would be drained from the field.

"Much thought has been given this problem and there appears but one fair solution, to wit: That the State Lands Commission grant the easements to the Calaveras Cement Company and insert in such easements a condition that until otherwise provided by law, the Grantee of the easement shall never produce, or transport through such pipe line, a total quantity of gas greater than the ratio of its acreage to the entire acreage in the gas field except such gas as the Grantee may purchase in the field which could also be transported through the pipe line without violation of the condition."

Following further discussion and consideration by members of the Commission, motion was made by Mr. Patterson, seconded by Mr. Riley, and unanimously carried, that no action be taken at this time upon said applications but that Dr. E. K. Soper, Consultant of the Commission, be instructed to study the gas requirements of the Calaveras Cement Company, a corporation, and to endeavor to recommend a program which the Commission could adopt and which would not result in a taking of gas by the Calaveras Cement Company from the Rio Vista Gas Field in excess of the ratio of the ownership of lands in the Rio Vista Gas Field by Calaveras Cement Company compared to the entire acreage in the producing gas field.

Upon motion of Mr. Patterson, seconded by Mr. Riley, by resolutions adopted by unanimous vote, the Executive Officer was authorized and directed to perform the acts, and his acts were approved and confirmed as follows:

1. Give notice of cancellation to lessees of State Oil and Gas Leases Nos. 169 and 170 for failure to perform drilling requirements specified in Sub-division (b) of Section 2 of said lease, to furnish monthly statements as required by Sub-division (e) of Section 2 of said lease and to exercise reasonable diligence in the drilling and operation of wells as contained in Sub-division (h) of Section 2 of said lease, with respect to Lease No. 169, and for failure to perform

drilling requirements specified in Sub-division (b) of Section 2 of said lease, to pay the royalties due the State of California at the time and in the manner as provided in Sub-division (c) of Section 2 of said lease and to exercise reasonable diligence in the drilling and operation of a well or wells drilled upon the demised premises in accordance with requirements contained in Sub-division (h) of Section 2 of said lease, with respect to Lease No. 170.

2. Give notice of cancellation to grantee of Agreement for Easement No. 327, Huntington Beach, for failure to produce oil and gas in accordance with the terms of the said agreement.

3. Issuance of certificate to Governor requesting that patent be issued under Application No. 10260, Los Angeles Land District, to City of San Diego.

4. Sale of 80 acres covering the S $\frac{1}{2}$ of SW $\frac{1}{4}$ of Section 17, T. 14 S., R. 1E., S. B. M., to City of San Diego, with permission to select said land from the United States and sell it to the City of San Diego.

5. Sale to the Division of Highways of the State of California at \$6.00 per acre of the SE $\frac{1}{4}$ of NW $\frac{1}{4}$ of Section 36, T. 35 N., R. 1 W., M. D. M., under Application No. 4501, Sacramento Land District.

6. Negotiate a renewal of State Mineral Lease No. 15 for a period of ten years and to report the result of such negotiations to the Commission when completed.

7. Issuance of grazing leases Nos. 742, 743, 744, 745 and 746 to C. F. Hammond, A. H. Newman, Rees T. Jenkins Land & Livestock Company, Jose Bicondoa and J. C. Ramelli, respectively.

The Executive Officer told the Commission that accountants of the Department of Finance headed by Clarence Malm, who have been studying the organization of the Division of State Lands for sometime, have not recommended the employment of an auditor with a background of oil and gas operations and at a salary commencing at \$175.00 per month. After discussion, Mr. Riley moved, Mr. Patterson seconded, and it was unanimously carried, that a resolution be adopted authorizing and directing the Executive Officer or Clarence Malm, Accountant in the Department of Finance, to appear before the State Personnel Board and present this resolution to said board requesting the establishment of a classification for auditor experienced in oil and gas operations at a salary of approximately \$175.00 a month.

There being no further business to come before the Commission, the meeting was adjourned.