

UPON MOTION DULY MADE AND UNANIMOUSLY CARRIED, IT WAS RESOLVED TO DEFER ACTION WITH RESPECT TO REVISION OF RENTAL RATES TO BE CHARGED FOR STATE LANDS TO BE OCCUPIED UNDER PERMITS ON LAKE TAHOE; IT WAS FURTHER RESOLVED THAT MR. MARION B. PLANT BE ALLOWED FIFTEEN DAYS AFTER RECEIPT BY HIM OF A COPY OF THE REPORT ON PERMITS ISSUED FOR STRUCTURES AND OPERATIONS ON NONTIDAL NAVIGABLE WATERS IN WHICH TO SUBMIT A REVISED BRIEF; UPON RECEIPT OF SUCH BRIEF, THE EXECUTIVE OFFICER IS TO REQUEST THE ATTORNEY GENERAL FOR AN OPINION ON ALL NEW QUESTIONS SUBMITTED OF A LEGAL NATURE.

35. (PROPOSED OIL AND GAS LEASE, TIDE AND SUBMERGED LANDS, RINCON AREA, VENTURA COUNTY - H.C. 1436.) The following calendar item was submitted for consideration: X

"On June 30, 1954, seven bids were received in response to a published notice of intention of the State Lands Commission to receive offers to enter into a lease for the extraction of oil and gas from 1,175 acres of tide and submerged lands in the Rincon Area, Ventura County. Publication of this offer was authorized by the Commission February 9, 1954 (Minute Item 2, pages 1960-61). A resumé of the compliance by the bidders with the specified bid conditions is attached. It is to be noted that complete compliance with all specified bid conditions was had by all bidders. The proposed form of lease and method of operations to be conducted thereunder by the high bidder were reviewed with the Land Use Committee of the Planning Commission of Ventura County. This review with the Committee was also conducted for the benefit of the Board of Supervisors of Ventura County, in accordance with a recommendation by the Administrative Assistant of the Board of Supervisors. The conclusion of the Land Use Committee was that there are no objections to the proposed operations on the basis of the review which was presented.

"The Richfield Oil Corporation submitted the two highest bid factor offers. The higher Richfield offer is predicated on all drilling operations being conducted from filled lands, while its lower offer would be applicable to a program of initial development from upland followed by a filled-land development. It is considered that the best development program could be achieved under the proposed filled-land operation. This program could delay initiation of production for the time required for the authorization of the project by the Army and the placement of sufficient filled lands, but the drainage of State lands in the meantime is through wells located on other State leases.

"Oil royalty rates which would be applicable for selected oil production rates under the Richfield Oil Corporation bid are given herewith:

Production Rate (Barrels per day)	Computed Oil Royalty Rate (%)
56	30.00
80	59.21
90	69.83
100	79.61
124	100.

"IT IS RECOMMENDED THAT THE COMMISSION AUTHORIZE THE EXECUTIVE OFFICER TO ISSUE AN OIL AND GAS LEASE TO THE RICHFIELD OIL CORPORATION, THE HIGHEST QUALIFIED BIDDER, IN ACCORDANCE WITH DIVISION 6 OF THE PUBLIC RESOURCES CODE, FOR THE 1,175-ACRE PARCEL OF TIDE AND SUBMERGED LANDS IN THE RINCON AREA, VENTURA COUNTY, AS DETAILED IN THE PUBLISHED NOTICE OF INTENTION UNDER W. O. 1436, THE ROYALTY RATE BID FACTOR IN SAID LEASE TO BE 5.2375, AS OFFERED BY THE RICHFIELD OIL CORPORATION IN THE BID FORM OF LEASE."

RESUME OF COMPLIANCE BY BIDDERS WITH SPECIFIED BID CONDITIONS

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BIDDER	SEALED BID SUBMITTED BEFORE 11 A.M., 6/30/54	REQUIRED BID INDENTIFI- CATION FURNISHED	WAIVERS REQUESTED PRIOR TO BID OPENING	(1)	CERTIFIED COPY OF FINANCIAL STATEMENT	EVIDENCE OF CITIZENSHIP QUALIFICATION	BID DEPOSIT SUBMITTED	BID SUBMITTED ON PRESCRIBED FORM	BID FACTOR OFFERED
1. Richfield Oil Corp.	X	X	No	X	X	X	X	X	5.2375
2. Richfield Oil Corp.	X	X	No	X	X	X	X	X	5.1375
3. Union Oil Co., Shell Oil Co., Continental Oil Co., Superior Oil Co.	X	X	No	X	X	X	X	X	2.03
4. Standard Oil Co. of California	X	X	No	X	X	X	X	X	2.012
5. Signal Oil and Gas Co.	X	X	No	X	X	X	X	X	1.8261
6. General Petroleum Corp., Honolulu Oil Corp., Humble Oil and Refining Co.	X	X	No	X	X	X	X	X	1.666
7. Western Gulf Oil Co.	X	X	No	X	X	X	X	X	1.33

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(1) Evidence or statement as to present availability of necessary drill sites, easements and rights-of-way

In addition, the following item was submitted:

"In conjunction with the high bid factor offer by the Richfield Oil Corporation, pursuant to notice of intention of the State Lands Commission to receive offers to enter into a lease for the extraction of oil and gas from 1,175 acres of tide and submerged lands in the Rincon Area, Ventura County, the Richfield Oil Corporation has offered to pay a minimum oil royalty rate of 30 per cent instead of the minimum of 16-2/3 per cent required in the bid lease form. It is the informal opinion of the Office of the Attorney General that this separate offer does not constitute a deviation from the published form of offer of lease bids, particularly in view of the fact that it is not required for consideration in conjunction with the basic lease offer. The minimum royalty rate offer of 30 per cent represents the computed royalty rate resulting from an oil production rate of 56 barrels per day under the subject lease.

"IT IS RECOMMENDED THAT THE COMMISSION AUTHORIZE THE EXECUTIVE OFFICER TO ENTER INTO A SUPPLEMENTARY AGREEMENT WITH THE RICHFIELD OIL CORPORATION, WHEREUNDER A MINIMUM OIL ROYALTY RATE OF 30 PER CENT WILL BE PAID BY RICHFIELD OIL CORPORATION PURSUANT TO OPERATIONS UNDER THE OIL AND GAS LEASE ISSUED UNDER W. O. 1436, RINCON AREA, VENTURA COUNTY."

The Staff reported that a written objection had been received on behalf of Mr. Hugh B. Martin, protesting issuance of any lease pursuant to the published notice of intention to receive bids.

Mr. William S. Scully appeared on behalf of Mr. Martin to discuss the written objection which had been filed, and upon completion of his discussion the points which he made were summed up by the Chairman as follows: (1) The islands that are proposed to be used and from which it is proposed to conduct the drilling operations under any of the bids are not authorized under legislation pursuant to which the Commission is acting, nor is it legal to slant-drill from "filled lands". These are objections that apply to all bids. (2) A second objection relates to the specific bid of Richfield on the basis of economics and of interests of the State.

Mr. Martin stated that his interest stemmed from his personal interest in the oil business; also, at a later date he expects to be representing substantial land owners in Santa Barbara County and in Ventura County. He further stated that he was attacking the Richfield bid in his capacity as a geologist and petroleum engineer, feeling that there is no profit to be derived by Richfield on the basis of their bid.

Mr. Alvin Rockwell appeared on behalf of the Union, Shell, Continental and Superior Oil Companies (which had submitted a joint bid). He filed an economic study by Mr. R. F. Bauer, Manager of Offshore Operations, Union Oil Company. Mr. Rockwell contended that the Richfield bid was not a qualified bid; first, because Richfield had submitted two bids instead of only one as he claimed was contemplated by the bid offer; and, second, because Richfield offered a 30%

minimum royalty, whereas the invitation for bids specified a 16-2/3% minimum royalty, his claim being to the effect that the minimum royalty was not a bid-dable factor. The Staff pointed out that the 30% minimum royalty offer of Richfield was not actually a part of the bid, but had been submitted in a separate letter. Mr. Mervyn Phelan, representing the Richfield Oil Corporation, stated that this offer did not have to be accepted by the State.

Mr. Rockwell then argued in support of a contention that the bid submitted by his clients (Union, Shell, Continental and Superior) was in fact the highest bid if all factors relating to the recovery of maximum ultimate returns to the State were given proper consideration and weight.

Mr. Phelan (for Richfield) then stated that he believes Richfield is competent to undertake the program called for by its bid, at a profit to itself as well as to the State. In response to a question asked by Mr. Peirce, he estimated that production will exceed 100 barrels a day on some wells, 60 on some, and less on others.

At the request of Mr. Phelan, Mr. Hortig read Section 2119 of the Rules and Regulations of the State Lands Commission relating to diligence of operation on State leases, this section requiring that wells be operated at the maximum efficient rate.

Mr. Phelan explained that the reason Richfield had submitted two bids was that they did not know, and still do not know, whether drilling is going to be required from the uplands, or from filled islands; that the bid calling for a factor of 5.1375 was based on using littoral drill sites initially and filled lands ultimately, and the factor of 5.2375 was on the basis that only filled lands will be used.

Mr. J. G. Leovy, representing the Western Gulf Oil Company, stated that he concurred with objections previously made by Mr. Rockwell.

Public inspection of the bids and of supporting documents was discussed, particularly with reference to the financial statements submitted. Mr. Watson reported that he had discussed informally with the Attorney General, with the Purchasing Department of the State, and with the Division of Highways, the question of when bids become public records, and was informed orally that where a staff recommendation or study has to be made, bids do not become public record until the time when they are considered for award. Representatives of the industry presented dissenting views on the matter, following which the Chairman stated that he believed that, except in cases where a bidder agrees in writing to the release of documents supporting his bid, such documents will be held confidential pending the receipt of an informal written opinion by the Attorney General on this subject.

It was brought out that although Richfield's bid called for a royalty rate in excess of 100% when production of any well exceeded 12 1/2 barrels a day, in view of an oral opinion which had just been received from the Attorney General, the State could not collect more than a 100% royalty. It was the contention of some of those present that the call for bids should have stipulated this fact, as it would have affected the bids made had it been known at the time they were submitted.

Mr. Leovy asked that the question be submitted to the Attorney General whether bids are valid when submitted on the basis of contemplating a royalty of over 100%, in view of the opinion which has been given by the Attorney General that a royalty of over 100% could not be collected.

UPON MOTION DULY MADE AND UNANIMOUSLY CARRIED, A RESOLUTION WAS ADOPTED REFERRING TO THE STAFF OF THE STATE LANDS COMMISSION, FOR FURTHER STUDY, REPORT, AND RECOMMENDATION, THE QUESTION OF ISSUING AN OIL AND GAS LEASE FOR THE 1,175-ACRE PARCEL OF TIDE AND SUBMERGED LANDS IN THE RINCON AREA, VENTURA COUNTY, AS DETAILED IN THE PUBLISHED NOTICE OF INTENTION UNDER W. O. 1436. EVERY EFFORT IS TO BE MADE TO EXPEDITE THIS MATTER SO AS TO BRING IT TO THE ATTENTION OF THE COMMISSION AT AN EARLY DATE FOR A DECISION, AND A REQUEST IS TO BE MADE TO THE ATTORNEY GENERAL THAT HE ASSIST BY GIVING OPINIONS ON LEGAL PROBLEMS PRESENTED, AND BY HAVING A REPRESENTATIVE PRESENT AT A SPECIAL HEARING TO BE HELD BY THE EXECUTIVE OFFICER.

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

Rufus W. Putnam
RUFUS W. PUTNAM
Executive Officer