TRANSCRIPT OF MEETING of
STATE LANDS COMMISSION
LOS ANGELES, CALIFORNIA
AUGUST 28, 1961

PARTICIPANTS:

THE COMMISSION:

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

Mr. F. J. Hortig, Executive Officer
Mr. Don Rose, Executive Secretary to Lieutenant Governor Anderson

OFFICE OF THE ATTORNEY GENERAL:

Mr. Jay L. Shavelson, Deputy Attorney General

APPEARANCES:

Mr. Gerald Desmond, City Attorney,
City of Long Beach

Mr. Richard F. Karshner, District Land Agent
Shell Oil Company
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<td>6 SELECTION AND SALE OF VACANT FEDERAL LANDS, etc.</td>
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<td>(a) Objections to submarine geophysical operations Orange County</td>
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| 12 CITY OF LONG BEACH  
(SUPPLEMENTAL CALENDAR) | (a) Unit Agreement and Unit Operating Agreement Fault Block IV Wilmington Oil Field | 23 | 37 | 3 |
|  | MOTION ON ITEM CLASSIFICATION 12a-------- | 4 |
|  | (b) Approval of second amendment to Oil and Gas 1960 Unit 1 - City of Long Beach et al and Superior Oil and Humble Oil | 22 | 40 | 4 |
|  | (c) Approval of amended drilling and operating contract City Long Beach and Termo Company et al | 21 | 42 | 4 |
|  | (d) Approval of agreement amending drilling and operating contract 1/10/39 City of Long Beach and its Board of Harbor Comm., Signal Oil, and Long Beach Dock and Terminal Company | 24 | 45 | 5 |
|  | (e) Approval of agreement amending drilling and operating contract 3/6/41 Board of Harbor Comm., City of Long Beach and Signal Oil and Gas | 25 | 47 | 5 |
|  | MOTION ON ITEM CLASSIFICATION 12(b)(c)(d)(e)-- | 8 |
| 13 | Next Commission meeting | 29 |

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GOV. ANDERSON: The meeting of the State Lands Commission will come to order.

The first item is the confirmation of the minutes of the meeting of June 22, 1961.

GOV. ANDERSON: Move approval.

MR. CRANSTON: Second.

GOV. ANDERSON: No objection, so ordered.

Item 2 is permits, easements, and rights-of-way to be granted to public and other agencies at no fee, pursuant to statute, and the first applicant is the Pacific Telephone and Telegraph Company, a submarine cable across 49/100 acre of submerged lands between Union Island and Drexler Tract at the Tracy Road Bridge, San Joaquin County.

MR. CRANSTON: Move approval.

GOV. ANDERSON: Second.

GOV. ANDERSON: Move approval without reading.

Item 3 is permits, easements, leases, and rights-of-way pursuant to statutes and established rental policies of the Commission. First applicant: Jack Benton, 47-year lease of 13.60 acres in old channel of San Joaquin River, San Joaquin County.

GOV. ANDERSON: Move approval.

MR. CRANSTON: Second.

GOV. ANDERSON: No objection, so ordered.

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GOV. ANDERSON: Move approval.

MR. CRANSTON: Second.

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GOV. ANDERSON: Move approval.

MR. CRANSTON: Second.

GOV. ANDERSON: Move approval without reading.

The first item is the confirmation of the minutes of the meeting of June 22, 1961.
California -- approval of assignment by Humble Oil and Refining Company of its interest in Oil and Gas Lease PRC 2199.1, Santa Barbara County; item (d) Standard Oil Company of California and Shell Oil Company -- Deferment from October 14, 1961 to April 13, 1962 of drilling requirements, Oil and Gas Lease PRC 2198.1 offshore Santa Barbara County; item (e) is Stanley A. Tanner -- Assignment to Basic Resources Corporation of prospecting permits in San Benito County; item (f) is United States of America -- Lease for use as part of landing field at Desert Center, Riverside County, of 40 acres of school land for period July 1, 1961 to June 30, 1962 at the rental of $100.

MR. CRANSTON: I move approval of all Item Classification 3 matters.

MR. CHAMPION: Second.

GOV. ANDERSON: Moved and seconded, no objection so ordered.

Item 4 is City of Long Beach -- Approvals required pursuant to Chapter 29/56, First Extraordinary Session:

Project (a) is Pier A, Harbors 1 and 2, Each Area, Filling and Paving (second phase) -- estimated subproject expenditures from August 28, 1961 to termination of $43,060 with $36,120 or 845 estimated as subsidence costs.

MR. CRANSTON: Move approval.

MR. CHAMPION: Second.

GOV. ANDERSON: Moved and seconded. If there is no objection, no ordered; and in deference to the people here from...
Long Beach -- we understand they are all here -- if there is no objection, we would like to move ahead to the supplemental calendar items, which are all City of Long Beach, and then pick up the others.

MR. HORTIG: Starting on page 37.

GOV. ANDERSON: Starting on page 37 of the calendar, under supplemental calendar items, item 12: City of Long Beach (Approvals required pursuant to Chapter 29/56, the First Extraordinary Session -- Item (a) is the approval of unit agreement and unit operating agreement, with accompanying exhibits, proposed for Fault Block IV, Wilmington Oil Field. Do you want to explain that, Frank?

MR. HORTIG: Yes, Mr. Chairman. As you and Commissioner Cranston will recall, and particularly for the benefit of Commissioner Champion, the Commission has heretofore, in accordance with statutes and pursuant to application by the City of Long Beach, approved unit agreements and unit operating agreements in the same substantive form as that being considered here this morning for operations to be conducted on Fault Blocks II and III, two segments of Wilmington Oil Field. On Fault Block IV under discussion here this morning, therefore, the form of approval is as to authorizations which will permit unitized or cooperative operations by all operators under a contract to achieve the maximum that is feasible from the standpoint of economics as an oil operation and with corollary benefits to subsidence alleviation for that geologic segment that is...
separated out of the Wilmington Oil Field and designated as Fault Block IV.

The field, Director Champion, is separated approximately into seven separate operating segments. The segment on Fault Block I is under long range study as to what might be done in terms of unit operation and repressurization; Fault Blocks II and III have already been approved heretofore, as I have indicated, and are in successful operation; Fault Block IV is the next logical segment to be included in this operation.

All resolutions required by Long Beach authorities -- resolutions at the municipal level -- have been adopted, and the office of the Attorney General has reviewed the draft of agreements and found them to be legally acceptable and qualified for consideration for approval by the Commission; and the technical and administrative procedures of the agreements have been reviewed and are recommended by the staff of the State Lands Division.

MR. CRANSTON: I move approval.

MR. CHAMPION: Second.

GOV. ANDERSON: It has been moved and seconded -- no objection, so ordered.

Item (b) is authorization for the Executive Officer to certify approval of the second amendment to Oil and Gas Lease 1950 Unit 1 between the City of Long Beach, et al, Lessees, and Superior Oil Company and Humble Oil & Refining Company, Lessees.
MR. HORTIG: Mr. Chairman, may I suggest that the same explanation as to purpose and recommendation for approval is applicable to items (b), (c), (d) and (e). You might like to announce those and then they can be covered in a group.

GOV. ANDERSON: Then we will take up items (b), (c), (d) and (e) at one time and it will be one explanation. Item (b) we have just read. Item (c) is the authorization for the Executive Officer to certify approval of amended drilling and operating contract (amendment of 1961) between the City of Long Beach and the Termo Company, et al. Item (d) is the authorization for the Executive Officer to certify approval of agreement amending drilling and operating contract dated January 10, 1939 (amendment of 1961) between the City of Long Beach and its Board of Harbor Commissioners as first parties, Signal Oil and Gas Company as second party, and Long Beach Dock and Terminal Company as third party. Item (e) is authorization for Executive Officer to certify approval of agreement amending drilling and operating contract dated March 6, 1941 (amendment of 1961) between the Board of Harbor Commissioners of the City of Long Beach and the Signal Oil and Gas Company.

MR. HORTIG: Mr. Chairman, again as the Commissioners will recall, there are in operation between the City of Long Beach and various lessees, some of whom are enumerated in items (b) through (e), oil and gas leases which should be included for most effective operation under unit agreements and unit operating agreements -- leases which were entered into long
enough ago in the past that they have limited operating times
left to run and, therefore, caused concern to the present
lessees as to the justification of capital expenditures in a
limited period. As a result, all of these lessees have nego-
tiated with the City of Long Beach for extensions of the terms
of these leases in order to justify the economics of the pro-
posed operations, which is authorized under statute. Addi-
tionally, in view of the pending litigation between the State
of California and the City of Long Beach, questioning the nature
of the title to some of these lands -- as to whether they are
actually City-owned land or are in fact tide and submerged lands
located within the original limits of the tidelands grants by
the Legislature to the City of Long Beach -- there is specific
statutory authority under the Statutes of 1959 for the extension
of leases on such questioned lands, provided that the State
Lands Commission approves such extensions.

This is the reason for the presentation for approval
of the amendments proposed under items (b) through (e) --
because these leases in whole or in part, as contended by the
State of California, may embrace filled tide and submerged lands
or actually original tide and submerged lands which were granted
to the City of Long Beach.

As I stated, the approval of this type of extension
is specifically authorized in the Statutes of 1959. Over and
above that, to assure that all parties be aware approvals will
be aware of the pending litigation between the State and the
City of Long Beach, the Attorney General's Office has reviewed this program and has informed the City Attorney of the City of Long Beach, and I believe there are some understandings or letters of agreement which Deputy Attorney General Shavelson would like to report to the Commission to assure that the Commission has full basis and the full control in connection with these approvals that it should have.

GOV. ANDERSON: Mr. Shavelson.

MR. SHAVELSON: Thank you. Two matters I'd like to mention: First, in connection with the approval of both the amendatory agreements that have already been approved in connection with the execution of the Fault Block III agreement and the Fault Block IV agreement, there is a stipulation between the Attorney General's Office and the City Attorney that this approval will not affect any of the issues in this boundary litigation, and we have executed a similar stipulation in connection with the approval of the fault block agreements themselves -- so we feel that the Commission's action will not affect, nor the City's action in submitting these agreements to the Commission will not affect either way upon the rights of the City or State in connection with that litigation.

In connection with the agreements, there is one other matter I'd like to mention: There was one minor reservation in one item on line 71 of the exact compliance with the statutes and we had not gotten the factual verification to you as has already been given. Nevertheless, there point to advise...
the Commission orally that it is within its power to approve the agreement and that the contractors involved may be regarded as successors in interest to the Termo Company. The legal problem involved was as to one of the minor contracts that is being amended. It did not appear that any of the enumerated operators set forth in Chapter 704/61 had any interest; but as I have said, our office is ready to advise you that you may approve this.

GOV. ANDERSON: Any further comments or questions?

MR. CRANSTON: I move approval.

GOV. ANDERSON: Would the City Attorney like to say anything on this?

MR. DESMOND: We have nothing further. We have turned over to Mr. Shavelson the stipulation referred to.

MR. CHAMPION: I'll second it.

GOV. ANDERSON: You have heard the motion and the second. I assume that motion applies to items (b), (a), (d), and (e) under Item 12?

MR. CRANSTON: Yes.

GOV. ANDERSON: If there is no objection, it is passed unanimously.

Now, then, we will go back to Item 5 on the calendar.

That finishes all the matters concerning the City of Los Angeles.

Item 5 -- Sale of vacant School lands. The item here presented has been reviewed by all State agencies having a land acquisition program and no interest has been reported by those.
agencies in the land proposed for sale, Applicant (a) is Warren J. Flournoy; parcel has an appraised value of $19,200 and that is the bid.

MR. CRANSTON: I move approval.

MR. CHAMPION: Second.

GOV. ANDERSON: Moved and seconded. If there is no objection, so ordered.

Item 6 is the selection and sale of vacant Federal lands and confirmation of three extensions totaling 95 days within which applicants may deposit additional funds to meet appraised value. Applicant (a) is Searles Valley Development Company -- appraised value $15,437.50 and that is the bid.

It is my understanding that these items here also have been reviewed by all agencies having a land acquisition program and they have reported no interest. Is that correct, Mr. Hertig?

MR. HERTIG: That's correct.

GOV. ANDERSON: Item (b) Searles Valley Development Company -- Appraised value $1,450 and the bid is the same.

MR. CRANSTON: I move approval.

MR. CHAMPION: Second.

GOV. ANDERSON: Moved and seconded. If there is no objection, so ordered.

Item 7 is the selection of vacant Federal lands, land applications, on behalf of the State. Applicants failed to deposit required funds within specified period. Item (a) 40 acres in San Bernardino County; Item (b) 100 acres in...
San Bernardino County. Would you explain this just briefly, Frank?

MR. HORTIG: Yes sir. For both of these items, one explanation should suffice. Applications were received originally from private parties, who deposited the minimum funds required by law, seeking to have acquired for them through the State of California under existing statutes vacant Federal lands -- a procedure that has been authorized for almost one hundred years in some form or other. After the application had been made by the State of California and prior to the moratorium of the State Lands Commission of May 24, 1960, the Bureau of Land Management of the Department of Interior informed the State of California that these lands desired could be transferred to the State of California in satisfaction of losses to the School Land Grant in lieu of lands to which the State was entitled which the Federal Government had not heretofore transferred to the State of California.

Under State statutes, lands so received and on which there is an application, would be sold to the applicant at the appraised value. After being informed by the Bureau of Land Management of the pendency of transfer of these lands to the State, the lands were appraised; the appraised value communicated to the original applicant, who in each instance indicated that the appraised value was higher than the applicant desired to pay and, therefore, the applicant has withdrawn his application to purchase.
These lands can still be acquired by the State of California and in the case of these two parcels it is felt by the appraisal staff that they are of such value that they would be valuable as additions to the roster of vacant lands under the jurisdiction of the State Lands Commission, to be administered or disposed of in whatever form and under whatever procedure the Lands Commission establishes in the future after having considered a report which is being developed by the State Lands Division to recommend future land disposition or administration policies to the Commission. You gentlemen will also recall that the preparation of this report was directed at the meeting of May 24, 1960, when the moratorium on the acceptance of further applications was adopted.

MR. CRANSTON: Mr. Chairman, I move the selection be approved.

MR. CHAMPION: Second.

GOV. ANDERSON: It has been moved and seconded -- no objection, so ordered.

Item 8 -- I understand this item has been removed from the agenda.

MR. HORTIG: Yes sir. If I may explain to the Commission, this was a matter of over enthusiasm. After counting the days on the calendar, the item is perfectly fine except that the State Lands Commission under the statute may not make the determination recommended in less than thirty days after a public hearing is held. Inasmuch as the subject publi
a hearing on this item was held on July 31st, today is just two days short of the thirty days. Hence, this item will appear again on your agenda for your meeting of September 14th, by which time the required statutory lapse of time will have elapsed.

GOV. ANDERSON: Item 9 -- Authorization for issuance of mineral extraction lease for sand and gravel to E. T. Baxman, dba Baxman Gravel Company, on 9.45-acre parcel of tide and submerged lands in bed of Noyo River, Mendocino County, at royalty of six cents per cubic yard, plus additional increment of .00142 of the sales price in excess of 30¢ per cubic yard. Frank, will you explain that?

MR. HORTIG: Yes sir. This is actually the second bid on the second offering with respect to this specific parcel of tide and submerged lands, the first series of bids having been rejected because of technical defects in the bids submitted. This is a high bid at the present time, even in comparison with other sand and gravel extraction leases recently considered by the State lands Commission; is also the only bid which was received for this particular parcel.

I should also like to bring to the attention of the Commission that the specific parcel and location thereof will be located within the exterior limits of the Noyo Harbor District which will become effective on September 14th. The Commission has the full statutory rights to proceed with the issuance of this extraction lease, inasmuch as the grant will reserve to the
State all the minerals within the exterior limits. This situation is possibly unique in that the prospective grantee, Noyo Harbor District, has already replied that they would look with favor on this lease and the operations even within the grant.

MR. CRANSTON: I move approval.

MR. CHAMPION: Second.

GOV. ANDERSON: Moved and seconded; if no objection, so ordered.

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

MR. HORTIG: Mr. Chairman, as pages 22 to 25 indicate, these transactions consisted of two assignments of grazing leases and two extensions of geophysical exploration permits previously authorized by the State Lands Commission after full consideration at a public meeting, and one extension of a geological permit similarly authorized by the State Lands Commission. It is recommended that these actions be confirmed for the record.

MR. CRANSTON: I move such approval.

MR. CHAMPION: Second.

GOV. ANDERSON: Moved and seconded -- no objection, so ordered.

Item 11 -- Informative only, no Commission action required: Item (a) is the report on objections to submarine geophysical operations in certain areas of Orange County,
Richfield Oil Corporation: All known objectors have been notified that no hearing will be conducted on this subject at this meeting. Any comment, Frank?

MR. HORTIG: First, Mr. Chairman, we are not aware whether there is any attendance this morning on behalf of the general item, and I would recommend that it might be helpful if you made inquiry as to whether anyone desires to present anything with respect to this item, even though it is not up for consideration of any action of any type by the Commission this morning.

GOV. ANDERSON: Is there anyone in the room today who wishes to make any comment or objection relative to the item of geophysical operations on certain areas of Orange County? Even though the matter is not up for action, if there is any comment we would like to have it. (No response) Apparently there is no one here.

Item (b) Report on proposed ocean-floor oil well completion by Texaco Inc. on Oil and Gas Lease PRC 2725.1, Santa Barbara County.

MR. HORTIG: Mr. Chairman, if the Commissioners will refer to the second exhibit following page 27, on a lease of Texaco Inc. Issued originally in 1958 pursuant to competitive public bidding there has now been installed a third type of underwater well head installed on the ocean floor — a third type of the types that have been reported to the State Lands Commission. This probably constitutes the fifth type in
existence in the world -- the first type having been installed, as previously reported to the Commission, by a subsidiary, a joint operator of Richfield Oil in South America, off the coast from Peru; the second type, on which there is very limited public information, has been installed by the Shell Oil Company offshore the Gulf Coast of Louisiana.

Of the three on State leases approved by the State Lands Commission, the first is on a lease of Richfield Oil Corporation in Rincon Field; the second type being installed by the Standard Oil Company of California offshore Santa Barbara County; and in the same series, Texaco has now installed the unit shown on the second exhibit following page 27 -- which from an over-all design standard is a compact, rugged installation which is installed on the ocean floor, complete with its protective casing, projecting only seventeen feet over the ocean floor, with production to be piped to shore; with protected pipelines laid along the ocean floor; and, again, as suggested by the Commission's technical staff, the operator has incorporated stress monitoring facilities in the unit, so that the design of the unit can be verified by test and any difficulties can be anticipated during the period of initial operations because the actual stresses and pressures to which the unit is subjected for the first time under operation are measurable at the time they occur.

Again, as on previous units designed, they are mechanically structurally stable and incorporate adequate factors...
of safety to insure there can be no mechanical defect; there
can be no inadvertent spillage of oil on the ocean floor; and
this well over which this particular unit is located again
includes, and again at the request of the Commission's technical
staff, safety features in the well itself below the ocean floor
such that if this unit established on the ocean floor were
carried away by any cataclysm, natural or man-made, the well
again would be shut in automatically beneath the ocean floor,
so that it could not continue to produce -- oil could not come
out into the ocean nor could seawater, on the contrary, penetrate
the oil well.

GOV. ANDERSON: Where does it show here that this
well will seal itself on the ocean floor?

MR. HORTIG: It is not on the diagram, but this is
why I am reporting it to you, and also it is reported in con-
nection with the standard items on page 27 -- that the produc-
tion well head will be and it is controlled by fail-safe valves,
which operate automatically in the event of any pressure leakage
or which, alternatively, can be operated by remote control from
onshore. The fail-safe swabbing valves and annulus valve are
not controlled by pressure from the control line. These valves
are normally closed and are operated by individual controls, and
then only when working on the well from a floating vessel.

Additionally, as reported, the design has also been
reviewed independently by a professional engineer as to wave
and current loading and possible seismic disturbances, and
reported to be of adequate strength to meet sea conditions known or anticipated in the Gaviota area.

Over and above all the independent design reviews, we have had incorporated, as stated here, "Pursuant to suggestions by the Commission's technical staff, Texaco has incorporated additional stress-monitoring features in this unit," in order that we can eavesdrop on its operation and know actually what is going on in practice, even though it is installed in seventy-eight feet of water. So we are not committed to such operation simply because the design indicates it should be satisfactory -- we are making, in operation, actual performance measurements to insure that the design, the theory, and the practice do coincide.

GOV. ANDERSON: Why do they show the safety valves above here if they are down below?

MR. NORTIG: The annulus valves are installed in the piping down below. The only features shown on this diagram as safety valves are those that are in the wellhead installation that projects above the ocean floor. This is the unique feature which we reported on. Actually, the safety valves that are installed down in the well and that would operate in the event the unit you are pointing to should be carried away are also installed in every tideland oil well we have that has been drilled and for any operation from a platform; just in case the unforeseen should happen and the platform should be carried away those wells would be shut down. This part is standard
practice and a Commission requirement. The unique features are depicted on the diagram you have before you, on which we have the wellhead installed on the ocean floor.

MR. ROSE: In going over this item with Mr. Hortig and getting a view from him of the different systems which he has mentioned (from Peru up to what we now have on the California Coast), the Commissioners will recall they saw an exhibit, a moving picture, before the last meeting of Standard Oil's installation off Santa Barbara, and the comparisons between that and this, I understand, according to law have to be kept confidential by the Commissioners. Where concerns of the Commissioners were expressed at the last meeting on the height of the mast and possibility of anchors fouling in one company's installation, here we have by comparison something that holds very snugly to the ocean floor and, therefore, might more aptly eliminate that particular danger. To compare the technical problems, all the factors being equal, it appears to be to the advantage of the people of California to get the various companies to possibly pool their best scientific knowledge. Anything that keeps it closer to the floor, as a generalization, it seems to me should be the safest type of installation so far as being fouled by anchors or any other problems of tremendous stress by tidal waves and so on. Of course, these are only a layman's opinions and I know the engineers have gone into this. The problem here seems to be that Macy's won't tell Gimbel's and the State of California is caught in
MR. HORTIG: Mr. Chairman, if I might supplement what I feel is the basic philosophy that Mr. Rose has presented here, it possibly should not be considered that the State of California is caught in the middle, in that the State of California, of course, does have all of the information with respect to the installations, design criteria, etcetera, of each individual operator. I think it is essential that the public be assured, Mr. Chairman, as you have indicated, that all of the factors relating to safety of these operations have been considered, have been reviewed, and have in fact been certified; and it is for this reason that I have been stressing the technical feature of the stress monitoring equipment.

MR. ROSE: Let me ask you this question: In our last meeting it was established the height off the ocean floor -- that's public knowledge?

MR. HORTIG: That's correct.

MR. ROSE: -- was how many feet?

MR. HORTIG: Approximately ninety feet.

MR. ROSE: Compared to seventeen.

MR. HORTIG: Also it was in 245 feet of water, or approximately that depth, compared to 78 feet of water, so actually the amount of water above the other installation, even though it projected over the ocean floor the amount of uncluttered ocean is less in this current installation because this happens to be the depth of the ocean, over which we have
very little control.

Additionally, of course, the basic reason for the difference -- and this certainly can't be a trade secret -- the basic reason for difference is in design for application in varying depths of ocean water which are related definitely to the depth to which it is economically feasible to operate with divers. Consequently, the shallower the water in which the well can be set, it is easier to operate with divers.

However, there is under exploration very definitely another correction of design philosophy, which is to provide more of the type of equipment we are here discussing which can be located, placed, put into operation by remote control operations without having to send a diver into the water at all; and once these techniques are perfected, then how deeply can you place a unit of this type is going to be how much cable can you afford to supply to remote-control this facility.

MR. CHAMPION: Frank, going beyond this question which Mr. Rose raised, which is very interesting, is there any precedent in the past where you felt that one operation was to the benefit of the State, the technical knowledge was only in the hands of one company? Have there been attempts by the Commission to get this information more widely spread, so the State can get the benefit?

MR. HORDES: Not with respect to actual equipment for such an operation, Mr. Champion. In connection with the type of operations we are discussing, we do not have a very
large backlog on which to draw, as a matter of fact, as to which is more desirable even under a given set of circumstances. This is something we are discovering by those operations, being currently only on number three on the entire Pacific Coast and number four in the entire offshore of the United States.

MR. ROSE: Apparently if somebody comes through with a perfect discovery of putting this right on the ocean floor then that will be that company's information and scientific development alone; and the State of California has no way of doing anything but lease the land and we do it their way, with all the safeguards.

MR. HORTIG: I think that should have amplification, Mr. Rose, in this respect: It isn’t that the State is in no position to do anything with these because there is complete control of the location of the wells, type of equipment used, and so forth under the terms of the lease issued by the Lands Commission and the rules and regulations and technical cognizance of the staff. If the technical staff were to find circumstances such as you have outlined, of someone having developed uniquely the perfect or better general solution than all operators are using, we would definitely be pursuing the course suggested by Mr. Champion to see that the most effective equipment were utilized on all State leases. Exactly how this would be accomplished would relate to a great degree on who the operators were, the depth of the water, and a host of factors which we can't predict today; but we are certainly acutely aware of the
benefits that might derive to the State by having a more
efficient operation, and on all State leases if a particularly
effective piece of equipment is developed, then we would cer-
tainly seek its employment to be included in any other opera-
tions that were to be recommended and approved in the future.

I want to stress again -- I think the record should
show very clearly that in each of the instances that have now
been reported to the Lands Commission there have been literally
years of research. Development research preceded the installa-
tion on the part of the lessee at tremendous expense; there
have been the most adequate design personnel that it has been
possible to employ on the designs. Thereafter, each one of
the designs has been reviewed independently by the best engi-
neers available for consultation on operations of this type,
with independent concurrence as to the sufficiency and adequacy
of the design particularly from an operating safety standpoint;
and, finally, the Lands Division staff have insisted, as a
condition of staff approval, on the condition of these stress
monitoring facilities in order, as I said, to complete the
record that the unit in operation does exactly as it has been
expected to do in design; and this has been the case in each
installation we have.

MR. CHAMPION: Could we leave the subject -- or not
leave the subject, but if the situation should arise in which
we feel that there is basically one much better way of doing
this than any other, at that time certainly the Commission
ought to discuss possible ways of putting that operation in general use. I don't suppose it takes any more conversation this morning on the point raised.

MR. HORTTG: I would like to assure the Commission that this would be the approach of the staff -- immediately upon the availability of such a system to seek its application in all future installations, wherever such application would be considered as optimum and preferable to other systems proposed.

GOV. ANDERSON: Are you reasonably sure there isn't any danger of leakage or spillage under these systems they are putting in? When we talk to people they ask whether when we are going to have these wells all along the continental shelf we are not going to have oil on top of the beaches -- this thing is of concern.

MR. HORTTG: Well, sir, I think it can be answered categorically that with the three designs that have now been completed, been installed, (two have been in operation -- one is in operation today and the others are not operable, not because of mechanical defects but for other operating considerations in connection with developing a particular reservoir through the particular well in which the unit has been established) with the number of fail-safe safeguards, which are three deep, in all of these installations down to the points that unless the earth distance passes the well is going to shut down in the event even of the worst equipment, mal-installed,
being carried away, that it certainly appears from all the independent reviews and all the professional engineers' certifications (which have also put their reputation on the line) as to the adequacy of the unit, that everything that can be done in the present state of the art, knowledge and technology has been incorporated in these units and incorporated not once but three times -- so that it is going to take something of the order of a major cataclysm which no man can design against what happens in a major cataclysm and what part of the world drops off is beyond our power to predict.

GOV. ANDERSON: Any further comments? (No response)

Item (c)......

MR. DESMOND: Mr. Chairman, I wonder if this would be an appropriate time (Gerald Desmond of the City of Long Beach) to express our appreciation, first, to the Commission for taking up the matters out of order, but also to Frank Hortig and his staff, to the Attorney General -- Mr. Shavelson Mr. Hassler, Mr. Goldin particularly of the Attorney General's Office -- for the work done. These are supplemental items, which itself is an indication that there had to be emergency attention given. This is the result -- although approved without any additional comment -- the result of some four years of work; and I am advised that the unitization of Fault Block IV of the Wilmington Oil Field is the most complex job ever attempted in the oil industry; and the staff, Mr. Hortig and his son, have done into this fully, as shown by the results.
You have your legal opinions from the Attorney General's Office, and we wanted to express our appreciation for tremendous assistance there.

We have a date that has been set for a number of months now and that is Thursday, August 31. Ninety-nine and a half percent of the job has been done now in getting consents to the agreement to include all of the essential tracts in Fault Block IV, and we hope and pray we will still be able to make that. I wanted, before this passed, to have this opportunity to express our appreciation for the tremendous work, as I say under emergency circumstances, that has been given here this morning. Thank you very much.

GOV. ANDERSON: Thank you, Jerry.

Item (c) is the review of approved 1961 legislation. There is no action on any of this.

MR. HORTIG: Mr. Chairman, pages 28 to 34 were prepared for the record for the Commissioners, as well as for the staff, simply to tabulate those items of legislation considered by the last session of the Legislature -- which have either become law because they were special statutes or emergency statutes or, in the majority of instances, will become effective September 14th and which include the six items of legislation originally authorized for introduction by the State Lands Commission, all of which will become law; and the balance of the report concerns itself with those statutes that can affect or will apply to some degree to the operation of the State Lands
Commission in the future. There are no adverse or detrimental modifications to legislation as a result of the statutes which will become effective, as I said, on September 14th. By and large, the majority of the statutory authorizations clarify or supplement the authorities of the Commission with respect to administrative matters.

GOV. ANDERSON: Any questions? (No response)

Item (d) is report on the status of major litigation. Mr. Hortig.

MR. HORTIG: There are no substantive modifications in the status since the last report to the Commission at the last meeting, as you will see on pages 35 and 36 where major litigation is tabulated, with the exception of the pending case "City of Hermosa Beach vs. State of California" listed on page 36, which is a pending litigation in which the City filed its answer to the State's cross complaint on July 24th.

It is interesting in contemplation that as to the City's lease with Shell and Continental Oil Companies -- which produced the original revenue, the disposition of which is of primary concern under this litigation -- the lessees have given notice to the City that they are exercising their option to withdraw from the drilling and operating contract. So the probabilities are now that there will be no further revenue developed, although the City is already in possession of original payments by the lessees at the time of issuance of the lease -- the proper disposition of which must still be determined by the court in this litigation. Mr. Shovelson, who is
particularly involved in this litigation, could report further on these factors if he desires.

GOV. ANDERSON: Why are they withdrawing from the drilling?

MR. HORTIG: As you will recall, Mr. Chairman, at the time the lease was entered into there was in existence and still is an anti-drilling ordinance in the City of Hermosa Beach and the lessees retained the option to withdraw at any time they decided in the future that it did not appear that the anti-drilling ordinance would be revoked; and only in the case of the revocation of the anti-drilling ordinance could they proceed, in fact, with the operations under the lease. There have been two referendums on revocation of this particular drilling ordinance in history and both of them have been unsuccessful, and the anti-drilling ordinance is still in effect and this is certainly one of the things the lessees had under consideration -- as to whether to continue holding the lease with the hope for future development or whether to quitclaim at this time, and they have given notice to the City of their intent to quitclaim.

GOV. ANDERSON: Under the present lease does it cost them anything to continue the option?

MR. SHAVELSON: No. An unconditional bonus payment of a half million dollars was paid in connection with the tidelands lease and the so-called "uplands" contract, has been paid over to the City, and there are no continuing payments thereunder.
GOV. ANDERSON: That was the initial payment?

MR. SHAVELSON: Right.

GOV. ANDERSON: Then why would they withdraw from their present contract when it doesn't cost them to continue it?

MR. SHAVELSON: We are only speculating, but I believe it may have been occasioned by the possibility that they did not want to be held on the lease in case the drilling ordinance were invalidated either by election or court decree, since it is quite possible they may be obligated to pay an additional nine -- what was the figure?

MR. HORTIG: In round numbers, nine million dollars.

MR. SHAVELSON: -- nine million dollars in additional bonuses if the lease were executed; and I think it is possible that under present circumstances they would not want to pay that much money. The State has filed a cross complaint alleging that the anti-drilling ordinance is in violation of State law and therefore invalid; and if it were invalidated, they perhaps feel they may be forced to go through with the lease, although the way the lease reads I think they could probably withdraw at any time at later stages as well. I think just in the interest of safety they are withdrawing now, for fear they would be held to the lease, perhaps.

MR. HORTIG: Mr. Chairman, not advocating putting anyone on the spot, but there are two representatives of Shell Oil Company with us this morning, who may or may not be able to comment with further information on this subject.
Mr. Karshner, the district agent, and Mr. Armbruster, the district engineer, are here.

GOV. ANDERSON: Would you two gentlemen like to comment on this and give any light to the Commission?

MR. KARSHNER: No sir.

GOV. ANDERSON: Any further comments?

MR. HORTIG: No sir.

GOV. ANDERSON: That completes the items "for information only." I believe it also completes the calendar with the exception of the confirmation of the date of our next meeting. Are there any items anyone wishes to bring up or any comments?

MR. HORTIG: Not from staff, sir.

GOV. ANDERSON: How about the next meeting as set forth here -- September 14th, nine thirty? Does that meet with your approval?

(Messrs. Cranston and Champion signified approval)

GOV. ANDERSON: We will adjourn then, setting our next meeting place at Sacramento on September 14th, nine thirty a.m.

MR. CRANSTON: So move.

MR. CHAMPION: Second.

GOV. ANDERSON: Moved and seconded -- no objection, carried unanimously. Meeting adjourned.

ADJOURNED 10:10 a.m.
CERTIFICATE OF REPORTER

I, LOUISE H. LILLICO, reporter for the Division of Administrative Procedure, hereby certify that the foregoing twenty-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 in Los Angeles, California, on August 28, 1961.