TRANSCRIPT OF
MEETING:
of
STATE LANDS COMMISSION

LOS ANGELES, CALIFORNIA
FEBRUARY 27, 1962

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

OFFICE OF THE ATTORNEY GENERAL:
Mr. Jay L. Shavelson, Deputy Attorney General

APPEARANCES:
(In the order of their appearance)

Mr. Donald A. Jones, Attorney-at-law, Special
City Attorney for City of San Clemente

Mr. William D. Moore, Attorney-at-law, of O'Melveny &
Meyers, representing Capistrano Beach Club
Company

Mr. Wallace Pinnick, Attorney-at-law, representing
Capistrano Beach Road Association and
Capistrano Bay Community Service

Mr. Kenneth Sampson, Manager, Orange County
Harbor District

Mr. Julius Oblatt, resident of Dana Point and
member of Dana Point Harbor Committee

Mr. C. W. Hallett, President, Capistrano Beach Ass'n

Mr. L. E. Scott, Assistant to President,
Pauley Petroleum

Mr. J. B. Conway, Standard Oil Company of California,
Western Operations Land Department
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<td>(e) Marin County, Dept. Pub. Wks.</td>
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<td>(j) Libbey-Owens Ford Glass Co.</td>
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<td>(k) Moe Sand Company</td>
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4 CITY OF LONG BEACH

(a) Long Beach Arena | 36 | 41 | 13

5 LAND ITEMS

(a) Sales of Vacant State School Land

(1) George D. LaMoree | 1 | 43 | 15

(b) Selection & Sale Vacant Fed. Land

(1) United States Borax Co. | 2 | 44 | 17
(2) " " " " " " | 3 | 45 | 17
(3) " " " " " " | 4 | 46 | 17

(c) Selection Vacant Federal Lands on behalf of State

(1) 85.39 ac. Humboldt County | 5 | 47 | 17
(2) 331.15 ac. San Bernard. Co. | 19 | 48 | 17
(3) 503.72 ac. Kern County | 22 | 49 | 17

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<td>Gene Celli</td>
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NEXT MEETING: 61

UNCALCULATED ITEMS:

- P.U.C. situation
- Gaviota and Goleta fields
- Answer to Legislative Analyst's statements

**DIVISION OF ADMINISTRATIVE PROCEDURE, STATE OF CALIFORNIA**
GOV. ANDERSON: The meeting of the State Lands Commission will come to order.

The first item is the confirmation of minutes of the meeting of November 22nd and of the meeting of December 21, 1961.

MR. CRANSTON: I move approval.

MR. CHAMPION: Second.

GOV. ANDERSON: Moved and seconded, carried unanimously. Item 2 -- Permits, easements, and rights-of-way to be granted to public and other agencies at no fee, pursuant to statute:

First applicant is State of California, Department of Fish and Game -- 49-year permit for public fishing access over tide and submerged lands in Sacramento River, Sacramento County; item (b) is State of California, Division of Highways -- Right-of-way easement, 1.6 acres submerged land, Clear Lake, Lake County, for State highway route; item (c) -- State of California, Department of Water Resources, permit for period through 10/31/62 for installation of current meters and appurtenant equipment, 7.1 acres tide and submerged land in the bed of Threemile Slough, Sacramento County; item (d) Emerald Bay Service District -- 49-year easement for sewer outfall, 2.07 acres tide and submerged land, Gulf of Santa Catalina at Emerald Bay, Orange County; item (e) Marin County, Department of Public Works -- Permit to extract 381,845 cubic yards of material from four separate areas of tide and submerged lands.
in bed of Novato Creek, Marin County, to improve navigation and flood control; item (f) Sacramento Municipal Utility District -- Life-of-structure permit for power line over the American River, 0.08 acre submerged land, Sacramento County; item (g) Sacramento Municipal Utility District -- Life-of-structure permit for power line over the American River, 0.08 acre submerged lands, Sacramento County; item (h) City of Oceanside -- 49-year right-of-way easement for municipal pier, tide and submerged land, Gulf of Catalina, San Diego County.

MR. CRANSTON: I move approval of those items in Item Classification 2.

MR. CHAMPION: Second it.

GOV. ANDERSON: Moved and seconded, carried unanimously. Item Classification 3 -- Permits, easements, leases, and rights-of-way issued pursuant to statutes and established rental policies of the Commission:

Applicant (a) is Allied Properties -- 49-year right-of-way bridge easement, 0.4 acre tide and submerged land, Disappointment Slough, San Joaquin County, total rental $928.06.

MR. HORTIG: Mr. Chairman, in supplement to the calendar report, I wish the record to show that the form of easement which will be issued pursuant to this item if approved by the State Lands Commission will provide that the bridge which will be financed by Allied Properties as to its construction will nevertheless be maintained as a public bridge, and
available for public transportation between the lands adjoining Disappointment Slough and the Rindge Tract. This area is currently serviced by a small ferry, which has insufficient capacity to actually carry the traffic that is using the roads in the area.

GOV. ANDERSON: This is a public ferry?

MR. HORTIG: The ferry is being maintained by the County of San Joaquin; the bridge will replace it. The bridge will provide more adequate facilities and the authorization for occupancy of State lands to erect this bridge will carry with it the requirement that the bridge will remain open to public use.

GOV. ANDERSON: Will this be a toll bridge?

MR. HORTIG: No, sir.

GOV. ANDERSON: A free bridge?

MR. HORTIG: Yes, sir.

GOV. ANDERSON: Why are they building it?

MR. HORTIG: Actually, at the present time both sides of Disappointment Slough are farming properties of Allied Properties and they have large numbers of farm workers and farm machinery to transport, depending upon the crop season. Also, I think it might be reasonable to assume that Allied Properties are planning some further development in the future and while there is no county road on the Rindge tract of Disappointment Slough at the present time, in order to provide proper access for all development purposes in the
future, Allied Properties feels it would be to their advantage to build this bridge.

GOV. ANDERSON: The bridge, then, will be open at all times, free to the general public?

MR. HORTIG: That is correct. Also, the plans have been cleared by the U. S. Corps of Engineers to assure that they will not impede navigation of small craft in Disappointment Slough.

GOV. ANDERSON: What about liabilities and things as far as accidents are concerned?

MR. HORTIG: The permit form as issued by the State requires the permittee to save the State free and harmless from any loss, damage, claim or action by reason of this structure placed by the permittee.

GOV. ANDERSON: Any other questions? (No response)

Applicant (b) is Amerada Petroleum Corporation -- Compensatory royalty agreement to protect State's interest in bed of Haas Slough and adjacent swamp and overflowed land, Maine Prairie Gas Field, Solano County.

Applicant (c) -- Frank, if you want to break in on any of these, break in.

MR. HORTIG: Yes, sir.

GOV. ANDERSON: Applicant (c) -- Basic Resources Corporation -- Denial of request for one-year extension of prospecting permits, San Benito County. Permittee does not appear to have exercised reasonable diligence in conduct of
operations in the permit area.

MR. CHAMPION: May I ask what is involved in that?

MR. HORTIG: Yes, sir. The permits here listed are
prospecting permits issued almost two years ago for a two-year
term, as provided by statute.

MR. CHAMPION: And just no action on it?

MR. HORTIG: A permit granted by the Commission may
be considered by the Commission for an additional one-year
extension at no cost to the permittee provided that the per-
ittee has previously justified such extension by actual
development activities -- may be on the verge of discovery of
a mineral deposit, and so forth. If the facts in any of
these cases support the extension of the permits for one year
when the subject permits expire the permittees do have the
opportunity to make application for new permits on the same
areas.

GOV. ANDERSON: Applicant (d) is Construction Aggre-
gates Corporation -- Acceptance of payment submitted to cover
royalty due State on required minimum extraction operations
and deferment of operating requirements for lease year ending
2/13/62, Mineral Extraction Lease P.R.C. 709.1, San Francisco
and Marin Counties.

Applicant (e) is Bruno Giovannoni -- 15-year lease
1.141 acres tide and submerged land, Sevenmile Slough, Sacra-
mento County, for small boat harbor, rental $150 annually.

Applicant (f) is Bruno Giovannoni -- 15-year lease,
three islands in Sevenmile Slough, Sacramento County, totaling 5.207 acres, for recreational purposes; rental $150 annually.

Item (g) is Honolulu Oil Corporation -- Assignment to Tidewater Oil Company of undivided 25% interest in Oil and Gas Leases P.R.C. 308.1 and 309.1, Coal Oil Point, Santa Barbara County.

Applicant (h) is Humble Oil & Refining Company -- Permit for geophysical exploration operations for six-month period from 3/15/62 through 9/14/62, tide and submerged lands Santa Barbara, Ventura, Los Angeles, Orange, and San Diego counties.

MR. CRANSTON: On item (h) the appropriate Boards of Supervisors and City Councils have been advised and up to now there have been no protests?

MR. HORTIG: There have been no protests, Mr. Cranston. Additionally, the area applied for, for exploration, excludes what is known as the Santa Barbara sanctuary area and that area extending from Newport Beach to the Orange - San Diego County line, and extending three miles offshore.

MR. CRANSTON: I move approval of all items ....

MR. CHAMPION: There are more. I'll second through (h).

GOV. ANDERSON: Moved and seconded through (h), carried unanimously. We will carry on to item (i) -- George W. Ladd - Ratification of extension of Lease P.R.C. 400.1, 2.34 acres of tide and submerged land in San Joaquin River,
San Joaquin County, for period ending 3/17/62 and renewal of lease for period 3/18/62 through 3/17/63; rental $280.80 annually.

Applicant (j) is Libbey-Owens Ford Glass Company -- 49-year lease for right-of-way purposes, 0.02 acre tide and submerged land San Joaquin River, San Joaquin County, total rental $100.

Applicant (k) is the Moe Sand Company -- Waiver of operating requirements, Mineral Extraction Lease P.R.C.2036.1 Marin and San Francisco counties, for lease year ended 11/11/61. Lessee's application for authority to dredge rejected by U.S. Corps of Engineers.

Applicant (l) is Pacific Gas and Electric Company -- Gas-storage agreement covering State's interest in McDonald Island sand underlying portion of bed of Whiskey Slough, San Joaquin County, effective 3/1/62. The original compensatory agreement, easement 412.1, entered into 3/1/40 is to remain in effect for all zones except the McDonald Island sand.

MR. HORTIG: Mr. Chairman, I believe it would be helpful to the Commission to have further explanation of this agreement and the results to eventuate from the approval of this agreement.

As the Commissioners will recall in general terms, the State since 1940 has had an agreement in the McDonald Island gas field for compensation for gas drained from the bed of Whiskey Slough, formerly a navigable arm of the San
Joaquin River. This agreement originally was entered into with Standard Oil Company of California for production of gas, and for which the State was compensated in a total amount in excess of $233,000 simply for gas drainage from beneath State lands. Standard Oil Company, with the approval of the Commission, assigned this agreement for gas production compensation to Pacific Gas and Electric Company. Pacific Gas and Electric Company now, in lieu of continuing to produce gas from this field, is desirous of utilizing the area as an underground gas reservoir particularly for amounts of gas that may be imported through the new Canadian gas pipeline which has just been inaugurated last week, terminating at Antioch, California, as well as from other sources, to store this gas underground at times of peak availability in order to have it at times of peak demand in the San Francisco area. By utilizing the McDonald Island gas field for an underground gas reservoir this, of course, includes that portion for the underground tank under State lands.

Therefore, in lieu of the present agreement, it is desired that a storage rental figure be entered into, whereby the State will be compensated for the use of its share of the underground storage reservoir to the extent of an annual rental of $20,000 a year plus one cent per thousand cubic feet of gas stored in the McDonald Island gas field, with the $20,000 annual rental being prepayment of the first $20,000 of such storage charges in a year. In other words, the State will
receive $20,000 rental and if more gas is stored than calcu-
lates to a storage cost of $20,000 the State will receive
additional rental to that extent.

Utilizing the field in this manner means at the
present time, then, that the gas remaining in the McDonald
Island gas field, the natural gas that was there originally,
will probably never be produced and, therefore, the State
could not foresee the possibility of giving its royalty income
from that gas under the original drainage agreement. So, the
amount of gas on which the State would have been entitled to
a royalty has been calculated, and P. G. & E. has agreed to
pay as cash settlement for that royalty revenue on unproduced
gas the amount of approximately $127,500, the $20,000 a year
annual rental, and a storage charge of one cent per thousand
cubic feet of gas for every thousand cubic feet of gas put in
the underground tank....

MR. CHAMPION: ...Over the twenty thousand.

MR. HORTIG: ...over the twenty thousand, and the
agreement is the result of combined and extended effort on
the part of the staff in conjunction, of course, with the
P. G. & E. and the Office of the Attorney General; and the
Office of the Attorney General has approved the agreement as
to legality.

Therefore, it is recommended that the Executive
Officer be authorized to issue the gas storage lease outlined
here on pages 30 and 31 of your agenda.
GOV. ANDERSON: Any further comments?

MR. CHAMPION: I move approval -- oh, we will just go on.

GOV. ANDERSON: Continuing on with Applicant (m), Harry M. and Dorothy Peterson -- Approval of assignment to Henry and Mildred Gies of Lease P.R.C. 2175.1 covering submerged land in the Sacramento River, Sutter County used for small boat wharf.

Applicant (n) is Karl Pierce, et al. -- Deferment of operating requirements, Mineral Extraction Lease P.R.C. 2150.2, San Luis Obispo County, for lease year ending 4/13/62. Ore cannot be mined economically at this time because of depressed chrome market.

Applicant (o) is Walter E. Smith -- Renewal of Lease P.R.C. 301.1 for 10-year term, 0.5 acre submerged land Mokelumne River, Sacramento County, $150 annually -- small craft mooring facility.

Continuing on with Classification 3, Applicant (p) is Southern Pacific Pipe Lines, Inc. -- 49-year right-of-way easement for oil and/or gas line on railroad bridge crossing the Feather River, 0.55 acre, Yuba and Sutter counties, total rental $127.40.

Applicant (q) is George Speckman -- 15-year lease, 5.43 acres tide and submerged land in Old Channel, San Joaquin River, San Joaquin County, with two renewal periods of ten years each, for small boat harbor, berthing facilities, and
recreational area; providing for reservation to State of power line right-of-way, Lease P.R.C. 2474.1; rental $681.86 annually.

Applicant (r) is Standard Oil Company of California, Western Operations, Inc. -- Permit for geophysical exploration operations, tide and submerged lands in Sacramento River, Suisun Bay (including Honker and Grizzley Bays), Montezuma Slough, Middle Slough, and New York Slough; Contra Costa and Sacramento and Solano counties; for period 3/26/62 through 5/25/62.

Applicant (s) is Texaco Inc. -- Deferment of drilling requirements under Oil and Gas Lease P.R.C. 2206.1, Santa Barbara County, to 10/2/62 to study and observe reservoir performance; to program for maximum economic recovery of hydrocarbons.

MR. CHAMPION: I move approval of items (i) through (s).

MR. HORTIG: Mr. Chairman and Mr. Cranston, may I amplify on item (s) -- that the application for deferment of drilling requirements was for a period of two years and in consonance with the program which the Chairman suggested, that a six-month period and then a re-evaluation of justification for additional deferments was probably a better policy procedure, the staff recommendation is that this deferment be granted initially for only a six-month period, to be re-evaluated and reported back to the Commission if additional deferments are justified in fact.
MR, CHAMPION: I would second, but I would like to ask a question about (p) before we act finally on this thing. What is the policy here? This is a bridge that was constructed at considerable expense to the State. This offers a facility, this is a nominal rental. Do we ever attempt to realize any of the benefit from this? This is a replacement bridge on the Feather River constructed by the State to replace the bridge that was taken out.

MR. HORTIG: I don't believe this is that specific bridge. This is a railroad bridge.

MR. CHAMPION: Yes, there is a railroad bridge.

MR. HORTIG: I believe the one you had in mind was one for the Western Pacific Railroad farther up the Feather River. This project originally was constructed under a railroad easement for which there was a general law authority. The type of facility contemplated to cross the State lands here for an oil and gas pipeline was not authorized by statute. The bridge is simply a convenient method for getting the pipeline across the river; otherwise, the pipeline would be laid under the river and definitely there would be a clear-cut occupancy of State lands in that case.

MR. CHAMPION: If this is not the case I had in mind -- I was curious. If this was the case, it seems to me it poses an interesting problem. I second the items.

GOV. ANDERSON: Moved and seconded, items (1) through (9); no objections -- carried unanimously.
GOV. ANDERSON (continuing): Item 4 -- City of Long Beach approvals required pursuant to Chapter 29, 1956, First Extraordinary Session:

Project (a) Long Beach Arena, formerly, Convention and Exhibit Hall -- Proposed authorization of expenditure subsequent to 2/27/62, from the City's share of tideland oil revenues, of not more than $647,735 for equipment to maintain and operate the Long Beach Arena. Mr. Hortig?

MR. HORTIG: Mr. Chairman, as this Commission will recall, the approval was given previously for the construction of the structure now called the Long Beach Arena to be financed from the Long Beach City's share of tideland oil funds, which has been interpreted by the Office of the Attorney General for the Commission as coming within the purview of the trust conditions and purposes required both under the statutes and Chapter 29, 1956, under which the Commission has the authority and must give advance approval to expenditures of this type.

The item before you this morning is for equipment to make operable the structure which was heretofore approved and the proposal for this expenditure and as to the specific items which go into making the aggregate total has also been reviewed by the Office of the Attorney General for compliance and determination that this is an item of the type which the Commission may consider for approval as a matter of policy; and it is recommended that it be so approved.

MR. CRANSTON: I move approval.
MR. CHAMPION: Second.

GOV. ANDERSON: Moved and seconded, carried unanimously. Does Long Beach wish to say something on this?

MR. LINGLE: Certainly we wish to express our appreciation to each one of the members of the Commission and also we would like to express our appreciation to your staff. I think that you have an admirable staff who protect the State's interest, and although we differ on certain matters we have always been treated with the utmost courtesy by Mr. Hortig, Mr. Kreft, Mr. Pfeil, Mr. Bastues, Mr. Blacker, and the staff at Long Beach; Mr. Golden and Mr. Sanchez. Every time, every one of us, as I say, have been scrutinized and had to prove our case -- but have always been treated with courtesy.

If I may impose a minute, Mr. Cranston once asked me why it took so long to get these unitization agreements together. Along that line, we think we have reached another milestone. Our petroleum staff reported to the Harbor Commission we are now injecting water into the oil field at the rate of 500,000 barrels a day. This was the press release this morning: Enough water to fill all the inner and outer harbor of Long Beach has been injected into the oil field as an anti-subsidence measure. Hughes says the water injection has passed 500,000 barrels daily and will rapidly increase to one million. The increase was brought about by the signing of unitization agreements for Fault Block IV late last year. Total amount of water injected is more than 430 million
barrels, enough to flood a thousand acres to a depth of fifty-five feet. Subsidence has been stopped in more than three-quarters of the harbor area. As the injection rate climbs in the Fault Block IV area, the last small pocket of subsidence will stop, Hughes told the Harbor Board. He says he expects complete control to be obtained before July 1963.

One other thing — As you gentlemen all know, we are holding an election in Long Beach today, we hope so that we can go further into the oil drilling program. With your action on measures of this type, where the people in Long Beach can see that there is some benefit to the City, we have utilized the staff approval which we had gained ahead of time and speculated you gentlemen would grant its approval, so that we could use every bit of persuasion we could think of — so for the mutual benefit of both the State and City we could urge a favorable vote at home today.

Thank you.

GOV. ANDERSON: Thank you very much. Motion is moved and seconded that we approve Item 4; no further comments, carried unanimously.

Item Classification Number 5, Land Items — Sales, Selections, etc. All land sale items here presented have been reviewed by all State agencies having a land acquisition program and no interest has been reported by those agencies in any of the lands proposed for sale.

(a) is Sale of vacant State school lands.
MR. HORTIG: Mr. Chairman, during the course of the circularization of the State agencies having a land acquisition program, which is conducted concurrently with the preparation of the agenda items, we received from the Department of Fish and Game, from W. T. Shannon, Director, a request with respect to item (1), the lands applied for by Mr. George D. LaMoree, stating on behalf of Fish and Game that "in view of the wildlife and recreational values in the area and to facilitate blocking out the surrounding public domain lands, we recommend the land be retained in public ownership."

Such action would be consistent with that taken by the State Lands Commission in other previous situations. As you gentlemen will recall, at the last meeting I recommended in view of a similar request from the Department of Fish and Game that, rather than to make a determination and process or reject such an application as a piecemeal part of the Lands Commission land management program, the action on the sale be withheld -- to be determined finally in consonance with the land management and disposition policy to be established by the Commission and on which it is now anticipated firmly there will be a report to the Commission at the April meeting.

Similar action is recommended in this instance -- that Mr. LaMoree, in view of these circumstances, be given the opportunity to either receive a refund of his moneys deposited with the State at his option or leave the moneys on
deposit in the event that after the establishment of the full policy it might be determined that these lands should, in fact, be sold into private ownership.

MR. CHAMPION: Well, I would move that action on the application be deferred as requested, with the options referred to Mr. LaMoree to act as he chooses.

MR. CRANSTON: Second the motion.

GOV. ANDERSON: Moved and seconded. Any further comment? (No response) If not, it is so ordered -- carried unanimously.

(b) is the selection and sale of vacant Federal lands: First is the United States Borax Company -- the appraised value is $11,700 and that is the bid; number (2) is United States Borax Company -- the appraised value is $11,700 and that is the bid; number (3) United States Borax Company -- the appraised value is $6,000 and that is the bid.

item (c) is the selection of vacant Federal lands on behalf of the State. Applicants do not desire to proceed with acquisition of the lands. The first is 85.39 acres in Humboldt County, pursuant to application of N. O. Nicholson; number (2) is 331.15 acres in San Bernadino County, pursuant to application of Wendell Arthur Prough; number (c) is 503.72 acres in Kern County, pursuant to application of United States Borax Company.

MR. CRANSTON: I move approval of items (b) and (c).

MR. CHAMPION: Second.
GOV. ANDERSON: Moved and seconded. Any comments? (No response) Carried unanimously.

Number 6 -- Proposed annexations. (Pursuant to provisions of Section 35313.1 of the Government Code).

Applicant (a) is the City of San Clemente in Orange County. Mr. Hortig, do you have a comment you wish to make?

MR. HORTIG: Mr. Chairman, in view of information received this morning just before the Commission convened, I believe it would be appropriate to have the Special City Attorney for the City of San Clemente present the position of the City of San Clemente to the Commission at this time with respect to the subject application.

GOV. ANDERSON: Special City Attorney of the City of San Clemente? Would you identify yourself?

MR. JONES: Yes. I am Donald A. Jones, 13721 Goldenwest Street, San Clemente, California, representing the City of San Clemente in this matter. I came here this morning for the sole purpose of asking the State Lands Commission not to register the protest in order to give the City of San Clemente a chance to dismiss the annexation.

Now, gentlemen, the purpose of this is unsurmountable opposition to the annexation. We make no bones about it. We are vigorously opposed from apparently most, if not all, sides. We do not concede that the position of the City is erroneous or badly taken. The sole desire of the City was to
protect this harbor area, this coastline, and the tremendous investment that it now has in its city-owned beaches and also other beaches that are in the City of San Clemente.

The reason for asking the State Lands Commission not to protest on behalf of the State at this time was that we may drop our annexation, so that we will not be precluded for one year (as provided by statute when a majority protest is filed) from proceeding with the portion that is directly in front of the City boundaries; or if the people in the unincorporated territory of Orange choose to join the City of San Clemente that there will be an opportunity at that time to appear before you again with the shoreline joined to the tidelands annexation.

We have our Council in session and a telephone call will result not only in the dismissal of this uninhabited annexation of tidelands, but also the inhabited annexation until such time that we can perhaps stir up a little more sympathy on our side. We would appreciate if you gentlemen will grant us this privilege. We would be willing to step to the phone and drop the annexation immediately if you gentlemen will refrain from protesting and barring us for one year.

GOV. ANDERSON: Mr. Hortig?

MR. HORTIG: Mr. Chairman, if I might suggest -- which comes first? If the City of San Clemente does, in fact, drop the application for annexation and the annexation proceedings, there is nothing before the State Lands Commission
MR. JONES: Well, gentlemen, under the provisions of State law, of course, even after we drop you have the right to protest anyhow. We have promised to hold the hearing open and will keep our word. We have no objection to dropping this, this is certain, and if this is what the Commission desires we will be happy to do so. We can do it in either of two ways -- we can do it by phone and you can drop it from your agenda or whatever you wish; or we can send you copies of the resolution which we have prepared on which the Council will act in dropping the annexation.

MR. CRANSTON: What form of motion would most suit your purposes?

MR. JONES: If it is the attitude of the Commission we drop this, I prefer it go to the next meeting. If this matter is deferred, you have my positive assurance that the City Council will abandon Annexation Number 2, the tidelands annexation today.

MR. HORTIG: I would feel, Mr. Chairman, possibly this should be, under those circumstances, reported to the Commission at the next meeting as having transpired. If the circumstances as outlined by Mr. Jones were to follow in sequence which he outlined them, this would simply mean at the next meeting there would be no agenda item on which the State Lands Commission would have any reason to act. There would no longer be an application pending before the State
Lands Commission; and the staff would certainly be happy to report, as an informative item in order to close the docket on this situation, whatever action had been taken by the City of San Clemente.

MR. CHAMPION: Wouldn't it be simple to just have this action taken now by the Council and have it reported back to us?

MR. JONES: I will be glad to step to the phone and report back to you.

MR. MOORE: Mr. Chairman, my name is William D. Moore. I am an attorney with O'Melveny & Meyers in Los Angeles, representing the Capistrano Beach Club Company, privately owned property in the submerged area, and also speaking in behalf of the Capistrano Beach Road Association, but that association is formally represented by Mr. Pinnick.

I think the proposal of the City of San Clemente has merit, except I doubt the legality of it. The only power of the City of San Clemente to abandon their annexation is prior to the time set for the hearing, December 20, 1961. Following that day, they have no power to abandon; they have only power to have the protest hearing, and notwithstanding the intent of the City Council, if they should attempt to abandon at this time any taxpayer may go forward.

Again, I would object strenuously. I think the only thing the Board can do is to file a protest. I realize it does impose a one-year prohibition for any proceeding in
the area; but in the absence of protest, any attempt to dis-  
miss by the City Council could be attacked and we might be  
back.

MR. CHAMPION: I thought that protest hearing had  
been continued.

MR. MOORE: The protest hearing has been continued,  
Mr. Champion. The Code is very definite, Section 35007, that  
only prior to the date set for the hearing can it be termin-  
ated. The continued hearing does not prolong their power to  
terminate. That date is past; we cannot go back. I wish we  
had known this at the time -- we may have been able to work  
it out, but at this time I think it is much too late. I think  
we are opening up for a law suit.

MR. PINNICK: May I speak for a minute? My name is  
Wallace Pinnick. I am attorney for the Capistrano Beach Road  
Association and also the Capistrano Bay Community Service.  
We have here a letter from Mr. Pierce Works, who happens to  
be a partner in the firm Mr. Moore is representing. He hap-  
pens to be the president of one of our groups, and I would  
like to file this. It is notice to the Commission that they  
have taken legal action by the Board of Directors to protest  
this. In connection with the proposed action suggested by  
Mr. Jones, I would like to say that I agree with the legal  
analysis of Mr. Moore, but I would also like to say that I  
would like to see this thing terminated; and perhaps the Com-  
mission could seek its own legal counsel as to whether or not
they must carry through and protest after an abandonment at this time by the City of San Clemente.

In any event, the people in our area have spent some time and money opposing this thing. We are not an incorporated area and it has been a personal expense to them, and they would be most happy if I could come back and say the City of San Clemente has finally abandoned this, they did it by telephone, and they took the action. Then, if the Commission discovers later on they must carry on, they can come through with their protest.

I wouldn't like to miss this opportunity to get this thing terminated. I don't care about another foggy trip to Sacramento. Thank you.

MR. JONES: Gentlemen, with due respect to Mr. Moore's analysis of the law, (I suppose we could have a full-fledged legal argument on that), I disagree emphatically. The law does not state what Mr. Moore does say it states -- that we have no power to terminate as long as the hearing is open. The law simply states it has the power to terminate before the hearing. However, if it doesn't it must continue to hold the protest hearing and make a finding.

Mr. Moore states we are liable to be faced with litigation. We drop this annexation without wanting to make too much of a jest of this thing but I don't know anybody who is going to sue over it. To be honest with you, the opposition seems to be overwhelming. The fact of the matter is if there...
isn't any majority protest, it is going to be terminated and
there isn't any question of a law suit. We can stop it and
have it terminated immediately.

With all due respect, Mr. Moore is desirous of a
year's moratorium against the City of San Clemente. I don't
see this is a good thing because we cannot foresee a year
ahead. I think we can eliminate it from the State level back
to the local level where it belongs and work it out among
ourselves.

GOV. ANDERSON: Mr. Moore.

MR. MOORE: I don't want to prolong this on a
legal basis but I will answer that in 1955 the Legislature
passed 35007, and I shall quote verbatim "Prior to the date
set for hearing," the Council may terminate by resolution.
Now this does not mean prior to the conclusion of the hearing
or prior to the time it is held. It means prior to the date
set for the hearing. We have had many cases of protest which
had to be filed prior to the time set for hearing. When that
time comes, I state emphatically that the only power the City
has to terminate now is to hold the hearing. There is none
left in the City. It will be pending regardless of what action
they take until they hold a protest hearing. The only protec-
tion we can have is to have this Board's written protest.

MR. SAMPSON: I am Kenneth Sampson, Manager of the
Orange County Harbor District and here at the instruction of
the Board of Supervisors of Orange County. I really wanted
to inquire, Mr. Chairman, if the resolution from the Board of Supervisors has been filed and to remind you that the "Now, therefore, be it resolved" portion of the resolution is "That the State Lands Commission of the State of California be and the same is hereby requested to join the County of Orange in protesting said annexation in regard to the area theretofore owned by the State and subject to the management of this Commission." Our interest, of course, is in a recent tidelands grant for development in this area.

GOV. ANDERSON: Thank you. The resolution is on file. Mr. Hortig, do you have any comments? Shall we ask for some legal advice here?

MR. HORTIG: The suggestion is going to be that the practical mechanical method would appear to me to be to combine the suggestions that have been made to the Commission here, which I think meet the test of everyone except the expressed desire of Mr. Pinnick to get this thing closed now and study it later, but that the Commission take the matter under consideration for final action at the next meeting, if any action is needed, on the assumption that the City of San Clemente will proceed with the proposed abandonment of the annexation application before the State Lands Commission; the legal effect of which and the necessity for action by the Lands Commission thereon to be evaluated by the Commission's counsel, the Office of the Attorney General, to be reported to the Commission at the next meeting.
GOV. ANDERSON: Mr. Shavelson.

MR. SHAVELSON: As the Commission knows, this proposal came immediately prior to the meeting and we didn't have an opportunity to go into the legal questions at all, and I wouldn't like to state any conclusion in that respect without having a chance to make a prior study. We will, of course, be prepared prior to the next Commission meeting to advise the Commission as to our views, as to whether a protest should be filed.

I'd like to ask Mr. Moore whether in your studies you feel that there would be any prejudice to our right to file a protest if that is postponed until the next Commission meeting.

MR. MOORE: I think there would be for this reason: Nothing prevents the Council in San Clemente from meeting now and determining whether or not there is a majority protest and closing the hearing. In a very recent case, McMillan versus City of El Monte, protest filed after the hearing opened was ineffectual even in that case where the protest was eighty-seven percent of the value.

I would suggest -- I have no doubt as to the sincerity of the City of San Clemente and its counsel, but I think we would resolve the matter to the satisfaction of both parties if this Commission authorizes Mr. Hertig to file a written protest. If the Council acts to terminate this, after they terminate it, then it is ineffectual. If it has been
filed prior to the termination, the protest is good and it protects us.

MR. JONES: As long as we are discussing recent legislative changes, I would point out the law was recently changed to provide for protests up to the hearing. San Clemente gave its word that it will hold up its hearing until the Commission advises us. That means if you wish to file your protest next month, your protest is as valid as today and the law is as valid as today.

MR. CHAMPION: Might we do this -- might we not authorize Mr. Hortig to file protest at any time if the Attorney General decides we need to do so.

MR. HORTIG: Mr. Champion, we already have such authorization.

MR. JONES: The only thing we have to say is this: If we are going to be barred -- we felt ....

MR. CHAMPION: This would not bar you, unless he files the protest.

MR. JONES: It would bar if he files the protest, in which case we want to make our position clear.

MR. CHAMPION: I think you misunderstand, Mr. Jones. It may never be necessary to do this, but because of the legal complications here we are merely continuing to vest in Mr. Hortig the right to protest. Unless there were legal complications, it would never be filed.

MR. JONES: I see. Thank you.
MR. HORTIG: I would feel, Mr. Chairman, that the Commission would be in a much clearer position to continue the status quo as of this morning until we have had the advantage of the opinion of the Commission's counsel.

MR. CRANSTON: Mr. Chairman, I move that the status quo continue, that the Executive Officer have the continuing power to protest, but that there be a clear understanding that no protest be filed unless legal questions arise that make it necessary.

MR. CHAMPION: I would second that motion.

GOV. ANDERSON: Moved and seconded...

MR. HORTIG: And the matter will be calendared for final disposition or final report, as appropriate, at the next meeting of the Lands Commission.

GOV. ANDERSON: With that addition to the motion....

MR. PINNICK: Excuse me, Governor Anderson, but that leaves in limbo the proposition of the City of San Clemente as to whether or not they should now, this day, abandon the annexation proceedings. I would like to have them say that today they were abandoning them and then that would allow Mr. Cranston's motion for legal counsel to determine whether it is necessary to file a protest, get this thing terminated one way or another.

MR. CHAMPION: As a basis for Mr. Cranston's motion I think the understanding was that the telephone call would now be made and we would have that information before us.
MR. CRANSTON: That's correct.

GOV. ANDERSON: Can you do that?

MR. JONES: Yes.

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

If not, it is carried unanimously.

MR. OBLATT: My name is Julius Oblatt. I am a resident of Dana Point and I am not an attorney. However, if I may express the sentiment of the Dana Point Harbor Committee, of which I am a member, and also the sentiment of the Dana Point Harbor Association which has created this Harbor Committee, and also I believe the sentiment of the great majority of Dana Point residents -- we have been harassed for a long time by the different maneuvers of the City of San Clemente. I repeat again, I am not an attorney and I cannot and would not wish to enter into legal implications at this point.

However, just as an ordinary citizen I feel that again and again San Clemente through its attorneys has tried to postpone, delay, a decision -- in spite of their admitted knowledge of the opposition, almost solid, of the citizens of the areas involved. It is also a fact that in the unincorporated area we have neither the means financially or legally to stay in battle very long with the legal staff so eagerly represented by Mr. Jones of the City of San Clemente.

We also feel, however, that our plain human rights are not being considered and I therefore would like to urge the Commission to terminate these proceedings and not permit
the City of San Clemente to continue to harass us as it has
done for so long.

I also believe that one year at least would be
required to produce any change in sentiment of the area and
I believe that those present who represent other areas like
Capistrano Beach will concur in this.

I do feel nothing is gained except the avowed aims
of the City of San Clemente to continue to harass the unin-
corporated areas. That's all I have to say.

GOV. ANDERSON: Thank you very much. Any further
comments?

MR. HALLETT: Gentlemen, I am C. W. Hallett, Presi-
dent of the Capistrano Beach Association.

GOV. ANDERSON: What was the name again?

MR. HALLETT: C. W. Hallett. I concur and our
people concur in what Mr. Oblatt had to say. We would like
to have this, if possible, settled today -- because we have
been more or less in a turmoil for the last few months. I
know that our people in Capistrano Beach definitely oppose
this Annexation No. 4 -- Number 2, rather. There is also an
Annexation Number 4, where San Clemente would like to take
over Dana Point and Capistrano Beach, which undoubtedly they
would like to have before they try this Annexation Number 2
again. So we would like -- our people in Capistrano Beach,
we object to this very strenuously.

GOV. ANDERSON: Thank you.
MR. HORTIG: Mr. Chairman, I think one point of clarification should be made. Annexation Number 4 just referred to only involves uplands and it is not proposed to include any lands under the jurisdiction of the State Lands Commission.

GOV. ANDERSON: Thank you. Any further comments? (No response) You have heard the motion. It has been moved and seconded, carried unanimously.

Item Classification Number 7 -- Oil and gas leases and lease offers. (a) is authorization for the Executive Officer to proceed with publication of notice that the Commission intends to consider offering leases for extraction of oil and gas from the area of tide and submerged lands not included in existing State oil and gas leases, lying between the northerly City limits of the City of Newport Beach and the easterly boundary of the City of Long Beach, Orange County, and extending seaward three nautical miles, containing approximately 21,500 acres. Mr. Hortig, any comments on that?

MR. HORTIG: Mr. Chairman, the matter of a prior pending dispute as to title as to unleased areas of tide and submerged lands in Orange County has been clarified by the dismissal of an action brought previously by the County of Orange contending that the State of California did not have title to such lands. Section 6873.2 of the Public Resources Code provides in part that "Before offering any tide or submerged land area for an oil and gas lease, the Commission shall
publish notice thereof and any affected city or county may within thirty days after the publication of such notice request in writing to the Commission that a hearing be held in connection therewith."

This statutory requirement being a condition precedent by the State Lands Commission prior to offering any State tide and submerged lands for lease, it is recommended at this time that the staff be authorized to proceed with the required notice to inquire whether such leases are desired in Orange County with respect to any heretofore unleased tide and submerged lands and if such hearing is desired to set up such hearing, hold such hearing, and report to the Commission, in order that the Commission may include those specifications in future lease offers (which, again, the statutes require shall be included and offered at public hearing) so that there may be no detrimental effects to the shoreline and recreational values.

MR. CRANSTON: I move approval.

MR. CHAMPION: Second.

GOV. ANDERSON: Moved and seconded that item (a) be approved, carried unanimously.

Item (b) -- Proposed oil and gas lease, Ventura County, Parcel 5A.

MR. HORTIG: Mr. Chairman, the "A" after "5" refers to the fact that the parcel of land was previously offered by the State Lands Commission as Parcel 5 under the option
offered to the Lands Commission of inviting leases on a cash bonus plus specified royalty basis. As you gentlemen will recall, no bids were received. It is, therefore, felt at this time it is appropriate and desirable that the Commission evaluate the effectiveness of one of the other alternative methods of offering to invite bids on the same parcel of land but on a royalty basis only involving no cash bonus payment as a consideration for awarding the lease.

Therefore, it is recommended that such lease invitation be authorized.

MR. CRANSTON: So move.

MR. CHAMPION: Second.

GOV. ANDERSON: It has been moved and seconded.

Does this set any kind of policy or precedent that some of the oil companies or the potential lessees might look forward to and not make bids, with the thought later on of getting these without having to put up a cash bonus?

MR. HORTIG: Mr. Chairman, I believe the answer to that is that the determination whether a cash bonus is offered for a particular parcel in fact will depend upon the evaluation of all prospective bidders as to the possible return from the parcel and whether a cash bonus can be justified in addition to development costs which must be undertaken under a State lease; and the competition in the industry being such, I fear that no organization would feel safe in waiting for a lease offer to produce no cash bonuses in the hopes of having
the opportunity to bid on a royalty basis only because the
potentialities are too high that someone in the industry is
going to desire that parcel and may be the only bidder, but
if he offers a qualified and equitable cash bonus bid for that
parcel it is going to sink the hopes of anyone who is waiting
for an opportunity to bid royaltywise only.

MR. CHAMPION: There is no intent to establish
policy. As I understand, the staff felt this would be a desir-
able way to develop it if they did not receive a cash bonus bid.

MR. HORTIG: That is correct and also I will come
back to Mr. Anderson's question. The Commission does have
leases in existence awarded on both cash bonus basis and
royalty bid basis, so offering a lease on a royalty bid basis
does not establish a precedent.

MR. CHAMPION: Further, the fact that we offer a
lease on a royalty basis, if we do not get one that satisfies
us we can reject it.

MR. HORTIG: You are under the law compelled to
reject.

MR. CHAMPION: How long since we have had one on a
royalty bid?

MR. HORTIG: 1955.

MR. CHAMPION: It's about time we had a look at it.

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

Moved and seconded, carried unanimously.

Item (c) Proposed oil and gas lease, Santa Barbara
Mr. Hortig.

Mr. Hortig: Mr. Chairman, for brevity, with your permission I will read the agenda item because the salient factors are set out here.

On November 22, 1961 the Commission authorized the Executive Officer to offer for oil and gas lease a parcel of tide and submerged land designated as Parcel 6 in Santa Barbara County. On December 4 and December 11, 1961 a notice of intention was published, specifying the time and date for the receipt of bids as February 7, 1962.

On December 21, 1961, the Commission authorized indefinite deferment of the date for the receipt of bids for the subject parcel. This postponement was recommended pending resolution of problems in connection with the certification and construction of a gas pipe line of adequate capacity to transport gas produced in the area. Pursuant to this action, all prospective bidders who had requested copies of the bid-lease form were notified in writing of the postponement of the date for the receipt of bids.

Certification for construction of the gas pipe line has not yet been granted by the Public Utilities Commission, and this matter may not be resolved for some time. Nevertheless, it is the opinion of a segment of the industry that these conditions will not influence lease-potential valuations by prospective bidders, and therefore it would be desirable to proceed with the Commission's sequential bidding program.
On this concept, then, it is being recommended that the Commission authorize the Executive Officer to publish a notice of intention to receive bids; that is, to set a new bid closing date for this particular parcel and it is now recommended that that be thirty days from today -- with the Commission of course, as is required by law, reserving the right to reject all bids which in the opinion of the Commission are not in the best interests of the State.

GOV. ANDERSON: If they can't sell their gas, how can this be a good time to put it out for lease? Apparently some of them feel they can.

MR. HORTIG: Right.

GOV. ANDERSON: Are there some who can and some who cannot?

MR. HORTIG: There are some who are selling it in part; there are others who have no specific program but where we can envision a supply pipeline, possibly not under the direction of the Public Utilities Commission, even as one of the State's lessees is doing now, which is no military secret. Richfield Oil Company is selling gas on State-produced leases as well as other holdings to the Southern Edison Company. Southern Edison Steam Company and Ventura Company is one notable recipient of such gas.

The press has reported the San Joaquin Valley producers, who at the present moment have a similar problem of market and pipeline facilities, having evaluated and determined
that they can now possibly justify the capital investment of
building their own pipeline direct from the San Joaquin Valley
to consumers. So other markets and means of transport can be
developed if in the minds of the lessees this could be econom-
cally justified, and their economic studies are the only ones
that are going to show whether this can be done or cannot.

On the other hand, the control remains with the
Commission if, in fact, the theory as expounded here that the
lack of present pipeline facilities is not a deterrent and
would not be a discount factor in bidding — on which the best
evidence would be whether or not the Commission receives ade-
quate bids for a parcel offered at this time. If the converse
is the case and adequate bids are not received, then the re-
verse of the theory will have been proven and the Commission
has the authority and obligation to reject such inadequate
bids.

GOV. ANDERSON: If the action of the Public Utilities
Commission is a deterrent and the bids come in, but are not
as high as they would be if this deterrent was not there, and
then we were to let the bid to the lessee, after which the
Public Utilities Commission would allow the pipeline to come
in, making it much more valuable, wouldn't we find ourselves
tied to a contract which would be less valuable to the State?

MR. HORTIG: I think the short form answer, Mr.
Chairman, is: The staff would recommend you not be tied to
such a less valuable contract.
GOV. ANDERSON: In other words, you would have a
condition in there?

MR. HORTIG: Only the bid received in the first
instance would be recommended.

GOV. ANDERSON: Then shortly after the bid was given,
then the P.U.C. would allow the pipeline franchise to be
taken in there -- then wouldn't the value of the gas rights
be considerably more valuable and you couldn't change it?

MR. CHAMPION: Mr. Chairman, I think the Commission
ought to take the attitude they wouldn't accept these bids if
there were any diminution at all because of the lack of pipe-
line. That would be our position. I don't think we should
accept a lease subject to such a later condition.

MR. HORTIG: This would be the basis of the staff
recommendation. Only under the theory that the lack of pipe-
line is not a deterrent would the staff recommend.

MR. CRANSTON: I move approval.

MR. CHAMPION: Second.

MR. SCOTT: Mr. Chairman, I'd like to be heard. My
name is L. E. Scott. I am assistant to the president of
Pauley Petroleum. I'd like to address my remarks to the Com-
mission along these lines:

We are one of the owners of Parcel E. We are now
shut down because we do not have a gas market. We are losing
somewhere between eight and nine hundred thousand dollars a
month in come, of which the State would get a goodly portion,
probably a third to half of that income.

This parcel you are now voting on adjoins Parcel E. I want to tell you as a bidder that if you don’t have the Public Utilities Commission’s permission to build this line, you are going to reduce competition; you are going to eliminate a large segment of your bidders; you are going to give those people that plan to sit on these resources for some other reason than that of producing and generating income—you are going to give them a favored position in bidding.

If you want to sit here and wait until they build a line to Mandalay Beach or somewhere, you are going to give the lease to one group of people. We can’t build this pipeline. We looked into it on Parcel E. We could not justify it on any money we could get back.

I would like for the people of the industry if they would come forward, in the segment of the industry that say it does not influence the bid. I would like to know who it is that will stand up and tell you they are not interested in getting their money back in a reasonable time. I have been in the offshore business fifteen years and this is the first time I have heard the argument. I’d like to have them come forward.

MR. CHAMPION: Mr. Scott, isn’t the best test the bid itself?

MR. SCOTT: We are not going to lay our hands out if our figures don’t make us feel we can produce the product. Our group has ten, twelve, fifteen million dollars invested.
You take the prime rate of interest. You are losing about $600,000 business in prime interest alone. Do you think we are going to bid on that parcel? It is ludicrous to go before management of a company and say "I want to bid $10,000,000 but I don't know when you are going to get your money back. I know it is here."

MR. CHAMPION: I understand that, but isn't the best test the actual amount of bids?

MR. SCOTT: No, because we are not going to bid because it is a very deterring factor.

MR. CHAMPION: The best test is the bids.

MR. SCOTT: Who is going to lay their hands on the table? When you put a lease out, the high bidder is going to win.

MR. CRANSTON: Oh, no ....

MR. SCOTT: Mr. Cranston, you are a lessor here and as a lessor, a landlord, you are telling your lessee "You have a right to drill and produce" and you impose upon the lessee the obligation to produce that oil. How can you produce? We are on Parcel E now, drilling ten to twelve thousand dollars because under the lease, under the contractual provision of the lease which we have, we have to keep going -- yet we can't produce what we have already discovered.

All I am asking is that you take this into consideration before you put up any other parcel. For anybody to say they don't want any money back -- These leases went
out for fifty-five million dollars. Everyone had a three-year term in which to start drilling on these parcels. I ask you this -- to look at the facts. How many people waited to the third year to start drilling. If they wanted time, that's what they would have done. Most of these were drilled within ninety days after the lease was issued, even though they had three years. The reason is you have to get a return on your investment or you are going to go bankrupt; and this is what I wish to submit to this Commission: I wish to put you on notice that we as a bidder cannot justify bidding when we don't even know we have a market after we get the production. I made these same remarks to the Public Utilities Commission also.

GOV. ANDERSON: Thank you, Mr. Scott.

MR. CONWAY: Honorable Chairman and members of the Commission, my name is John Conway, Standard Oil Company of California, Western Operations Land Department. Mr. Scott's presentation impressed me -- his logic does not. Rarely, if ever, has the presence or absence of market deferred or inhibited exploratory activities in California. It didn't have any effect upon the lease bids in 1953 offshore or the bids last year. If the operators are permitted to explore and to prove the resources, it is fair to assume that the State of California isn't going to let its production lay fallow and will find some way to give the operators full and adequate outlets.
You remember way back in 1960 we were all here and Mr. Hortig put up four parcels in this area. We had a program of nine parcels were nominated and Mr. Hortig put them up to bid on a straight cash basis, bonus basis, and not on a contingent or conditional basis, and there was a protest; and in deference to the protestee the State Lands Commission said "All right, we will try sequential bidding"; and at that time John Carr was here and John Carr said "All right, we will go on with the sequential bidding providing there will be no break in the orderly handling of sequential bidding because sequential bidding at best is a slow process."

We seem to be caught in some kind of vicious circle. The Public Utilities Commission, as I understand, says "We won't give you an outlet because you don't have resources." Are we to say "We won't put up any more parcels unless you certify the pipeline. We won't try to prove any areas until you certify the pipeline"? The P. U. C. says "You don't have resources"; we come back and say the same thing; and we go round and round.

MR. CHAMPION: Excuse me. Has the P.U.C. taken any position on this? To my knowledge there has been none.

MR. CONWAY: Regardless of what position the P.U.C. may take, we must proceed in some way with this program of sequential bidding. We started the sequential bidding, and then what happened? Some obstacles came up beyond your control and as a consequence they slowed up; and I think it is time we
resumed so we can get along with bidding on all these parcels that were recommended and nominated and in the program. We have the cart before the horse; we better get the horse before the cart -- put up the lands, get the resources, and nothing will stop the operators from getting their right out of it.

GOV. ANDERSON: Any further comments? Mr. Hortig?

MR. HORTIG: No, sir; the staff recommendation still stands.

GOV. ANDERSON: Now, your feeling is, then, that if we put this up we can distinguish between a reasonable bid, so that if we don't think it is enough because of the deterrent we can reject it?

MR. HORTIG: That is correct, within the limits of precision of economic evaluation on an undeveloped parcel; and I must continue to point out what is well known -- that the cash bonus is not the only element in these leases. There is an adequate and we feel equitable royalty share which is paid to the State as and when production is developed. As a matter of fact, some of our lessees and bidders insist it is a rather high share to give to the State in view of the cost per barrel of production on leases of this type. Not only is there the cash bonus offered to be evaluated, but the fact if a cash bonus is actually received and a lessee is willing to undertake this operation and develop the oil and then proceed with the development of the market.
and sale, the State's royalty share of this development is adequate, equitable, and certainly of interest to the State in terms of developing State lands.

GOV. ANDERSON: Any further comments?

MR. SCOTT: I'd like to point out, Mr. Chairman, this parcel has been up before. Mr. Conway of Standard says they weren't worried about the rate of return. I do not know that Standard or anyone else filed a bid on it. We didn't either.

MR. HORTIG: Mr. Chairman, the problem before the house there is that this identical parcel has not previously been offered for lease. The parcel under discussion here is numbered Number 6, rather than Number 1 as originally offered, because it includes a different area and different location. Parcel 6 includes all of Parcel 1 previously offered, for which no bids were received, but also does include additional area which it is hoped by the State will make the thing of greater interest and will elicit bids, and certainly more bids than the last time.

GOV. ANDERSON: It has been moved and seconded, carried unanimously.

Can I break in on the agenda with something along this line? I was going to ask Mr. Hortig to report on the P.U.C. situation concerning Gaviota and Goleta fields. Is this the time to do this or later?

MR. HORTIG: I would be very happy to report, Mr.
Chairman, on the status of the situation with respect to Public Utilities Commission consideration of the problems relating to the State Lands Commission and its lessees.

Very briefly, and to set everything in proper perspective, as you have heard pipeline transport facilities between Gaviota and Goleta are required for State tideland lease gas production in the western Santa Barbara County area. The Public Utilities Commission hearings on approval of construction of the required pipeline facilities were completed and the application was taken under submission by the Public Utilities Commission in, I believe, November 1961 -- and this could have been early November 1961.

The theory is that lack of authorization for and lack of construction of these pipeline facilities, as you have heard this morning -- and this doesn't go only to the one lessee who reported, but to all -- the lack is impeding lease development as required by the existing lease contracts which were awarded after a fifty-five million lease bonus payment to the State, and this lack is also causing much loss of income to the lessees and to the State.

Now, the existence of these problems for both the Commission and its lessees was reported to the Senate Interim Committee on Transportation and Public Utilities in investigations at San Francisco; at a Public Utilities Committee hearing in December 1961 in San Francisco, where, parenthetically, Mr. Scott stated this morning he had reported the lessees' position;
and also the same elements and problems have been reviewed
with staff members of the Public Utilities Commission.

The matter is under advisement with the Public Utilities
Commission and the decision is up to the Public Utilities
Commission; and the Public Utilities Commission has not yet
announced a decision, nor are we in possession of any informa-
tion, commitment, or even estimate as to when such a decision
will be forthcoming.

GOV. ANDERSON: How much are we losing? Now, we have
heard Mr. Scott make the statement this morning that the State
was losing its share anywhere from a third to a quarter in the
amount of money in their lease each month -- which, according
to my quick figuring, would be around a quarter million. How
much are we losing by this inaction by the Public Utilities
Commission? This is the State's share.

MR. HORTIG: We are losing it in the sense, of course,
that it is not coming to the State currently, and all things
being equal it will be produced in the future; so it is deferred
to the State. On the other hand, the State is losing the
advantage of whatever the Pooled Money Investment Fund and
other funds in which this income might go might generate in
terms of interest. This is the direct loss, whereas the other
is a deferment of income. I do not have a sum total estimate
at hand, but an idea of the magnitude of the problem, I think,
will be clear to the Commission in that existing pipeline
facilities which are transporting all the gas that is being
produced from the leases we had under discussion this morning are currently estimated, or were estimated last October or November, to be able to transport only one-third of the gas that could actually be produced from the wells already developed up to that time. As a result of lease contract requirements for additional drilling, additional wells have been drilled -- so, actually, more wells have been drilled, which have contributed to the then estimated two-thirds of the production capacity which could not be transported out of the field.

In turn, the gas income to the State is the smaller deferral and loss in that when the gas cannot be transported and produced, the oil cannot be produced; and it is the oil in which the State actually shares to a greater extent in the value. So oil and gas are being held in the ground. Some of it is being stacked -- this is blown through air in conjunction with production tests. There is a limitation under the conservation statutes administered by the State Division of Oil and Gas that could not permit, for example, of these leases to be put or full production even though the oil could be taken out by tankers, barrels, or even oil pipeline facilities. The gas still must be conserved and there is no economic method for conserving the gas under the present stage of development of the wells and the leases, and the existence of leases we have in Santa Barbara County.

If it were all one large textbook type field, for
example, or all one joint operation of one lessee or lessees, it might be feasible to re-inject all this excess gas back into the reservoir to aid reservoir recovery while the oil is being produced or shipped out. This is not mechanically feasible, or at least has not been economically feasible. As a matter of fact, we are running production tests on some of the fields to see whether we can at least as a stopgap arrive at some method of re-injecting the gas, in order to permit the oil to be produced.

So it is a large problem and by the requirements of the existing lease contracts, which require continued development on the part of the operator, the problem gets more severe every day. As a matter of fact, you gentlemen approved a six-month deferment of development requirements on one of the subject leases here today and certainly one of the elements in desiring to defer further drilling requirements stems from the fact that if additional wells were drilled at this time the lessee would have no place to take his gas production.

GOV. ANDERSON: It seems kind of odd why we continue this process while we are up against this problem. Mr. Scott made the statement his company is losing $800,000 a month and the State's share is a third to a half. A third would be about a quarter million dollars a month. You say that's deferred income, but that's three and a half million a year and the interest on that alone is up in the hundred thousands. Some of it is deferred, but some of it is lost. Is this the
only company in this situation?

MR. HORTIG: No, sir.

GOV. ANDERSON: In other words, how much are we losing a month as a result of the Public Utilities Commission's position?

MR. HORTIG: Well, it is a substantially larger amount than testified to by Mr. Scott. His data relates to just one lease out of five.

GOV. ANDERSON: So there are five companies?

MR. HORTIG: There are five leases. The Pauley group have two, Standard and Humble and others have two; and we now have Richfield in there with a new lease, this is actually the sixth parcel; and the Texaco Company.

GOV. ANDERSON: What are we losing in royalties -- ten, fifteen million a year?

MR. HORTIG: This may be high, but it is possible. Certainly it can accumulate to this -- but, again, we are not losing this; we are deferring the receipt.

GOV. ANDERSON: We are losing the use of the money, which is pretty bad.

MR. HORTIG: That is true.

GOV. ANDERSON: When you have lost the use of it, you have lost it.

MR. CHAMPION: The problem, I gather, with the P.U.C. is a price problem, in which they are trying to weigh the interest of the consumer against the State and that is a very
difficult economic formula to work out; but that is what is in the balance in this case.

GOV. ANDERSON: What is the current situation? Is there any hope of any solution from the P. U. C.?

MR. CHAMPION: Actually, they have to say yes or no.

MR. HORTIG: Mr. Scott inquired of the P.U.C. at the hearing in San Francisco in December as to the fact that a decision had not been reached. At that time he was informed that the matter had only been under submittal for thirty days. The statement was made there would be diligent consideration of the problem and certainly that the P.U.C. has not refused to grant this certificate -- which was Mr. Scott's unfortunate choice of words at the time, which he no doubt recalls. However, we are now in the latter part of February -- sixty more, almost ninety more days have transpired and we still haven't heard.

MR. CHAMPION: It is not that we are not anxious to have a decision but it is a very complicated piece of economic analysis.

MR. HORTIG: Sure. So far as going to the heart of the total program, the Governor has made directives as to gas problems in California statewide.

GOV. ANDERSON: Is there anything this Commission can do to get the Public Utilities Commission to move faster on this and possibly take some action that would protect the interests of the State, more than what we have done at the
MR. HORTIG: The Public Utilities Commission is fully informed of the problems and the concerns of the State Lands Commission as they relate to the matters before them. Therefore, whether another resolution of the State Lands Commission to the Public Utilities Commission suggesting that they move faster, which could be couched in the form where it would be cooperative and helpful to the Public Utilities Commission, I would doubt extremely. On the other hand, certainly mention should and will be made to the Public Utilities Commission that the Lands Commission today had this meeting, again was concerned, and did hear from its lessees, and the unresolved problems are not getting simpler -- they are getting stickier as time goes on.

GOV. ANDERSON: I have jotted down some notes I was going to say prior to the meeting on this and now, as a result of our action, I am not too sure I want to express as Chairman of the Lands Commission -- the fact that the State of California is losing a very substantial amount of revenue (now you probably want to call this deferred revenue) -- several hundreds of thousands of dollars every month that production is delayed; secondly, our lessees have an obligation to produce and we as a Commission have an obligation to help clear the path for that production; and, third, I felt the inability to produce could detract from our ability to lease other drilling sites in the Santa Barbara area. This is the statement I wanted to
make. Will this statement hurt if it is sent in, or is it still appropriate?

MR. HORTIG: I feel it is completely appropriate. There is only your last statement -- the possibility that the situation could detract from future lease offers is going to be put to the test, if bids are invited or when bids are invited for Parcel 6....

MR. CHAMPION: It still is a very distinct possibility....

Mr. HORTIG: ... and the proof of the pudding is going to be in the bids the Commission receives, as to which school of thought is right. Probably it will turn out as it so often does -- both of them are half right, and naturally some will be down the middle.

MR. CHAMPION: But the statement that Governor Anderson made is absolutely correct -- that there is a distinct possibility that this may hurt bidding.

Mr. HORTIG: We certainly have no warranty that it won't.

GOV. ANDERSON: Sorry I broke in on the agenda with this, but I thought it might be the perfect time to bring this out.

Next item is Number 8 -- Authorization for Executive Officer to execute interagency agreement with Colorado River Boundary Commission, providing for engineering, administration and other services for the 1961-62 fiscal year, at actual
costs not to exceed $4,000.

MR. CHAMPION: Move approval.

GOV. ANDERSON: It has been moved, and seconded?

MR. CRANSTON: Right.

GOV. ANDERSON: Carried unanimously.

Item 9 is service agreements pursuant to Section 6359 of the Public Resources Code. (a) is with the City of Chula Vista, San Diego County -- providing for surveying services pursuant to provisions of Chapter 328/61, at the Commission's actual costs not to exceed $1,000; and item (b) is with the City of Imperial Beach, San Diego County -- providing for surveying services pursuant to provisions of Chapter 330/61 at Commission's actual costs not to exceed $10,000.

MR. CRANSTON: Move approval.

MR. CHAMPION: Second.

GOV. ANDERSON: Moved and seconded; no comments, carried unanimously.

Item 10 is approval of correct description of Tideland Lot No. 390 of Marin County.

MR. CHAMPION: Move approval.

MR. CRANSTON: Second.

GOV. ANDERSON: Moved and seconded, carried unanimously. Item 11 -- Approval of transactions consummated by the Executive Officer, pursuant to authority confirmed by the Commission at its meeting on October 5, 1959.

MR. CRANSTON: Move approval -- no action required.
MR. CHAMPION: Second.

GOV. ANDERSON: Carried unanimously.

Item 12 -- Informative only, no Commission action required -- report of status of major litigation. Mr. Hortig?

MR. HORTIG: Nothing to add other than the written report on page 70 as to the status, as stated, of the major litigation in which the State Lands Commission is the prime party in interest, being notably the case U.S. vs. Anchor Oil, the Long Beach suit brought by the Federal Government; the problem of tidelands boundary determination in Long Beach in accordance with Statutes of 1957, which is going to trial; and the question of jurisdiction over minerals in tide and submerged lands previously quitclaimed by the City of Long Beach to the State.

MR. CRANSTON: Mr. Chairman, there were statements made by Alan Post....

GOV. ANDERSON: I was going to ask him that. Mr. Hortig might want to answer the Legislative Analyst, who made suggestions which covered looseness on the part of the State in regard to oil and gas production; also the City of Long Beach buying something cheaper from us than other companies; and something about an office in Rio Vista. Would you want to explain this to us?

MR. HORTIG: I would be very happy to, Mr. Chairman, and I just happen to have a library of facts with me on the subject. I also have it summarized and assure you there is a
library behind the brief statement, particularly in deference
to Commissioner Cranston's request.

In the Legislative Analyst's report on page 310
there appears on the budget analysis for the State Lands Divi-
sion a statement that I feel is much more appropriate for a
press quotation than the ones that were quoted. I would like
to read this, if I may, and I quote:

"Over the years the agency has gradually increased
in size to the point that in recent years its budget has
exceeded one million dollars and its employees one hundred,
and its revenue twenty-five million dollars, most of the
latter being dependent on the competence, good faith and
judgment of the Commission and its staff."

I thank the Legislative Analyst for those comments.

It should be noted between pages 311 and 313 of the
analysis it was recommended that four requested staff posi-
tions be denied. However, the Assembly Ways and Means sub-
committee approved the State Lands Division request for these
positions. The Senate Finance Subcommittee, parenthetically,
is taking the Legislative Analyst's and State Lands' reports
under consideration. We have not heard what the subcommittee
has sent to the full Senate Finance Committee.

Now, the press report to which you made particular
reference, Governor Anderson, is based on page 315 of the
analysis, headed "Computation and verification of royalties
and other income from oil and gas production." In brief, two
statements are made: First, the Auditor General should make examinations, and I quote, "of accounting procedures and controls." The fact is that the Auditor-General has already made such examinations of State Lands accounting procedures and controls, with particular emphasis on Long Beach portions. I have here a copy of the Auditor-General's report on the subject matter. In addition, the Audits Division of the Department of Finance makes such examinations regularly -- the latest, and again I quote, "Report of examination of the financial transactions and operations of the State Lands Commission" covers the period July 1, 1959 through June 30, 1961. Four questions were raised in this audit report, all of which were in turn reported by State Lands back to the Audits Division before the end of December 1961, either as to modifications of procedures within the State Lands Division or reasons why it was felt modifications were not justified. We have never heard to the contrary since that time from the Audits Division of the Department of Finance, who made this same examination as recommended by the Legislative Analyst of accounting procedures and controls for the State Lands Commission.

The second statement infers that the price paid to the State for Long Beach gas should be measured at prices applicable in a special purpose contract between Long Beach and Signal Oil Company. That last is a quote and I should like to point out, without belaboring the issue, this should read "Signal Oil and Gas Company." Signal Oil Company does not have
such a contract as reported in the Legislative Analyst's

This statement overlooks the criteria for determining the Long Beach gas price as specified in Chapter 29 of the Statutes of 1956, First Extraordinary Session, which is the authorization to the State Lands Commission to participate and supervise activities in Long Beach. These criteria have been interpreted by the Commission by opinions of the Attorney General as far back as October 1958.

Since the Signal contract has been cited by the Legislative Analyst, one brief quote from the opinion of the Office of the Attorney General is particularly appropriate and I quote:

"Thus it appears that the Signal contract (which is the same one cited) does not constitute an accurate indication of the price to which the State is entitled under Chapter 29."

The point very simply is that the problem was a problem for the State Lands Commission when the State Lands Commission was first required to supervise Long Beach operations. The question of this disparity in gas prices was studied, evaluated, the law was researched with the Office of the Attorney General, and the criteria required by law as interpreted by the Attorney General have been applied to the State Lands Commission to all of these operations.

Not wishing to belabor this thing too long, the very last sentence of the page -- "We also found that two large utilities were paid in excess of 36¢ for MCF in the Los Angeles..."
Basin area." This has come as a shock to the largest utilizer in the Los Angeles Basin area. The Southern California Gas Company, who buys the gas at retail level, reports that the average price paid for the month of July 1961, which immediately followed the last Division of Audits analysis, was 24.9¢, not being in excess of 36¢.

Now, if you gentlemen wish, as I said, we have with us here a library of facts on the situation and would be happy to explore any detail of any phase. I did not cover the Rio Vista office situation to which you referred. Would you like me to?

GOV. ANDERSON: No.

MR. CHAMPION: I'd like to report to the Commission briefly on that. I have discussed that with the Legislative Analyst and I think he now agrees with us that the statement was not accurate, that we took no action after it was called to our attention.

MR. CRANSTON: I would like to ask in regard to the statement: "Our examination of such procedures indicates an informality and lack of participation on the part of higher levels of personnel."

MR. HORTIG: We were under the impression, Mr. Chairman, -- I don't want this to sound facetious -- we thought we had everybody involved except the Governor and we thought the Governor was busy enough without getting into the detailed operations of the State Lands Commission. So I am at a loss
to interpret what higher levels of personnel are not acting.

MR. CRANSTON: The report does not make clear whether he is talking about people on the staff of the Lands Commission or the Lands Commission itself. As far as the Lands Commission itself is concerned, I think it is widely understood that the present Lands Commission spends a great deal more time on matters of interest to the Commission than previous boards and I have seen no lack of formality on the part of the staff.

MR. HORTIG: I appreciate your comments. This is why the staff did not understand the report either.

GOV. ANDERSON: I would like to get back briefly to the first point, that is, on the accounting. Your answer for the most part dealt with methods of accounting, as it is checked at the field. When the press asked me about it immediately afterwards, they thought the count had not actually been checked at the field and I said I had been on the field and I had seen you measure with scaled gauges, and you told me it was foolproof; and I understood this was true all up and down the procedure. Isn't this true?

MR. HORTIG: This is completely true and this is probably why I should have stressed the title on the Audits Division report. That is a report not only on the financial transactions but also the operations of the State Lands Commission, so that these very features would determine that the basic data obtained independently by the State Lands Commission in checking production in all its fields is being obtained.
adequately, accurately, and independently. As a matter of fact, we have the Director of Finance sitting here—Over the years our general problem with the Budget Division in preparation of a budget and asking for additional personnel has been that we have never been able to justify additional appropriations in the budget for additional personnel to refine these field checks because it was not felt that the refinement that could be accomplished by adding additional checks over and above those that are being carried out would justify the cost.

MR. CHAMPION: I would suggest, and again not facetiously, that if we did put in additional positions the Legislative Analyst next year would take a different tack and delete them.

GOV. ANDERSON: What is the status of your report relative to the sale of State public lands—school lands, and so forth?

MR. HORTIG: This is the report I mentioned earlier in the meeting today, Mr. Chairman, that will of necessity be in the hands of the Commission not later than the April meeting.

GOV. ANDERSON: In other words, the April meeting is the latest. Can't it be at the .......

MR. HORTIG: If we don't have any further diversions of the type that we have had to explain that were precipitated by the analysis of the budget bill, we could have it in the March meeting.

GOV. ANDERSON: The March meeting?
MR. HORTIG: Yes, we could have it.

GOV. ANDERSON: What about the phone call? Was that reported back to us?

MR. HORTIG: It was not only not reported back to us, but we undertook a floor search to find the people and they seem to have left the building.

GOV. ANDERSON: So where does that leave us?

MR. HORTIG: Without any confirmation that the City of San Clemente has dropped its annexation. However, we will follow through on that and if they have not dropped it, then the Executive Officer is required to file a protest.

GOV. ANDERSON: You have enough authorization to protest for us in any way?

MR. HORTIG: That is right.

GOV. ANDERSON: Anything further before we set the time and place of the next meeting? (No response) Our next meeting, then, will be ten a.m. Thursday, March 29th, here in Los Angeles.

MR. CHAMPION: I wonder if that could be shifted to Sacramento. The Legislature will undoubtedly be in session.

GOV. ANDERSON: I think I have been working in the other direction.

(Discussion among Commission members)

GOV. ANDERSON: Then we will adjourn to our next meeting here in Los Angeles, 10 a.m., March 29th. The meeting is adjourned.

ADJOURNED 12:12 P.M.
CERTIFICATE OF REPORTER

I, LOUISE H. LILLICO, reporter for the Office of Administrative Procedure, hereby certify that the foregoing sixty-one pages contain a full, true and correct transcript of the shorthand notes taken by me in the meeting of the STATE LANDS COMMISSION OF THE STATE OF CALIFORNIA held in Los Angeles, California, on February 27, 1962.

Dated: Sacramento, California, March 1, 1962.

[Signature]

DIVISION OF ADMINISTRATIVE PROCEDURE, STATE OF CALIFORNIA