TRANSCRIPT OF MEETING of STATE LAW'S COMMISSION SACRAMENTO, CALIFORNIA May 23, 1963

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

Mr. F. J. Hortig, Executive Officer
Mr. Alan Sieroty, Executive Secretary to Lieutenant Governor Anderson

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

APPEARANCES:
(In the order of their appearance)

Mr. Gerald Desmond, City Attorney
City of Long Beach

Mr. R. G. Smith, President, Natomas Company
on behalf of their subsidiary, Western Geothermal Corporation
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(In accordance with Calendar Summary)

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**Supplemental**

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WILMINGTON FIELD 1

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**Next Meeting**

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**Uncaledonared:**

World's Fair
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MR. CRANSTON: The meeting will please come to order. First item is confirmation of minutes of meeting of February 28, 1963.

GOV. ANDERSON: So move.

MR. CHAMPION: Second.

MR. CRANSTON: The minutes are approved unanimously.

In view of the fairly large number of people here interested in Item 15, if there is no objection we will take that up first.

Item 15 is Informative Status Report on Long Beach Unit, Wilmington Oil Field. Frank?

MR. HORTIG: Mr. Chairman, the Commission has received requests that these letters be read into the record - four letters, specifically: Two from Richfield Oil Corporation dated May 2 and 7, respectively; one from Pauley Petroleum dated May 9; and one from Jade Oil and Gas, dated May 10.

What is the pleasure of the Commission? Shall these be read verbatim at this time? Or, as established as a precedent, possibly, at the last meeting, they might be considered for introduction into the record without the necessity of reading them verbatim.

MR. CHAMPION: I move we enter them without reading them verbatim.

GOV. ANDERSON: Second.

MR. CRANSTON: The motion is made, seconded and so ordered. The letters have been received by members of the
Commission and have or will be read by them.

(Letters referred to are reproduced below):

All letters are in reference to LONG BEACH UNIT, WILMINGTON OIL FIELD.

Addressed to Honorable Alan Cranston, dated May 2, 1963, from Richfield Oil Corporation:

"Richfield Oil Corporation holds oil and gas leases covering approximately 1024 acres of land in the Townlot Area lying within the 'Participating Area' of the proposed Long Beach Unit of the Wilmington Oil Field. This constitutes a little over 53% of the participating Town-lot Area. We write this letter in our capacity as the holder of the working interests in such oil and gas leases in the Townlot Area.

We have just received a copy of the transcript of the 'Public Review of Proposed Field Contractor Agreement' conducted by Mr. Frank Hortig, Executive Officer of the Commission, on April 15, 1963 in connection with the Commission's consideration of the subject Unit, and have noted an argument made by Mr. D. E. Clark, representing Shell Oil Company, which is reported from pages 52 to 64 inclusive of the transcript.

As we understand Mr. Clark's argument, it may be summarized as follows:

(a) Ordinances of the City of Long Beach forbid the drilling of oil and gas wells from surface locations in the Townlot area of the proposed Unit;

(b) the development of the Townlot Area will result in a net profit, after royalties to the landowners, of $120,000,000;

(c) such profit cannot be realized unless drillsites are made available to the Townlot Area from the offshore drilling islands provided for in the enabling ordinance;

(d) therefore the City should charge the working interests in the Townlot Area the amount of the profit to be realized by them as a 'drillsite royalty' for use of the drilling islands;

(e) otherwise, holders of the Townlot Area working interests will have an advantage in bidding for the Offshore Area Field Contractor Agreement measured by the profits to be realized by them from the Townlot Area.
The foregoing argument is specious, but it is invalid for many reasons, and falls of its own weight when only two basic considerations are taken into account.

The first such consideration is that the Offshore Area cannot be developed for oil and gas unless the Townlot Area is also developed concurrently therewith without incurring danger of subsidence in the downtown business section of Long Beach; and this fact constitutes abundant consideration moving from the Townlot Area to the Offshore Area for drillsites.

The second such consideration follows from the first. It is that the Townlot Area will be developed regardless of who is the successful bidder for the Field Contractor Agreement, and if there is a profit to be made from such development the holders of the working interests will make such profit, whether or not they are parties to the Offshore Agreement. It is illogical to assume that the holders of the working interests in the Townlot Area will bid more for the Offshore Field Contractor Agreement because of profits they anticipate from development of the Townlot Area, because they would thereby forego or dilute such Townlot Area profit. In any case, they would still have no advantage over competitors in bidding for the Field Contractor Agreement because such competitors could likewise bid more because of profits they anticipate from oil development in some other oil field. What is the difference between A being willing to forego some portion of its profits from the development of the Townlot Area in order to bid more than it otherwise would for the Offshore Area, and B being willing to forego some portion of its profits from development in the Mideast in order to bid more than it otherwise would for the Offshore Area? It is entirely unlikely that either A or B would be foolish enough to treat anticipated profits from oil development as "money in the bank," but if such an assumption is to be made at all it should be applied equally to A and to B.

The two basic considerations referred to above stem from the Initiative Ordinance adopted by the people of Long Beach at an election held on February 27, 1962. Section 1 of that Ordinance reads as follows:

Section 1. It is hereby found and determined:

(a) That it would be in the best interests of the City of Long Beach and the State of California to authorize and approve the institution of a plan for the controlled exploration and exploitation of the oil and gas reserves underlying the presently undeveloped portion
of the tide and submerged land areas heretofore granted to the City by the State of California, and located easterly of and outside the Harbor District of the City, as said district boundaries are defined as of the effective date of this ordinance. Said presently undeveloped portion of tide and submerged lands (which shall not be deemed to include any of the tide and submerged lands committed to the Richfield Oil Corporation Parcel 'A' Drilling and Operating Contract and presently under development from the Harbor District) shall, for convenience, be sometimes hereinafter referred to as the 'Offshore Area'.

(b) That the results of detailed engineering reports and the interpretations of geologic and seismic data indicate that undeveloped oil and gas reserves in economically recoverable quantities underlie certain portions of the publicly and privately owned upland properties located easterly of Pine Avenue in this City, and adjacent to and northerly of the Offshore Area. Said upland properties shall, for convenience, be sometimes hereinafter collectively referred to as the 'Townlot Area'.

(c) That the said Offshore Area and Townlot Area are included within the geographic boundaries of a Subsidence Area, as heretofore fixed and established by the State Oil and Gas Supervisor pursuant to the provisions of Section 3336 of the Public Resources Code of the State of California, (emphasis supplied)

(d) That the results of studies by qualified engineers which have been conducted in certain segments of said Subsidence Area, and the demonstrated beneficial effects derived as a consequence of putting the recommendations so made into operation, indicate that the only feasible method that can be expected to prevent or arrest subsidence in such an area is by repressuring the subsurface oil and gas formations thereunder; and that such repressuring operations, in addition thereto, should increase the amount of oil ultimately recoverable from the formations underlying such area and protect the oil or gas in such lands from unreasonable waste.

(e) That unit or cooperative development and operation of the pool or pools (as hereinafter defined) underlying the said Offshore Area and Townlot Area is necessary in order to prevent and insure against the occurrence of subsidence. (emphasis supplied) 'Pool' shall mean an underground reservoir containing or appearing at the time of determination to contain, a common accumulation of crude petroleum oil or natural gas.
'gas or both. Each zone of a general structure which is separated from any other zone in the structure is a separate pool.

By the foregoing section of the Ordinance the people of Long Beach have determined that the Offshore Area and the Townlot Area shall be developed concurrently, because both are included within the geographic boundaries of a 'subsidence area,' as established by the State Oil and Gas Supervisor pursuant to the provisions of Section 3336 of the Public Resources Code; that 'the only feasible method that can be expected to prevent or arrest subsidence in such an area' (i.e., the Subsidence Area above referred to) 'is by repressuring the subsurface oil and gas formations thereunder; and that such repressuring operations, in addition thereto, should increase the amount of oil ultimately recoverable from the formations underlying such area and protect the oil or gas in such lands from unreasonable waste'; and 'that unit or cooperative development and operation of the pool or pools (as hereinafter defined) underlying the said Offshore Area and Townlot Area is necessary in order to prevent and insure against the occurrence of subsidence.'

Such determinations made by the people of Long Beach in the Ordinance were based upon sound grounds. If the Townlot Area is not developed in a unit with the Offshore Area many technical problems will be created for the Offshore Field Contractor and for the City of Long Beach and the State of California. Subsidence control would be uncertain; the recovery of oil would be reduced; and operating costs would be increased.

The Ranger Zone and all productive zones underlying the entire undeveloped area are continuous inter-connected reservoirs and are pressure-connected throughout except for possible faulting. Any pressure barrier faults that exist trend north-south and would not separate the Offshore Area from the Townlot Area. This geologic fact is demonstrated throughout the Wilmington Field and nearby in the Fault Block VI Area, including Richfield's Offshore Parcel 'A' and the area developed by Producing Properties, Inc., onshore adjacent on the west to the Townlot Area.

It is beyond question that the reservoir pressure underlying the Townlot Area should be maintained because of the danger of subsidence. The only possible alternative to the development and repressuring of the Townlot Area would consist of drilling a series of water injector wells designed to create a 'water curtain' between
"the two areas. If such an alternative is physically feasible at all (and there is some doubt about this), the injection wells would have to be drilled principally from the offshore drilling islands and would approach the line separating the Offshore and Townlot Areas at right angles or high angles and create a wide and hence inefficient 'water curtain.' To avoid ultimately moving water to the Townlot Area, it would be necessary to drill the injection wells some distance south of the separating line and the City and State would sacrifice recovery of an enormous amount of oil from the portion of the reservoir lying between the injection wells and the separating line.

The problem of creating and maintaining a 'water curtain' that would permanently separate the Offshore and Townlot Areas and enable reservoir pressures in both areas to be maintained would be extremely complex. For example, reservoir pressure in the aquifer lying north of the Ranger Zone productive limits of the Townlot Area is below original pressure because of withdrawals of oil, gas and water from the Signal Hill Oil Field, the Monterey State Lease, and from other parts of the Wilmington Oil Field. Thus, if a 'water curtain' were to be maintained at original pressure between the Offshore and Townlot Areas, inevitably oil would be pushed from the productive Townlot Area north across the water table into the lower pressure aquifer and it would be necessary to inject still more water into the water curtain, further expanding it. To prevent this, it might be necessary for the City to drill an additional set of water injection wells into the aquifer north of the productive Townlot Area and to attempt to maintain reservoir pressure in the Townlot Area and the Townlot oil in position by balanced injection on either side of the Townlot Area. To say the least, this would be difficult.

It is certain that by arbitrarily placing an otherwise unnecessary 'water curtain' across the Ranger reservoir the over-all effectiveness of the water injection program in the Offshore Area would be reduced and less oil would be recovered. The maintenance of the 'water curtain' would be an over-riding and continuing factor to consider in all planning, both for production and injection.

Costs would be increased because the same number of drilling islands and the same facilities (with possible minor exceptions) would be required for the Offshore operation as would be required for the combined Off-shore Townlot unit operation. If the Townlot Area
"does not participate then all capital expenditures and costs would be borne by the Offshore Area, and the amount of such excess costs and expenditures would be equivalent to the portion thereof which would be borne by the Townlot Area if it participated, but without any additional benefit to the Offshore Area.

It is clear from the foregoing that the use of the offshore drilling islands is not a gift to the Townlot Area. Furthermore the suggestion by Shell that a charge be made to the Townlot Area for drill sites is entirely inconsistent with sound unit operation theory and practice. It is paradoxical to contend that under a plan of unit operation, some participants in the unit plan should pay drill site rentals or should pay for any sort of 'pass-through rights.' It is of course implicit in a unit plan that all participants share in proportion to their interests in every barrel of oil produced from every well located in the unit area and in all expenses. Drillsites and wells in a unit plan belong to all participants and are operated for their mutual benefit in the development of the unit area as a whole. This was expressly recognized in the Initiative Ordinance of February 27, 1962. Section 3 thereof provides as follows:

Sec. 3. Subject to the conditions, limitations and restrictions hereinafter in Section 4 provided, the necessary number of offshore islands, in no event to exceed four, are hereby authorized to be located and constructed within the geographic boundaries of the said Offshore Area, as above described in Section 2 hereof, and to be utilized as surface drillsite areas for the exploration and exploitation of the oil and gas reserves underlying said undeveloped Offshore Area and the adjacent Townlot Area. (emphasis supplied)

While the Ordinance makes the drilling islands available for wells to be bottomed under the Townlot Area, it also provides in Section 4 that the northerly boundary of said islands shall not be closer than 2,000 feet measured from the center line of Ocean Boulevard.

The result of this provision is that wells to be bottomed under the Townlot Area must be directionally drilled at much higher angles and for much longer distances, on the average, than wells to be bottomed under the Offshore Area. The proposed Long Beach Unit contains a formula (which in unit agreements is called the 'equity formula') for allocating oil and allocating costs to three major areas, namely; (a) the Offshore Area.
"Area, except Tract No. 2; (b) Tract No. 2, which is the Alamitos State Park owned by the State of California; and (c) the Townlot Area; and for similar allocations between tracts in the Townlot Area.

In most cases, an oil field is not unitized until after it has been developed, and costs of drilling are not included as a factor in an equity formula. But, since the proposed Long Beach Unit is to be formed prior to development, drilling costs are included as a factor in the equity formula. The operation of this factor in the equity formula, as applied to wells bottomed under the Townlot Area, has the same effect as though the owners of such wells were required to pay drillsite rentals because of the penalties incurred due to the greater costs of drilling wells involving higher angles and greater footage. The net effect of including drilling costs in the equity formula at the proposed Long Beach Unit is to reduce the value of the total acre feet of oil sand in the Townlot Area by 17% when compared with the acre feet of oil sand in the Offshore Area. This constitutes a substantial penalty to the Townlot Area in favor of the Offshore Area and is more than equivalent to what drillsite rentals would amount to, if this were a proper case (which it is not) for charging drillsite rentals. If any greater penalty were imposed, the northern one-third of the Townlot Area would be rendered uneconomic and the value of the remaining two-thirds would be materially reduced.

The Townlot Area owners (except the City with respect to its Townlot Area property) unanimously protested against inclusion of drilling costs in the Equity Formula, but finally acquiesced when they became convinced that there was no possibility of reaching early agreement with the City on a form of unit without making this concession. We have never withdrawn, and do not now withdraw, opposition to this 17% penalty, but, nevertheless, we have stated that we are willing to sign the Unit documents in their present form.

The working interests owners in the Townlot Area will share a still further penalty for the use of the offshore drilling islands in that they will pay their pro rata share of the cost of the islands but will acquire no ownership therein. 'Unit Expense' as defined in Section 1.41 of the Unit Agreement includes all costs and expenses in connection with the 'planning, constructing, reconstructing, erecting, equipping, operating, maintaining, repairing or enlarging Offshore Islands for Unit Operations whether incurred before or
""after the effective date of this agreement,' whereas 'Unit Facilities' as defined in Section 1,42 specifically excepts the Offshore Islands.

Your attention is also directed to the fact that under the proposed Unit documents the Townlot Area working interests have yielded complete control over the rate of development and the rate of production and over the repressuring program to the City in order that fears of subsidence may be allayed. This constitutes additional consideration moving to the City and State from the Townlot Area owners for the drilling of wells from the offshore islands to be bottomed under the Townlot Area.

In summary, and without reference to the serious question as to whether the City has the legal power to develop the Offshore Area without including the Townlot Area in a unit, we respectfully submit that there is no competitive advantage in the position of the Townlot Area working interests in bidding for the Field Contractor Agreement, and in view of the substantial contributions required of them under the terms of the Ordinance and of the Unit documents, there is no justification whatsoever for a drillsite or 'pass-through' charge.

We will appreciate it if this letter is incorporated in the record at the next meeting of the Commission.

Yours very truly,

RICHFIELD OIL CORPORATION
By /s/ R. W. Ragland, Vice President"

Letter addressed to Honorable Alan Cranston, dated May 7, 1963, from Richfield Oil Corporation:

"Just prior to the conclusion of the 'Public Review' of the documents which would constitute the subject Unit, conducted by Mr. Frank Hortig, Executive Officer of the Commission, on April 22, 1963, Mr. Alan Sieroty, representing Lt. Gov. Anderson made the following statement:

'I think it should be on the record here that the State Lands Commission is concerned greatly, if not primarily, with the correction and prevention of subsidence. And I think we are very much interested in what effect this contract might have on subsidence. And particularly it has been alleged that
'dividing up Tract 1 into undivided interests would create a subsidence problem. This is perhaps one of the foremost policy questions before the Commission at this time. I think we ought to have a little more definite information on this.'

One of the many difficulties with the concept of offering for bid undivided interests in the Field Contractor Agreement is that it deprives, but at the same time relieves, the Field Contractor of the full measure of responsibility which it should have in connection with the prevention of subsidence. This is illustrated by the following example:

Suppose the Field Contractor has only an undivided 65% interest in the Field Contractor Agreement and there are several smaller interests making up the remaining 35%. Each of the smaller interests would, of course, have the obligation to put up his pro rata share of the expenses of the repressuring operations. Then suppose that one of the smaller interests defaults in such obligation. Who is going to put up the money for the defaulting party's share of the repressuring expenses? The Field Contractor cannot reasonably be expected to do so, particularly because the defaulting party's participation in the Field Contractor Agreement was due to the method of bidding and not to the Field Contractor's selection or agreement. Neither the City nor the State would have funds which it is authorized to use for assuming the obligations of the defaulting party. The City could not use tideland funds, and surely would not desire to use general funds obtained from taxation. Nor has the State authority under present law for such an expenditure.

Yet the repressuring operations must not be interrupted. Once a pattern water flood of the kind that will be necessary for repressuring this oil field has been started irreparable harm will be done to the reservoir and to the pressure system if it is discontinued for even a short period of time. In ordinary situations, a defaulting party is given some reasonable period of time to cure a default, but in the case under discussion there is no such thing as a reasonable length of time to permit a default to continue.

Nor would a performance bond constitute an adequate solution to the problem, because someone has to put up the defaulting party's share of the money pending settlement of a claim under the bond.
The waterflood program for the Long Beach Unit will consist of two carefully planned and integrated phases, the development plan and the water injection plan. They will be designed to accomplish two basic objectives: (1) to maintain pressure in all productive reservoirs to prevent subsidence, and (2) to produce the daily quantity of oil deemed to be desirable by the City in the most efficient manner. Spacing of water injection and producing wells and rates of water injection and oil production will be determined in the plans.

Operators conducting waterflood operations are almost always reluctant to reduce injection rates because they have learned from experience in so doing that production rates and ultimate recovery can be substantially reduced. This is so since most reservoirs consist of layers (or subzones) varying in permeability, oil and water saturation, and other characteristics. The Long Beach Unit waterflood, as in the case of all engineered floods, will be designed to flood each of the many subzones at Wilmington with maximum efficiency by controlled movement of the waterfront to properly flood all parts of the reservoir. The Ranger Zone is by far the largest producing zone in the Unit area and will therefore present most of the flooding problems. It will be on a pattern basis while the other zones will be flooded peripherally. A reduction in water injection rates, particularly in a pattern flood, would damage the designed uniformity of water movement, and thereby reduce pressure control and increase the danger of subsidence. Ultimate recovery would also be lessened. Failure to drill required water injection wells and install required water injection facilities at the proper time would be an additional factor that could make it difficult to maintain pressure throughout each separate reservoir.

The plan originally agreed upon and placed in operation will be varied during the life of the flood but only after careful studies based on detailed reservoir analyses which demonstrate that the plan should be varied to improve subsidence control or ultimate recovery. Experience has demonstrated that most changes in injection plans are to increase the water injection rate, resulting in increased costs. Certainly, unplanned changes made on short notice because of the default of a participant could only increase the danger of subsidence.

The proposed Field Contractor Agreement points the way to a sound solution of the problem, and one which protects the State and City against default. Section
"34 of the Agreement provides:

'If Field Contractor shall at any time consist of more than one Person all reference to Field Contractor in this agreement shall be deemed to refer to each and every of such Persons and each of such Persons shall be jointly and severally obligated to perform all the obligations of Field Contractor under this agreement except as hereinafter in this section otherwise provided. Each Person comprising the Field Contractor may perform hereunder, any or all of the obligations of the Field Contractor in behalf of all Persons comprising such Field Contractor.'

It has been a common practice in California and in other parts of the United States to form bidding groups. The companies constituting the bidding group make a written agreement in advance of the bidding, establishing the interests of each party in the bid and fixing the rights and obligations of each party in case the bid is successful. In the case of the proposed Field Contractor Agreement, such an agreement would contain provisions adequately protecting non-defaulting parties against the consequences of a default by any of the parties not fulfilling its share of the obligations under the Field Contractor Agreement. Provision would be made for the parties not in default to take over a defaulting party's share of all the latter's rights and obligations under the Field Contractor Agreement in case of failure to meet its financial obligations or to take delivery of its share of the oil. Thus, not only non-defaulting parties to the Field Contractor Agreement, but also the State and the City would be protected against the consequences of any default.

It goes without saying that any such agreement between the parties constituting a bidding group must be made prior to the bidding. That would be impossible, of course, in the instant case, if the Field Contractor Agreement should be offered for bid in undivided interests. No bidder would even know who its associates would be in carrying out the obligations of the Field Contractor Agreement.

Oil companies of the calibre qualified to do the best job under the proposed Field Contractor Agreement will want to know in advance who their associates in the undertaking will be. In their group agreement they will designate one of the companies to perform all of the obligations of the Field Contractor on behalf of the entire group. The company so selected must have in being
"a large, experienced organization capable of developing and producing from 150,000 to 200,000 barrels of oil per day, and having the 'know how' to perform all of the repressuring techniques and operations involved. No one can go out and acquire such an organization. It would have to now exist.

This is recognized in the proposed Field Contractor Agreement. While the City Ordinance of February 27, 1962 and the proposed Field Contractor Agreement and the proposed Unit Operating Agreement all give the City the right of control over development and production and repressuring programs, and while the City is designated as Unit Operator under the proposed Unit Operating Agreement, nevertheless the proposed Field Contractor Agreement also provides in Section 9 thereof that: 'Field Contractor shall perform all Unit operations which are the responsibility of the City as Unit Operator which the City Manager requests Field Contractor to so perform.'

The most efficient method of operation would be for the company designated (in the agreement between the parties constituting the bidding group) to carry out the duties of the Field Contractor to develop a repressuring program, after consultation with its associates in the group, and to present his program to the State and the City for analysis and approval. However, if there are a number of undivided interests, each of them, undoubtedly, would desire to participate in the development of the program. If differences of opinion arose between the different undivided interests (and such differences undoubtedly would arise because net profit is involved) it would be necessary for the State and the City to settle such differences and for that purpose to create and maintain large technical staffs. The over-all result would be endless debates, delays which might be critical, greatly increased costs, and general loss in efficiency. It would be far better for the State and the City to deal with one responsible organization if they are going to exercise the highest degree of care in avoiding the dangers of subsidence. A company which would otherwise desire to bid or join a group in bidding for the Field Contractor Agreement may well hesitate to undertake the vast responsibility of avoiding the danger of subsidence without knowing in advance who its associates would be in carrying out the agreement.

It will be appreciated if you will have this letter read into the record at the next meeting of the Commission.

Respectfully submitted,

RICHFIELD OIL CORPORATION
By /s/ R. W. Ragland, Vice President"
Letter addressed to State Lands Commission, attention of Mr. F. J. Hortig, Executive Officer, from Pauley Petroleum Inc., dated May 9, 1963:

"On March 28, 1963 the City of Long Beach filed a rebuttal to certain of my remarks made at the February meeting of the State Lands Commission. Said document commences at Line 10, Page 63, of the transcript of the State Lands Commission Hearing of March 28, 1963: 'Subject: Comments by City of Long Beach relative to the statement of Mr. L. E. Scott, Pauley Petroleum Inc. to the State Lands Commission Meeting 2-28-63.'

"At the April 22 hearing by the Staff of the State Lands Commission, there was a letter from Mr. Johnny Mitchell, President of Jade Oil Company, made a part of the record which appears at Pages 63 and 64 of said transcript and reads in part, as follows:

'The proponents, THROUGH THE CITY OF LONG BEACH,* made a splendid documented report, answering each of Pauley's opposing remarks. *****

*Capitalization added

"If Mr. Mitchell's statement is correct, it is requested that the statement by Long Beach be modified to set forth the names, addresses, and identity of the other proponents whom the City of Long Beach was representing in order that everyone knows who they are in the event there are future proceedings. No one should object to the correction of such an obvious oversight.

"It is requested that this letter be read into the records of the May meeting of the State Lands Commission.

Yours very truly,

/s/ L. E. Scott

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Letter addressed to Alan Cranston, Chairman, State Lands Commission, from Jade Oil & Gas Co., dated Houston, Texas, May 10, 1963:

"It would be appreciated if you would have this letter read into the record of your next meeting on the proposed Long Beach Oil Development program, or forward
"it at once to the Senate Committee or any committee now actively meeting with regard to the Field Contractor's Agreement or the Unit Operating Agreement of this program. It is my desire that this letter become a matter of record along with my letters of March 6, 1963, March 27, 1963, and April 2, 1963, all directed to the State Lands Commission, and my letter of March 29, 1963, to Governor Edmund G. Brown.

Since my letter to Governor Brown of March 29, 1963, two additional hearings have been held by the Commission. At both of these meetings the utter disregard for practical, intelligent industry practices was shown in the arguments presented by Pauley Petroleum, Shell and Texaco. In the interest of the State of California, the City of Long Beach, and the taxpayers who will benefit from the revenues of this large oil reserve, I must write this letter and object to the present actions of the Senate Watchdog Committee headed by Senator Virgil O'Sullivan of Glenn County, California.

To reiterate to you and Senator O'Sullivan, the Unit Operating Agreement was drafted and agreed upon only after months of careful and deliberate study. In the course of completing the Unit Operating Agreement, each meeting was conducted with the onshore lease operators, the City of Long Beach's legal and engineering staff and a State representative present. The Field Contractors agreement was as carefully drafted by the City of Long Beach and the State of California as the Unit Agreement and the Unit Operating Agreement. It must be emphasized that both of these agreements were written with great consideration, primarily to protect the City of Long Beach and then to benefit the State of California. These agreements permitted arms-length relations for the bidding oil companies. Remember, these contracts are for a 35-year operation of oil and gas and should first protect the City of Long Beach, then benefit the State of California as well as the successful bidding combine of the Field Contractors Agreement.

Senator O'Sullivan's committee has assumed the responsibility to review the existing Field Contractors Agreement and the Unit Operating Agreement. I find it quite strange and quite unusual that instead of engaging a legal firm which has substantial experience in oil and gas contract agreements, Senator O'Sullivan's committee has instead engaged the services of Mr. Oscar Chapman and Mr. Milton Friedman. I seriously question the ability of any practicing law firm, regardless of reputation or integrity, to interpret the terms of the Unit Agreement or the Field Contractors Agreement unless they are highly
"experienced oil and gas attorneys, experienced in agreements of such magnitude.

The Unit Operators Agreement and the Field Contractors Agreement are of such great importance to the State of California that only the best qualified oil and gas law firm should be invited to review and approve the terms of these contracts.

I do not have to tell you, the Commissioners or the Governor, that Mr. Chapman is the former Secretary of the Interior under President Truman. Also, at that particular time Mr. Ed Pauley was a dominant figure in the Democratic Party. According to my understanding, Mr. Oscar Chapman and Mr. Milton Friedman are members of the same law firm, specializing in matters other than oil and gas. It seems odd that Mr. Chapman and Mr. Friedman would be called in to review the dispute between Pauley Petroleum, Shell and Texaco vs. the City of Long Beach. Under these circumstances and conditions, it would appear to me that Mr. Chapman and his firm should disqualify themselves from this matter due to Mr. Chapman’s prior position in the Democratic Party and apparent friendship and connection with Mr. Pauley, one of the participants in these hearings.

In all of the meetings before the State Lands Commission, the most important item has been completely ignored by Shell, Pauley Petroleum and Texaco. The City of Long Beach and its metropolitan population are the only potential losers in the drilling for oil and gas in the East Wilmington Extension. The Senate and the State Lands Commission know that this fine city suffered a great catastrophe when subsidence occurred due to unregulated production of oil and gas and a lack of preplanned administrative control to prevent such subsidence. It is estimated that aside from the ugly, irreparable physical damage to this beautiful city, additional material damage amounting to over $90 million was suffered. During all of the Commission meetings that I attended, Pauley Petroleum, Shell and Texaco had the audacity to criticize the City of Long Beach’s contract as if this city had no authority to chart its own protection from subsidence and decide the terms it demanded from the bidding companies in order for the successful bidder to be able to produce oil and gas in the East Wilmington Unit and still protect the surface features of the city.

The city voters once before experienced the actual damages of subsidence and, even after such a crucial experience, decided by a city election to permit this East Wilmington Field to be developed. In this election, they voted and approved certain requirements that they felt
necessary for the protection of the future of their
great metropolitan city.

We onshore lease owners (Jade, Standard, Richfield,
Signal, Union, Superior, Continental, Eastern and Reverend
Brower and his Land Owners Association) reviewed the
stringent terms of the Long Beach contract and as prudent
operators we accepted these requirements, acknowledging
a sense of responsibility to the City of Long Beach. I
regret that I am unable to say the same about Shell,
Pauley Petroleum and Texaco, who, in their testimony, have
continued to tear down the protective provisions that
were included in the contract to protect this city from
inefficient operations. If certain provisions of the
contracts are altered, subsidence is possible.

I want to impress in this letter and underscore the
requirements on the part of the people of Long Beach.
The City, in passing this ordinance, voted in favor of a
one unit operator and voted that the City of Long Beach
supervise this operation. There were other vital issues
voted by the citizens of Long Beach. Anything less than
compliance with the voters approval of these issues could
prove a future responsibility of the present State Lands
Commission and equally so of O'Sullivan's Senate Watch-
dog Committee. Playing politics on such vital issues
makes it possible for the future protection and growth of
one of California's great metropolitan cities to be seri-
ously impaired by the State Lands Commissioners' decisions
today. The same responsibility could be placed on Sena-	or O'Sullivan's Committee and the Governor's decision.
This matter concerns more than just who gets the oil.

You and your Commissioners are dedicated to uphold
the mandates of the City of Long Beach.

Senator O'Sullivan is a representative of Glenn
County and a defender of the rights of the people in his
district. I am sure he is enough of a statesman to
recognize and respect the rights of the people of Long
Beach.

I personally believe that the revenue to be derived
from this oil field by the State, the willingness on the
part of the people of Long Beach to accept possible dam-
ages and physical losses, should relieve the claims of
Pauley Petroleum, Shell and Texaco that the City of Long
Beach is not entitled to write their protective contract.
To be truthful, Long Beach's share of the oil will be a
minor compensation because this city will be under con-
stant hazards of drilling, production, blowouts, cave-ins
"and possible subsidence during the next 35 years. This validates the necessary provision of the Field Contractors Agreements (and the side agreement between the City of Long Beach and the State of California covering review and approval by the State), that the City and State must have full control over the operation in order to minimize such hazards.

By now you are aware that I and my company are grass root oil men who have fought for their rights and survival in rugged, two-fisted tradition. However, this is my first experience with mixing politics and the oil business. Especially against a competitor such as Mr. Pauley, with his record of long, devoted service and contribution to the Democratic Party. Coming from the ranks of true independent oil men who always fight for their rights, we intend to fight for the future of our small company and for its future security against any political odds.

It is hoped that your Commission, Senator O'Sullivan and the Senate Committee are aware that the future protection of the City of Long Beach, the welfare of the State of California and the taxpayers' future compensation in the Long Beach unit is much more valuable to your state than any political consideration that may be involved.

It is not apparent that Senator O'Sullivan recognizes the magnitude of the Long Beach oil field and his responsibility to the State, as well as to the City of Long Beach. This issue is the City of Long Beach's risk and the State of California's gain and should not be allowed to become a political football.

The State Lands Commission and Senator O'Sullivan's Committee have been advised by Mr. Pauley that he wishes a delay on the decision of the State Lands Commission on the Field Contractors Agreement. For this reason I will predict the decision of the legal firm engaged by Senator O'Sullivan's Watchdog Committee. I predict that Mr. Chapman and Mr. Friedman will recommend a delay and further study. Naturally, Senator O'Sullivan's Committee will accept this recommendation and ask for a delay. I further predict that the Governor will urge you to delay your decision and, finally, that your Commission will agree to such a delay and further study. There is no reason for a delay, except that Mr. Pauley wishes it.

If such a decision is rendered, as I have predicted, it will definitely prove my point that politics play a
"powerful role in your state, far above the interest of the State, the City of Long Beach and the taxpaying public. It is a sad situation.

It may be wise to re-evaluate the real merits of the Field Contractors Agreement and rightfully permit the City of Long Beach to manage its own destiny.

Respectfully,
JADE OIL & GAS CO
/s/ Johnny Mitchell, President

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MR. HORTIG: Since the completion in April of the staff hearings which had been directed by the Commission to be held, to assure full review of the Long Beach contracts -- the staff hearing transcripts, the preceding Commission hearing transcripts, and all supplemental written information received have been under staff analysis for the development of recommendations to the Commission as to proposed contract format and content to be considered for approval. Compatibility with a Senate Special Research Committee report by May 15th has been considered an essential factor in this analysis.

A copy of the report, or a report by counsel to the Special Research Subcommittee, was received last night by the Members and the Executive Officer of the State Lands Commission, with an announcement that the Special Research Committee has scheduled a hearing on June 3rd to receive comments on the report from the City of Long Beach and the Commission.

Therefore, it is recommended that the Executive Officer be authorized to participate in the scheduled hearing.
on behalf of the Commission.

Parenthetically, as a result of a first-time reading of the report last night, I can report to the Commission that there are no elements in the report relating to operating, technical, and administrative features that have not heretofore been included in the staff analyses being prepared for the State Lands Commission.

The principal area of newness, for lack of a better word, is a preponderance of different interpretations as to the legal effect of some of the existing contracts, as interpreted by the special counsel and as heretofore interpreted by the City of Long Beach and the Office of the Attorney General. Therefore, I would expect that this area will be the principal area on which report will be made to the Senate Committee on June 3rd -- as to these disparities in interpretation of specific legal contractual effects.

MR. CRANSTON: I don't believe any formal action is required, authorizing you to appear. Of course, it would be appropriate.

MR. CHAMPION: Counsel for the Commission will also appear -- Mr. Shavelson?

MR. HORTIG: That's correct.

MR. SHAVELSON: Yes, sir.

MR. CRANSTON: Is there anything else to report as far as the staff is concerned?

MR. HORTIG: With respect to the Long Beach Unit at
this time, no sir -- except in response to further questions.

MR. CHAMPION: I have one further question. I don't know whether the matter is elsewhere on the agenda, but there has been considerable discussion of the use of tidelands funds in connection with the guarantee for this fair proposal in Long Beach, and I'd like a report on the status of that -- whether it is before us; whether it is being brought to us.

MR. HORTIG: Well, the report had been intended for another position on the agenda but is appropriate at this time as long as it is made clear that this report does not relate, per se, to the problems inherent in the consideration of the Wilmington Unit nor the Special Senate Research Committee study on that Unit.

The City of Long Beach electorate will consider on June 4th a Proposition "A" which will authorize, primarily, the future impounding of not to exceed sixty million dollars of tideland oil funds -- of the City's share of tideland oil funds -- to serve as collateral for underwriting revenue bonds proposed to be issued to finance the proposed World's Fair program to be held in Long Beach in 1967-1968.

There is nothing specifically before the Lands Commission with respect to this item. The matter came to the attention of the State Lands Division by reason of an invitation to the Director of Finance to participate in an exploration conference and progress report for the benefit of the Citizens' Advisory Committee with respect to the World's Fair
in Long Beach; and the literature and discussion with respect to this Proposition "A" indicate that it is the intent and desire and hope of the City to be able to utilize tidelands funds for this purpose in the manner outlined, subject to the approval of the State Lands Commission -- and, indeed, the literature with respect to the provisions of Proposition "A" all indicate that this will be subject to Lands Commission approval as and when an application is made to the Lands Commission to utilize these funds. No such application has been made to the Lands Commission yet and, as a matter of fact, Proposition "A" as such was never discussed with the State Lands Division, being a matter at this point possibly of purely local concern; but in view of future inevitable involvement in the results of Proposition "A" by the Lands Commission, it was felt desirable to report the status of this matter to the Commission this morning in order to determine what action should be taken, if any, beyond filing in the Commission's records the memorandum report which you have before you this morning with respect to Proposition "A" as it has been prepared for State Lands Division by the Office of the Attorney General.

MR. CHAMPION: May I ask Mr. Shavelson: Is there any request to you to determine whether this comes within the scope of the grant, or any other inquiry from the City of Long Beach?

MR. SHAVELSON: No, Mr. Champion; to my knowledge
nothing whatsoever has been presented to our Office. Is that correct?

MR. DESMOND: It has not.

MR. CHAMPION: The City's position with respect to this is that this is an internal decision as to whether they want to make this application? As to whether they want to make it before it has been approved?

MR. DESMOND: That's correct.

GOV. ANDERSON: They would have to come to us; after they have approved it, then it will come to us at that time.

MR. CHAMPION: That's the record I want to make clear -- that this has been, so far, a matter in the City...

MR. DESMOND: If the voters a week from Tuesday say so, this matter will be up for approval.

GOV. ANDERSON: If they say "yes," and it will come before the Commission and we are informed that we cannot legally or otherwise approve it, how would the Fair go?

MR. DESMOND: Of course, if the Commission says they are not in a position to approve it, well, the Fair will be held anyway. This is a method of underwriting which will obtain for the City an extra ten or fifteen million dollars worth of buildings -- permanent structures which will be built for the Fair, but which will be a legacy to the City.

MR. CHAMPION: When, in order to have this secured - when must this security be approved in order for you to proceed with your financing plan for the Fair?
MR. DESMOND: Of course, the financing is entirely by a nonprofit corporation. The City is not directly connected with the Fair as such, although the Fair does have a lease which will become effective upon the completion of Pier J. Pier J was to be built regardless -- in fact, it has been under planning for the last ten to twelve years' time and because it was under construction, why, it came to the attention of the World's Fair group and they applied and were issued a lease on that.

Now, as far as the financing arrangements themselves, I would say some time in the latter part of this year; assuming that the voters approve, then I would say some time the latter part of this year there probably will be an application before the Commission.

MR. CRANSTON: Are there any questions or comments from anyone present in regard to the East Wilmington Long Beach Oil Field. (No response) I thought it might be helpful if we could seek just to outline what would probably be the timetable. Nobody can state for certain what it will be; but the fact that, as Frank Hortig said, nothing brand new has come up from the counsel's report to the Senate Committee, would lead to the conclusion that no extraordinary new amount of time would be required. We cannot tell what the Senators themselves may come up with at the meeting of June 3rd, but we will find out at that time.

Meanwhile, I think the Lands Commission, through
its processes and the hearings of the full Commission and meetings of the City and of industry have gone over every part of the contract and collected a large number of thoughts, both pro and con, on various portions of the original contract as presented to us. I hope that at the meeting in June of the State Lands Commission, after all of these processes have been gone through, we can come to grips with the fundamental issues before us insofar as possible revisions of the contract are concerned and make the decisions at that time as far as the State Lands Commission is concerned.

I think that we can anticipate that there will be some changes in principle insofar as the contracts are concerned and that after the Lands Commission makes those decisions as best they can there will have to be some drafting done before there can be final definitive action on the final form of the contract.

I think it is conceivable that action could be taken at the July meeting, but not too likely; but I would hope we could finally act on the contract in July and then put the contract up for bid. Those are the thoughts of some people on the timetable. I hope and believe they will not be upset.

MR. HORTIG: Mr. Chairman, I think to completely clarify the record it might be well to report that in connection with the classification of the report to the special subcommittee by special counsel, this report has been considered
by the Senate Committee not to be their report, but has been
received without endorsement; and, indeed, the review of this
report on June 3rd will then in turn serve as a base for a
determination by the committee as to the type of committee
report which it will issue in the future; and thereafter, in-
asmuch as that time is uncertain except under the designation
of Senate Resolution Number 100 that that report be submitted
this session of the Legislature, there is another element of
uncertainty in the timing as to the final Senate Committee
report -- and as the staff said previously, and they reported
previously, it has been considered that it is essential that
there be compatibility between the staff analysis and the
recommendations of the Senate report,

MR. CHAMPION: We can still anticipate the final
Senate Committee report at this session of the Legislature?

MR. HORTIG: Right.

MR. CHAMPION: So that would come before the
June 27th meeting.

MR. HORTIG: Right. How much analysis that report
will require as against the time it is received is the
imponderable.

MR. CHAMPION: We now have all the information
that will be before the Senate Committee except the views
raised in the report?

MR. HORTIG: That is correct.

MR. CHAMPION: We can get from the staff and Mr.
Shavelson what is raised in that report, but otherwise the
Senate has nothing that has not been presented to us?

MR. HORTIG: Not to my knowledge.

MR. CRANSTON: If there is nothing more on this
matter, we will revert to the general order of business,
which is Item 3 -- Permits, easements, and rights-of-way to
be granted to public and other agencies at no fee, pursuant
to statute,

Applicant (a) Lucerne Recreation and Park District --
Life-of-structure permit for breakwater and boat-launching
ramp, 3.04 acres submerged lands of Clear Lake, Lake County;

(b) The Pacific Telephone and Telegraph Company --
Approval of location of submarine telephone and telegraph
cable with necessary appurtenances, 100-foot-wide by 5200-
foot-long strip of ungranted tide and submerged lands of
Arcata Bay, Humboldt County;

Item (c) County of Riverside -- Amendment of legal
description of life-of-structure permit P.R.C. 2799.9, sub-
merged lands of the Colorado River, Riverside County, to
increase area by additional 1.218 acres, for operation of a
small-boat marina;

Item (d) State of California, Department of Fish
and Game -- Lett' permit for construction of four underwater
quarry-rock reefs for fish propagation, 14.69 acres submerged
land of San Pedro Channel off the coast of Orange County.

MR. HORTIG: Mr. Chairman, Item (e) should properly
be considered under Classification 4; it should not have been included under Classification 3.

MR. CRANSTON: Item (f) U.S. Army, Corps of Engineers -- Right-of-entry permit for period until June 1, 1964 for construction of groin and placement of 86,000 yards of artificial fill on seven acres tide and submerged lands in Gulf of Santa Catalina waterward of Doheny Beach State Park, Orange County (to replenish presently eroded beach and to attempt to control erosion).

Motion is in order.

GOV. ANDERSON: I move it.

MR. CHAMPION: Second it. The understanding is that (e) is removed from this?

MR. CRANSTON: Yes. Approval is moved, seconded, made unanimously.

Item Classification 4 -- We will start with that item (e): State of California, Division of Highways -- Right-of-way easement, 3.33 acres school lands, Imperial County, for construction and protection of State Highway Route 146.

Then, item (a) Holiday Harbor Co. -- three-year lease 0.415 acre submerged lands of Napa River, Napa County, for small-boat facility, annual rental $150;

Item (b) R. W. Kelsey -- five-year grazing lease 3,520 acres school lands Inyo County, annual rental $70.40;

Item (c) Donald D. Updegraff -- 15-year lease,
0.275 acre tide and submerged lands of Sacramento River at Clarksburg, Yolo County, for a marine service station facility, annual rental $150;

Item (d) Crescent City Harbor District -- Approval of sublease to Charles W. Howe of portion of Lease P.R.C., 502.1, Crescent City Bay, Del Norte County, for operation of marine supply business, restaurant, and allied facilities;

Item (e) (second item (e)) Lindsey H. Spight, dba Diablo Communications Center -- Approval of sublease to Metromedia, Inc. of portion of Lease P.R.C. 2364.2, State school lands Contra Costa County, to be used for a mobile repeater, transmitter and receiver;

Item (f) A. Bruce Kutcher -- Assignment from James A. Gallagher and Mary A. Gallagher of Lease P.R.C. 2987.2, Lot 37 Fish Canyon Cabin Sites, Los Angeles County, in trust for Troop 121 of the Boy Scouts of America;

Item (g) Voca Crete Mining and Engineering Corporation, et al. -- Assignment from Estate of Robert Livingstone of undivided one-half interest in Mineral Lease P.R.C. 392.2, San Bernardino County, and consent to subleasing agreement by co-tenants;

Item (h) Humble Oil and Refining Company -- Deferment of drilling requirements, Oil and Gas Lease P.R.C. 186.1, Belmont Offshore Field, Orange County, through December 31, 1963, to permit further geologic and seismic data studies for determining feasibility of drilling additional wells;
Item (i) Richfield Oil Corporation -- Referral of drilling requirements, Oil and Gas Leases P.R.C. 303.1 and P.R.C. 309.1, Coal Oil Point Santa Barbara County, through December 31, 1963, to afford opportunity to review proposed unit agreement;

Item (j) Shell Oil Company -- Four 49-year flow-line easements for ocean-floor oil-well completions, tide and submerged lands of Santa Barbara Channel, to onshore points near Arroyo Hondo Creek, Santa Barbara County: (1) 11.368 acres, annual rental $322.93; (2) 8.880 acres, annual rental $252.25; (3) 6.602 acres, annual rental $187.54; (4) 7.195 acres, annual rental $204.39.

GOV. ANDERSON: May I ask a question? Does that easement go along the shore line?

MR. HORTIG: This actually takes the production from the well to the first onshore location.

GOV. ANDERSON: Would this include the well location and the line?

MR. HORTIG: No sir, because the well location and a part of these lines is also on a lease issued in this case to Shell Oil Company. These easements are for those portions of the line getting to shore where tide and submerged lands are traversed which are not part of the oil and gas lease; so for this otherwise unleased area, these easements are simply pipeline easements over tide and submerged lands of the State.
GOV. ANDERSON: In other words, these are lands which are not presently leased.

MR. HORTIG: Or leased to other parties.

GOV. ANDERSON: And here we are just giving them the right to go over the top of the ground.

MR. HORTIG: That is correct, as shown on the pipeline map following page 16.

MR. CRANSTON: Item (k) R.W. Cypher -- One-year extension through June 8, 1964 of Prospecting Permits P.R.C. 2705.1, P.R.C. 2706.1, P.R.C. 2707.1, and P.R.C. 2708.1, Imperial County, for geothermal steam and all minerals other than oil and gas and water, to further evaluate the area potential and to complete requisite engineering and design studies.

A motion is in order.

MR. HORTIG: Mr. Chairman, with respect to item (k), a correction is in order as to the description -- the legal description contained on page 20. The typewriter stuttered and for the record the description should read, in the first paragraph:

"Prospecting permits P.R.C. 2705.1, P.R.C. 2706.1, P.R.C. 2707.1, and P.R.C. 2708.1, covering approximately 535 acres of State land lying in the south half of Section 23, the northwest quarter and a portion of the northeast quarter of Section 26, Township 11 South, Range 13 East, S.B.B. & M., Imperial County, were issued ...." et cetera

MR. CRANSTON: As amended, a motion is in order.

MR. HORTIG: Also, Mr. Chairman, we have had a
request from a Mr. R. G. Smith, President of the Natomas Company, to present a statement to the Commission with respect to the proposal contained in Item (k).

    MR. CRANSTON: Is there somebody here wishing to testify?

    MR. SMITH: My name is R. G. Smith. I am President of the Natomas Company, a California corporation. I am speaking in behalf of a subsidiary of the Natomas Company, Western Geothermal Corporation, and we request your respectful consideration of a deferment of this extension for at least ten days for the reason that Natomas -- Western Geothermal, rather, just learned of this request for an extension last night.

    We are actively engaged in exploration within two miles of this area in Imperial County. Western Geothermal has put down a test well and tested it out, and we believe that the potential of the area will give us the right, or give us the motive, to extend our exploration in the area, in which we hold quite a large area.

    For this purpose, we would -- during the interval, if you would grant this deferment, Western Geothermal Corporation would like to make an application for a permit in this particular area.

    MR. HORTIG: Mr. Chairman, for the record, the subject permits on which a one-year extension is requested, which is provided for in the Public Resources Code, are held by the applicant. Similar development work to that which has been
outlined by Mr. Smith has been performed in connection with other lands held by the same group that hold the subject prospecting permits, the permits having been issued by the State Lands Commission pursuant to law -- which provides for a two-year prospecting permit upon payment of the proper fees which means these permits were issued two years ago. The consideration before the Commission is whether, in the judgment of the Commission, sufficient development work has been done; and if, in the opinion of the staff, applicant has met the requirements to justify extension, the Lands Commission may extend such permit. This is the basis for the recommendation of the staff.

This is also part of other holdings by the same group under prospecting permits issued by the State Lands Commission pursuant to law, which other permits having been issued earlier were the subject of extension applications earlier -- all of which have been granted.

Therefore, there does not appear to be any equitable basis for staff recommendation for denial of the one-year extension with respect to these subject permits, and the permits would otherwise expire before the next meeting of the Lands Commission if this extension is not granted.

MR. CHAMPION: May I ask a question? When we grant the two-year permit, what is the nature -- You say we may, on sufficient evidence of development, if there is sufficient evidence of development we then have the right to extend these?
MR. HORTIG: That is right, but it is not mandatory.

MR. CHAMPION: It is not mandatory and there is no commitment on the part of the Lands Commission that they should do it?

MR. HORTIG: That is right.

MR. CHAMPION: What are the circumstances where we have rival interests? On what grounds do we judge these? Say we were to feel that both parties had equal standing in this case, I think it would be our prerogative to regard them as in equal standing. What is the procedure then?

MR. HORTIG: The procedure would be, number one, to consider the State's applicant who had paid for the prospecting permits which contained in their conditions, pursuant to law, the right to a preferential mineral lease if commercially valuable deposits of mineral are discovered and developed within the area of the permit. Therefore, there are more equitable rights attendant to the existing State permittee than there are to any subsequent applicant who comes in at a later date. In other words, these areas, during the time of their prospecting permit, are not subject to being awarded pursuant to competitive public bidding, but to being awarded to the first applicant.

MR. CHAMPION: But do I understand this gentleman to say they are not asking for prospecting permits -- they would like to proceed with development of the section? Or would you be asking for a prospecting permit?
MR. SMITH: Let me say, first, it would be exploratory. Whether you call it prospecting or development, it is exploratory. In fact, the work we have done down there in putting down one well is exploratory and it is only part of the exploratory work that would be done.

MR. CHAMPION: What would you be asking us for? Would you be asking for a prospecting permit or for something else?

MR. SMITH: I believe, as I understand it, we would be asking for a prospecting permit, an exploratory permit. As I understand the member of the staff — I hadn't been informed as to whether the applicant had performed his duties or not. It was probably our idea that they had not within the two years, and if so it was reasonable they could be denied. Then Western Geothermal would want to make an application. If they have fulfilled their requirement, Western Geothermal would not make an application.

MR. HORTIG: There would be no staff recommendation but for the fact it is felt that the applicant is entitled to the extension by the Commission because of the fulfillment of the exploration requirements. As a matter of fact, for comparative statistics, to Mr. Smith's one exploration well which has been drilled by Western Geothermal, the group holding the State prospecting permits have drilled, and have producible, two steam wells on their land.

MR. SIEROTY: May I ask Mr. Hortig: Is there a
requirement that valuable minerals be found?

MR. HORTIG: Yes.

MR. SIEROTY: Have they complied with that?

MR. HORTIG: No. The necessity for finding valuable minerals relates to whether a preferential mineral lease will be issued as a result of the prospecting permits. If, in the next year, this can be developed and established in the prospecting permit areas, including those under extensions here recommended, then the permittees would be entitled to a preferential mineral lease under royalty provisions which are already spelled out in the permit, which would be in the preferential lease when issued. The fact that this has not been accomplished to the point where an application can now be considered by the State Lands Commission has led to this request for a one-year extension, hoping to perfect that right during that time -- which one-year extension by the Commission is authorized in the statute.

MR. CHAMPION: Under those circumstances, I would move approval of the recommendation of the staff on all items.

MR. CRANSTON: Motion is made . . .

GOV. ANDERSON: Second.

MR. CRANSTON: . . . and seconded on all items in Classification 4, including item (e) carried over from 3. Is there any further discussion? (No response) If not, the approval is made unanimously.

Item 5 -- Selection and sale of vacant Federal
lands: Applicant (a) Lincoln Clark -- Appraised value $10,256.35, bid the same. That's the only item.

GOV. ANDERSON: Move it.

MR. CHAMPION: Second.

MR. CRANSTON: Moved, seconded, made unanimously.

Item Classification 6 -- Selection on behalf of the State of 39.73 acres Federal land, San Bernardino County; authorization to cancel application of Jean Lyons Flynn and to refund deposits less expenses incurred to date of cancellation. Motion is in order.

MR. CHAMPION: Move approval.

MR. CRANSTON: Approval is moved ... GOV. ANDERSON: I'll second it.

MR. CRANSTON: ... seconded, approved unanimously.

Item 7 -- Approval and adoption of combined bid-lease form for submerged land leases in San Francisco Bay and similar areas for minerals other than oil and gas. Frank, any comments on that?

MR. HORTIG: Yes, Mr. Chairman. In view of questions which have been raised by public agencies in the San Francisco Bay area as to the lease format devised by the Lands Commission for issuing leases pursuant to competitive public bidding, particularly questions raised by the San Francisco Port Authority, City of Richmond, and the City of Berkeley, extensive conferences were held to develop a format which would satisfy all the requirements of all agencies --
particularly in connection with the Port Authority, where joint approval is necessary, where they could approve any proposed lease as a matter of form on a standard form satisfactory to all agencies.

The draft which is before you is such a form which is satisfactory to all agencies and would be proposed to be used in the San Francisco Bay area in connection with issuance of any future leases issued pursuant to competitive public bidding. It has been approved by the Office of the Attorney General as to form and, indeed, would be the subject of a lease offer which is the next item -- for another sand and gravel lease in Contra Costa County.

GOV. ANDERSON: Is there any substantive change in the form?

MR. HORTIG: No, sir. It is a matter of procedure and format, so that it is standardized, so the other agencies know what is in it, rather than a unilateral representation by the State Lands Commission.

MR. CRANSTON: Motion is in order.

GOV. ANDERSON: Moved.

MR. CHAMPION: Second.

MR. CRANSTON: Moved, seconded, approved unanimously.

Item 8 -- Authorization for Executive Officer to offer for lease, for extraction of sand at minimum royalty of eight cents per cubic yard, 370 acres submerged land Contra Costa County, pursuant to application of United Sand and Gravel Company.
MR. HORTIG: And this is the item, Mr. Chairman, on which I just reported, to which the proposed combined bid-lease form just approved by the Commission would be first applied.

MR. CRANSTON: Motion is in order.

MR. CHAMPION: Move approval.

GOV. ANDERSON: Second.

MR. CRANSTON: Approval is moved, seconded, made unanimously. Item 9 -- Authorization for Executive Officer to approve and have recorded Sheet 1 of 1 of map entitled "Map of the Grant to the City of Pittsburg," dated May 1963. Motion is in order.

MR. CHAMPION: Move approval.

GOV. ANDERSON: Second.

MR. CRANSTON: Moved, seconded, made unanimously.

Item 10 -- Termination of Right-of-Way Easement P.R.C. 2868.1, submerged lands of Old River, San Joaquin and Contra Costa counties; approval of refund to Pacific Gas and Electric Company of prepaid rental in the sum of $463,98; and authorization for presenting claim to Board of Control.

GOV. ANDERSON: What is the story on this?

MR. HORTIG: As detailed on page 32, Governor Anderson, the easement was to have been used for a pole-line crossing to Bra's Island. However, the Board of Trustees of Reclamation District 802 was awarded a judgment against the owner of Bra's Island, whom the Pacific Gas and Electric Company had proposed to serve. The P. G. and E. is now prohibited from
using the rights granted by the State because they have no dry land on the other side of the river. So it is proposed that the easement be cancelled; and inasmuch as the rental was prepaid, it seems equitable that this be refunded.

GOV. ANDERSON: Move approval.

MR. CHAMPION: Second.

MR. CRANSTON: Moved, seconded, approved unanimously,

Item 11 -- Authorization for Executive Officer to execute an interagency agreement with the Colorado River Boundary Commission for engineering, administrative and other services for the 1962-63 fiscal year, at a cost not to exceed $11,000.

MR. HORTIG: These matters are brought to the Commission's attention this late in the fiscal year because at this time, then, there is always a reasonably accurate estimate of what the costs of the services which have been rendered by the Lands Commission to the Colorado River Boundary Commission will accumulate to for the fiscal year. The counterpart of this contract will be executed on behalf of the Colorado River Boundary Commission and is subject to approval by the Director of Finance and in the appropriate interagency billing process.

GOV. ANDERSON: I'll move it.

MR. CHAMPION: I'll abstain as a matter of custom, since it calls for my further approval.

MR. CRANSTON: I'll second the motion and, without objection, so ordered. Voted for by the Lieutenant Governor and myself.
Item 12 -- Authorization for Executive Officer to execute compromise price agreement with Signal Oil and Gas Co., et al, Oil and Gas Easement 392.1, Huntington Beach, Orange County; and determination that for purposes of calculating State royalties, the reasonable price of the production at the well during the period September 1, 1958 to October 31, 1959, inclusive, was the price posted in the Huntington Beach Field for oil of like gravity by the Standard Oil Company of California.

MR. CHAMPION: I'd like a little more explanation.

MR. HORTIG: I will introduce the problem and then Mr. Shavelson, who prepared the form of compromise and agreement relative thereto, can give the Commission further details.

The books of record, the amount for oil royalties due the State from various lessees at Huntington Beach, suddenly found themselves faced with the dilemma that, whereas most of the leases at Huntington Beach -- and these are of long standing -- required payment of royalties calculated on the reasonable market price of oil at the well, which price shall not be less than the highest price at which a major oil company buying oil of like gravity and quality in substantial quantity at the Huntington Beach Field is offering, this resulted in a difference in computations because an operator was offering a higher price than Standard Oil Company of California for a brief period of time. The question became whether or not this operator was a substantial purchaser in
accordance with the definition of "substantial quantities" and it turned out during the time the agreement was in effect the purchaser purchased only 1.32 per cent of the total production; but, nevertheless, in the opinion of the Office of the Attorney General, this is still substantial under the contract terms and, therefore, royalty should be paid on this higher price.

Further review and analysis has resulted in a basis for a compromise agreement, establishing what the price should be in connection with the actual majority purchaser of the crude oil and the highest price offered by the highest majority purchaser of the crude oil; and for the details and the equity of this proposed compromise, I would like to have Deputy Attorney General Shavelson give the basis.

MR. CHAMPION: Before he does, however, what kind of money is involved in this?

MR. HORTIG: Total of $42,387 is the present amount indicated as due on the books, due to the State Lands Commission, of which on the basis of the compromise we would still receive $25,123 of the amount above mentioned.

MR. CHAMPION: $42,000 is the difference involved; the compromise would bring it to $25,000?

MR. HORTIG: $25,123 -- because of different provisions with respect to pricing in different leases issued at different periods of time by your predecessors in the Lands Commission.
MR. SHAVELSON: We are talking, in other words, about $17,000. Our original opinion dealt solely with one question and that was whether the amount of oil purchased by the Union Oil Company, which had posted a slightly higher price than Standard -- which was purchasing virtually all of the oil that was purchased in the Huntington Beach Field -- whether that 1.32 per cent could be considered a substantial quantity. At that time we advised the State Lands Commission that the criterion for determining a substantial quantity was not necessarily a relative amount, but could be considered an absolute amount. In other words, was the amount purchased by this company sufficiently large that it would be subject to the same pricing considerations as a much larger quantity? Since 1.32 per cent of the total production in a large field like the Huntington Beach Field we still felt was a substantial quantity of oil, we did advise the Commission that it could consider that the determinative price for purposes of determining the royalties under the leases in this particular easement.

There was another issue involved in any controversy here which we were not called upon to discuss and which we did not discuss at that time, and that is whether a posting is also an offer. I don't want to go into the details unless the Commission would like me to, but a posting is not in a legal sense an offer. It is more or less a statement as to what the company will pay under its existing contract. It is
not an offer to take additional oil at that price.

In other words, there are two difficult legal issues.

MR. CHAMPION: It isn't an obligation. In other words, the posting is not an obligation?

MR. SHAVERSON: That is right, not with persons with whom they don't have contracts at that time. It is not an offer that, in a legal sense, can be accepted. So there were two very difficult legal problems. Litigation would be costly, involving many defendants; and, as Mr. Hortig pointed out, under the one easement which had the largest single amount of $17,000, the language was to the effect that the price upon which royalty was to be computed "shall not be greater than" the highest price posted. Under those circumstances, we have advised the Commission that it could exercise its discretion and find that the fair market value for the purpose of that one easement might be the Standard Oil price at which the great majority of oil was purchased, and not the price paid for this very small quantity.

On those two bases we have recommended a settlement, under which we would collect $25,000 and that would be in payment of all amounts due under all of the easements -- all the leases and the easements -- and the Commission would find that the fair market value for the purpose of this one easement was the Standard Oil Price. This will be subject to approval by the Governor under the provisions of the Public Resources Code, after the State Lands Commission approves it, if it does.
MR. CHAMPION: This does not in any way jeopardize in the future our interpretation?

MR. SHAVELSON: Not at all. It does not bind us. It is expressly limited to this particular period.

GOV. ANDERSON: How long does the lease run?

MR. HORTIG: As long as oil and gas are produced in commercial quantities, and this could be hopefully another forty years.

MR. CHAMPION: I'll move it.

GOV. ANDERSON: Is there a potential suit on this if we do not approve this?

MR. SHAVELSON: Yes. We would be compelled to bring suit against all the companies who have not paid us and I think it comes to about seven or eight companies; and it would be very difficult litigation on both sides, and expensive. I think the costs would be comparable to any further amount that we might hope to collect, plus the uncertainties involved in the collection. We think the settlement is very good, both from the standpoint of the State and the other parties involved.

GOV. ANDERSON: If there are seven or eight companies involved, the total of all of them will not amount to more than $17,000?

MR. HORTIG: Twenty-five thousand.

GOV. ANDERSON: That is what the settlement is for?

MR. SHAVELSON: Yes. In other words, if we brought
litigation, the most we could hope for is recovery of $17,000
over and above the $25,000 we are getting under this settlement.

GOV. ANDERSON: From all of these companies?

MR. SHAVELSON: Yes.

MR. SIEROTY: Is it their contention that 1,32 is
not a substantial quantity?

MR. SHAVELSON: That is their contention.

MR. SIEROTY: How many barrels would that be?

MR. SHAVELSON: During one month I think it came to
twenty thousand barrels.

MR. SIEROTY: 1,32 was twenty thousand?

MR. SHAVELSON: That's right.

MR. SIEROTY: Is there still a problem at this
time? I'd like to know if there is now a small buyer in terms
of percentage who gives us a difference between the other
prices in the area.

MR. SHAVELSON: Mr. Hortig, will you answer this?

MR. HORTIG: No. This was for a period of time
when this posting was made. Now, the smaller buyer is post-
ing a substantially smaller price. This relates to a particu-
lar period only, during which time this posting was in.

I don't presume to add to the legal discussion here,
but I think a very essential point is the fact that the people
who posted are on record as having said that they had not
posted in the sense that they thought was intended by our own
contracts.
MR. SHAVELSON: In other words, they did not say it was a contract offer.

MR. HORTIG: Therefore, on that basis it would be an extremely difficult collection to make, which would be an important part of that which would come up in any litigation.

MR. CHAMPION: I'll move approval. Is there any advantage, as a result of the Lands Commission having this come up, of establishing a policy for this purpose?

MR. SHAVELSON: If I may answer that, we have discussed that with the secretary of the Signal Oil and Gas Company and I think we were both hopeful that we could work something out. We felt that this should be gotten out of the way first and then we should try to come along with an amendment on all of the leases in the Huntington Beach area, at least, and come up with some more satisfactory provision. I think it was one of the earliest leases....

MR. HORTIG: The language was generated in 1938.

MR. SHAVELSON: ... so we hadn't the experience at that time. I think it can be improved.

MR. HORTIG: I think that is an important point. I think the subsequent leases and those currently issued by the State Lands Commission do not have this pitfall.

GOV. ANDERSON: Do they have this in there?

MR. HORTIG: No, sir -- not to get in this same condition.

Mr. SIEROTY: There is a proposal or suggestion that
we use the highest posted price on the Long Beach contract we are now using.

MR. HORTIG: This would be directly comparable with the provisions in current State Lands Commission provisions.

MR. SIEROTY: Well, isn't this what we are talking about here?

MR. HORTIG: Yes, except with relation to this word "substantial."

MR. SIEROTY: Well, the highest price.

MR. HORTIG: Highest posted price in applicability to the majority of purchases, to get away from "substantial."

It would be our staff recommendation to relate to the highest price offered for the majority purchases. This has not yet been before the Commission, except in terms of discussion with the staff.

MR. SHAVELSON: In the Long Beach Unit and the Field Contractor Agreement, the term "substantial quantities" is specifically defined; three thousand barrels per day in the Long Beach Field Contractor Agreement is my recollection, seven thousand in the Long Beach Unit Agreement.

GOV. ANDERSON: What percentages are those?

MR. HORTIG: Probably on the order of three per cent.

GOV. ANDERSON: Actually, we are talking about the difference between 1.3 and 3 per cent, as to whether one is substantial or the other. Aren't we begging a point, if three per cent is substantial and 1.3 isn't? What is the difference?
MR. SHAVELSON: In our opinion, the question is not necessarily one of relative amounts, but rather absolute amounts. The Wilmington Field produces much more oil than the Huntington Beach Field; 1.32 of the Huntington Beach Field production is considerably less than what 1.32 of the Wilmington production would be; and, furthermore, in our ... 

GOV. ANDERSON: I don't follow that.

MR. SHAVELSON: In other words, since the production in the Wilmington Oil Field is much greater than that in the Huntington Beach Field, then the absolute quantity represented by one per cent of the Wilmington Field would be much greater than the absolute quantity represented by one percent of the Huntington Beach Field.

MR. SIROTNY: Except you mentioned, it has been stated, that we are talking in terms of twenty thousand barrels a day.

MR. SHAVELSON: No, no -- for a whole month.

MR. SIROTNY: Twenty thousand barrels a month still sounds like a sizable quantity, which is one point. The second question I'd like to raise: You are using as a standard the majority buyer, the price paid by the majority buyer in the field.

MR. HORTIG: The highest price ....

MR. SIROTNY: What do you mean by "majority buyer"?

MR. HORTIG: Well, the purchase of the majority oil, rather than relating it to the price being offered by a minority
buyer and whether that minority buyer is substantial; in other words, the highest price paid for more than fifty per cent of the oil.

MR. SIEROTY: How many purchasers would there be within that majority?

MR. HORTIG: Well, this varies; some fields have as few as one operator posting; some fields have actually no operators posting, in which event the price is determined by the Commission in relation to what is being offered by majority buyers in adjoining fields processing the same quality of oil; and there are some fields where there as much as seven operators posting.

MR. SIEROTY: Isn't there a danger if your majority is one buyer? If one buyer buys fifty per cent of the oil in the field, isn't there danger?

MR. CHAMPION: We are getting away from the problem because essentially we are talking about an existing contract, which is quite different from the Long Beach proposal we are going to make. We are talking about the conditions in the Long Beach contract and we propose they will be different than this. We are trying to deal here with wording we would not approve in an existing lease. So the two things don't go together.

MR. HORTIG: We are taking care of a situation which existed, but which no longer exists actually, simply to dispose of this past problem. It could recur, but ....
MR. CHAMPION: We are setting no precedent here for anything else we may do.

MR. SIEROTY: Let me relate this question to this particular situation. You have mentioned Standard Oil's price as a gauge. Now, does Standard Oil buy fifty per cent or more of the production in this field?

MR. HORTIG: Yes, higher than that.

MR. SHAVELSON: It is about ninety-nine per cent or ninety-eight per cent of the production. This is my recollection. In other words, some companies take their own production and about seventy-five per cent of the total production of the field is my recollection. So it is the overwhelming quantity involved.

I might say that for the greater portion of this amount that's due we are applying the price posted by the small company; and as I pointed out before, even if in any litigation we got over the hurdle of substantial quantity, we have this other issue, which is equally difficult, and I think taking both together a compromise settlement like this is best for the State and does not establish a precedent. As Mr. Champion pointed out, in a transaction like the Long Beach Unit, we specifically define substantial quantities; but in these, it is not defined at all so we would be left to the vicissitudes of legal opinion.

GOV. ANDERSON: It may not set a legal precedent, but doesn't it set a policy they can hang their hat on?
MR. SHAVELSON: I don't think so, Governor, because as far as the greater quantity is concerned we have applied the higher price posted by the Union Oil Company. In other words, taking the fraction, it would be 25/42 of the amount we are applying the Union Oil price to and only as to the remainder, 17/42, we are applying the Standard price. So I don't think we have committed ourselves at all to saying that the Standard price would determine it.

GOV. ANDERSON: I don't like it.

MR. CHAMPION: I have already moved.

GOV. ANDERSON: I don't want to second it.

MR. CRANSTON: I'll second the motion. You wish to vote against it?

GOV. ANDERSON: I won't make a fuss about it.

MR. CRANSTON: If there is no further discussion, two positive votes, one negative vote.

Next item -- Informative status report on legislation.

MR. HORTIG: Mr. Chairman, I should like to direct the attention of the Commission particularly to page 44 of the supplemental calendar item, and particularly with reference, first, to both Senate Bills 139 and Senate Bill 142 that are reported thereon. These are part of a series of nine bills for clarification of existing statutes, which were authorized by the Lands Commission to be introduced at this session for legislative consideration.

With respect to only Senate Bills 139 and 142 we
have received questions and requests from other public agencies for proposed amendments to these bills. In view of the fact that, in the first instance, 139 proposed to eliminate statutes which we have been informed are obsolete, it appeared that it would only add to the confusion to propose an amendment to what we considered obsolete legislation. Incidentally, that objection was raised by the Port Authority of the City of Oakland.

As to Senate Bill 142, the San Francisco Port Authority, in connection with our general discussions with them, proposed an amendment and would object to Senate Bill 142 only if they were exempted from the application of the act -- again complicating it.

In view of the fact that both of these were proposed to clarify, I believe we are in a better position to just let the statutes sit as they are, rather than amend them at this time; and, therefore, recommend that the Commission approve that we do not proceed with the processing of Senate Bills 139 and 142 and the staff will continue the discussions with the agencies who raised questions to see if a clarified form cannot be developed for introduction without objection at the next session of the Legislature.

MR. CHAMPION: I move authorization of the staff to proceed on that basis.

GOV. ANDERSON: Second.

MR. CRANSTON: Moved, seconded, made unanimously.
MR. CHAMPION: May I ask the status of S.B. 298?
As I understand the new report which the Special Senate Research Subcommittee obtained yesterday, it indicated approval of S.B. 298 - Rees.

MR. HORTIG: Actually of the intent, in terms of suggesting the possible desirability of having the State's lands committed to a unit before the entire operation is offered for the very first bid; so in principle this supports the intent of S.B. 298.

MR. CHAMPION: Would you take what the report said or the reaction to it as making it possible to proceed with the enactment of S.B. 298?

MR. HORTIG: It would be helpful to it and this, I must assume, is one of the considerations which went into the fact that yesterday S.B. 298 was deferred from committee consideration until next Wednesday.

MR. CHAMPION: But it is set for next Wednesday.

MR. HORTIG: All of the other bills remaining on the list authorized by the State Lands Commission are in various stages of committee approval and none of the other bills have drawn a single objection from any agency or private party.

MR. CRANSTON: How about A.C.R. 64 -- Speaker Unruh's study?

MR. HORTIG: It has been amended to broader scope and it is still under study as it was amended.

MR. CRANSTON: Does that have to be amended before
it goes to the Senate?

MR. HORTIG: It has not to my recollection been through any Senate committee.

MR. CHAMPION: I'd like to raise a question in connection with this general subject. We have the memorandum report that we asked the staff for on the bills affecting tidelands, turning them over to local jurisdictions, and it is very clear that there are so many different proposals with conflicting policies there seems to me, at least, to be a need for a general policy on the terms that the Lands Commission would recommend these, accept these, and pass these on an individual basis -- with increasing interest in taking over the revenues in some cases.

In some cases it is just a grant; in some cases they want to take certain of the revenues. I'd like to propose that the Commission direct its staff during this time to work on a study -- there is no such proposal before the Legislature but I would hope there would be one -- that there be an interim study on turning over tidelands to local jurisdictions; and that the staff work on the Lands Commission's position to present to such an interim study. Whether this can be done in this session -- It is pretty clear many of these are going to bog down in the rest of the session and such a study would give us a chance to study these carefully.

Looking over the list, I was surprised to see the policies listed under some of those proposed grants.
GOV. ANDERSON: Are they being handled altogether by the same committee?

MR. CHAMPION: Unfortunately not; they are all over the landscape.

MR. HORTIG: Generally this is true. Generally, they go to the Senate G.E., but in the Assembly they are apt to pop up anywhere.

MR. CHAMPION: I don't think this can be established at this time; but those that are deferred, we ought to get to work on a policy.

GOV. ANDERSON: How many are we talking about?

MR. HORTIG: I think fifteen.

GOV. ANDERSON: Fifteen different communities with different proposals?

MR. HORTIG: Some of them are rather far-reaching -- as, for example, all the tide and submerged lands including all the State Lands Commission existing leases in an entire county, a county with an extensive waterfront.

MR. CHAMPION: Then we have this other proposal that they take over one per cent of all revenues from tidelands and use them for really not a very fixed purpose -- a kind of open purpose; So, in effect, it is an open appropriation to be used almost at the discretion of the community -- even though this is being handled through the State, which is bad budgeting so far as I am concerned.

MR. SIEROTY: Mr. Chairman doesn't this also affect
the Beaches and Parks program throughout the State? Would we
want to include them on the study?

MR. CRANSTON: That gets to allocation by the State
itself of the revenue, which is certainly a legal question.

MR. HORTIG: Additionally, as to the availability
of the lands for recreational use under the jurisdiction of
the State Division of Beaches and Parks as against local auth-

ity after a grant.

MR. CRANSTON: Do you want to concur that there be
a general study -- staff study of a Commission policy? I
think that can be our decision without a formal motion.

Do we have a supplemental item?

MR. HORTIG: Yes, a supplemental item on page 55
of your agenda, gentlemen; and, as pointed out, the United
States had -- in an area which was currently under lease or
had been under lease from the State, with the lease expiring
June 30, 1962 -- an area which had been designated as a camp,
which has been upgraded to a fort, a permanent facility.

The Army Engineers, as real estate agent for the
Army, would desire to obtain fee title to the said lands in
the area through the negotiation of an exchange through the
Department of Interior, Bureau of Land Management. This, as
the Commission is aware, is a time-consuming process and in
the interim an offer has been made for the payment for the
fiscal year of a rental of $21,120 -- which is based upon
actual appraised value, as against the prior rental which had
been determined in 1951 under then existing appraised values and rental schedules of the Commission at only thirteen hundred dollars.

Additionally, we have underway a re-appraisal because of the rapid appreciation of values in the area, which would be applicable to future lease rentals during the period of time these exchange negotiations are being consummated; and it is the opinion of the staff that the offer of $21,120 for the lease rental for the year should be accepted, because it appears fair and equitable, and next year we will be back to the Commission with discussion for rental rates to be applicable during that year and ensuing years until such time as the negotiation for exchange of lands could be consummated.

GOV. ANDERSON: How long would this take? Wouldn't it be to our advantage to make this transfer?

MR. HORTIG: This transfer isn't under our control as far as time is concerned, Governor. It depends upon the Bureau of Land Management of the Department of Interior and how fast the U. S. Army Engineers can convince the Bureau. The normal exchange transaction or lieu selection transaction on whatever application before the Commission now takes an average of thirty days of processing in State Lands Division and State Lands Commission -- possibly not in excess of forty-five days before it is in Washington, D.C.; and it is then processed in Washington in an average now of five to six years.

GOV. ANDERSON: I am in favor of it.
MR. CHAMPION: Second.

MR. CRANSTON: Approval moved, seconded, made unanimously.

GOV. ANDERSON: I'd like to see us do it as fast as we could, so that we get something in exchange that is worth while.

MR. CRANSTON: I believe we are ready for the final item, which is 14 -- Reconfirmation of date, time and place of the next Commission meeting -- Thursday, June 27, 1958 at 10:00 a.m. in Los Angeles. There being no further business we now stand adjourned.

ADJOURNED 11:25 a.m.

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REPORTER'S CERTIFICATE

I, LOUISE H. LILLICO, hereby certify that the foregoing fifty-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 at Sacramento, California on May 23, 1963.


[Signature]

LOUISE H. LILLICO