REPORTER'S TRANSCRIPT

Meeting of The

STATE LANDS COMMISSION

of the

STATE OF CALIFORNIA

Held on Wednesday, November 6, 1963, 10:00 A.M.

AT LOS ANGELES, CALIFORNIA

Room 1138 State Office Building
107 South Broadway

PARTICIPANTS

STATE LANDS COMMISSION:

HON. HALE CHAMPION, Director of Finance, CHAIRMAN
HON. GLENN M. ANDERSON, Lieutenant Governor, MEMBER
HON. ALAN CRANSTON, State Controller, MEMBER
Staff: MR. ALAN STEROTY, Executive Secretary to
the Lieutenant Governor
MR. F. J. HORTIG, Executive Officer
MR. F. W. KREFT, Assistant Executive Officer
MR. KENNETH C. SMITH, Public Lands Officer

OFFICE OF THE ATTORNEY GENERAL:

MR. HOWARD S. GOLDIN, Assistant Attorney General

APPEARANCES:

MR. R. F. KARSHNER, Shell Oil Company
MR. DELBERT J. SARGENT, Niland, California
MR. DAVID E. PIERSON, Director of Public Works,
Imperial County
MR. ORLANDO B. FOOTE, County Counsel, Imperial County
MR. HAROLD LINGLE, Deputy City Attorney, Long Beach
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CHAIRMAN CHAMPION: The meeting will please come to order.

First order of business is Minutes of the last meeting. What is the pleasure of the Committee?

MR. CRANSTON: Move for approval.

GOVERNOR ANDERSON: Second.

THE CHAIRMAN: Minutes to stand approved.

Item 3, permits, easements, and rights-of-way to be granted to public and other agencies at no fee, pursuant to statute. Consideration is the public benefit.

(a) Delta Telephone and Telegraph Company - Easement, 0.13 acre tide and submerged lands of Sacramento River, Sacramento County for construction and maintenance of submerged telephone cable.

(b) Parker Valley Telephone Company - Easement, 10 feet wide and 510 feet long, across Colorado River, San Bernardino County for overhead telephone cable.

GOVERNOR ANDERSON: Are these public agencies?

MR. HORTIG: No, sir. They are telephone corporations.

GOVERNOR ANDERSON: Both of them? Is it our policy to grant them easements like that at no cost?

MR. HORTIG: It is not policy, Governor. It is prescribed by the statutes in the Public Utilities Code that telephone and telegraph companies are entitled on
application to receive easements.

GOVERNOR ANDERSON: Do they determine the size of this?

MR. HORTIG: No, sir. The staff of the State Lands Division does, holding these to a minimum for practical operation for the purpose for which the lands are sought.

THE CHAIRMAN: Do we have any authority to determine conditions, such as whether it should be overhead or underground, or --

MR. HORTIG: Generally no. This is determined by one of the two concepts. In some areas where planning commissions and zoning are applicable, this is determined by local authority, and in the case of these two applications and the location across desert areas immediately adjoining the Colorado River, there has been no question of application.

THE CHAIRMAN: I didn't mean to raise the question. I was curious about that.

MR. HORTIG: Additionally, the other one that determines overhead crossing on navigable waters it determines, the U.S. Army Corps of Engineers, that this is sufficient navigation clearance, which has been determined in both of these instances by the Corps of Engineers.

THE CHAIRMAN: I was just raising an academic question. If we wish to say for other reasons that bother this case -- and I don't know of any reason to do so -- that we wanted a cable underground, could we insist on a cable underground? Otherwise it doesn't seem to me that there is any reason for
us to pass on these. It is just a formality required by the Code.

MR. HORTIG: It is authorized by the Code, but it is desirable that they be passed on for a record of occupancy, as to a record of occupancy of State Lands.

THE CHAIRMAN: (c) Parker Valley Telephone Company - Easement, 10 feet wide and 655 feet long, across Colorado River, Riverside County for overhead telephone cable.

(d) United States Army, Corps of Engineers - Permit to dredge approximately three million cubic feet of beach-fill material from Anaheim Bay, Orange County, from November 1, 1963, to July 31, 1964 beach erosion control project.

(e) United States of America - Life-of-structure permit for deposition of three million cubic yards of beach fill material on 280 acres tide and submerged lands at Surfside and Sunset Beach, Orange County for protection of Orange County shoreline from Anaheim Bay to Newport Beach.

GOVERNOR ANDERSON: I so move.

MR. CRANSTON: Second.

THE CHAIRMAN: Stand approved.

Item 4, permits, easements, leases, and rights-of-way issued pursuant to statutes and established rental policies of the Commission.

(a) Arizona Public Service Company - 49-year easement, 0.33 acre submerged lands of Colorado River, San
Bernardino County for construction and maintenance of overhead wire crossing. Total rental, $306.25.

(b) R. H. Emmerson & Son - Acceptance of quitclaim deed covering parcel of tide and submerged lands of Mad River Slough, Humboldt County, under expired Lease P.R.C. 1970.1.

(c) John A. Fitzgerald - 1-year renewal of Lease P.R.C. 595.1, 0.378 acre tide and submerged lands of Middle River, San Joaquin County used as a fishing resort. Annual rental, $150.00.

(d) Howard Hunt and Adam Natalie, partners - 2-year prospecting permit, 94.127 acres vacant school lands, San Bernardino County, for all minerals other than oil and gas, at standard royalty rates.

(e) William I. Moore - 5-year grazing lease, 13,830.66 acres school lands, San Bernardino County. Annual rental, $207.46.

(f) Pacific Gas and Electric Company - 49-year easement, 0.25 acre tide and submerged lands of Burns Cut-off, San Joaquin County for construction and maintenance of overhead wire. Total rental, $1,150.03.

(g) Occidental Petroleum Corporation - 15-year subsurface easement, 36 acres tide and submerged lands of New York Slough, Contra Costa County to drill for gas under Browns Island by directional drilling. Annual rental, $476.64.
(h) Phillips Petroleum Company - 49-year easement, 7.774 acres tide and submerged lands of Santa Barbara Channel, Santa Barbara County for submarine flow lines from Well No. 4, State Oil & Gas Lease P.R.C. 2933.1. Annual rental, $220.84.

(i) Phillips Petroleum Company - 49-year easement, 5.636 acres tide and submerged lands of Santa Barbara Channel, Santa Barbara County for submarine flow lines from Well No. 5, State Oil & Gas Lease P.R.C. 2933.1. Annual rental, $160.10.

(j) Phillips Petroleum Company - Deferment of drilling requirements under Oil & Gas Lease P.R.C. 2207.1, Santa Barbara County, through June 21, 1964 to allow time for studies to determine whether further drilling is justified.

(k) San Clemente Sportfishing, Inc. - 5-year minor-structure permit, 8 acres submerged land in Gulf of Santa Catalina, near San Clemente Municipal Pier, Orange County for mooring buoys for commercial sport fishing and charter boats. Annual rental, $240. To replace permit that expired March 4, 1962.

(l) Shell Oil Company - Geophysical exploration permit for period October 24, 1963, through April 23, 1964 --

MR. HORTIG: Mr. Chairman?

THE CHAIRMAN: Yes.

MR. HORTIG: May I interrupt? The application for
geophysical exploration permit is requested to be deferred for consideration at this meeting, for the reason that legal questions had been raised as to the applicability of existing geophysical exploration permits heretofore issued by the State Lands Commission. Under those circumstances the staff feels that the Lands Commission should not consider issuance of additional permits in the same form as --

THE CHAIRMAN: Have the applicants agreed to defer this to another meeting?

MR. HORTIG: No, sir.

THE CHAIRMAN: Why don't we hold this and take it up after we go through the rest of these items then, give the applicants a chance to say. For the moment let's not consider that then under Item 4. We will take it up again after we have discussed the other items.

Charles Vogel - Assignment from Nancy H. Helmers of Lease P.R.C. 682.1, covering Ark Site No. 11, Corte Madera Creek, Marin County.

(n) Signal Oil and Gas Company - Execution and issuance by Executive Officer of an "Amendment and Modification of Exchange Oil & Gas Lease 392.1 P.R.C. Secondary Recovery" providing for establishment of royalty rate for "secondary oil" resulting from water-flood operation, as authorized by Sections 6830.1, 6830.2, and 6830.3 of the Public Resources Code added by Chapter 979/61.
GOVERNOR ANDERSON: Could you develop this last one a little bit? Is this the first time we have established policy on this type of thing?

MR. HORTIG: This is correct, sir. This is pursuant to the first application under statutes of 1961, which for the first time authorized the operation under the State Oil & Gas Leases in the form here proposed.

If I may give to the Commissioners charts which may be helpful, a very brief summary under existing State Oil & Gas Leases, all of which have now been issued, pursuant to competitive public bidding, and all of which require a sliding royalty scale determined by the rate of production from a lease. In other words, there is a minimum royalty specified. In the subject lease under consideration the statutory minimum was 12-1/2 per cent, and this is specified in the contract, and a sliding scale on above 12-1/2 per cent whenever the production exceeded something on the order of 80 barrels per day per well average. No ceiling specified, but the practical effect of the sliding royalty scale in this particular lease is such that in all probability no wells would ever be developed that would produce a calculated sliding royalty scale in excess of 50 per cent. At the time this lease was issued in 1938 there had been no active development of any so-called secondary recovery or water flooding projects. The basic theory is simply that after a field has reached a particular
time in its life it can be determined to probably be economical to inject salt water or other solutions under pressure into the formation where the oil remains, and wash out or sweep out oil which might otherwise remain underground and not be pumped up by the normal or primary oil recovery processes. This feature of artificial stimulation or augmentation of production is the feature that is classified as secondary recovery, or secondary production. Inasmuch as such a secondary recovery operation, which in this instance will be conducted at the sole cost of the lessee, inasmuch as this is an oil and gas lease where all operating costs are borne completely by the lessee, the secondary recovery operation will be the cost to the lessee and will also, when it is put into effect, result in a stimulation of the production rates from the wells that are in existence under this lease. This artificially stimulated rate of production under the existing lease terms and conditions would have to be used to calculate the royalty rate. In other words, under -- prior to 1961 an operation of this type would have had to be undertaken by a lessee under conditions where he not only invested the money to secure the stimulation of production and to produce additional oil which would not ordinarily be produced, both for the benefit of the lessee and the State. But because of having undertaken the operation and increased the production rate, he would also have to pay a higher
calculated penalty oil rate, the double burden, economic burden, of a higher oil royalty rate, and the capital costs in operating costs of a secondary oil operation don't ordinarily result in a condition where such an operation can be undertaken.

In 1961 the legislature modified the Public Resources Code to provide that, with the approval of the Lands Commission, modification agreements can be entered into with respect to any existing State Oil & Gas Lease, whereunder the lessee will pay the calculated royalty rate that would have been applicable had the lease produced under primarily oil recovery procedures, and pay a royalty on the additional secondary oil recovery, the stimulated augmented production, at a rate not less than the minimum royalty rate specified in the lease.

As I stated previously, the minimum royalty rate in this subject lease is 12-1/2 per cent. Under the proposal and the modification agreement that is before you and as shown on the first chart in the folder I just handed to you, it would be proposed that the balance of the primary oil, which is shaded in yellow on the upper chart, which would under normal lease operations be produced at royalty rates ranging from approximately 15 per cent, if this operation is undertaken starting in January, 1964, down to 12-1/2 per cent minimum, with a weighted average royalty rate applicable during that period of 13.19 per cent.
The proposal of the lessee, and this has been reviewed as to the economics, the technical feasibility, by the staff of the State Lands Commission, and as to legality of the proposed amendment agreement by the Office of the Attorney General, the proposal would be to produce that same unrecovered primary oil, shaded in yellow in the upper diagram and also in the lower diagram, in a shorter period of time at the same weighted average oil royalty rate, and ranging again between approximately 15 per cent down to 12-1/2 per cent, and thereafter pay the average weighted royalty rate that would have been applicable to the primary oil for the remaining oil which will be truly secondary recovery oil, which has been recovered simply because of the injection of salt water.

Under the proposed operation by our lessee, it is proposed that this weighted average royalty rate, and this weighted average royalty rate is offered by our lessee as being an equitable oil royalty rate, on oil that the State would otherwise not have any interest in because it would not be produced but for the secondary operation, and proposed to pay the same weighted average oil royalty rate as they will pay on the remaining primary oil. Inasmuch as this 13.19 per cent is in excess of the minimum required by the statute, which is the 12-1/2 per cent, the proposed amendment and authorization for this operation is recommended.

GOVERNOR ANDERSON: Why do you say they would not produce
that? Wouldn't they have ordinarily waited until the field depleted itself, and then used the secondary recovery procedure to get that additional oil out at that time without having to pay a higher rate?

MR. HORTIG: Not ordinarily, Governor, because actually the farther down toward the economic limit in a field on primary recovery, the less efficient secondary recovery becomes, and therefore, having waited until the point you suggested, at which time the average oil royalty rate would have been a minimum on primary oil on 12-1/2 per cent, it is estimated that waiting and initiating secondary recovery at that time would result in less future barrels recovered, although admittedly at a lower oil royalty rate, and the interest, of course, of lessees and the State is to achieve the maximum barrels recovered, and the --

GOVERNOR ANDERSON: Well, then --

MR. HORTIG: The additional barrels which will be recovered by starting the project at this time is of economic advantage to the lessee to the point where the lessee is willing to pay it, the higher average royalty rate for those barrels, rather than wait to the point of having reached the minimum royalty rate which would be applicable to a lesser number of barrels in the future.

GOVERNOR ANDERSON: What has been the practice then up to the present time? Have they just not utilized secondary recovery in many cases and just let it -- under the new law,
the point, what it has been in the past?

MR. HORTIG: There have been no secondary recovery operations on any oil and gas lease.

GOVERNOR ANDERSON: They have just abandoned the field, is that it?

MR. HORTIG: No. We have had no abandonments of field, except one instance, a field which was started to be developed actually in 1896 and went off production in about 1940, but on the newer leases and including this, as a pioneering lease under the State Lands Act, indeed this was the first lease issued under the State Lands Act by the State of California in 1938, this being the first lease, and it has not been abandoned and is still on production. It is also proposed that this be the first lease where secondary recovery will be applied. This was not economically feasible until the statutes were amended in 1961.

GOVERNOR ANDERSON: I am not clear. Do you mean there haven't been abandoned wells because they ran down on their production and just dropped them at the time; recovery might have stepped in at that time and taken over?

MR. HORTIG: They have not been abandoned leases that were issued by the State Lands Commission under the State Lands Act.

GOVERNOR ANDERSON: How about in private operation where they have not been by the State?

MR. HORTIG: In private operation there have been some
secondary operations of various types, primarily experimental, not a major field that is under secondary recovery, full secondary operation, I believe in California to date, although there is more experimental work.

GOVERNOR ANDERSON: What do they do when they are dealing with the State? Do they develop their secondary recovery at the same time like you are suggesting here?

MR. HORTIG: Yes, sir. Well, we now have facing the Commission a total range of both, primarily privately owned fields, fields owned in fee by private sources that have been abandoned where no secondary recovery operations were ever tried. We are in that stage in development of oil fields in California, where various experimental types of secondary recovery operations are in effect and being tried in various again privately owned fields. We have the application for secondary recovery for the first State tideland lease before you today, and in connection with the proposed East Long Beach unit development, the City of Long Beach proposes a method of operation there where in effect secondary recovery would start on the day that primary recovery starts.

GOVERNOR ANDERSON: Subsidence is involved in that, but you are setting a policy here that could deal all over the State, where subsidence wouldn't, wouldn't necessarily be a question.

MR. HORTIG: This is correct. And subsidence is not
necessarily involved in the Long Beach situation, but the argument is presented and can't be gainsaid, that if it should be involved, then if pressure maintenance is the method of forestalling it, then it will be forestalled by starting the pressure maintenance or secondary recovery at the late that the primary recovery starts.

THE CHAIRMAN: No, it is my understanding that it was the development of this situation which led to the new statute, to the new authorization.

MR. HORTIG: The development of which situation, Mr. Chairman?

THE CHAIRMAN: Well, the fact that we were entering this period.

MR. HORTIG: That is correct.

GOVERNOR ANDERSON: Which period is that?

THE CHAIRMAN: This period in which we would begin to have application of secondary recovery -- that they were not proceeding with this in the absence of legislation -- made it possible, or economically feasible.

Is there any further question, comment on these items?

MR. CRANSTON: I move approval with the exception of the item numbers withdrawn.

THE CHAIRMAN: With the exception then of Item -- I think it was (1) under 4, Mr. Cranston moves approval.

GOVERNOR ANDERSON: I will second it, but I would like
the staff to get me a little more information on how this is going to work, in both private and public development. We are setting a policy here that can be pretty far-reaching, I think.

MR. HORTIG: I think the crux of the matter, Governor, is that if you'll refer to that first graph sheet there, the oil that is shaded in green is oil that would never be produced under this lease but for approval of the project by the State Lands Commission in the form in which it is before you, that oil would irrevocably remain underground and would never come out.

GOVERNOR ANDERSON: Well then, you are assuming then that these newly experimental secondary recoveries of previously abandoned wells are not going to bring anything out of there, or bring out as much as you would --

MR. HORTIG: I don't believe I stated that the new applications of secondary --

GOVERNOR ANDERSON: You mentioned that there was experimental secondary recovery now being started by private concerns in --

MR. HORTIG: That is correct.

GOVERNOR ANDERSON: -- in previously abandoned wells.

MR. HORTIG: I am afraid to telescope things, I tried to state that we had fields which had been abandoned on which no secondary recovery attempts had ever been made. There have been some fields that are approximately in the
same age relationship, same age relation to their total production as this State tidelands lease is, where private interests are trying various types of secondary recovery operations, including the salt water flooding type of operation which is here proposed. And then finally we have under consideration what may be an ultimate of secondary recovery, but operation data alone will tell whether it is economically desirable to, in effect, start secondary recovery concurrently with primary recovery, even in areas where there may be no threat of subsidence.

GOVERNOR ANDERSON: Well, these present private attempts then, I think in the second group we are talking about, to work in the fields that have been abandoned or that have been depleted, you are assuming then they are not going to be successful, or they could do the same thing in here and get the amount that you expect to get out of successful secondary recovery here.

MR. HORTIG: Well, the group where operations are being conducted experimentally and hopefully economically successfully are in fields where it is expected about the same type of results will be obtained as they are expected to be obtained under this particular State lease. These are not --

GOVERNOR ANDERSON: So we would get this if you didn't adopt this policy, and they start a secondary recovery at that time?
MR. HORTIG: No, but if you don't adopt this policy, Governor, pursuant to the law there will be no secondary operations ever attempted, because the lessee cannot without this amendment economically justify a secondary recovery operation. They can't afford both the capital cost and the penalty royalty rate which would be assessable due to their own efforts, if their lease is not amended in accordance with the statutory authorization.

GOVERNOR ANDERSON: We are not talking about the same thing.

MR. SIEROTY: Mr. Chairman, may I ask a couple of questions?

THE CHAIRMAN: Yes indeed.

MR. SIEROTY: Try to clarify something. I understand that - is this correct, Mr. Hortig, that that statute under which this modification is proposed, this 1961 statute refers only to situations where secondary recovery is proposed by the lessee?

MR. HORTIG: That is correct.

MR. SIEROTY: In other words, there is no modification proposed until the lessee wants to engage in secondary recovery?

MR. HORTIG: That is correct.

MR. SIEROTY: Now what we do is to take the average royalty that would be received, as the lessee, had the lessee not engaged in secondary recovery, is that correct,
and take that, that royalty rate and we apply that to both, in this modification proposed, to both the recovery under primary and secondary recovery?

MR. HORTIG: Actually we collect for the primary oil the same royalty rates that would have been collected had secondary recovery not been employed, and then take the average of that and apply it to any secondary recovery oil, which by definition is oil that would not have been recovered at all but for the initiation of the secondary recovery project, at the cost of the lessee, and thereby receive --

THE CHAIRMAN: I think Mr. Hortig is just agreeing with you. I don't think there is any difference.

MR. SIEROTY: Right, I think that's correct.

Now the problem comes as a result of this water flooding, the primary recovery is condensed into a shorter period of time, and the rate of recovery is, rate of production is higher, so that a higher royalty rate would have applied ordinarily under the existing lease?

MR. HORTIG: Right.

MR. SIEROTY: But this modification allows for that recovery to come quicker than ordinarily would be done if there were no secondary recovery, and the same royalty, the same total royalties would be received by the State for the primary recovery as if it went over a period of many, many years.
MR. HORTIG: This is correct. And in addition thereto, royalty on secondary oil which would not ever be recovered but for the initiation of the additional operations at the cost of the lessee, cost to the lessee.

THE CHAIRMAN: Are there any further questions on this item? Mr. Cranston has moved, and Governor Anderson has seconded approval of all the items under 4 with the exception of (1); they will stand approved unanimously.

Now let's turn again to the item which I did not finish reading. We will put it before the Commission in order to take up the discussion. Shell Oil Company - Geophysical exploration permit for period October 24, 1963, through April 23, 1964, on tide and submerged lands of Sacramento River and Suisun Bay including Grizzly and Honker Bays, Montezuma Slough, Middle Slough, New York Slough, and other adjacent bays, sloughs, and rivers, in the counties of Napa, Contra Costa, Sacramento, San Joaquin, and Solano.

Now, as I understand it, Mr. Hortig has recommended on behalf of the staff that we defer this for a later meeting subject to -- because we have had, we are now having problems on what legal obligations there are on the company, and there are other permits of this kind, and until that dispute is settled you don't wish to take this one up; is that the staff position?

MR. HORTIG: That is the staff position, Mr. Chairman.
THE CHAIRMAN: Is there a representative of Shell Oil who would like to speak on this, for this question?

MR. KARSHNER: Yes, sir. Mr. Chairman, Commissioners, my name is R. F. Karshner, representing Shell Oil Company in this matter. I'd like to point out that our refusal order, if you recall, was not based on a matter of being noncooperative, but to avail ourselves of an opportunity to present to you for consideration a modification which we think would be acceptable to you and certainly to us. On September 20th --

THE CHAIRMAN: Has this been discussed with staff, or is this a new proposal at this time?

MR. KARSHNER: Well, it was briefly discussed, discussed with Mr. Hortig.

THE CHAIRMAN: I see. Excuse me.

MR. KARSHNER: Certainly. We made an application on September 20th for this permit. The request for permit was reviewed by the staff and presented on the items of the calendar as Item number 11 in your full situation, with a recommendation for approval.

Subsequent to that we obtained a Fish and Game permit. There were no objections raised by any county agency regarding this permit, and we were advised yesterday that due to a problem arising on a permit which we now have in existence for geophysical work in the coastal area from Point Conception north to the California-Oregon border, that
this permit would have to contain the same provision. We would like to offer to you the --

THE CHAIRMAN: Same provision as what, as the one in dispute?

MR. KARSHNER: As the one in dispute. We are setting up to proceed with our operations, and we would like to consider a modification of the provision in question, which would conform with the statute Section 6826 of the Public Resources Code, and which we believe would satisfy you and certainly be acceptable to us, and with your permission I'd like to show you what that is, if I might.

THE CHAIRMAN: Fine. Would you also provide staff with a copy of it. Is there only one copy?

MR. KARSHNER: Well, I had three, but I have to give one to the staff, and here's one for the chairman. Frank, this is the permit that is in question. We have here a geophysical exploration permit for California, from Point Conception to the California-Oregon border. In this permit under section twelve is a provision that calls for the provision to the State Lands Commission staff certain information when they call for it, predicated -- with the sole purpose of its determination of whether the area or any portion thereof embraced within the permit lie within the known geological structure of producing oil and gas field. This is the provision, and this is the permit, sir, that is in question at the moment. We would like to have you
issue us a permit on the application before you, eliminating
the controversial language so that we can proceed with our
work, and this would qualify under the statute of the
Public Resources.

THE CHAIRMAN: In other words, you are asking us to
change our policy with respect to acquiring this geological
information?

MR. KARSHNER: Well, in a sense this is true. The whole
question at the moment is whether the bottom portion of this
provision is a -- what we again said ourselves, and the
State Lands Commission --

THE CHAIRMAN: I don't think the elimination of the
requirement really settles the discussion.

MR. KARSHNER: Well, it does not eliminate it, sir.
It allows the issuance of the permit. This is not a
condition which is really to our benefit and not yours.

MR. SIEROTY: We can't hear very well.

MR. KARSHNER: I'm sorry.

THE CHAIRMAN: Mr. Hortig?

MR. HORTIG: Mr. Chairman, I believe I can summarize,
and Mr. Karshner --

THE CHAIRMAN: Well, let's let the Shell representative.

MR. KARSHNER: Well, we feel that you may consider
this whereby we can eliminate the controversial part in the
permit to be used, and we can go forward with the work. We
do not feel that this would be detrimental to the State of
THE CHAIRMAN: Mr. Hortig?

MR. HORTIG: The staff position there, the point that Mr. Karshner has made, is that there is not a universal understanding as to what the permits include, and therefore it appears that the only feasible and desirable method for clarification is to have complete review of the legal questions which have been raised by Shell Oil Company, and a presentation to the Lands Commission of any necessary modifications on permits to be issued in the future.

THE CHAIRMAN: I think it would be helpful to the Board if we knew of the character or at least the nature of the argument. What is the point, the simple point at issue in this dispute?

MR. HORTIG: The central point at issue is simply that the statute requires that the lessee, the permittee, shall make available for inspection all factual and physical exploration results, logs, and records resulting from operations under the permit for the confidential information of the Commission. And permit forms as originally adopted by the Commission included the additional language which Mr. Karshner has suggested for the purposes of this one permit be dropped out, but which is in existing permit, but which may or may not be of any legal effect, inasmuch as this language, the statutory basis for the language was actually amended out of the statutes in 1957; so therefore
we are faced with a legal question, whether these words are applicable in the manner which Shell contends, in that Shell Oil Company has refused the Lands Division access to geologic information, seismic information which has been obtained under existing permit.

THE CHAIRMAN: They have refused it?

MR. HORTIG: Yes, sir.

MR. KARSHNER: Excuse me, I don't believe that's quite true, sir. We have had a request to provide certain data, and we in examining the permits and regulations have it under consideration as to whether we are actually required to do so, in the light of language that appears in the permit itself.

MR. HORTIG: If I may quc’ve --

THE CHAIRMAN: In other words, let me try to get through my point here. You are saying that your real question is, then, whether the information you are being asked for is for the sole purpose described here, for the sole purposes of determining whether the permit lies within the known geologic structure. The question is, you are raising the question in your argument on this point to the staff, as to whether they are asking for that information for this sole purpose, or as to whether this information goes beyond what it would need to know for this sole purpose?

MR. KARSHNER: That is correct.
THE CHAIRMAN: Then it would seem to me that your presentation actually does not -- would really leave the Commission, would leave the situation harmless as far as the Commission is concerned. In other words, this is a limiting factor upon the Commission, not upon the company. Do I follow this right, Mr. Goldin?

MR. GOLDIN: What I was checking, Mr. Champion, was the provisions of the California Administrative Code which embody the rules and regulations of the Commission, and I notice that Title II, Section 2100, subdivision (f) recites -- I am trying to find the specific section. It is subdivision (g) which says "Prior to the issuance of any permit under this section, each prospective permittee is required to accept in writing all terms, conditions, and provisions thereof." And the preceding subdivision (5) says "The Commission reserves the right to inspect and, upon demand by the Commission, the permittee shall make available for such inspection, all factual and physical exploration results, logs, and records resulting from the operations under the permit, for the confidential information of the Commission for the sole purpose of its determining whether the areas or any portion thereof embraced within the permit lie within a known geologic structure of a producing oil or gas field."

MR. HORTIG: May I call your attention, Mr. Goldin, and Commissioners, to the fact that the section which you
read applies to geological survey permits, and we have
under discussion a geophysical exploration permit for which
there is no comparable or corollary rule and regulation.
Again, this highlights the situation, I believe, Mr.
Chairman, that we have legal questions as to what the
intent.

THE CHAIRMAN: Well, I recognize there are legal
questions. What I am trying to establish is whether or
not there is any jeopardy to the position of the Commission
or its staff in proceeding as the representative of Shell
has suggested, or whether it is simply a matter of your
not wanting to -- in other words, if the matter is going to
be settled on this other, and it would be settled in the same
terms here, are we involved in anything in holding up this
permit that enhances or detracts from our legal position,
or are we simply delaying it because we don't want to
enter another because we haven't got the old one settled,
a matter of pressure on the matter.

MR. HORTIG: Inasmuch as the amendment, information in
amendment was discussed for the first time at approximately
9:30 a.m. this morning with Mr. Karshner, we haven't been
in position to determine whether or not we would have any
additional legal problems as a result of amending one
permit for one purpose, while other permits have --
continue existence with this identical language and under
which we have received -- I must respectfully disagree with
Mr. Karshner --

THE CHAIRMAN: You said that you don't know whether this would hurt our legal position?

MR. HORTIG: I do not.

THE CHAIRMAN: What is your position? Do you have any further observations on the subject as to whether or not granting the permit under circumstances suggested by Mr. Karshner would in any way hurt the State's legal position?

MR. GOLDIN: Mr. Chairman, I do not know. I am of the opinion that the State has the right to insist upon such disclosure, but I cannot at this time venture an opinion on the specific question which you asked me. I simply do not know.

THE CHAIRMAN: Well, the answer is that certainly the State would be protected.

MR. KARSHNER: That may be true, Mr. Champion. However, the modification that we are asking here conforms with your own requirements.

THE CHAIRMAN: The problem is here, I think, that the staff has not had adequate time to handle this to make certain that our legal position would not in some way be harmed, and in the absence of such a determination I think it would be very hard for the Commission to grant your request. What is the --

GOVERNOR ANDERSON: Why don't we defer it, get together
at the next meeting?

MR. HORTIG: I recommend that.

MR. CRANSTON: I second your motion.

GOVERNOR ANDERSON: Did you get my motion, that it be deferred until the next meeting?

THE CHAIRMAN: That will be the order, then.

MR. KARSHNER: Thank you for your time.

THE CHAIRMAN: Thank you.

Item 5, selection of vacant federal lands, all in San Bernardino County, for the benefit of the State, under lieu land applications where applicants decided that they did not wish to proceed with acquisition of the lands.

(a) 100.00 - Charles Joseph Gosselin
(b) 584.07 - George McCarthy
(c) 38.14 - Ralph Gabriel Hurwit
(d) 157.81 - Nathan A. Bertram

What is the pleasure of the Committee?

GOVERNOR ANDERSON: I move approval.

MR. CRANSTON: Second.

THE CHAIRMAN: Stand approved.

Item 6, rejection of application filed by Delbert J. Sargent to acquire 130.125 acres Federal land in Imperial County; approval for return of all deposits to the applicant except filing fees; authorization for withdrawal of Exchange Application No. 65, Serial No. 0133945, filed with the U.S. Bureau of Land Management.
Lands in question being acquired by County of Imperial directly from U. S. Bureau of Land Management; that agency suggested that State withdraw its exchange application in order that the lands involved might be transferred to County of Imperial.

Do we have some appearances on this matter?

MR. HORTIG: Yes, Mr. Chairman, both on behalf of the State's applicant, Mr. Delbert J. Sargent, and for the County Council and Board of Supervisors of the County of Imperial.

THE CHAIRMAN: Do you have any staff comments to offer before these presentations?

MR. HORTIG: A brief summary as to the subject matter of the discussion. The State filed with the Department of Interior, Bureau of Land Management, an application at the request of Mr. Delbert J. Sargent to secure 130 acres of Federal land in approximately 1955, 1956. Actually this was a second application under different procedures as required by the Bureau of Land Management, the first application having been filed approximately in 1954.

GOVERNOR ANDERSON: Is that Mr. Sargent's first application, '54, some eight years ago?

MR. HORTIG: That is correct. Mr. Sargent has a development on the lands pursuant to an original authorization by the Bureau of Land Management, a permit or license,
and has a development of a tropical fish hatchery in connection with expansion of this development, in order to provide a fee title to himself to provide for financing, requested that these applications be filed in order that he might acquire title to the land.

Subsequently the County of Imperial acquired from the Federal Government directly lands adjoining the lands being sought by Mr. Sargent, and subsequent to that acquisition, and as of what date, Mr. Smith, was the purchase application for the remainder of the lands by the County of Imperial?

MR. SMITH: 1959.

MR. HORTIG: And as of 1959 made direct purchase application on behalf of the County of the remaining lands in the whole section that had not previously been acquired by Imperial County, including those lands being sought by Mr. Sargent since 1954.

GOVERNOR ANDERSON: When did the County first get involved?

MR. HORTIG: 1959.

GOVERNOR ANDERSON: That's their first entry into it?

MR. HORTIG: Yes. This matter has been discussed with the Bureau of Land Management, who have stated that in view of pending exchange application by the State, that all conditions of exchange applications under Section 8 of the Taylor Grazing Act be met. The Bureau of Land Management
feels it would be mandatory on the Bureau to approve the exchange application and deliver the lands to the State, which would subsequently be sold to Mr. Sargent. However, in view of the public application, the public interest and benefit by the County of Imperial, that the Bureau of Land Management would deliver the lands sought by Imperial County to Imperial County if the State withdrew its application for benefit of private sale. This then simply because the State Lands Commission is the agent to process applications under these statutes, has put the State Lands Commission in a situation where they are faced by a question of their applicant that they proceed with perfection of the application and sale of the land to a private individual, and the County of Imperial proposes to the Lands Commission that the Commission in the public interest should withdraw the application from the private interest in order to permit the County to perfect its application.

THE CHAIRMAN: If the State did not act, in this case to withdraw, would the Bureau of Land Management feel that it must go through with the exchange, and that eventually the land would go to Mr. Sargent; if the County still wanted it, it would then be in the position of having - having been there Mr. Sargent's property?

MR. HORTIG: That is correct.

THE CHAIRMAN: That's the alternative for the County.

MR. HORTIG: Right.
GOVERNOR ANDERSON: What kind of improvement does Mr. Sargent have?

MR. HORTIG: I think Mr. Sargent or his representative should reply to that.

GOVERNOR ANDERSON: What happens to the improvements; in other words, if we were to withdraw there and it became a property of the County?

MR. HORTIG: We can assume these would be conveyed to the County, and I think the County has explored this proposition and can report on it. There is a --

THE CHAIRMAN: Let's begin by hearing from Mr. Sargent, if he is present and ready to speak.

MR. SARGENT: Your Honorable Body, gentlemen, and The Press: we will continually refer to the calendar item

THE CHAIRMAN: Are you Mr. Sargent?

MR. SARGENT: Yes, yes. I'm sorry.

The calendar item, now referring to the calendar item, I stipulate that paragraphs number one, two and three are correct. They are history, and they reflect a correct history associated with the property.

Now referring to paragraph four, wherein it is stated - "For the past several years Delbert Sargent, the applicant, has had, under a Special Land Use Permit from the United States, a commercial tropical fish hatchery operation". Mr. Smith knows, or should know, that my
Special Land Use Permit has been in full force and effect for nine and a half years. The use of the word "several", is misleading. Continuing with paragraph number four, it says, "although it is the Staff's understanding that the United States Bureau of Land Management has refused to renew the permit in view of an expression of interest in the subject land by the County of Imperial". What investigation was made by the Staff to ascertain that I would not be given a new lease? The fact is that I have a new lease. Certainly if there was an understanding, why wasn't I consulted about this? Continuing with this same paragraph,"

THE CHAIRMAN: Excuse me. Are we talking about a lease or a permit? The language of the agenda uses "permit."

MR. SARGENT: Permit -- I'm sorry.

THE CHAIRMAN: All right.

MR. SARGENT: Continuing with this same paragraph it says, "Initially it was the applicant's wish to acquire fee title to the land --". The use of the word "Initially" by Mr. Smith is confusing. If you apply it to the many facts that are not before the Commission, you could be misled. The word "initially" should be stipulated to mean that it was my intention at that time, and it is still my intention. It should be understood that it is still my purpose, thru the application, to acquire these lands in fee title for the use in my business.
Referring to paragraph number five, wherein it says that the offered lands are within the exterior boundaries of Death Valley National Monument, I might add that this land is situated within a Constituted Grazing Area, and are, therefore, extremely desirable to the Bureau of Land Management in their consolidation program. Further, in this paragraph, it says, "No formal action has been taken by the Bureau of Land Management to indicate whether the State's application would be approved or disapproved." It is true that no formal action has been taken by the United States Bureau of Land Management; why is Mr. Smith taking one?

Referring to paragraph number six, it mentions my $20,000 investment; even so, if correct, requires some consideration from the State Department to see what is going on. In reality my investment is three times this amount on the property. The only one that I know that knows about my business is the Internal Revenue Department. Neither Mr. Smith nor any member of his staff has ever called on me to discuss my business problems with them, nor has any member of his staff alerted me that the County of Imperial was negotiating, with the State Lands Commission to dispossess me of my application, and to hand me back my deposit, which I made in good faith, to the State of California and without interest or compensation for the use of my money over a period of ten years.
THE CHAIRMAN: May I ask a question before you go on there?

MR. SARGENT: Certainly.

THE CHAIRMAN: As I read the sentence in which the figure land value is about $20,000, and that's the figure you indicate you think is only a third of what it should be?

MR. SARGENT: Yes, sir. I have over $60,000 invested at this point.

THE CHAIRMAN: I think this refers to the date 1957.

MR. SARGENT: I grant you that, but no mention has been made of any improvements that I have made since that date.

THE CHAIRMAN: Well, in other words, this statement is accurate, but since that time you have another $40,000 approximately invested?

MR. SARGENT: That's correct. And no mention was made of any improvements after the $20,000 mentioned in paragraph number six.

Referring to paragraph seven, wherein it states, "The County, by separate application filed directly with the United States Bureau of Land Management, applied for the purchase of 570 acres of Federal land which includes the 220.125 acres embraced in the State Exchange application filed for the benefit of Delbert Sargent." Referring to the Code of Federal Regulations number 43, part 147.4 (c), it says and I quote: "The filing of a valid application for exchange
under the regulations of this part will segregate the selected public lands to the extent that any subsequently tendered application, allowance of which is discretionary, will not be accepted, will not be considered as filed, and will be returned to the applicant."

Now that's quoted from the Federal Regulations.

With reference to the segregated lands contained in my application, the question of Imperial County's application as being valid and in full force and effect is a matter of conjecture and would require legal counsel opinion on my part, as well as the opinion of the Attorney General. Again directing to the Commission's attention, Mr. Hortig and his staff have remained silent on pertinent and relevant facts in this calendar report to your Honorable Body as regards to moratoriums which were in effect during the ten year study of this subject matter. Furthermore, with respect to paragraph number seven of this calendar item, the staff has remained silent on the subject of a resolution which became a part of the subject matter and refers to an enclosure, "Exhibit A," a copy of the resolution, which was never brought to my attention by either the Imperial County or the State Lands Commission.

Paragraph number eight of the calendar item and paragraph number four of the summary report from Mr. Hortig of the State Lands Division are synonymous. In the summary report made by the Executive Officer Hortig wherein he
writes of a resolution by the County of Imperial requesting both the State Lands Commission and the United States Bureau of Land Management to withhold further action on the processing of Delbert Sargent's application until such time as studies could be made to determine the effect Mr. Sargent's activities in the operation of his tropical fish hatchery would have upon the recreational developments proposed by Imperial County -- your attention is again directed to your staff remaining silent of the fact that the Imperial County, prior to the date of acquiring any part of the land in their applications, were attempting to get the State Lands Commission to kill my application. Furthermore, in this same paragraph wherein a request was made, by resolution, for both the State Lands Commission and the United States Bureau of Land Management to make a study of this subject matter. No staff member of either the State Lands Commission or the United States Bureau of Land Management has contacted me as regards to study, or have they informed me of the context contained within the said report, if there be one. Surely, a report of some kind should be in the possession of the State Lands Commission, which should show any effect which might be detrimental as regards to the subject matter. And certainly, if so, I am entitled to a copy for study.

Referring now to paragraph number nine, wherein again the subject is of a resolution, Mr. Smith's statement...
that the county passed a resolution to the effect that they
would negotiate with me for a lease so that I would be
permitted to continue my operations, quote "on the area
which is the subject of this exchange application" unquote.
While in reality, the resolution passed by the County of
Imperial states in part, and I will quote: "in a portion
of that area set forth in application LA 0164346." Unquote.
To point up the lack of good faith by the County of Imperial,
on July 24, 1963 they issued a map showing their proposed
development of the requested 570 acres, on which shows an
area they will supposedly allow me to operate. They have
squeezed me down to an area smaller than the 30 acres that
I now have under lease from the Bureau of Land Management.
They did not take into consideration the additional 40
acres that I have been trying to get under lease from the
Bureau of Land Management for the past several years, of
which I need desperately now, to continue a logical
expansion program. It seems as an afterthought by the
County they have included an area unjoined to my present
leased land, marked "area for expansion of tropical fish
farm." Aside from the fact that this area is noncontingent
to my present operations, it would seem that possibly that
this area could be used; but here again they have not given
you the true facts. Needless to say, the character of the
land is impassable, upon any person's investigation.

I would like to show the Commission these two
pictures. Now this area is a portion of my present 30-acre lease.

THE CHAIRMAN: I think you might just as well give up trying to get this into the record.

(Discussion off the record.)

MR. SARGENT: I will show you an aerial photograph which was taken September 7, 1959. Now this is the latest one that is available. It will show you the character of the land, and the character of the land is identical as in this present day. However, this shows my establishment as it was in 1957. These are my fish hatcheries, and in addition we have more tanks over in this area, down to about here. Now this is the top mark-out. This is the part they will allow me to operate. Now that is absolutely marsh land. At one time I tried to get through here with a tractor, and it got so deep I had to get another tractor to pull me out. How they expect me to dig tanks eight to nine feet deep in that type of land, is impossible.

THE CHAIRMAN: What is the character of your operation? You are producing tropical fish, and in addition are you showing them to the public at the site?

MR. SARGENT: Oh, no, no. My business is entirely, I job tropical fish wholesale.

THE CHAIRMAN: Well, there is no public visitation?

MR. SARGENT: No, no. And then this is absolutely marsh land here, right down to include the area they have
marked out.

GOVERNOR ANDERSON: What are these x's up here?

MR. SARGENT: That is the 70 acres to this point.

THE CHAIRMAN: And they intend to place a golf course around --

MR. SARGENT: And they intend to place a golf course, one tee, show what they have, one of the tee's right here. And I spoke of additional acreage of which I requested from the Bureau of Land Management, and they recommended this area; in other words, this area here, so that I could fill this out. And I can't go ahead here anymore until I get this whole thing for these purposes.

GOVERNOR ANDERSON: Which would be the ultimate, under the County that they would have, all this within the red line here?

MR. SARGENT: This they would have within the mile.

GOVERNOR ANDERSON: Within the mile; I see. What do these red lines indicate?

MR. SARGENT: That indicates my exchange.

GOVERNOR ANDERSON: That's what you want right there?

MR. SARGENT: Yes. I am concerned for my employees. Thank you.

Attention is called to the second resolution referred to in paragraph number nine. This resolution in its wording is in direct conflict with the State of California Water Code. My position in this matter coincides
with the statutes of the said Water Code, to wit: I have
a riparian right to that water; they, the County, can not
take or regulate that which is not theirs.

I will now quote from the "California Law of
Water Rights," by Mr. Wells A. Hutchins, a recognized
authority on this subject in California, says, "Private
property -- the riparian right is a 'right of property,'
a vested private right. It is a right of private property
vested exclusively in the owner of the abutting land for
use on that land, and is not of a political nature."

"Holders of possessary rights -- parties holding
possessary rights in separate parcels of land, title being
in the United States, have the rights of riparian owners
in the waters of any stream flowing naturally over both
parcels." This, incidentally, was quoted from a court case
-- these all were quoted from court cases, incidentally.

"Riparian doctrine applies both to the spring and
to the natural watercourse that flows away from it. The
same rule applies with respect to a spring on one's land
that supplies water to a watercourse by percolation through
the soil, rather than in a defined channel. In either case,
whether through a defined channel or by percolation, the
spring supplying the stream is a part of the stream. And
so the owner of such land (the defendant in the instant
case) quote: 'had the same right in the spring and no
greater right therein than he had in the stream below. He
had no different or better right to cut off the water in
the spring or above the spring than he had to cut it off
or divert it from the stream. Any interference with the
supply of the stream was an interference with the lower
riparian owner's right to have the water continue to run
in the stream to his land!"

In reference to paragraph ten; as a challenge to
Mr. Pierson of the recreational Department of the County of
Imperial, reference a gold course as a feasible item in the
recreational area, I have consulted with a foremost golf
green architect, secured his services to scrutinize the
entire area, and upon request I will furnish this report to
the Commission. I have lived on the property since 1954,
and I can assure you gentlemen, that golf-green grass is not
one of the things that can be grown on the land, due to
the high salinity of the soil. You might say, just bring
in water and leach the soil, as they have done in other
parts of the Valley. The Coachella branch of the All
American Canal runs past the land, within a quarter of a
mile -- incidentally, I think you saw it on the map, it is
above it, but it is commonly known and can be verified by
the Coachella Irrigation District that it is impossible to
obtain water from said canal, as this land is outside of
their Irrigation District. Even if it were somehow possible
to convince the Coachella District that they had sufficient
extra water to supply said property, would you suppose that
the County Supervisors would be able to obtain a better and superior deal than the State Parks and Beaches? The State Parks and Beaches is now spending several millions of dollars to bring water to this area.

THE CHAIRMAN: Mr. Sargent, I think probably this matter -- you are perfectly free to go and discuss it, but I think it is largely irrelevant to what this Commission considers. That is, you are talking now about something which must be determined by the electoral body in that county, as to whether it wants this land for public purposes. I think so far as this kind of a discussion, it doesn't really bear on what is before us.

MR. SARGENT: My thought in mind was that, what I am trying to show you gentlemen is the unfeasibility of the proposed recreational area. In other words, I can --

THE CHAIRMAN: Well, we can't make that determination. The County is the authority for what it wishes to do and things it can do, and we are not -- we can't make a finding on that.

MR. SARGENT: I see, I understand.

There is just one little thing I'd like to say on this. I consider that something of that nature should be included in the said report, as referred to in paragraph seven, and they make no mention of it in the calendar item.

There is just one other thing, I just wanted to show you a little bit how conducive the water is to our
business, that the salinity is necessary to our business. It is an ingredient that we would have to install in the water if we did not have it.

Referring to paragraph number eleven, the opinion of the Attorney General is spoken as being an enclosure. The only enclosure I received from Mr. Smith is this calendar item. Why wasn't I given a copy of all these enclosures when Mr. Smith sent me this calendar item, so that I could more intelligently prepare my notes? If Mr. Smith bases his authority in getting rid of me on this letter, and he does not send me a copy, just what consideration is the State Lands Commission staff giving me? Certainly, if the Attorney General was not given any more information than what is contained in this calendar item, he was drastically misinformed. It is a moot question, as to what he, the writer of this calendar item says; it is argumentative, it is debatable, it is an item to be tried in court.

Reference is made to paragraph number twelve. I feel seriously that your staff, acting as my agent in the processing of my application, has not been persuasive enough in their efforts, by allowing the County of Imperial to sway and influence their thinking and by not pressing in my behalf as a prior applicant. I cannot press it. I was advised by Mr. Woozley, May 26, 1960, of the Bureau of Land Management, at Washington, D.C. through my Congressman, that,
and I quote, in part: "In the event negotiation with the State are unsuccessful in bringing the State's offered lands into balance with Federal lands, then, of course, the exchange may not be consummated. As indicated in the foregoing, Mr. Sargent is an applicant of the State of California; his efforts, therefore should be expended in that direction." unquote.

On June 2, 1960, I telephoned Mr. Smith and gave him the information contained in said letter. On August 30, 1960, I received a letter from Mr. Smith, quoting in part, "I am informed that they are currently awaiting a field classification report," -- unquote. The Bureau of Land Management says that the selected and the requested lands must be brought into balance, and your staff says that the lands are still to be classified. Also, on June 23, 1960, I received a letter signed by Mr. E. J. Thomas, Acting Director of the Bureau of Land Management, at Washington, D.C., that states in part and I quote: "But the State will have an opportunity to amend its application, to bring the values into line," unquote.

Referring to paragraph number thirteen, it is necessary for me to deny all the allegations made in this paragraph. I have searched the records of Imperial County and I find nothing in these records to substantiate the feasibility of this from the facts set forth in rebuttal of the calendar item, that the Commission is not clearly
informed of all the facts pertaining to the subject matter.

Therefore, as my concluding statement, I wish to say that I feel that the State Lands Commission should take into consideration the following: Counsel is always ready to sue. I cannot see any reason that I should sue the State. I cannot see any reason that I should go out and pick a fight. I am the owner of a $60,000 investment and I do not have money to squander on law suits -- but -- if necessary, I am going to have to sue. I am going to be advised, by counsel, I am sure, how to assert my rights, if I do not receive them here. Actually, what I would like your Honorable Body to do, is hold this matter in abeyance until such time that the Department of the Interior processes my case to its entirety.

THE CHAIRMAN: Thank you.

MR. CRANSTON: I'd like to ask you, do you feel that there is any middle ground here? Is there any other land other than that unacceptable swamp that could be allocated for your use, or perhaps the County, that perhaps we'd have to hear from them as to their views.

MR. SARGENT: I have absolutely no objection to the County acquiring the land that is not on my application, the lands, that 220 acres that I have on application, it has been my plan ever since I filed -- that was the reason I filed on that acreage.

MR. CRANSTON: Is there any modification of your
application that is acceptable from your point of view?

MR. SARGENT: I don't believe so, Mr. Cranston, because I have worked too many years -- start my business in there, and it's got to follow a logical pattern.

THE CHAIRMAN: In other words, if there were to be a different 40 acres, say, designated by the County, that this still would not be satisfactory to you? You want to stand on the whole application?

MR. SARGENT: Well, primarily; my operation is so situated that I cannot move, even if I wanted to move, I couldn't move because of my improvements that are in the ground.

THE CHAIRMAN: I am not talking about moving. What you meant was, you showed us on the map what the County had indicated it would provide as additional acreage beyond your present, for your planned expansion, and you explained why that was unsatisfactory land.

MR. SARGENT: That is true.

THE CHAIRMAN: If the County were to meet that by other land that is adjacent to your present operation --

MR. SARGENT: But they have given no indication that they would meet that.

THE CHAIRMAN: And we would ask about this too. I think Mr. Cranston simply wanted to explore whether or not you were willing to discuss anything less than your full application.
MR. SARGENT: Absolutely not; because it would take that amount of land to process any business into a logical expansion program. I know the question has been raised by the County Supervisors, why I needed so much land. In Tampa, Florida alone there are three large tropical fish farms, one is 640 acres, the Ellsbury is 320 acres, and there is one more of about 190 acres. Now that is all of the ones near and over 200 acres. Now there are more there, and then you go down to Palmetto, there is a 640-acre fish farm there. So acreage may seem to large to you, but it takes a huge, or a large number of tanks to carry out business on that land.

MR. CRANSTON: Does your application include that swampy area?

MR. SARGENT: Yes, sir.

MR. CRANSTON: Do you need that?

MR. SARGENT: Not that one particular point, no.

MR. CRANSTON: Well, if you don't need that, is there any other portion that you do not need, or are we limited by the acreage that you feel that you must have for appropriate expansion?

MR. SARGENT: Well, I might say that it would be an island in the middle of the property.

MR. CRANSTON: I didn't ask you that. I said, if you could get along without that, is there some other portion you can get along without also?
MR. SARGENT: No. That, that is the worst piece of ground in the whole mile, the whole square mile.

GOVERNOR ANDERSON: Now you aim to eventually own this yours, sir?

MR. SARGENT: Yes, sir.

GOVERNOR ANDERSON: Do you have objection to being a tenant of the County if this developed this way?

MR. SARGENT: Personally I don't. Naturally, a man likes to own his own ground -- far and superior to leasing or renting. And the County has -- I don't see where it would be feasible, sir, and I don't see the object of it. Why should the County buy it and then lease it to me? And I can -- thought of purchasing it outright. I would still -- it comes down to the same, I would still, if they were energetic in their aspirations in allowing me to stay there, there would only be one object as far as I can see, is this, that they could dispossess me at their will. Otherwise, there would be no object in me refusing to, the land.

THE CHAIRMAN: Any other questions? Thank you very much, Mr. Sargent.

MR. SARGENT: Thank you.

THE CHAIRMAN: Can we hear now from the staff? I thought statement that it was highly unusual, that the staff has been silent on.

MR. HORTIG: Mr. Chairman, we have received a request from Senator Quick. That letter which I have before me may be read into the record, and since it leads into the
presentation by Imperial County, it would appear appropriate
that this be read at this time with your permission.

"Reference is made to your next meeting
of the State Lands Commission, more
particularly to Calendar Item Number
ten on your agenda, regarding Exchange
Application Number 65, Delbert J. Sargent,
Imperial County.

As you are aware, the County of
Imperial is vitally concerned regarding
this, and desired to obtain certain
lands in connection with this area
for Imperial County. Therefore a
representative from Imperial County
will appear at your November 6 meeting
and present testimony in behalf of this
County. It appears that their testimony
and application should be given favorable
consideration, and I will appreciate
your consideration in behalf of Imperial
County in this matter. Copies of the
report are being forwarded to the
chairman and members of the State
Lands Commission.

Very truly yours, Aaron W. Quick."

THE CHAIRMAN: Thank you, Mr. Hortig.
Would the representative of Imperial County please step forward?

MR. PIERSON: Mr. Chairman, gentlemen, my name is David E. Pierson. I am Director of Public Works for the County of Imperial. I also have with us today Mr. Foote, County Counsel for the County of Imperial, and supervisor of the County of Imperial. I would like to make a short presentation on the planning of the area, and then Mr. Foote will come on from the legal standpoint.

The area applied for, this is our application to the Bureau of Land Management, surrounding a hot mineral well, the waters of which are known throughout the country for their therapeutic value. The County of Imperial has obtained a patent from the Federal Government for the 70 acres shown on Map Number M-190.2. It has applied for a patent on the remaining acreage in this section for the purpose of developing a major recreational area. The hot mineral spa area is in great need of planned and controlled public recreational development. It has heretofore been maintained in an incomplete and haphazard manner. Adequate recreational facilities have not been installed. Despite this, however, the area each winter attracts thousands of persons from all over California and the rest of the country seeking the benefits of the hot mineral baths. As much as 400 trailers have been located in the area and surrounding countryside. This county believes that a well-organized health resort
combined with recreational development and a large senior citizens center may be constructed, as outlined in the attached map, and that maximum public benefit will result in such construction as planned or undertaken on a lease or concession basis under county supervision. The ultimate development around the hot mineral spa area will probably take in many sections of land. Imperial County is planning and developing section 2, will be attempting to establish a nucleus of acreage directly relating to the mineral well. Other incidental and perhaps unrelated projects will follow in adjacent sections under private ownership. The plan effected under Map Number M-190-3 contemplates construction of facilities for trailer parks, triplex rental units and senior citizen dormitories. This complex must be close to the mineral baths in order to provide maximum access to the baths for persons with decreased mobility. The light recreation area, including golf courts, tennis courts, riding stables, drive-in theater, are complementary family uses. In attracting a health resort area flexibility and planning is essential; in view of the desire of the County to develop this area on a lease or desirability basis, I desire to emphasize this flexibility standpoint. The facilities on the attached map, however, have been fully successfully developed in the area, in this area. Maximum benefits of the development of this area may best be accomplished under the control of the County. The
precedent for improvements on the property surrounding the spa will be established by this facility. It is believed that the entire region will benefit from the construction of a properly planned and controlled health resort in this section. Thank you.

THE CHAIRMAN: Have you had discussions with Mr. Sargent? Has there been any effort to recognize the investment that he has there and what he feels are his needs for expansion, or have there been such negotiations or discussions?

MR. PIERSON: I'd like to refer that to Mr. Foote, sir. Yes, he has had negotiations with Mr. Sargent.

THE CHAIRMAN: I'd like to hear from Mr. Foote, unless -- do you have any questions? All right, fine.

MR. FOOTE: Gentlemen, I am Orlando B. Foote, Imperial County Counsel. And with respect to Mr. Champion's last question, on July 8th or 9th of this year, subsequent to our acquisition of the 70 acres immediately surrounding the hot mineral spa -- when I say "we" -- being two members of the Board of Supervisors and myself -- met with Mr. Sargent with respect to the possibility of negotiating an area for expansion on a lease basis. Mr. Sargent made the same statement at that time that he made to you, which was that he felt that he was entitled to the entire 220 acres and that a lease would be meaningless to him, in that --

THE CHAIRMAN: Excuse me. Let me ask you this one
additional question. We -- leave aside the question of expansion, but look at the present operation and investment, is there any bar to leaving that there, in the kind of development you have in mind; in other words, recognizing the present level of activity?

MR. FOOTE: Speaking on behalf of the Board of Supervisors, I think I can safely say that there is no bar to that type of development on a lease basis. The primary concern with Mr. Sargent's acquisition of fee interest is the problem of control of the development. Mr. Sargent operates a tropical fish farm, which is not a hindrance to our proposed development, and as it is presently constituted or as he may consider reasonable expansion, certainly not to the extent of 220 acres, but reasonable expansion.

MR. CRANSTON: What reasonable expansion do you feel could be made possible without upsetting entirely the County's interest?

MR. FOOTE: Well, that is hard to state right now, Mr. Cranston. I would think that certainly a 20-acre expansion would not injure the proposed development of this area. However, this, of course, is something that would have to be gone into in considerable detail by the plaintiff.

GOVERNOR ANDERSON: But you feel that should be on a lease basis and not on a fee title, as far as Mr. Sargent is concerned; why?
MR. FOOTE: Very definitely.

GOVERNOR ANDERSON: Why?

MR. FOOTE: The basic problem, as I said, is control.

The County has no objection to entering into a long term lease with Mr. Sargent, we feel long enough in years to protect his investment, as it is substantial, and the Board of Supervisors recognizes that it is substantial. However, in the long run -- and we are talking in terms of many years to come -- the development of this area could be hindered by an operation other than a tropical fish hatchery, could be very directly hindered, and of course if Mr. Sargent has fee title to this area, he is free to dispose of it to whomever he wishes without control. And so the problem is in development of this area which is in the public interest, and as has been determined by the Board of Supervisors to be in the public interest. The problem is in protecting the substantial and the continuation of that development against developments on this, on the area of Mr. Sargent's application, which --

THE CHAIRMAN: Or a change in character in the development?

MR. FOOTE: Exactly.

THE CHAIRMAN: When you are talking about a long term lease, what are you talking about, 99 years?

MR. FOOTE: I believe the terms that would discuss that initially with Mr. Sargent were 50 years. I am not too
certain about that, but 50 years, this would be an initial thought on the part of the Board.

GOVERNOR ANDERSON: If the County were to prevail, what happens, how do you adjust with Mr. Sargent for his investment and his riparian rights and other things?

MR. FOOTE: With respect to the riparian rights, Mr. Sargent made reference to several cases dealing with springs. There has been no determination whether the well involved in this is a spring or a well. This is something, of course, that would have to be determined legally.

However, Mr. Sargent did some time ago make application to the State Water Rights Bureau for a water right, and that application was rejected, on what grounds, I do not know, but it was rejected. So I question whether or not Mr. Sargent at this time has any riparian rights. He at no time had any more than a five-year experience land lease permit from the Bureau of Land Management, and I am sure that I see how his rights would rise above the length of that permit. And also with respect to Mr. Sargent's present status on the property, he stated that he has a lease or a permit. The permit is for one year, and I am informed by the Bureau of Land Management that it is subject to a 30-day cancellation on the determination of your Body with respect to his current application.

GOVERNOR ANDERSON: What about the improvements, his current improvements?
MR. FOOTE: Well, we feel that a long term lease would give him a sufficient basis to amortize his investment.

GOVERNOR ANDERSON: In other words, you wouldn't give him any cash for his investment, but would give him a loan of rental, so that the effect over a long term period would take care of that?

MR. FOOTE: Well, we feel that a long term lease at a reasonable rental would give him an opportunity to amortize his investment.

GOVERNOR ANDERSON: What type of a rental have you talked about? Similar to what he has with the present Land Management?

MR. FOOTE: Frankly, sir, we haven't talked about it. We haven't discussed it with Mr. Sargent, because Mr. Sargent just flat won't talk in terms of a lease. That's about where we are, so the Board hasn't made any determination of what would be a reasonable rental value, nor have I, nor have any of the persons who have been involved with this planning.

THE CHAIRMAN: What would be the County's view of this alternative method of settling this problem, that is, if we were to proceed -- and I have some question about that -- but if we were to proceed with the exchange of land and Mr. Sargent were to take title of it, that then would put you in a position of necessarily condemning that which you felt you had to have or had to control; what would be the
County's view of that possibility?

MR. FOOTE: Well, of course the problem is an immediate one. The area needs development very, very badly, and we have discovered through painful negotiation with prospective investors in that area that the 70 acres immediately surrounding the well itself is just not sufficient to justify the type of operation that is necessary. Condemnation, of course, can run over a rather extended period of time. We have no right of immediate possession, or would have no right of immediate possession were we to institute condemnation proceedings.

THE CHAIRMAN: Would that also limit the character of the lease that you could have with respect to private investors?

MR. FOOTE: It would, indeed, very directly, under the present circumstances. In other words, if we have to -- if we are in a position to condemn prospective area to provide prospective investors, this would certainly limit our ability to develop this area in the manner which the Board proposes.

THE CHAIRMAN: Having condemned it for a purpose, you have got to give demonstration?

MR. FOOTE: Very definitely.

THE CHAIRMAN: Are there any further questions?

Mr. Hortig, I'd like to ask another question about present and past policy in this case, where we have had a
prior application by private -- and perhaps there is no such precedent -- but where we have had a prior application for by a private party and subsequent interest by a governmental body, which, if they had come in at the same time as the public policy. Our present -- what has been the treatment in the past by the Board if this question where a public body is subsequently indicated after you had had this original filing by a private party?

MR. HORTIG: Two instances come to mind, Mr. Chairman, and unfortunately they are on both sides of the issue as to prior action. The prior action by the Lands Commission proceeding with an application or sale to a private interest, on the determination that the showing of public interest wasn't sufficiently superior to justify the rejection; and other instances where despite later requests by public agencies, then private requests where the private request was rejected and conveyance was carried to the public agency, was authorized to the public agency in keeping with the Attorney General's opinion in connection with this pending application that the status of this application is completely under the jurisdiction of the Lands Commission, and that effectively there would be no contravening any vested rights, any vested rights of the part of the private applicant, because there are no vested rights.

THE CHAIRMAN: All right, that is -- in other words, we
really are in an area here where the Commission, looking at the facts and equities of this thing, can — is really free legally to move in any direction that it desires; is that correct?

MR. HORTIG: Yes. It is a matter of policy, it is a policy determination.

THE CHAIRMAN: What is your view of Mr. Sargent's contention that we do not now have an adequate set of facts before us to make such a determination? Do you think that further investigation might better inform us as to some of the equities involved?

MR. HORTIG: No, Mr. Chairman, for the reason that practically the agenda item before us was not prepared as a full legal brief or full litigation of this item. It can be stated categorically and without qualification that Mr. Sargent's application has been fully and diligently processed in accordance with the statutes and rules and regulations under which any applications are processed by the Lands Commission.

THE CHAIRMAN: I am not questioning that, Mr. Hortig. It seemed to me that in questioning here today we learned a good deal more about the situation than was before us in the agenda item, and I am asking whether there is some merit to Mr. Sargent's suggestion that we might further -- we are called upon here to make, it seems to me, some equity judgments, or we are attempting to bring about a situation
where two parties, both of whom have a legitimate interest in this thing -- it is a rather unusual judgment for the Commission to make, and whether or not we have -- it seems to me that there, when we have gotten some of it from questioning, whether there might not be some further facts to be obtained.

MR. HORTIG: Well, it would appear to the staff, Mr. Chairman, that aside from minor inconsistencies not bearing on the success or failure of processing application, that any other omissions with respect to the factual situation on behalf of Mr. Sargent, omissions from the agenda item, have been supplied by Mr. Sargent. And the presentation on behalf of Imperial County was not included in the agenda item because the specific data were not available to the staff over and beyond the resolution of Imperial County. But Imperial County representatives here today are filling you in completely on the Imperial County position, so it would appear doubtful that any additional essential facts could be developed by further investigation. It is a unique situation that imposes the responsibility or necessity for the Commission to make this determination, inasmuch as the basic problem, as you have recognized, is as between Mr. Sargent and the County of Imperial.

THE CHAIRMAN: I am at the moment, I am in the peculiar position of feeling that this could best be settled by negotiations, and if it can't be settled by negotiation,
that I would want to recognize the public interest in this matter and proceed on that basis, but I'd like to -- it seems to me it is a situation which lends itself peculiarly to negotiation and not to an arbitrary finding by us.

Yes?

MR. FOOTE: May I make one further statement? Orlando Foote, Imperial County Counsel. -- In that regard, we have endeavored, as I indicated, to negotiate with Mr. Sargent, and to no avail. I am somewhat doubtful as to whether or not further negotiation would be helpful in this matter.

THE CHAIRMAN: Let me ask Mr. Sargent. This is a hypothetical question, Mr. Sargent, and I speak only for myself and not for the Commission. I would be disposed to vote at this time for the position of Imperial County. However, if in the knowledge that this would be the disposition of the Board, we might provide a month's delay for further discussions between you as to satisfactory solution, would this be helpful to you, or would you rather have us proceed to act today?

MR. SARGENT: No, sir, I don't believe it would, for the fact that Mr. Foote seems to set himself up as an authority on my business, telling me how to run my business and telling me what land is required in my business, which I don't think he -- pardon the expression -- knows anything about. As I told you, the reason I took the 220 acres originally -- incidentally, at the time that I applied I
could have applied, the whole section was open, I could have applied for the 570 acres, but I didn't. I only took the land that I needed. And I still need the 220 acres for expansion of my business. A 220-acre fish farm is not large, it is considered a medium sized, you might say, in the United States. Right today I can't furnish the -- all the fish that are required in this area. Today this is 100,000 fish coming in from Florida every week into the Los Angeles airport. Then you add up on top of that San Francisco, Portland, Oregon, Seattle, Washington -- of course I can use the 220 acres, every bit of it. And he is speaking of adding 20 more acres. To me it's just like a drop in the bucket. Actually it will end up until put me out of business, because I have got to meet these new markets coming up, I have got to work the fish on a smaller margin, it is happening every day.

GOVERNOR ANDERSON: How much land have you now?

MR. SARGENT: Under lease I have 30 acres, and I have been requesting, trying to get 40 more acres to put in my next batch of tanks, and the County of Imperial have held that up through the Land Management.

GOVERNOR ANDERSON: Actually now you are operating with 30 acres?

MR. SARGENT: Yes, sir.

GOVERNOR ANDERSON: What actually could you get by with?

MR. SARGENT: Well, I -- I told you honestly, gentlemen,
it is 220 acres, plus or minus.

THE CHAIRMAN: Well, the gift, or the combination of
the testimony here is that these two things are eventually
incompatible in your view?

MR. SARGENT: Yes, but I think you should --

THE CHAIRMAN: And in the view of the County, if they
are to accept your version of what you need?

MR. SARGENT: They could have filed on the property
before I did, or at the time I did, but I was there five
years before they were, and living on the land, developed
that land. It was nothing but marsh land and sagebrush
when I went there. I built my home there.

THE CHAIRMAN: Thank you. Are there any further
questions of Mr. Sargent?

MR. SARGENT: And just one other thing -- excuse me.
Mr. Foote made a remark that that was not a spring up there.
The point to the fact -- now this is quoted from a Cal. App.
case --

"Water passing through the soil, not
in a stream but by way of filtration, is not
distinctive from the soil itself; the water
forms one of its component parts. In this
condition it is not the subject of
appropriation. When, however, it gathers
in sufficient volume, whether by percolation
or otherwise, to form a running stream, it no
longer partakes of the nature of the soil, but has become separate and distinct therefrom and constitutes a stream of flowing water subject to appropriation. The water in question here is the stream issuing from the wells, and it is immaterial for the purposes of this discussion whether this stream is supplied by water percolating and filtering through the earth or not; at all events, it has gathered into a stream. No distinction can be made between the water flowing from these artesian wells and that flowing from the springs."

"The stream in either case may result from the gathering of water at some point, whether near or distant, which produces the stream, the flow of which is by natural causes forced to the surface. In the one case the aperture or opening through which it finds its way to the surface is the result of nature's forces; in the other it is produced by artificial means; the fact that it is produced by boring a hole in the ground in no wise changes its character. In either case the water flows to the surface naturally."
And also Mr. Foote spoke of that I have a one-year lease, but he neglected to tell you that I have at this time in full force an appeal on that reduction of my lease request.

MR. CRANSTON: I'd like to ask someone for the County, how many acres are involved in your over-all plans for recreational development?

MR. PIERSON: David E. Pierson, Director of Public Works. We have requested 640 acres. We now own 70. Does that answer?

MR. CRANSTON: What happens to your plans if these 220 acres were held out, on a say, a fifty-years lease?

MR. PIERSON: The 220 acres, as far as I know, would virtually kill our plan, and it pretty well surrounds our 70 acres.

GOVERNOR ANDERSON: How much of the 220 acres could you release and still go ahead with your plans? In other words, he has 30 now and he is applying for 40 more. There seems to be something between that and the 220 acres.

MR. PIERSON: I would be inclined to concur with Mr. Foote on this, sir. He expressed an expansion of some 20 acres --

GOVERNOR ANDERSON: Only 20 acres on top of the 30.

MR. PIERSON: On 30. This is a very difficult question to answer at this time, Governor Anderson. Our plan could allow the fish farm to continue. As has been stated, we feel
that it should be on a lease basis rather than an ownership basis, for the possibility of change, of a change in the type of usage. I hope this answers your question. If it doesn't, try again.

MR. CRANSTON: If your total plan is 700 acres roughly, 700 acres?

MR. PIERSON: 640, sir, the section.

MR. CRANSTON: 640; I find it rather hard to believe that you have to be so rigid as to 20 acres more or less on higher up to quite possibly a substantially figure that might be provided somewhere there, which is appropriate to his use, without upsetting your plans entirely.

MR. PIERSON: We are somewhat in the same position with Mr. Sargent with his rigidity on his 220 acres.

MR. CRANSTON: You are?

MR. PIERSON: Possibly, that's correct.

THE CHAIRMAN: Are there any further questions? Thank you very much. Well, I have stated my view. What is the pleasure of the Board?

GOVERNOR ANDERSON: My views are very similar to yours, Hale. I lean to the County's position, except I wouldn't want to vote for it unless I knew, unless I knew a little bit more what they were going to do, what they were going to do in regard to Mr. Sargent. It seems to me that the County is the one that doesn't want to have him have title, because they want control, and yet if they give him a lease
it shouldn't hurt them too much, if they could work this
lease to meet his interests for the next 49 or even a longer
lease than that. In other words, if he has something that
is compatible there with their arrangements, even a 99-year
lease would be all right, as far as they are concerned,
according to what they are talking about, and still give
him protection of his interests.

I'd also like to know, in addition to the time,
I'd like to know what the rental is for this same thing,
and with the expanded size, and I'd like to see them somehow
get together before we have to vote on this thing here today.

MR. CRANSTON: I am not prepared to either reveal my
own inclinations or to vote in this matter. I'd like to see
them work it out.

THE CHAIRMAN: I will see if I can make a Delphic
statement.

Would it be agreeable to the Commission if we
were to take this matter under advisement for 30 days,
with the request to both parties to furnish us with their
minimum requirements on maps so that we can see the actual
situation on the ground, to see whether there is in fact
any reconcilable conflict here, or to see if there is not;
what the conflicts involve, and what they represent in terms
of the loss of the County's position or loss of Mr. Sargent's
position. Would that be agreeable?

MR. CRANSTON: (Nodded.)
THE CHAIRMAN: That then will be the order, and we will see you again a month hence.

MR. CRANSTON: If it would be more convenient for the parties involved to do that at our next meeting in Southern California, we might consider that.

THE CHAIRMAN: Is that preferable? Do you have a major time problem? You have a major time problem in this?

MR. FOOTE: Yes, sir, we do.

THE CHAIRMAN: So you'd rather have it earlier then in Los Angeles? That is, if our next meeting is in Sacramento, you would rather have it scheduled then?

MR. CRANSTON: We are meeting on the 21st of this month, which is in Sacramento, and on the 19th of December in Los Angeles.

THE CHAIRMAN: Would the 19th of December be satisfactory?

MR. FOOTE: I think I can fairly state that it would, yes.

THE CHAIRMAN: All right. Is that agreeable with you, Mr. Sargent?

All right, then that will be the order.

Item 7 in the agenda, amendment of Paragraph 22 of combined oil and gas bid-lease form to conform to provisions of Chapter 1945, Statutes 1963, which made a significant change relating to the drilling term, which term the Commission must extend from a maximum of three years for a period equal to that required to obtain any
required permits from a federal or State agency -- I submit that isn't a sentence. What -- I don't know what I have said. Would you please explain it?

MR. HORTIG: Yes, sir. Prior to the 1963 amendment to the Public Resources Code the Commission was authorized to issue oil and gas leases which provided for a drilling term of a maximum of three years, that is, required drilling by the lessee within three years. And at the discretion of the Commission, an extension of time to the lessee of that drilling term, but at the option of the Commission; if there were delays in securing other permits from any other Federal or State agency, that will require in connection with the operation, for example, the placement of an offshore drilling platform. This was optional with the Commission, and the 1963 statutes in effect made it mandatory that if these circumstances existed, the Commission must extend the drilling term.

MR. CRANSTON: I move approval of the statute.

MR. HORTIG: Therefore we modified our lease form to correspond to the statutory modification.

THE CHAIRMAN: Mr. Cranston has moved approval.

GOVERNOR ANDERSON: Second.

THE CHAIRMAN: It stands approved, unanimously.

Item 8, proposed Oil and Gas Lease, 3,360 acres tide and submerged lands, Orange County - Parcel 16A.

MR. HORTIG: The Commission previously authorized the
publication of a notice of intention to offer Parcel 16, the same parcel under discussion here, but this offer was withheld in view of the necessity for amending the lease form as you have just done in the previous item. Therefore, the present motion is to cancel the prior authorization and authorize the offering of the same parcel in accordance with the revised lease form.

MR. CRANSTON: I so move.

GOVERNOR ANDERSON: Second.

THE CHAIRMAN: Stand approved.

Item 9, authorization for Executive Officer to publish notice that the Commission intends to consider offering leases for the extraction of oil and gas from approximately 12,600 acres of tide and submerged lands offshore Ventura County.

MR. HORTIG: The Public Resources Code requires that if the Commission is to consider offering any area for oil and gas lease, that notice must be given to affected cities and counties in the area under consideration, as to whether public hearing should be held as to special conditions which might be included in the lease form.

It is the staff recommendation that the unleased area of Ventura County extending from the Ventura-Santa Barbara County lying easterly to approximately Pitas Point be made the subject of a public notice of intention to consider offering public gas leases. A further presentation
has just been received from industry on the possible expansion of the area to be considered. It is the staff recommendation that this be done in two hearings rather than one expanded hearing, and the motion that is before you should not be amended.

MR. CRANSTON: I so move.

GOVERNOR ANDERSON: Second.

THE CHAIRMAN: Stand approved; and the understanding then is that we will consider the request for expansion of the area at the next meeting.

MR. HORTIG: In all probability, with respect to authorization of the additional.

THE CHAIRMAN: Item 10, authorization for Executive Officer to execute agreement with Lincoln Fidelity Corporation fixing the Ordinary Low Water Mark as the common permanent boundary along a tidal waterway in the vicinity of Surfside, Orange County, between State submerged land and private lands.

MR. HORTIG: As shown on the map following page forty-four of your agenda, there is a small section of land previously conveyed by the General Services Administration as upland to private parties, and in contemplation of a marina, marina-type development on the adjoining waterway, it is essential that before the construction of any dredging activity, that the boundary line between the State's land and the upland be fixed, and by agreement it is recommended that
this be done as shown on the map and attached agreement, which is authorized to the Commission for approval.

MR. CRANSTON: I so move.

GOVERNOR ANDERSON: Second.

THE CHAIRMAN: Stand approved.

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

MR. HORTIG: These actions consisted solely in the extension of two previously authorized geological survey permits for an additional period of time, in accordance with the full conditions prescribed by the Commission.

GOVERNOR ANDERSON: I so move.

MR. CRANSTON: Second.

THE CHAIRMAN: Stand approved.

Very briefly, is there anything new on major litigation to be considered?

MR. HORTIG: Only in addition to the agenda item before you, which reported that with respect to the case of U.S. vs. Anchor, that the records would be closed on a payment, final payment to be made on November 1st. Such payment has been made, and the Attorney General's Office report is before me that the files have been closed on the Anchor litigation.

THE CHAIRMAN: No action is required, I --

MR. HORTIG: No.
THE CHAIRMAN: I'd like to express publicly again our thanks to the Attorney General's Office for the work that they did in this case.

The Board is meeting -- now I guess it is officially a meeting of the Long Beach City Council this afternoon -- and the Board will be in attendance and participate in discussion of the proposed operating contract for the East Wilmington Field. This Board had placed -- the present status of this thing is that an operating contract proposal was made to us by the City of Long Beach, which we indicated, although not taking formal action, was not acceptable to us. We offered to the City of Long Beach a proposal which we indicated would be generally acceptable to us, and we are now in the position of dealing with that, with that, in effect, stalemate. I think it proper, although it does not appear on the agenda, to consider at this time what the Commission's position in discussing this matter with the Long Beach City Council will be this afternoon; whether we are to consider that we are discussing just one of the offers, or both of them, or discussing the thing in general.

MR. CRANSTON: Mr. Chairman, I'd like to comment, if I may, on this. The purpose of this meeting this afternoon, as I understand it, is to try to get us off of dead center and to move forward on the proposed -- various proposals for the development of the East Long Beach Wilmington Oil Field, and I'd like to say for one, without making any comments
where I will stand when the matters come to a decision in a
note at the State Lands Commission, I am prepared to review
point by point the matters which are presently at issue
between the City Council of Long Beach and the State Lands
Commission. It is my present thought that on some of the
points at issue the State is on the soundest ground; that
on others the City is quite possibly on the soundest ground,
and that on many of these there is a perhaps a middle ground,
not the stand taken by either the City or the State at the
present time.

To give one example, I now believe that there is
a good deal of merit to the City's criticism of the State's
proposal for bonus bidding. I, on the other hand, I still
believe that there is considerable merit to the State's
criticism of the City's proposal for advance payments with
interest. I do believe that there are several alternatives,
and that quite possibly one of these might be found more
acceptable to both the City and the State than anything
that is presently before us in the contracts. I believe
that on this and other points, if we get together and really
examine the points at issue, we should be able to reach
agreement.

And therefore I make this motion:

I move that the State Lands Commission
hereby express its desire to enter into a
point by point review of the points at issue
with the City Council of Long Beach in regard to the proposed development of the East Long Beach Wilmington Oil Field. It is the suggestion of the Lands Commission that this review be commenced at the staff level, and the Commission hereby authorizes the commission's staff to meet with the City Council's staff for this purpose at a mutually convenient time subsequent to this afternoon's joint Commission-Council session.

I move that is the present statement of position by the Lands Commission on this matter.

GOVERNOR ANDERSON: I will second the motion.

THE CHAIRMAN: It has been moved and seconded that this position be adopted, which I think opens the way to a productive discussion this afternoon by the Long Beach City Council.

Is there any discussion or comment from Long Beach on this statement?

MR. LINGLE: I am Harold Lingle, Deputy City Attorney. I can only think that your suggestions will lead to progress. I am not authorized to make any statement on their behalf. I know that we have considered it, the points, point by point, and I know the staffs are certainly more than anxious to meet with your staffs.
THE CHAIRMAN: Thank you, Mr. Lingle.

GOVERNOR ANDERSON: What is the status of this meeting this afternoon? Is this a meeting of the Lands Commission? What is the legal status of it?

THE CHAIRMAN: I think under the circumstances that we are the guests of the Long Beach City Council at a regular meeting of the Council. Is that your understanding?

MR. LINGLE: It is a regular meeting, a meeting of the Council. I don't know, I can't speak for -- you certainly all guests. (Laughter.)

THE CHAIRMAN: Self-invited guests.

GOVERNOR ANDERSON: As long as we will be discussing matters, is this in any way in conflict with the Brown Act? Am I correct, is this meeting that we -- is there any guidance that we should have as to what we can or cannot do at this meeting this afternoon?

MR. GOLDIN: In my opinion it would not violate the Brown Act.

MR. CRANSTON: It certainly won't be secret.

MR. GOLDIN: Your meeting today will be open, I am relatively certain that the Commission will not take any formal action this afternoon. I think the purpose is to exchange ideas toward the end of arriving at a constructive solution, and I see no legal impediment to such proceeding.

THE CHAIRMAN: With that I think then that the motion stands adopted, and in the absence of any further -- is there
any further?

MR. HORTIG: There is.

THE CHAIRMAN: Oh, supplemental item.

Well, the time has been amended to 2:30 instead of 2:00.

MR. HORTIG: 2:30 p.m.

THE CHAIRMAN: Do you wish to speak on the supplemental item?

MR. HORTIG: Yes, Mr. Chairman. As the Commissioners will recall at the request of the office of the Attorney General you gentlemen individually have heretofore executed a letter of understanding which was delivered to the City Attorney's office of the City of Long Beach with respect to the disposition and continued payment of tideland oil funds under the section, under the provisions of Chapter 29, 1963, and under the provisions of the Public Resources Code. For your action to have full validity and full support, that is required, it is required that such action be pursuant to a resolution adopted by the Commission at a meeting, and therefore it is recommended that the State Lands Commission ratify, approve and confirm the arrangement with the City of Long Beach pursuant to which, one, the City of Long Beach will forward to the State of California the full statement of tideland oil and dry gas revenue due to the State without deducting therefrom any sums sought to be collected under the provisions of Section 710 of the Code of Civil Procedure, by
any alleged or judgment creditors, 2, that if any final
judgment requires the City, its officials or employees,
to pay any sum in connection with the case of Howard E.
Shoemaker, et al., vs. the State of California, San Diego
Superior Court case number 238691, the City is authorized
to deduct any amount that it or any of its officials or
employees are required to pay from any future oil or dry
gas revenues due to the State of California; and 3, that
the State of California will defend the City, its officials
or employees in any action filed against them because of
their failure to make payment to the San Diego Superior
Court on behalf of Howard E. Shoemaker, et al., pursuant
to filings under Section 710 of the Code of Civil Procedure;
all as more particularly set forth in the Attorney General's
letter dated October 28, 1963 to the Long Beach City Attorney.

THE CHAIRMAN: What is the pleasure of the Board?

GOVERNOR ANDERSON: I move it.

MR. CRANSTON: Second.

THE CHAIRMAN: Stand approved.

No further matters to come before the Commission --
we stand adjourned.

(Meeting adjourned at 12:30 P.M.)
STATE OF CALIFORNIA  
COUNTY OF LOS ANGELES  

I, Margaret L. Lombard, CSR, Hearing Reporter for the Office of Administrative Procedure, hereby certify that the foregoing pages Number 1 through 81 contain a full, true and correct transcript of the stenographic notes taken by me in the Meeting of The State Lands Commission of the State of California, in Los Angeles, California on November 6, 1963.

DATED: December 12, 1963.

Margaret L. Lombard, CSR
Hearing Reporter
TRANSCRIPT

SLC & Long Beach City Council
Offshore Oil Contract

November 6, 1963
REPORTER'S TRANSCRIPT

Joint Meeting of The
STATE LANDS COMMISSION
and The
LONG BEACH CITY COUNCIL

AT LONG BEACH, CALIFORNIA

NOVEMBER 6, 1963, 2:30 P.M.

PURPOSE: TO DISCUSS VARIOUS ASPECTS OF THE
PROPOSED OFFSHORE OIL CONTRACT
PARTICIPANTS

STATE LANDS COMMISSION:
Hon. Hale Champion, Director of Finance, Chairman
Hon. Alan Cranston, Controller
Hon. Glenn M. Anderson, Lieutenant Governor
Staff: Mr. Alan Sieroty, Executive Secretary to the Lieutenant Governor
Mr. F. J. Hortig, Executive Officer
Mr. W. Kreft, Assistant Executive Officer

Mr. Irwin J. Nebron, Deputy State Controller

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

LONG BEACH CITY COUNCIL:
Hon. James A. Hayes, Vice Mayor, 4th District
(acting as Mayor Pro Tempore)
Councilman Raymond C. Kealer, 1st District
Councilman Bert Bond, 2nd District
Councilman Emmett M. Sullivan, 6th District
Councilman William S. Grant, 3rd District
Councilman William A. Graham, 8th District
Councilman R.E. "Pat" Corbett, 9th District
Councilman Robert F. Crow, 7th District

CITY OF LONG BEACH:
Mr. John R. Mansell, City Manager
Mr. Gerald Desmond, City Attorney
Mr. Harold A. Lingle, Deputy City Attorney
Mr. Leonard W. Brock, City Petroleum Properties Administrator

Reporter:
LONG BEACH, CALIFORNIA, WEDNESDAY, NOVEMBER 6, 1963, 2:30 P.M.

VICE MAYOR HAYES: Come to order. Madam clerk, will you call the roll?

(Roll called by the city clerk, indicating Councilmen Graham, Keeler, Bond, Sullivan, Grant, Corbett, and Vice Mayor Hayes present.)

THE CLERK: Mr. Mayor, we have the affidavit of posting order of adjournment to be received and filed.

(Moved and seconded.)

THE MAYOR: No objection; it is so ordered.

Ladies and gentlemen, we are gathered here today in an adjourned meeting of the Long Beach City Council, and we are pleased to have with us in attendance at this meeting the members of the State Lands Commission of the State of California.

The purpose of this meeting is to discuss various aspects of the offshore oil contract, proposed contract, and to that end we intend to inquire and to present certain matters to this body and to the State Lands Commission. This is an informal meeting. Neither body is intending by this meeting to take any formal action, but it is an exploratory session.

For purposes of identification I would like to introduce to each of you, so that all of you are familiar with them, the members of the State Lands Commission and also the members of the City Council. First of all, sitting on the stand here with me, the Chairman of the State Lands Commission and the Director of Finance of the State of California, Mr. Hale Champion. And seated at the end of the council table to my right, the Controller of the State of
California, member of the State Lands Commission, Mr. Alan Cranston. And to the left, the Lieutenant Governor of the State of California, member of the State Lands Commission, the Honorable Glenn Anderson.

Members of the City Council seated to my right and around the table, Mr. Raymond C. Kealer of the 1st District, Mr. Bert Bond of the 2nd District, Mr. Emmett Sullivan of the 6th District, Mr. William S. Grant of the 3rd District, Mr. William Graham of the 8th District, Mr. "Pat" Corbett of the 9th District. And I am James A. Hayes of the 4th District, presiding today as the Vice Mayor in the absence of the Honorable Edwin Wade, the Mayor, who is visiting the Mayors Conference in Japan.

I would like to request each of you who speaks today, because there are many of you here to identify yourself at the time that you speak, so that the reporters are able to identify you in the record. Also I would like each of you to use the microphones in order to make it possible for everyone in the room to hear.

I neglected to mention, and I think I should introduce at this time the Executive Officer of the State Lands Commission, who undoubtedly will be speaking considerable today, Mr. Frank Hortig.

Now at this time I would like to introduce Mr. Champion, to make whatever remarks he would care to make at this time.

MR. CHAMPION: Thank you. We appreciate very much this opportunity to meet and discuss these matters with you today, and as you said, the Commission itself is not in any kind of a formal meeting, and the remarks we make will be as individuals in this kind of an exploratory
session, and when I speak, I included, I do not necessarily
speak for the Commission, and that will be true of the other
members. We want to enter into a free and full discussion.

As a matter of fact, there may even be still some differences
of opinion on some various points. The main thing is we
want to explore them.

One thing that I think is germane to the meeting,
the Lands Commission met in Los Angeles this morning, and
on the motion of Mr. Cranston we adopted the following
resolution:

"I move that the State Lands Commission
hereby express its desire to enter into
a point by point review of the points at
issue between the Commission and the City
Council of Long Beach, in regards to the
proposals for development of the East
Long Beach-Wilmington oil field. It is
the suggestion of the Lands Commission that
this review be commenced at the staff level,
and the Commission hereby authorizes the
Commission's staff to meet with the City
Council staff for this purpose at a mutually
convenient time subsequent to this afternoon's
joint Commission-Council session."

This was unanimously approved by the Commission.

The purpose of that is to move us from the situation, "you
have a proposal, and we have a proposal," and to try to get
a review on individual items to see whether there can be
some meeting of the minds. I know members of the Commission
in certain areas think that, on review, perhaps some of the
things that have been put forth by Long Beach in the past
are correct. We probably would agree with some items on review. There are others on which we think that there is a middle ground between the position of Long Beach and of the Lands Commission. In fact, sometimes in a couple of cases that I can think of, I think the middle ground is more desirable than either of our positions just on its own, without regard to its being middle ground. And it is just to discuss that sort of thing that we wanted to meet with you today, and appreciate this opportunity. I would hope that this exploratory session could open the way, in line with this resolution, to the City Council having some sort of similar action, so that our staffs could get back to work after we have broken the ground here this afternoon, and proceed with this matter which is of such great importance both to you and to us. Thank you very much.

THE MAYOR: Thank you very much, Mr. Champion. I am sure this will be the means of perhaps getting over some of the rough spots that have been inherent in the past.

I'd like now at this time to call upon the Chairman of our Harbor, Industries and Oil Committee to make a presentation concerning the history of this matter, if you would, Mr. Kealer.

MR. KEALER: Thank you very much, Mr. Mayor.

Mr. Chairman, members of the Commission, guests and friends: this in brief is a short summary of what has taken place, merely to bring us up to date, and before I even attempt to read it I -- it is my belief and I think it is that of my colleagues that when two agencies get together with the objective of getting something done, areas of agreement can always be found. It is my belief that will
happen after this meeting. Also the Mayor called for an
adjourned meeting in the event that the Council wanted to
act on the very thing you mentioned. We will be in a
position to do so. And now with your permission I will
read this statement:

(Councilman Robert F. Crow entered at this point.)

"It seems appropriate at this time, particularly
since three of our nine councilmen have taken
office since July first of this year, to give a
brief resume of the circumstances leading up
to today's subject.

For a considerable time past - a number
of years in fact - it has been believed that
oil deposits were present in the area east
of Pine Avenue and lying mostly offshore.
State officials were interested in ascertaining
when the City, as the trustee of the granted
offshore lands, would take steps to bring
about development of the area. However,
with the terrible consequences of subsidence
in the harbor district still plaguing the City,
it was necessary to attain a full solution
of that problem before undertaking a new
project which might have similar tragic
results. Furthermore, a long standing
Initiative Ordinance banning oil drilling in
a large part of the City had been extended in
1956 to prohibit drilling in the undeveloped
offshore area without prior approval of the
voters.

A new City Council term began in July of
1960 and with the prospect good for a full
solution in the near future of the subsidence
problem, the City Council asked that studies
be undertaken to determine what legal or
engineering considerations would have to be
taken into account. In November of 1960 the
City Attorney's office gave the Council an
analysis of the legal aspects of the City's
responsibilities regarding possible future oil
production and regarding subsidence. And on
October 21, 1962, the Petroleum and Subsidence
Control Division of the Long Beach Harbor
Department published an extensive report of
their year-long studies and set forth a
development plan for the undeveloped townlot and
offshore areas of the Wilmington Oil Field.

After considerable further study by the
Council's Oil Committee and by the City Council,
there was prepared an ordinance implementing
the Initiative Ordinance by providing a program
for the orderly development, from four islands,
of the oil reserves both offshore and upland. A
special municipal election was called and on
February 27, 1962, the measure was overwhelmingly
approved by the voters.

Immediately thereafter, on March 7, 1962,
the first of many meetings with State
officials was held in the Los Angeles office
of the State Lands Division. There it was
fully understood that development of the area
would only be undertaken on a unitized basis
and the first effort to be made was to reach an agreement on the formation of a unit which would be satisfactory not only to the City and State but also - so that they would be executed - the contracts had to satisfy the owners of the upland property or those to whom they had leased, with six or seven oil companies holding the vast majority of the upland area's rights.

From May through August of 1962 meetings were held to work out the necessary Unit and Unit Operating Agreements and the supplementary exhibits thereto.

In addition to the creation of a general Management Committee, others were established to cover specific phases of the problems including an Engineering and Equities Committee, a Legal Committee, an Accounting Committee and a Tract Exhibits Committee. During the four months referred to in addition to the meetings of the technical committees there were fifteen meetings of the Management Committee, the last being on August 29, 1962. Full acceptance of the contracts which resulted was arrived at and the Unit and Unit Operating Agreements were printed and published October 1, 1962.

At all of such meetings, various State offices were represented but it was made clear by the representatives that they were present as auditors and not as voting participants.

Meanwhile, officers of the City Attorney and the City Manager had commenced the drafting...
of a field contractor agreement which would be put out for competitive bid. The first draft was completed in October of 1962 and distributed to the State Lands Division, the Attorney General and to some forty companies in the oil industry for the purpose of soliciting suggestions, for the City has always kept in mind the necessity of producing a document which would attract a high number of qualified bidders. Therefore, suggestions received from the industry were weighed carefully in the production of the final draft of the Field Contractor Agreement which in February of 1963 was submitted to the State Lands Commission for approval and first considered by the Commission at a lengthy hearing on February 28. Many suggestions of the State Lands Division and of the Attorney General were included within the final draft and in certain side agreements requested by the Attorney General and approved by the City Council.

Discussion on the proposal was taken up at the Commission meeting one month later. Then, at the recommendation of the Commission, on April 15 and April 22, full days were devoted to a public review of the documents - the Field Contractor Agreement, Unit Agreement, Unit Operating Agreement, the Exhibits thereto. The State Lands Division, the office of the Attorney General and representatives of the City participated in the explanation of the documents.
to the oil industry and other interested parties. Further meetings of the State Lands Commission took place on April 25 and May 23.

In the meantime, the State Legislature was in session from January 7, 1963, and a special committee of five Senators was appointed by the Senate Rules Committee to participate in the hearing conducted by the State Lands Commission on February 28. On March 21 four of the committee members submitted a resolution (SR 100) which requested the Lands Commission to withhold its determinations with respect to all of the documents relating to the proposed oil development program and asked that the General Research Committee of the Senate be directed to make an appraisal of the proposal and to report at the current session of the Legislature.

The resolution was adopted by the Senate, a special subcommittee of the Senate General Research Committee was appointed with Senator Virgil O'Sullivan as chairman, the subcommittee employed three Washington lawyers including Oscar L. Chapman to study and report to the subcommittee. On May 18, the report was filed and it was reviewed at a public hearing in Sacramento on June 3, 1963. On June 10, the subcommittee released a progress report. The Legislature adjourned on June 21.

The State Lands Commission at its regular meeting of June 27, 1963, directed the Lands
Division to redraft, in conjunction with the City, the contractual documents with four principal changes as follows:

I. Tract No. 1 (the offshore area between Pine Avenue and the former Alamitos Beach State Park) to be offered in five undivided interests of 45%, 25%, 15%, 10% and 5%, with the successful bidder for the 45% interest to be the Field Contractor, and with cash bonuses on all five interests.

II. A reservation of the right by City and State to take 12-1/2% of production in kind.

III. An option to the City and State to take an additional 12-1/2% of production in kind.

IV. Establishment of a minimum guaranteed operating profit to the City and State by specification of a percentage return of the gross value of production.

Consideration of the foregoing proposed changes was undertaken by the City and, at its regular meeting on September 24, the City Council rejected three of the proposals and approved the second for a reservation of the right to take 12-1/2% of production in kind. The City Council then unanimously adopted a resolution, later transmitted to the Lands...
Commission, reaffirming its approval of the Field Contractor Agreement in the form as originally submitted with the one modification just referred to.

A suggestion was then made that the City Council and the Lands Commission meet together to ascertain if a mutually satisfactory conclusion could be arrived at. May I close this summary by stressing these thoughts:

First -- every day that passes without undertaking the development of the field means a delay in the receipt of vitally needed revenues. Second -- the Unit Agreement will have no force or effect, without an agreement for extension, if it is not effectuated by January 1, 1964. Third -- all indications are to the effect that this is a propitious time for letting the area for bid, a situation which might not prevail in the future. Fourth -- the documents submitted for approval -- the Unit Agreements prepared by the representatives of the working interests and the field contract prepared by the City with the aid of the Lands Division and the Attorney General -- have been prepared by legal, engineering and other experts in the oil development field based on local experience where problems similar to those which must be faced have already been encountered and appropriately handled. Fifth -- the public interest in the development of the oil resources has been kept uppermost in preparing the documents which the City believes will prove
even more beneficial from the public standpoint than the agreements which in the past have drawn praise as the finest in the history of the oil industry.

We have prepared and will distribute at this time pages setting forth the contract proposals and the Commission's recommendations in respect to the four facets of the documents discussed by the Commission at its June meeting. It may be noted in passing that as to the four recommendations for change, the final draft of February 25, 1963, did not vary in these areas from the draft of October 1962."

That closes my statement. And Mr. Mayor, and Chairman, should I read this? I have been asked to read these, the contract proposals.

MR. DESMOND: Mr. Kealer, I would suggest that since there are four and they are separated in four different proposals of recommended changes, that you read the one first, and then see if there are items to be discussed, and then go to the second one, rather than --

MR. KEALER: I believe it will be found that on each of these pages that each page contains one of the proposals and then there is room for notes, if any wish to be taken.

The contract proposes:

Tract No. 1 to be offered in one undivided 100% interest, the successful bidder to be determined by ascertaining the highest net profit to be shared by the City and State with a provision for 51 million dollars to be advanced by the contractor to the City and State over the first...
three years of operation, such payments to be
treated as advance production payments.
The Commission recommends:
Tract No. 1 to be offered in undivided interests
in the proportions of 45%, 25%, 15%, 10%, and
5%. The successful bidder for the 45%
interest to be designated as the Field Contractor
to assume all obligations of developing and
producing the field, and to be the sole
beneficiary of the "Administrative Overhead
Allowance" (currently proposed at 3%). The
45% interest to be offered for the consideration
of a fixed cash bonus in the amount of
$20,000,000, with the biddable element to be the
percentage of the net operating profits offered.
The remaining undivided interests (25%, 15%,
10%, and 5%) to be offered for the con-
sideration of a fixed percentage of the net
profit equal to the net profit bid on the 45%
interest, plus payment of a cash bonus as the
biddable element. (Each undivided interest
holder to assume his pro rata share of the
development and production costs, determined
by the undivided interest percentage held.)
That is left for notes. If it is the will of
your honorable body, gentlemen, I can read the others
or I can stop any time you ask me.

On page two in item II the contract proposes:
do you wish to comment on the other one?

MR. CHAMPION: Well, I have a comment on it, if you
want to do it now.
THE MAYOR: I would think it might be more orderly if we have our observations on each portion of the contract as we go along.

MR. CHAMPION: As a basis for discussion on the differences here, I have a couple of suggestions, and these aren't fixed, but I think they offer some principles of meeting the differences here. One is that I think a better way to approach the problem of the initial payment is in this form: To make a total advance production payment as originally suggested by you of the $51 million dollars to be paid at the time the contracts are awarded, the contractors to recover their share of the advance production payment without interest out of the first net profits. Now I think this meets the tax problem, and perhaps will bring us a greater economic benefit; this in lieu of the bonus arrangement. In other words, we would go to an advance royalty and return some from that. That's one general principle. Of course, there are a number of details in connection with that.

Another suggestion I'd like to make, and that is that these percentages in the undivided interest, I feel very strongly that there should be undivided interest for a number of reasons, but I -- I do have reservations about having none with a majority control.

Let me say this: I don't think there is any problem at all, as I understand it, among us on the unit agreements. I think that there are also substantial advantages, both economic advantages and operating advantages, to having the winner of the major undivided interest have more than 50%. I was going to suggest 60%.

I am also concerned that perhaps a breakdown at the
other end, somewhere where we had heretofore listed 5%,
and I don't know exactly where this 5% might come from, but
ought to be broken, one 5% segment or 5% from one of the
other segments, ought to be broken into smaller portions.
This goes into some other problems, but I think probably
this would permit some refiners to benefit from this who
would not benefit from the 12-1/2% provision for taking
in kind. This would give them an opportunity to participate.
These are in this general area, these are the two suggestions
I'd like to make personally. Perhaps other members of the
Committee might like to.

THE MAYOR: Mr. Sullivan.

MR. SULLIVAN: Mr. Mayor, Mr. Champion, we councilmen
are lay people, and we are dependent pretty much on, as some
of you gentlemen are, technicians, experts in oil production.
We have been told, convinced, Mr. Chairman, that our
submitting of the proposition of one unit, or 100%
interest will bring the greatest number of dollars return
to the State of California and the City of Long Beach. We
feel that we have submitted to you, and the way of procedure
is, is the best form of development under good oil field
practices to develop the fields as economically as possible,
and also to protect the City against subsidence. But I
believe that we would have to be convinced, and I am open
for conviction, I have to go with our technicians just like
you gentlemen do, I don't have the privilege in my
responsibility to say, "Well, let's let a lot of people in
the act." I think our responsibility is to try to get the
most number of dollars to the people of the State and the
City of Long Beach. We are partners. Now, I am open for
conviction, if somebody can show me that they have a better
form of contract than what we have submitted to you
gentlemen for your consideration, I am the first one to say,
I will support it. But I don't believe that I, as a
Councilman, in my responsibility can support a type of pro-
cedure that will lessen the dollar return. I think that
that's the responsibility of public funds, and I know you as
the Chairman of the Lands Commission have to live with it
every day, and it is a great problem, and I think that is
where we have this troublesome problem, is that we feel this
will bring the most dollar return. Now if there is a formula
that will accomplish a better return to the people of the
State under these circumstances of good oil field practices,
I am for it.

MR. CHAMPION: Well, I'd just like to comment briefly on
that. I don't think we are far on the facts, at least as I
see them. I think there may be a chance that a hundred per-
cent thing would return the greatest degree. As far as the
Lands Commission is concerned, or -- I am again speaking for
myself -- I think that is a questionable item. I think there
is a lot of speculation as to which way that might go.

But, as I think we made clear in the other
discussion we have had, we feel that there is an element of
public policy in terms of control of all of this oil, and
that there must be some provision to make sure that this is
not a monopoly situation, even if a monopoly situation would
produce the greatest economic return.

It would be nice if you could operate government
totally like a business, and the dollar decided everything.
In some ways it would make it a lot simpler. But we have
a good many other considerations in public policy here, and
particularly in the oil market, and without going into
specific percentages, I think that the Commission on principle all, all believe strongly in the undivided interest theory, to one degree or another.

THE MAYOR: Mr. Cranston.

MR. CRANSTON: Yes. Let me say first, that I feel that the sort of discussion we are having right now is primarily designed to lay the groundwork, I would think, for further exploration by the staff. We can now just explore where there is room for further consideration, and I think make it plain that as many of us as possible are not firmly committed to rigid positions that can't perhaps be ironed out in one way or other. I think we will find some position between, and that perhaps cannot be changed.

Commenting upon what Hale said, I do believe that an alternate method such as the one that he proposes, so far as the initial cash is concerned, is the middle ground between what we would propose, after you made a different proposal, and without committing myself to supporting that at the present time, it seems to me that what he suggested is probably -- and of course it should be acceptable both to the State and the City -- I recommend that we look into it.

On the matter of the undivided interest versus a 100% share, I don't think that it is possible to really decide which way is going to produce more money. You can build a plausible case for somebody paying more for 100% than he will pay for less, because he wants full control. On the other hand, I think you can make an equally plausible case that you can get heightened bidding, heightened participation, and hence more money by having some undivided interest.

I do believe with Hale that a matter of principle is involved here, and that we should not
easily depart from the idea of breaking the field up in some fashion in terms of undivided interest. But I am not firmly committed to any great rigid formula, 45%, 25%, etcetera. I think that they should explore what makes the most sense. I do concur with Hale that we should have some smaller units, such as the two-two-one, very small collection of three units, and I am willing to consider, what is wiser than 45%? I wouldn't be inclined, I think, to go higher than say, 51%, but again I am not trying to be rigid there.

GOVERNOR ANDERSON: Mr. Chairman?

THE MAYOR: Are there any other observations on this first point? Governor Anderson.

Could you use that microphone, Governor, please?

GOVERNOR ANDERSON: Oh yes. First, I'd like to say that I think Hale pretty well gave the general feeling of the Commission. I feel that the -- that we are all agreed on unit agreement, on a unit agreement approach. An advance royalty without interest is one that I hope that we can all agree on, and the break-up of the five per cent into the smaller amounts, again I can't see any reason for having a problem, having a problem on that. The speculation that, as Mr. Cranston pointed out, that the bigger bidder, if you had 100%, would pay more for this hundred percent, or this monopoly, or control, or whatever you call it, is something that is highly speculative, and if it were true, I would feel that there would be inherent danger in what they would be paying for, which would be one of the things that would concern me. Frankly, I have felt that open competitive bidding, letting more people in, would result in more money than if we have the 100% offering, which would be so big that it would eliminate most of the
prospective bidders in California, and this is one thing I do not want to see, and I would rather see it broken up as it was originally suggested, so that we could have more free competitive open bidding in California. And I think that even if it brought in less money, which I am not willing to accept at this time, because I think this, as Mr. Cranston pointed out, you can raise an argument both ways on this, but that even if it did bring in less money, the fact that the interests, the public policy, of California, the City of Long Beach, would be establishing a policy against monopoly control, I think that in itself has some value, and that is in a sense, in a nutshell, how I feel. I am not even entirely convinced, but this is the sense I feel at the present time.

THE MAYOR: Mr. Crow?

MR. CROW: I have a question. When the term "monopoly" comes up, Governor, on what basis would you, or could you, or have you been advised that such a situation exists? Is it not so that the City of Long Beach and the State of California have surveyed this question quite thoroughly through their legal channels, and perhaps there is something that you could add to it by telling us of what the findings have been. Has there been monopoly, has there not, Governor? A direct question to you, that you have been advised by the Attorney General's office that such a situation does exist?

GOVERNOR ANDERSON: I used the word that a 100% offering, a 100% control or monopoly, or whatever you call it -- maybe we are talking about semantics here. When I see a field the size of this being in one hand, to me this tends toward monopoly. It is a large portion of the production of California, and this is the one thing that I am concerned
with. I don't want to see any sizeable unit that could influence the production of oil in California, could influence the cost or anything else.

MR. CROW: I appreciate that answer, but my question was, have you ever been advised by the Attorney General's office that such a situation exists?

GOVERNOR ANDERSON: Such a what?

MR. CROW: A monopoly / these conditions.

GOVERNOR ANDERSON: We are talking about something brand new. We are talking about a bigger field than any of us have ever been involved with. This field in itself can be a condition that never existed and can develop into a tendency toward monopoly in California.

MR. CROW: But then I would gather that in either event from a research standpoint there has been no criticism of one over the other as far as the legality, or that a monopolistic situation does exist in the City's preference on this item I?

GOVERNOR ANDERSON: I would say that the recommendation we made is one that would protect against any monopolistic condition that could develop. We are talking about a field that will be 25% or upwards of the total in the State, there is a lot of oil here.

THE MAYOR: Mr. Champion?

MR. CHAMPION: I'd like to comment that we have, of course, discussed this with attorneys in the Lands Commission. We have not raised this as a legal question, that is, a violation of any statutes. We raised it as a matter of public policy rather than legality. I don't think but that there is any question that we have adequate law to deal with antitrust situations. However, this discussion has been
in terms of public policy in the Attorney General's office, and these discussions have felt that this was a serious question of public policy, but not of legality, illegality.

MR. CROW: Mr. Champion, we have also done the same thing on our level, and we have been advised that such a situation does not exist, that it would not be a monopolistic type of contract. That's where I believe that we may be allowed to ask as to who may be right and who may be wrong.

THE MAYOR: Well, I think, Mr. Crow; and gentlemen, I think the problem is one of the use of words. I think everyone is agreed that it is a public policy matter that we are talking about, rather than a monopoly in the true legal sense. I believe that members of the Lands Commission have indicated today that they are not talking about monopoly in the true legal sense, but rather as a public policy matter. Am I correct, Mr. Champion? You have not received an opinion from your Attorney General's office or from the members of your Lands Commission that the proposed contract which we have submitted to you is in any sense violative of any of the antitrust laws?

MR. CHAMPION: No, we have not, and I don't think that we have ever raised the question, the question that it might be.

MR. CRANSTON: I think we are really talking about two separate things, and you, I suspect that you have not been advised by your staff that there is or there is not a public policy. You have asked your staff different questions than we have asked our staff.

THE MAYOR: That is correct.

MR. KEALER: I might just make one statement: In all of my experience in the industry you'd never know where the
top dollar is. You just do what you think is the best
deal and get the best deal you can, and get the top dollar.

Item II is the contract proposes:
"The contractor is obligated to take and account
for 100% of the production.
The Commission recommends:
A reservation of the right to elect to take
12-1/2% of production in kind, in favor of the
City and State, as to all of Tract No. 1. This
reservation could constitute the supply for
"sell-off" to small refineries as crude supplies
might be required in fact.
This recommended change approved by the City
Council on September 24, 1963."

MR. CROW: May I ask a question, Mr. Kealer?

THE MAYOR: Mr. Crow.

MR. CROW: Mr. Kealer, was it not the intent of the
City Council on September 24, when they agreed on reservation
of the right to elect to take 12-1/2% of production in kind,
so as to satisfy the smaller refineries, was that the
intent as far as the Council of the City of Long Beach?

MR. KEALER: Yes.

MR. CROW: It was.

MR. KEALER: Yes.

THE MAYOR: Any other comments? Mr. Sullivan.

MR. SULLIVAN: Mr. Crow, I am under the impression that
there was an informal suggestion by a representative of
the Department of Justice that if this did take place, that
then would eliminate any possibility of monopoly or freeze-
out on the smaller refineries, and I think that that was one
of the strong arguments for me to vote for it.
MR. CROW: Right.

THE MAYOR: Excuse me -- Mr. Champion, go ahead.

MR. CHAMPION: Well, I think Mr. Sieroty was probably
-- would like to raise the same point that I had in mind.
Mr. Sieroty is Lieutenant Governor Anderson's assistant.

MR. SIEROTY: Yes, sir.

THE MAYOR: Would you push in the side of your micro-
phone, please?

MR. SIEROTY: I was going to raise this point, however,
that under present State law this 12-1/2% "sell-off" would
not, could not be used to sell solely to small refiners or
small business. The Federal Justice Department did hope
that California could somehow use this 12-1/2% to sell to
people in their category of small business. They have
certain requirements as to number of employees, and refining
capacity, but our State law at the present time would require
the City and the State to sell to the highest bidder. So
this present 12-1/2% "sell-off" reservation we cannot
say would satisfy either the Justice Department entirely,
or we cannot say that it would satisfy small business
entirely, because it will be open to every responsible bidder
to purchase oil. I would hope, however, that perhaps the
State Lands Commission might suggest legislation which would
allow the City and the State to make some provisions for
selling to either companies which had not received an
interest in the East Wilmington Field, or companies of a
certain size, or some other preferential treatment.

THE MAYOR: Is there anything further on this item?

Item number III, Mr. Kealer.

MR. KEALER: Item number III, the contract proposes:

"The contractor is obligated to take and account
for 100% of the production.

The Commission recommends:

An option to the City and State to elect to
take up to an additional 12-1/2% of the production
in kind from all of Tract No. 1 at the
approximate time when the development has
reached peak production. Election of this
option would be dependent upon the basic public
interest requirements as determined by the City
and State, particularly in consideration of the
distribution of the undivided interests, which
were offered separately for bid."

THE MAYOR: Mr. Champion?

MR. CHAMPION: For myself, I think that if other, if
certain other precautions are taken, that this would not
be necessary, and that then this suggestion might very well
be withdrawn. Again it is an effort to protect the small
companies, the non-integrated company, and particularly
if we are able to divide, have these small interests, this
additional 12-1/2% I think would be unreasonable and would
hurt economically the kind of net percentage we would be
offered by a bidder, and therefore we might very well
eliminate that request in the contract if the other pro-
visions take care of this item.

GOVERNOR ANDERSON: Yes.

THE MAYOR: Mr. Anderson says the same. Mr. Cranston?

MR. CRANSTON: It would depend upon the undivided
interest, but if that can be worked out satisfactorily --

MR. SIROTTO: Mr. Mayor?

THE MAYOR: Mr. Sieroty.

MR. SIROTTO: Might I say that the additional 5% which
Mr. Champion mentioned earlier, which would be broken up in the interest of two, two and one, or three and two, or two and a half and two and a half, or however it is done. I believe that this would be more satisfactory to oil producers and refiners than trying to buy oil under the 12-1/2% "sell-off". This would give them an opportunity to participate in the other advantages of oil production, additional allowances, and providing some profit to them. I think this would be a more satisfactory arrangement, and I think it is in this light that the Commission would suggest that we withdraw the 12-1/2%, the second 12-1/2%, sell-off.

THE MAYOR: Mr. Sullivan.

MR. SULLIVAN: Mr. Mayor, I think to go back to item I again, and I think that it is -- if we get over item I between us without any blood flowing, why, I think the rest of this thing will be wrapped up in about five minutes. (Laughter.)

MR. SULLIVAN: I think that the State of California, their technicians, the Lands Commission, certainly public -- there is a very strong point that Governor Anderson made, public policy, but we get into another thing of public policy, that's public funds. Now you divided this into a lot of small parcels, they are going to have development problems, they are going to have production problems, that's going to increase the cost and diminish the return. Now, how far do you go in this? 20 parcels of 5%? I mean, we can all make argument for all of this. I mean, I think that some real getting together should be made on this point. Maybe there is some alternative in suggesting the bids. I mean, I am not an oil man, and I am serious about this as you gentlemen are, but I don't want to get the City of Long Beach shot
down by some legislators by saying that you recommended some-
thing that doesn't return the constituents -- and I won't
name the county, but we can imagine plenty of this -- that
original buy. And who is going to get shot down? We are
taking a lot of abuse by these people on some unfounded charges
right now, and I think, Mr. Chairman, that going along with
 Governor Anderson's statement, your statement of Mr. Chairman
and the Controller's statement, our views on this, let's see
which satisfies the equation on this thing. I think these
 technicians are qualified. You have them, and we have them.
What difference? Maybe we could call on one of our people
to make an estimate on that, if that would be of any value
-- this is an informal meeting -- ask them what do they think
would be the difference? Maybe we could get some help.

MR. CHAMPION: I think that would be very helpful. I
know on our examination and discussion with the technicians
we are admittedly in a speculative area, what percentage of
things you would get a maximum return, or at what point some-
one might be willing to pay a premium in order to meet a
certain -- say a new refinery capacity, or something of that
type. We are in an area of speculation, but I think your
technicians and ours are in the best position to try to get a
consensus on this subject. I'd like to hear what they might
suggest.

THE MAYOR: Mr. Kealer.

MR. KEALER: Mr. I express the feeling of this councilman,
and perhaps the other -- I am speaking individually in this
matter -- that I felt that the whole philosophy underlying
this meeting would be to find areas of agreement. And that
can't be done immediately over this table, but we can bring
out the salient points that immediately need to be discussed,
and then the Commission's staff and our own officials from
the City, representatives from the City could get together and try to find a workable solution to the whole thing. That's my sincere hope that that may be accomplished.

THE MAYOR: Yes. Is there anything further as to item number III, gentlemen?

Item number IV, Mr. Kealer.

MR. KEALER: The contract proposes:

"The contractor shall pay over to the City and State amounts in accordance with his bid on a net profits basis.

The Commission recommends:

Establishment of a minimum guaranteed operating profit to the City and State by specification of a percentage return of the gross value of production."

THE MAYOR: Mr. Champion.

MR. CHAMPION: I might say about this, and I am speaking quite personally here, as I recall we had in mind the minimum royalty of 16-2/3%. Unless we are all vastly wrong about this field, it doesn't really make any difference. It seems to me that if this is something that if it satisfies people, to be sure that that is this minimum return it could be in the contract. I don't really -- so far as I am personally concerned I don't think it makes any difference at all. I think it is bound to be greater than that, and that the problem that might be raised in terms of the timing of this, if it were put as against the 51%, I don't think there would be any further burden upon the contractor as far as the payments are concerned. I don't think it would affect the bid in any way. On this point at least I am completely loose. It wouldn't make any difference to me if it weren't in the contract at all. I just feel that
we are bound to get more than the 16-2/3, that it is a
figure set which might perhaps give the public some bottom
figure, but I, I just don't think it is meaningful in terms
of what we expect to happen to this contract.

MR. KEALER: I agree with that, Mr. Champion. I think
that the way it will be produced, that you will never get
to the terms point, returns to where that will have to be
invoked, under the length of time that we can, under the State
law, make a contract.

MR. CRANSTON: Ray, I would like to ask if you think
it objectionable, does it do any damage, in your opinion?

MR. KEALER: I don't think it will ever be invoked,
Alan. If it would satisfy the equation to help people out,
where is the hurt?

GOVERNOR ANDERSON: Will you object to having it?

MR. KEALER: I didn't object to it in the first place,
Mr. Anderson.

GOVERNOR ANDERSON: Who did?

THE MAYOR: Mr. Sullivan?

MR. KEALER: The reason it was dropped out, Mr. Crow,
was pretty -- pretty much -- and I think you can ask our own
technical staff about that -- was that it was not felt -- and
using one of our old contracts, Long Beach Oil Developments
Contract, you never get anywhere near the point where that
would ever be invoked, even if it were there.

THE MAYOR: Mr. Sullivan.

MR. SULLIVAN: Mr. Kealer, the significant point on
what the contract proposes is an item called "net profits
basis." Now, when the oil committee and the City Council
reviewed this very strong arguments were made to put in that
not profits basis. I asked the question, I think you made
an explanation, that that would tend to perhaps force the
contractor into being a little more economical, if it cut
into the profits. Is that a correct statement? Am I
correct in that?

THE MAYOR: Mr. Mansell.

MR. SULLIVAN: Is that the reason that was put in,
Mr. Mansell?

MR. MANSELL: Yes. On the net profit, Mr. Sullivan,
and gentlemen, we felt, as does Mr. Hortig, that the over-all
operation would be more beneficial on a net basis.

GOVERNOR ANDERSON: What would it encourage?

MR. MANSELL: It would encourage the contractors as
well as the City, because he would be sharing the profit.

Now, the point that they bring up here, and there might be
some time over this contract where the City would want to
operate and the State whereby the return would not be 16-2/3%
of the gross. I think that Mr. Hortig and I would be in
complete agreement if it would be a minimum of 16-2/3%, in-
cluding the cumulative earning capacity over the entire
contract, and the advance royalty payment, which would
guarantee a 16-2/3 return both to the City and State. I
see no objection to that, if it was worded on that basis.

But sometime along the line the City and State both might
want to operate this field, when the net profits could
conceivably be less than 16-2/3, not the gross. We feel
that if this would approach either the Harbor or either one
of our Harbor contracts, that figure would be some 70% of
Richfield, and some 55% of L.B.O.D. of the gross. So we
would have no objection if that wording was in that manner,
and would so advise the Council, but to eliminate it completely
or to put in the 16-2/3 might discourage the operator in the
field, the contractor, to continue his operation, if he had
to guarantee that toward the tail end of the contract.

THE MAYOR: Mr. Champion.

MR. CHAMPION: I think it was always in the Commission's minds that it be considered on a cumulative basis, and so I don't think we really have any difference there. We perhaps did not make that clear in the wording of the proposal, but it is my recollection that this was understood that it was applied cumulatively, and therefore would not have any effect.

THE MAYOR: Well, Mr. Sullivan?

MR. SULLIVAN: Mr. Chairman, would the Commission have any objection to commit bidding on the net profit basis?

MR. CHAMPION: No. I think my opening statement made clear that the net, on the net profit basis was satisfactory, at least to me.

MR. KEALER: Just on the basis, if the contractor is going to get a net profit he is going to operate as economically as possible, and he is going to get a better bid:

THE MAYOR: Mr. Cranston.

MR. CRANSTON: Are we agreed then on that 16-2/3 matter then, subject to testimony? That seems to be the case, subject to draft; is that correct?

THE MAYOR: It would appear to be so, Mr. Cranston.

MR. CRANSTON: On the net profit matter, just to answer, I just want to say that my present belief is, but subject to final decision when we get to the decision point, that the percentage of net profit is a sound way to proceed; but I do not consider myself finally committed therefore.

THE MAYOR: Are there any other comments on this?

Mr. Kealer?
MR. KEALER: No, only that after all of everything has been discussed, I would like to offer a motion that may be acceptable to all concerned, since we are in an adjourned meeting; and that would be to the effect that representatives of the Commission meet with representatives of the City to try to iron these out and bring them to their respective bodies for their feeling and possible approval.

MR. GRANT: Is that in the form of a motion?

MR. KEALER: I want to wait until everyone has had everything that they wanted to say, Governor, but I feel that this is where we will inevitably have to go.

MR. SULLIVAN: Mr. Mayor, I believe that as Controller Al Cranston indicated earlier, we are meeting to discuss a matter and to give some instruction, instructions to the "brain trust"—excuse me for referring to it that way—to make a deliberation. Now what are we going to ask them to deliberate on? What about Item One, to deliberate on? Are we going to give them instructions on that? That's the problem as I see it, what instructions are we going to give them on that?

THE MAYOR: Mr. Sullivan, it would appear to me from listening to the observations that are made around the table here today, that the only area of disagreement still remaining is over item I, which relates to the division of the interests. The City's position at the moment is for the 100% interest undivided, and the Commission's proposal or recommendation is for the division 45%, 25%, 15%, 10%, and 5%, and apparently this is the area that needs exploration, and the others, if that is resolved, would apparently fall into line.

Yes, Mr. Champion?

MR. CHAMPION: I'd like to raise one other point before
we go to that. I think that seems to be the case all right, but there is another area of discussion, at least it has been a matter of discussion in the Commission, and I think as between us both in respect to this contract and with respect to the replacement contract which we approved very recently
/* and that is this matter of the determination of price, average whether to use the posted price, / posted price, or to go the highest price paid. There still is some uncertainty in the Commission on this, and I would just like to ask the present state of contract proposal as we submitted it to you, was it as average price? I mean, was it on the basis of posted prices?

THE MAYOR: Mr. Desmond

MR. DESMOND: Gerald Desmond. The Commission approved the four suggestions which we have set forth. There was also an indication that informally that ultimately the contract would also be drawn on the basis of highest posted price rather than average. I believe that what Mr. Shavelson has prepared for the office of the Attorney General to present to the Commission is on the basis of highest posted, in connection with this contract; differently than, of course, the contract -- we realize that that was not a precedent -- but differently than the contract approved on October 10 for the Harbor area development.

MR. CHAMPION: Well, the only thing I wish to add in that situation is that personally unless there is some more satisfactory way than I now know to determine highest price, I would agree on the basis of present knowledge that posted price is the most satisfactory way of doing this. However, the Commission is not, has not arrived to such a determination. I just didn't want us to feel that this matter had
been closed off, and it might be well for us to discuss these. I think we are still interested in having our staff explore with yours whether there is an administrative way to deal with the problems that are posed by highest prices. I know of none. I am satisfied in the replacement contract that nobody came forward with one; that we took the proper position. However, if there is a way of -- if someone on our staff or someone on your staff knows the way to handle that, I think probably the Commission would be interested in introducing this element into the contract. But as of now, as I say, I don't know any way to do it any better than we did it in the replacement contract.

THE MAYOR: Are there any other observations? Mr. Kealer?

MR. KEALER: Mr. Mayor and gentlemen of the Council, as you can see, I am very happy that this thing has come the way it has, and the feeling of all of us that the fact that where the two of us would get together, the two bodies, we would find some solution to our problems, because always when two agencies get together with the idea that a problem can be solved, it will be. Now there are a few things here that have to be straightened out. If we are going to talk about undivided interest, how great is it going to be? How small is it going to be broken up? That is a matter for discussion with representation from the City and the Commission, and it is just the Council's pleasure, of course, and I would not even begin to move it if I thought it met with opposition, but I will try this motion for size.

Mr. Mayor --

THE MAYOR: Mr. Kealer, just before you do that, I was talking informally here with Mr. Champion, and we both feel
it might be helpful at this point if we have the benefit of his staff's reasoning or understanding, or arguments concerning the 45%, 25%, 15%, and so forth break-down before we go into your particular motion.

MR. KEALE: Well I will be very happy to hear from him, because -- not being guilty of plagiarism -- somebody once said, "Your judgement is only as good as your information." So let's get all the information we can get.

THE MAYOR: Very well. Mr. Champion, if you would like to call upon any of the technicians of your staff, you may do so at this time.

MR. CHAMPION: Thank you. I think also it might be well if the Commission has the benefit of the views of your staff on the same subject, so that while we are leaving them this latitude to operate in, we know generally what they are going to be talking about.

THE MAYOR: Very well.

MR. CHAMPION: And I'd like to call on Mr. Hortig to go through some of the arithmetic, and I don't think any of us can hold him responsible for it, this is highly speculative, but we ask him to try to make some assumptions and just to see where he can, on the economic effect of breaking these things up into undivided interests and what would happen at various breakage points. Frank?

MR. HORTIG: Thank you, Mr. Champion.

MR. CHAMPION: Do you want more than absolution in advance?

(Laughter.)

MR. HORTIG: No, sir. Actually, for purposes of outlining a possible area for consideration by the mutual staffs which I believe was your intent to be covered by my comments,
Mr. Champion, specific numerical values probably would be extremely hazardous, but the principles of the matter certainly should be made available so that both the Commission and the council members might know the range of thinking. Practically there are an extreme range of variations possible in estimates on the effect on bids on undivided interests. For a comparator one must select a probably non-existent hypothetical average oil company with an average financial position and refinery needs, and average hopes for expansion in California, etc., for the future, who might be desirous of bidding on this tremendous natural resource which has yet to be developed in Long Beach. For such a bidder, depending again on the type of refinery, input capacity, and guaranteed reserves that the bidder would like to select, the more nearly the amount of interest that he can acquire matches his designed economic program for the future, the higher it is, the higher his bid normally is going to be. Conversely, an undivided interest which is substantially smaller in the first instance than the total amount that a particular bidder might like to decide would probably result in a discount factor being applied to the bid. This, of course, in turn would be offset, or could be offset by the accumulation of the remaining bids for the balance of the undivided parcels. I think the factors that both staffs are going to have to consider in this connection are: the selection of the optimum probable, inasmuch as no one can forecast, as Councilman Kealer has already indicated, what the actual bids are going to be, but the optimum probable can be designed, with the reasonable expectation that the practical results will come, fall somewhere near the design
value in selecting the size of these parcels, selecting the
largest parcel if it is to go in undivided interests, to
be the -- this sounds incompatible, but the smallest and
the largest, largest parcel to be the smallest one that
will still produce the highest bid for that amount of oil,
and then subdivide the balance of the parcels. There is
considerable room for both speculation and evaluation as
to whether such parcels should be above or below 50% in
the initial instance, and in this connection it must be
realized that even if the largest parcel which would be the
one to result in the designation of the field operating
contractor were to be specified in the first instance
under 50%, there is absolutely no prohibition in the
statutes; nor could there be in the contract offer, that
would preclude any one bidder from being the successful
high bidder for all parcels, no matter how many parcel
subdivisions were to be decided upon between the Commission
and the City Council.

Therefore, again we can only set the ranges for
review by staff, by staff to select the optimum parcels,
optimum size of parcels to reflect the degree of considera-
tion which the Commission feels should be given to public
policy in terms of the maximum size of parcel to be offered,
and hold this to a size which will not, if possible, unduly
discount the bids for the principal and field operating
contractor parcel.

The balance of the divisions would then necessarily
have to fall into line. Additionally I think the staff
certainly --

MR. CHAMPION: Frank, for purposes of illustration, let
me name a figure and see if you can justify it. Say we
should say that the major parcel, that that which would go to the -- to the winner of the bid on it, would be the operating contractor; say we should ask of him a 60% bid.

Now what are the factors involved in that, first, in terms of possible discounting of the bid because of the size, or the possible increase by virtue of the other, the other bids that would be coming in, and second, what would be the logic, both operating and economic, of fixing something at that size?

I will take the responsibility for the 60%. You explain it.

MR. HORTIG: Yes, Sir. I believe by "60% bid" you meant a bid for 60% interest; is this correct?

MR. CHAMPION: That's right, as the basic bid. This would be the operating contractor.

MR. HORTIG: In evaluating such a bid, if we assume first a bidder who both had the capacity and the intention to operate in California and utilize the total production of the east, the Long Beach unit, which is estimated to reach a peak of possibly 150,000 to 160,000 barrels per day, a substantially higher bid would be received for an initial parcel size larger than 60%.

Or, conversely, getting into an affirmative answer to your question, a bid for a 60% parcel by such an operator would be discounted and would be lower, and again on selection of most probable values could be on the order of 15 to 20% lower than the bid would have been for a 100% parcel. These again now are predicated on the assumptions which -- I can't go in detail on this hypothetical average oil company.

Going below 60% for the initial parcel would not --
not only result in an expectation and a probability that the bid would be further discounted, but that the discount rate would become even more rapid to the point that very probably below 50% the rate of discount would be very severe in comparison to the rate of discount on a parcel size ranging from 100% down to 60%.

MR. CHAMPION: Let me ask you about the offsetting factors involved. At least in your view, and I must confess in mine, there is a discount involved in going down to 60%. Are there offsetting factors which would tend in the whole bid to restore that, and specifically of the fact that you are going to bring more, there are more qualified bidders for the other size parcels, so there is more total money in the market for the over-all bid, is this -- and are there other factors, are there other factors which would tend to compensate for that discount?

MR. HORTIG: There are both factors which would tend to compensate and there are other possible factors depending upon the actual identity of the bidders, which would discount bids for the remaining parcels. Generally these would break down into two categories: hypothetical bidder A, who on getting the 60% parcel or the 40%, or whatever it was, who really needs more oil, would be bidding enthusiastically to acquire the balance of the interest up to the amount of oil that his design program indicates he wants for a guaranteed reserve, offsetting in part the discount because of not having received the total block of oil that he felt he needed in the first instance. On the other hand, the possibility of receiving augmented bids by a great number of bidders as a result of having produced large-scale competition by subdividing into a great number of
parcels is subject to the hazard that inasmuch as the
contracts will of necessity require a taking and paying for
oil which is a commodity which is only of use to the oil
industry as crude oil, you could reach a saturation point
where you really run out of potential customers and bidders
for all of the number of parcels that this thing could be
broken down into, and, as has been discussed, the possible
limitations to the point where the smaller operators who
would really like to acquire such a parcel cannot afford
in the light of their present refinery programs wherein
at least a portion of the refinery input is imported oil
at a lower competitive price, he can’t afford to pay a
substantially higher price for Long Beach crude, even in
terms of a bid for a parcel. This could be a discount
factor again. So the ramifications again are simply going
to reduce to what Councilman Kealer said earlier: going
to have to design an optimum program, all other things
being equal, and hope this is going to produce the highest
dollar.

MR. CHAMPION: Would this be a fair summary of your
position on this last business, this business of increased
participation: up to a point increased participation would
tend to offset the discount, but if you pushed it too far
you lose the benefit of that added participation; in other
words, you have got to be careful not only at what size you
set the 60%, if that’s the figure you chose, but you have
got to be very careful about the distribution of the
remaining parcels?

MR. HORTIG: That is correct.

THE MAYOR: Mr. Champion --

MR. KEALER: Mr. Champion, would you, after reply to
your question, I merely wanted to ask Mr. Hurtig, it is perfectly in line with your question of breaking these up into many smaller parcels, there is another hazard that the big operators, that in the event, such an event where he couldn't meet his obligations and he defaulted, then the major operator has to assume that obligation, and with their plans and their other royalties, it could increase the hazard to the major operators; is that correct, Frank?

MR. HORTIG: Definitely.

MR. SIEROTY: Uplands --

THE MAYOR: Mr. Sieroty.

MR. SIEROTY: Isn't this also true -- I am speaking now of the point about having small interests, and Mr. Kealer raised the question of what happens if one of the small interest holders would fail, when does the field contractor have to pick up that interest? What would happen if one of the working interest owners on the uplands also failed, what is the -- is there a difference between these two situations?

THE MAYOR: Are you asking Mr. Kealer?

MR. SIEROTY: Well, ask Mr. Kealer or Mr. Hortig.

THE MAYOR: Go ahead, Mr. Hortig.

MR. HORTIG: I don't believe there would be a comparability of working interest owners on the uplands. Actually the interest holders, the undivided interest holders are participants in the proceeds of the development, which would take place solely on the tide and submerged lands, with allocations of production under the unit plan to the holders of the upland properties. So there could be no equivalent default on the part of any member of the contractual team on the uplands, as there could be in connection
with an undivided interest holder under the tideland operating contract as outlined by Councilman Kealer.

THE MAYOR: Mr. Champion.

MR. CHAMPION: I think probably this indicates a kind of discussion we have had, and I'd like to say only one thing more about it, for myself, and that is this: as you know, this matter has been under legislative scrutiny as well as before the State Lands Commission, and it is pretty -- it was clear at least from some of the positions taken, I think would likely be, we as a -- the Commission agrees with this statement of public policy in general, of this part of the so-called Chapman Report, and the subsequent remarks in the State Senate Committee, research committee on this subject. So that even if there were a determination that this discount was not quite compensated for by some of these other factors, I think the Commission would still find itself -- I know I would find myself still in a -- in a very firm and committed position as far as some form of undivided interest approach.

I think very likely that this would immediately -- that if we were not to work this out, that we would find ourselves in a discussion, perhaps not only of this matter but of a number of other matters before the legislature, it would almost certainly become a matter of legislative consideration, and in the discussion of wanting to get top dollar, but recognizing also this public policy, I would hope that the Council would keep in mind this, this added instruction, resolution, what have you, that we have from the legislature. They are very much interested in this as a matter of policy, and I don't think we would feel free, even if there were, even if there were some dollars
involved, to depart from this policy without prior consultation with the legislature on the subject. And I -- this is a strong inhibition on any action we might take in this area, in which we did not have an undivided interest.

THE MAYOR: I would like to ask one question, if I could, of Mr. Hortig. Mr. Hortig, if I understand your statement, you have indicated that a 60% bid would bring some 15- to 20% lower in the bid than the 100% undivided operator. You also indicated that a 50% interest would bring about a rate of discount that would be quite severe. Could you give us some analysis of what percentage below 100% that might be offered, which could conform with the public policy suggestion that's been made by Mr. Champion and the other members of the Commission, which would not bring about any appreciable discount in the bidding price?

MR. KEALER: Mr. Mayor, may I ask that the question be more explicit? I think if you would ask Mr. Hortig this question, it would tell you exactly how he felt with respect to how much better or not better that it would be, but also the fact that you would still have other undivided interest, although they would be smaller, so if there were -- if the major undivided interest were 80% and you broke the remaining 20 up into small ones, I think if Mr. Hortig could answer that pretty clearly --

THE MAYOR: Well, rather than my giving him the example, I wanted him to give me one.

(Laughter.)

MR. HORTIG: Mr. Mayor, I hope I stated that the range of estimates and the percentage of discounts and so forth were arrived at in connection with projections of the
economic impact on a hypothetical and very probably, with
my luck, non-existent oil company. But that these could
happen under the -- and would happen under the assumed
circumstances, if the economic conditions, the refinery
demand, the future market demand, and all the factors that
go into this situation. As Chairman Champion already
stated earlier in these proceedings, and I believe Governor
Anderson also, that even if it can be demonstrated and
could be estimated that a 100% interest would produce the
maximum bid and therefore anything less than 100% is
automatically going to produce a lesser, a lesser bid of
the type on which you raised your question, that there
would be serious concern in the area of public policy
as to what had produced the factors that had produced this
maximum bid for the 100% interest, which would require
other considerations in limitation on the bidding other
than simply the maximum dollar return.

THE MAYOR: Well, Mr. Hortig, I consider a 15% or a
20% discount quite severe.

MR. (Unidentified.): Mr. Mayor.

THE MAYOR: Just a moment.

At what particular amount do you think the dis-
count would be somewhat non-appreciable?

MR. HORTIG: This would be a specific range of investi-
gation that the staff of the Lands Commission would like to
undertake and report to you in conjunction with your own
staff.

MR. MANSELL: Mr. Mayor --

THE MAYOR: Mr. Mansell -- oh, excuse me -- Mr. Siroty.

MR. SIROTY: Thank you. No, I would like to state a
disagreement with Mr. Hortig's analysis on this point,
because I think it assumes something which is quite speculative, and that is, somebody can go into the California market who is seeking 90,000 to 100,000 barrels a day of production, and I think that there may be other ways of looking at this, which cause there not to be a discount. As a matter of fact, cause there possibly to be an increase by splitting it up. So I would like to make that clear. Basically I feel that there would be more, there would be more competition for 60,000 barrels, there would be more parties who could be interested in 60,000 barrels than there would be at 90,000 to 100,000 barrels, and now 60,000 barrels is roughly 40, 45%, and I think we have to keep in mind too that any bidder here is not precluded from bidding on subsequent undivided interest, even though the Chapman Report indicated a preference for preventing one bidder from achieving more than one interest, but under State law at the present time he cannot preclude a bidder from being the successful bidder on the entire amount 100%, so that a bidder can go in and bid again if he wants that 90,000 or 100,000 barrels a day, and is likely to likely to pay more for that extra amount. So I wanted to state here that if he was clear, that I think that this discount of 15 to 20% is quite speculative, and it is the result of one situation which may or may not occur.

THE MAYOR: Mr. Crow.

MR. CROW: I feel -- I got undertones, Mr. Champion, of the guide that the legislature might put upon the action of such contracts, one way or another, and I am somewhat confused about public policy. May I have the effrontery to ask you, is there such a thing as public policy as far as
the State legislature is concerned, relative to this particular question that we are discussing today?

MR. CHAMPION: I won't try to unravel the various actions that were taken by the legislature at the last session. There were several, and some of them were different, differing in character. To my knowledge there is no full finding by the legislature as to a total body on this matter. However, a good many people expressed interest in this. They asked that the legislature -- that the Lands Commission keep certain guidelines in mind when working on this contract; and have made it quite clear that they will have a continuing interest in whether or not we have observed these guidelines.

Now, it might be that upon consideration by the entire legislature, that we would take some different position. But as to the expressed positions which have come to us in the form of a resolution from the research committee, which I think is probably the most direct comment on this matter; this is not an expression of the whole legislature. It is an expression of the committee of the legislature to which, as Mr. Grant knows, we pay substantial attention.

MR. CROW: Well, we have somewhat the same problem, Mr. Champion. We are trying to -- when we instruct the City Manager and request the City Attorney's office to do certain things for us, we -- they naturally are guided, influenced by the somewhat feeling along, feeling and sentiment of the Council. I was just wondering to what extent this, this feeling went, as far as expressing what we have referred to on many occasions today as public policy, as to whether the outline as has been presented as
the Commission's recommendations is the public policy, as far as the State legislature is concerned?

MR. CHAMPION: Well, let me say this: it is always easier, of course, to find public policy directions in those things on which you actually agree. In this case I don't think there is any difference between the Commission and those legislators who have spoken on this matter. We agree with them.

MR. CROW: In other words, the legislatures that have contacted this Commission, you are in general agreement as to what the recommendation that the Commission is extending at this time?

MR. CHAMPION: On the undivided interest matter.

MR. CROW: On the undivided interest. Now there has been said that even though a lesser amount of return has been made available, I would say that by that assertion or statement that there is a moral issue involved here, other than a direct responsibility to the constituents, to the State and county, the government, to bring about the best possible return from any type of investment that we would enter into of this nature.

MR. CHAMPION: I wouldn't characterize -- at least my feeling about it -- as having any moral connotation one way or the other. It is our view of the oil market, of the responsibilities of the State in dealing with a whole area of the economy, and in the context of the laws and instructions under which we operate, it is not -- it is not so much moral as a judgement that the public is better served by what we are proposing.

MR. CROW: Even though there is a less return?

MR. CHAMPION: Yes; although I would like to point out
that this matter of the less return, as I tried to point out when Mr. Hortig was speaking, that when he talked about the 15 to 20% discount he is talking about the initial impact in that first major bid, and it would be our hope that whatever was finally worked out, that that would be pretty substantially made up in the total pattern of the bidding. We don't think that the discount would be in this 15 to 20% area if we worked out a total work pattern, good pattern of bidding, so that we are talking about in our judgement, I think, or it is my judgement, a much smaller amount of difference of discount that might be involved because of following just this public policy.

MR. CROW: Well now, this gentleman over here in somewhat rebuttal to the undivided interest says that there is a strong possibility that the return to the City and the State will be greater. I would ask then, do you have any figures to substantiate such remark? What is there that you can aid us with today that would prove your position over the other faction?

THE MAYOR: Mr. Sieroty.

MR. SIEROTY: No, I have no figures to substantiate this, but I am suggesting also that the figures that you have just heard, referring to a 15 and 20% reduction, are not substantiated by the figures here. What I am saying is that these are both speculations, these are both ways of looking at a particular problem. I think it depends how you look at it. It depends on what factors you have in mind as to how you characterize what might happen. So I am suggesting another approach, and I think the approach that I am suggesting is just as valid as the one that has been suggested previously.
THE MAYOR: Mr. Cranston.

MR. CRANSTON: I'd like to comment on that point also. I think that on both matters and both questions before us, in the matter of the undivided interest, there are matters of judgement. It is the judgement of the three members of the Lands Commission that there is a matter of public policy involved in not permitting a bid situation that automatically insures that one company or a prearranged combination of companies will acquire this entire field through one bid.

On the matter of what happens to you in regard to income to the State and to the City, I think that this also as entirely a matter of judgement. The situation presented by Frank Hortig was a matter of a hypothetical company performing certain hypothetical acts. I don't think that we will ever know -- we do not know now, and I do not believe that we will ever know whether one procedure or another is likely to produce and has produced more money or less than some other procedure might produce, and I'd like to suggest three reasons for this: one, in terms of the undivided interest you do get the possibility of more competition because more companies will be able to bid if there are some smaller units. Some companies that cannot bid for 100% of this deal can bid for a smaller interest and a heightened competition might result -- although we will not know this -- in more income rather than less. Then, and two other hypothetical situations which might develop is this: suppose that there is a company, or several companies, hypothetical, who wish to acquire as much of this field as possible. They'd like to get 100 or 80 or 60 or 40, or whatever major amount
they can, and the more the better. I would think that
they would bid quite high if they had a chance to bid on
the 100%. I would think also that if we start off with
a 45 or a 50 or a 60% field, one or more such companies
would bid very high to acquire that portion, and then they
would proceed to bid very high on the second largest
portion so that they would then have a major portion of
this field then under their control. The company which
bid against them in the first portion that failed might
bid very high, I should think, on the second largest
undivided interest, in hopes, (a) of acquiring that for
themselves, and (b) perhaps in hopes of frustrating
company number one in its effort to acquire a very preponder-
ant control here. And this might lead to very heavy
bidding and very large income to the State.

I would like to ask Frank Hortig if that is not
a hypothetical situation which might possibly develop.

MR. HORTIG: Definitely.

MR. CRANSTON: Good. Now let me ask on another one:
do there not quite possibly exist oil companies who have
a greater interest in acquiring this oil for refining and
other purposes, and interest which is greater in that
respect than their interest in the share of the net
properties which they would acquire from the field?

MR. HORTIG: This again is a situation applicable to
some of the companies, depending entirely on the inter-
relationship of their prospective reserves and what they
hope to have for refinery capacity in the future.

MR. CRANSTON: If that is true of certain possible
companies, it would seem to me quite plausible that they
would not discount their bids appreciably, if they have to
30. to smaller undivided interests smaller than 60, 70, 80, 90 or 100, because the discount would apply to that percentage of that profit which they would ultimately receive and that is not the important factor in their calculation. They are after oil for refining or -- and such purposes.

MR. CROW: Has the State ever before entered into agreement where they had divided interests in their oil leases?

MR. CRANSTON: I don't believe that we have, but I would ask Frank Hortig. Again we are in a completely different situation. I don't think that such precedents need affect our action at this time in any particular way.

MR. CROW: No.

MR. CRANSTON: But I am glad to submit the question with you to Frank Hortig.

MR. CHAMPION: I'd like to have the answer include some statements as to volume. I don't think we have ever considered anything of this as to volume, which would have this total impact on the market. If you could put it to us in terms of the production involved here and the production involved in typical contracts of the past.

MR. HORTIG: In response to the composite question, I think a brief summary is required. One, the State Lands Commission is authorized under law only to issue oil and gas leases, and not to enter into net profits agreement or service contracts for the production of oil such as the City of Long Beach has undertaken heretofore and is proposing under the current contract. The gross production on the average from existing State oil and gas leases is approximately of the same order of magnitude as production has been heretofore under Long Beach Harbor Department's
Contract, and for the Long Beach Harbor Department parcels.

The large differential that must be recognized is the fact that the State Lands Commission has never had available for lease offer lands of the quality and the virtually known potential in most instances that the City of Long Beach has had available for development under service contracts. Therefore, a direct comparison of returns under the two systems cannot be made without including all the discount and depreciation factors necessary to get both types of operation to a common base.

THE MAYOR: Mr. Mansell -- excuse me -- Mr. Bond.

MR. BOND: Mr. Champion, I'd like to ask Mr. Hortig a question in regards to his testimony a few moments ago.

Frank, I understood you to say that there was a danger to the field contractors of a default by one of the undivided interests. Well, it is my understanding in talking to our oil people in regards to this contract, as we have offered it, or as you have offered it here in your 45, 25, and 15%, that should there be a default by one of the undivided interests other than the field contractor, that the field contractor would handle that oil and sell it at the best price that he could get for it, and I will -- would you explain the danger that exists for anybody taking the prime contract on this, or the field contract, under a situation of that type? Now if I am wrong on my understanding of this contract, I'd like to know, but that is the way I understand it, that should there be a default by one of the 25, 15, or 10% undivided interest holders, that the field contractor merely is indebted or his interest in it is in selling it at the very best price that he can get for it. This has nothing to do with the average.
posted price. It is the best price that he can get for
that oil. Would you explain that, please?

MR. HORTIG: I believe you are completely correct
in your analysis, Mr. Bond, of the problem you stated, and
the proposal for continued production of the total amount
of oil, leaving that for which an undivided interest holder
might be in default by the field operating contractor is
one of the suggested methods of handling the situation, so
there would be no danger to the field operating contractor
in the context in which you have put it. I hope Councilman
Keeler and I were discussing a different type of danger
when he used the word "danger" in the sense that on an
operation of the type proposed, if there were extreme
number of undivided interests, and I believe we were
discussing that possibility at the same time, which extreme
number of undivided interests would of course heighten the
mathematical possibility of defaults by individual interest
holders, that the necessity of undertaking operations for
handling additional oil for such defaulting contractors
in a large number might be again considered as a discounting
factor by the field operating contractor at the time he
made his own bid.

MR. BOND: Excuse me, Mr. Hortig. Say that this
contract was let at 45, 25, 15, on the undivided interest
proposal, and the default should occur by the 25% holder,
this would throw on your figures of 150,000 barrels a day
some 37,500 barrels of oil on the market every day,
immediately, would it not? That's less one-four of the
150,000. Wouldn't this affect the average posted price
considerably if this oil was available?

MR. HORTIG: Under the circumstances you have assumed,
Mr. Bond, this same oil would have been available, it would have been being produced by the field operating contractor for the undivided interest holder anyway. The only difference would be that with a defaulting interest holder then the field operating contractor would have to undertake the handling and the marketing of that additional amount of oil, which could be an operating complication suddenly thrust upon a field operating contractor which he normally wouldn't want to assume without some additional compensation, or if there were not provision in the contract for additional compensation or even modification of the production rate so as to leave this, for lack of a better term, defaulted oil in the ground until the new interest, qualified interest holder could be found. Then under those circumstances because of a hazard of having to take on such defaulted oil, a field operator contractor bidding for the largest parcel might discount his bid for the largest parcel for that reason alone.

MR. BOND: Thank you, Mr. Hortig. My understanding was that he would sell it to the best price that he could get, and if it was a matter of tankage, he would have to sell it immediately, so that seems to me of some concern.

MR. HORTIG: This was a suggestion as to a possible method of handling it under the contract, and would definitely would be in the area to be explored by the respective staffs in terms of recommending a final contract back to the Council.

GOVERNOR ANDERSON: Mr. Hortig, I'd like to ask -- like to break in on that defaultee. What happens to his advanced royalty? I don't see where you have got anything to lose if somebody puts up some advance money, and we are only going on
what we are producing each day and we are selling at the
market price at that time, I don't see where we would do
anything but gain if somebody dropped their interest. I
don't see where there is a jeopardy; seems to me like it
would be a good deal for someone if one of the people
dropped their interest. There is something being raised
I don't understand.

MR. HORTIG: I hope I didn't infer that there was any
jeopardy. I would agree with your analysis, Governor
Anderson. The only difficulties inherent in this situation
are as to what sort of a hazard to the bidder, the bidder
for the field operating contract would feel existed by
reason of this type of operation.

GOVERNOR ANDERSON: There is no hazard, but is it an
advantage to him? I see no hazard to anyone, except the
guy that gives up his interest and his advanced royalty.
We are talking about oil that is being sold every day and at
a current market price.

MR. HORTIG: That is correct, Governor Anderson.
Under the proposed form of contract the individual undivided
interest holder would market his share of the oil. He would
have the contracts. If he defaulted, lost his contract,
no longer had a market, walked off from the operation, for
whatever reason, then there would be that number of barrels
of oil every day that the field operating contractor either
under the present proposal would have to take physical
custody of, which he did not previously, and would have
to provide a market for, an operation which he did not
conduct previously, all of which would be an additional
operating burden on the field operating contractor. If the
field operating contractor considered this as a realistic
possibility of happening in the operation, he would
probably take insurance against this in terms of discounting
his bid for the privilege of becoming a field operating
contractor. On the other hand, one of the factors that
can be reviewed, and will be, I am sure, if we can have
the staff conferences which we hope are going to be author-
ized, investigate alternative operating procedures whereby
such a difficulty and sudden imposition on a field
operating contractor need not eventuate; as, for example,
evaluate what effect there would be if there was a default
as to 5% of the oil, for example, to simply reduce the
production rate from the field by 5%, leave that oil in
the ground, make the remaining distributions until such
time as a new interest holder had bid for and was entitled
to receive the 5% of the oil. There are a number of
modifications that can be suggested, and a number of
methods of eliminating the difficulties that Councilman
Bond has pointed up do exist in some of the proposals
that are now before the Council and the Lands Commission.

MR. CHAMPION: Excuse me -- might it not also be
true, however, that depending on the state of the contractor,
he might be very happy to get that additional oil? And
I think this is the point Lieutenant Governor is trying
to make. It could work both ways, I mean, he may be subject
to having more oil than he is in a position to handle, or
he may be in a very advantageous position of being able
to pick up more oil than he hitherto had and could use
in the operation.

MR. BOND: Mr. Champion, maybe the point did not come
out clear here. It is my understanding that in case of a
default, the field contractor has to take this oil. He then
will sell it -- he can't store it forever -- he will sell it for the highest offer, not the highest posted price, and perhaps there is an extra quantity of this oil in the field at that time and he can't get it at the posted, get the posted price for it, so this is a danger that is not assumed by the field contractor, but by the City and the State.

MR. CHAMPION: I agree with you, but I think that what Mr. Hortig said is still true. There are ways to deal with this situation where it does not involve a risk on the part of the field contractor.

MR. GRANT: Mr. Chairman --

THE MAYOR: Mr. Grant, Mr. Mansell has been waiting here for quite a few moments. Mr. Mansell?

MR. MANSELL: Go ahead, Mr. Grant.

MR. GRANT: I just wanted to point out that during our conversation this afternoon it developed by the State officials, the policy that is involved, which is quite important to them, taking into consideration all factors involved. Further, what we are doing now is guessing on what might take place in the event of certain actions on the part of bidders, and so forth. It seems to me that we are entering into a problem where you are going to have to work out a basic procedure that will fit our needs, and perhaps you will make some mistakes; well, that's been done in the past, and I hope we don't in the future -- but nevertheless we are going to try and apparently outguess those that are going to bid upon us, bid on our products. How naturally everyone involved here wants the best program possible for the State and the City of Long Beach. I think that primarily I wanted to point out those two items, the items that were
basically a matter of policy, which is very important, and
the further fact that the major item that we are discussing
are completely conjecture, and they will have to be worked
out on the basis of the suggestions made that you get
together and work out a solution, and that may be done,
I am quite sure, satisfactorily to all of us.

THE MAYOR: Mr. Crow.

MR. CROW: Mr. Champion, I always get back to the
factor of public policy. We can flower this up all we
want, as far as what the State would like and what we would
like, but I think the main discussion point that we have
today is on the undivided interest. So I really don't
know before we leave this room today whether we will have
reached any conclusive position whatsoever, but I would like
to feel that we, and if we do adjourn, that we somewhat,
you somewhat have the feeling of the Council as it may be,
how they feel about undivided interest. The public policy
that we have heard quite often here today -- undoubtedly is
whatever it is -- is guided and influenced by the State
Legislature. That being true, Mr. Champion, did not the
Assembly unanimously advocate the approval of the Long
Beach approach to this oil contract, and did not the
Senate reject the O'Sullivan Report and put it into an
interim study? Now if these two things are true, if the
State Legislature had unanimously approved the approach
that the City of Long Beach has to this problem, then I
would ask you, Mr. Champion, where is the public policy
coming from if it is not coming from the State Legislature
which has unanimously approved our position, then who are
the people who are establishing public policy as far as
Sacramento is concerned?
MR. CHAMPION: You don't mean the legislature, you mean the Assembly?

MR. CROW: I mean the Assembly, yes.

MR. CHAMPION: I think probably the posture here is simply this: that there was not an agreement, that the Legislature has not taken conclusive action; that there was action taken in the Assembly, there was action taken in the Senate, that if we do not find our own responsibility some agreement in this area, that it will go back to the Legislature and the Senate and the Assembly will have to work out their differences on this, and that this will then be a conclusive legislative finding. There was no conclusive legislative finding.

MR. CROW: Yes, Mr. Champion, but I feel that inasmuch as the Assembly is concerned, as far as the City of Long Beach is concerned is this problem, that we have somewhat the official blessing as to our approach is concerned. Now, if there be problems that we have nothing, no knowledge of, or if someone is magnifying a situation way beyond proportion, then I would think that it would be fair that we would know these positions. But the way that I see it, as has been told to me and what I have read and what I have learned from our City Manager and City Attorney is this, is that although they have not genuine approval for everything that we have done, more or less they are unanimous in their opinion that we are going along on the right path.

I am think to myself, Mr. Champion, and I must speak up loudly when I think to myself, that there undoubtedly are some interests in the State who want it this particular way, and there are those who want it the other way, the undivided portion. Now getting to public policy, one...
Assembly has more or less sanctioned our position, and
inasmuch as they have, what seems to be the concern as
far as these other interests are?

MR. CHAMPION: Well, let me say simply this, and I
speak for myself. Fundamentally we have taken the position
as the State Lands Commission, we expressed it to you in
the previous proposal. Personally I take the position that
this is good public policy. If the legislature is -- if
we cannot reach an agreement as to what is good public
policy here, and if we have differences, then I think the
only thing to do is to stop looking at the advisories that
we receive from the Assembly or from the Senate Research
Committee or from anyone else, and take this whole matter
to the legislature and let them resolve it. If we can't do
so, that is the form in which it should be resolved. As
matters now stand, the body fixed with the legal respon-
sibility for approving this contract is the State Lands
Commission, and it has nothing to do with any interests in
it; it has to do simply with our judgement as to what best
protects the interests of the State. We have the respon-
sibility, no one else. The legislature can alter the
conditions of that responsibility, if it wishes to do so,
but as far as I am concerned, until the legislature takes
that action legally and formally and as a whole body, as I
said earlier, not a matter of difference between two bodies
or between groups in the two bodies, then this Commission
has that responsibility. And I did not mean by anything
I said to indicate that the legislature was determining
this as of now. I said that unless we could reach an
agreement, they were going to.

MR. CROW: Well, now it has been inferred to me that
public policy is more or less regulated and guided and
influenced by the legislature; and now you are telling me
Mr. Champion, that perhaps the public policy is stemming
from the State Lands Commission.

MR. CHAMPION: Public policy is the judgement of the
people held responsible for any given act, what they consider
to be in the public interest. We are given the responsibility
of determining in this case what we consider to be in the
public interest. We can't talk about public policy as if
it were law; obviously not. If we are going to have law in
this area, the legislature is going to write new law. In
the meantime, we have to act in our discretion within the
areas set forth by the present law. And I don't think
anybody feels that we are outside that area of discretion.

MR. CROW: You wouldn't say that the State Legislature
has taken a position saying that the City of Long Beach is
contrary to good public policy as far as the --

MR. CHAMPION: Not at all, not at all.

MR. CROW: That's right.

MR. CHAMPION: I might say one other thing about this,
and that is, it seems to me, not in this discussion, but at
some of the previous discussions, we did want to explore
hypothetically this thing, but I think it would be very
helpful to both of us if with this kind of background the
staff now explored the possibilities, returned to each of us
with a specific proposal against which we could pose many
of the questions that have been posed here today. And that
probably this is, at this point would get to be a more
fruitful proceeding than to continue with a number of more
hypotheses.

MR. CROW: You don't care whether divided interest or
undivided interest: that's all it amounts to. We can --

MR. GRANT: I agree with Mr. Champion, and he is
following a line of procedure which is delegated to this
group, and I would much rather see it in his hands than
elsewhere.

THE MAYOR: Governor Anderson.

GOVERNOR ANDERSON: I wanted to ask Mr. Hortig a
question earlier, I wasn't able to get to it. Frank,
there seemed to be some, when you were making your breakdown
earlier of the 100% down to 60% and down to the other,
there seemed to be an acceptance -- maybe I am wrong --
that someone would pay a higher price, a premium price
for a 100% control. Now is this something we have evidence
on, or some speculation?

MR. HORTIG: This is calculated as a most probable
result out of the entire range of results, based on
experience of what has happened in connection with both
prior service contracts, if you will, that have been
issued to date by the City of Long Beach, the expectations
on the renewal.

GOVERNOR ANDERSON: Anything this big anywhere, Frank,
anything of this size anywhere?

MR. HORTIG: No, sir.

GOVERNOR ANDERSON: In other words, we are speculative
on there will be a premium paid for this, aren't we?

MR. HORTIG: We are speculating that there could be a
premium paid for this, yes.

GOVERNOR ANDERSON: Now the second thing, you used a
figure of 160,000 barrels per day. How many potential or
prospective bidders do we have that could handle that
amount?
MR. HORTIG: Relatively few.

GOVERNOR ANDERSON: How many, do we have any, without building additional refineries and things?

MR. HORTIG: Combinations of larger operators in California could handle this amount of production.

GOVERNOR ANDERSON: In other words, we might one if they put a combine together; do we have more than one?

MR. HORTIG: We could have.

GOVERNOR ANDERSON: But probably not?

MR. HORTIG: Probably three.

GOVERNOR ANDERSON: Probably three?

MR. HORTIG: Three, yes, sir.

GOVERNOR ANDERSON: Three potential bidders for 160,000.

MR. HORTIG: That is correct.

GOVERNOR ANDERSON: How many prospective bidders would we have if we dropped it down to, say the 45 or 50% of that?

MR. HORTIG: Inasmuch as the three potential groups that we have theorized to, taking it for round numbers, 150,000 barrels a day, and even if we cut it down to 50,000 barrels a day for the largest parcel, probably every-one of the individual companies that go to make up the three groups might be in position to bid.

In other words, you could probably multiply this by a factor of three, nine or ten.

GOVERNOR ANDERSON: Ten?

MR. HORTIG: By nine or ten.

GOVERNOR ANDERSON: Now if a successful bidder got this first, first bid, he was the one, one of the same ones that wanted to even pay that higher price, for the 100%, what
evidence do you have that he wouldn't then really go out and bid against other competition higher than he would have before, to get that second 25%?

MR. HORTIG: There is absolutely no evidence and no assurance this could not be.

GOVERNOR ANDERSON: And if he gets that second, and these will all be closed bids at the same time, won't they?

MR. HORTIG: No.

GOVERNOR ANDERSON: I mean, each one will have a chance to bid against each other, all ten of these groups?

MR. HORTIG: For one undivided interest at one time, yes.

GOVERNOR ANDERSON: One at a time, so you will have a continual competition, and if one outfit really wanted 100% to give you a real premium, and we reject this, and he would still want it, I presume, and then he comes, if he comes in and gets the 45%, and then he still makes sure he gets his 25%, he is going to come out right at the top, maybe. I mean I think if you are talking about dollars and cents, I think 45% will bring him up more than the 100%. I just wanted to show that there could be speculation either way. I think this is what we ought to realize; it is speculation.

THE MAYOR: Mr. Mansell.

MR. MANSELL: I think there is a lot of speculation in anything that we do, and I think that the number of people that bid on any commodity isn't necessarily the prime results. I think it is the results that count, is the factor. Now we say that nine people could bid, and then we say that none of them could handle it individually. The City of Long Beach designed this contract to attract the number of companies fused together to make the bid. I agree with
Mr. Hortig 100%, that the greatest percentage that you have in the top is the best bid you are going to have. Now if we would discount the bid as the example that he gave, the 60%, the 60%, and it was going to be discounted 20%, then out of the remaining 40% of the bid they would have to bid 33-1/3% above what they would ordinarily bid to make up the 20% that you lost in the beginning.

And we, we can say we are going to have more competition, but there's three of us bidding and we know that when Mr. Champion gets his bid he is going to be out of it, and that would leave Governor Anderson and I to bid, and when Governor Anderson got his bid, that's all the oil he can handle, so consequently, Governor, this can work on the downgrade that by eliminating competition as you go along, that the fellow got all the oil he needs, and Frank indicates here that it is a matter of how you could tell their refining capabilities, and he gets out of the ballgame entirely, then you know he is not going to bid against us, and what is left could drastically be discounted.

GOVERNOR ANDERSON: You haven't eliminated them.

Frank said there were probably nine or ten outfits that could bid for the biggest amount, and you are only talking about --

MR. MANSELL: Yes, but they are not going to bid on every amount, but you agreed, sir, that no one company could handle it. We have eliminated one important factor here that hasn't been mentioned by anybody: the cost of operation, the cost of the fact that these people that have the 45, the 25 and 15 -- 55% of the people, 55% of your interests has to rely on 45% of the interest to run his operation for him. How much is he going to discount the fact that
he has no say? How much is he going to discount the fact that he is not operating himself? I think that's one of the main factors in here, that when you -- the number you bring in and the more people you bring in, you are going to eventually run out of bidders in here and run out of competition.

I think that there are avenues on all phases that can be explored, but our position here is that the closest you can get to the 100% is the best possible return that you can make for the City and State, and that has always been the public policy of this city, is to get the highest possible return into the coffers as a trustee. And certainly we feel that there are some ramifications here, and we will discuss all of them with Mr. Hortig, but this operation in my opinion is one of the big points, as Mr. Desmond explained to this Committee far back, that we are trying to force by bid, or force involuntary combines here to take the oil, when in reality these same combines can get together and organize and form a group of companies and set up their own by-laws as they go along, and in my opinion get, make a far better bid than on this basis.

I think when you consider the operation, feasibility of this, and the discounting of the bid less than 100%, I would like to see the situation, theoretical situation and I would also like to see if this thing couldn't be bid both ways, 100% basis and the 45, and the other, and explore that and get an official written opinion from the Attorney General -- see if it couldn't be bid on both bases.

THE MAYOR: Mr. Sullivan.

MR. SULLIVAN: Mr. Mansell, the same proposition that concerns the people of Long Beach far more than the income
is their well-being, and that's the problem of subsidence, subsidence protection. Now you, as the City Manager, could you give us your estimate on the operation of subsidence control with one undivided interest, or split up? I mean what, which is the most advantageous?

MR. MANSELL: The way I see it, Mr. Sullivan, the State's proposal to the City, the public would be adequately protected under either method, because they are going to have the one contractor that would be responsible, and I think that is one of the things that we can all take cheer about, that we all agree on what I consider a very major phase of the contract, the subsidence control.

MAYOR: Mr. Kealer.

MR. KEALER: Under existing contract as it is written, the City has control over the rates of production and the handling of it so that it would at all times still be in charge of the pressure maintenance program.

MAYOR: Are there any other observations? Yes, Mr. Sieroty.

MR. SIEROTY: Before we leave, I'd like to go back to a point that was brought out by Mr. Champion briefly. Mr. Desmond referred to something that Mr. Shavelson was going to present. Without getting Mr. Shavelson involved, very simply I just would like it to be raised again so that we don't forget it; and that is simply the problem of developing an adequate pricing mechanism. We talked about highest posted price, average posted price, prevailing market price, and I'd like to ask this question: whether the contract as proposed would include that provision which was included in the L.B.O.D. replacement contract, which provided that any company which became a contractor -- in
this case I would say it would be anyone who would be the high bidder on an undivided interest -- would be obligated to reveal to the City and State its purchases and sales, not only in the Wilington field but in the Signal Hill field, the Inglewood field, and the Huntington Beach field, with that provision. Is that provision a part of this contract at this time?

MR. DESMOND: Mr. Mayor, I'd suggest that Mr. Lingle reply to it.

MR. LINGLE: No, it is not in any of the existing proposed contracts, but I think from a legal standpoint it is entirely feasible.

MR. SIEROTY: I would hope that it will be included. Along those lines, I think that the objection which was raised to the L.B.O.D. replacement contract, the suggestion that I made, that is, trying to get a prevailing market price as a standard, the objection that was raised at that time was that there was no way of determining it. We don't have any information. I'd like to point out that we would be gathering information, because we will have information resulting from the L.B.O.D. contractor, his purchases and sales in these areas. Additionally we will have information on all of the purchases and sales from contractors, field contractor and other interests having working interests in this East Wilmington field. We will be in a position to sell off 12-1/2%, which will give us from time to time some test of the market, and in addition to that, the staff can be gathering voluntary information and information from other sources. So I think the idea of working out some mechanism for developing a prevailing market price as one standard to go with the average posted, or the highest posted
price, is feasible, and I would like that to be explored
too by the staffs in their meetings.

THE MAYOR: Is there anything further? Mr. Kealer,
do you have a motion?

MR. KEALER: I think that the first, because I may not
get the opportunity to say it later, I want to express my
personal thanks to you, Mr. Champion, and Governor Anderson,
and Mr. Cranston, for your willingness not only of taking
your valuable time to come down here, but I am also
appreciative of the receptive attitude that you have had in
these discussions. I think that we are part way home when
we have that attitude and point of view. It is perfectly
obvious that further discussions are going to be necessary,
and if there is no further discussion, I would like to
move that the State Lands Commission, that the representative
of the Lands Commission and a representative of the City of
Long Beach get together and discuss thoroughly all of these
matters that have been brought before us, and then come to
us, the Lands Commission and the Council, with their
findings so that we may act on them.

THE MAYOR: Is this in the form of a motion?

MR. KEALER: Yes.

MR. GRANT: I second it.

THE MAYOR: Motion by Councilman Kealer, seconded by
Councilman Grant, that immediate study be made of the
observations gone into in today's meeting, and that the
staff members of both our body and the State Lands Commission
submit the respective proposals to the two bodies so that we
may act upon it in the near future.

MR. SULLIVAN?

MR. SULLIVAN: I'd like to respectfully suggest that
when that report is ready, that another meeting be held
similar to this, instead of -- we'd be glad to meet with
you gentlemen if you'd like to have us come to Los Angeles,
we will cooperate, and -- but I think we are going to make
some headway in this type of a meeting, rather than having
two or three representatives run up to Sacramento. I
think the City of Long Beach would frown on the entire
Council and everybody fleeing up there, but if we could do
this and hold future meetings at this level, I think we
might accomplish that. I'd like to respectfully suggest
that, to see if the State Lands would be in agreement on it.

MR. CHAMPION: Yes. I think that what we might just
do is have a general understanding in Los Angeles. We
meet there alternatively, and that's no difficulty, and when
we see what we have got, if there is some sort of an agree-
ment, if there is a basis for discussion, why, I think I
can speak for the Commission, they'd be very glad to have
such a further meeting.

I'd like to take this opportunity again to thank
you for your courtesy and attention and understanding of
our problems and our position, and I do hope that working
through the staff we can come to an early and satisfactory
conclusion for everybody.

THE MAYOR: Before we leave that point, I think
probably we should have some expression from the City
Attorney's office whether the City Council could legally
hold a meeting outside the limits of the City of Long
Beach.

MR. DESMOND: I will be glad to look into that.

THE MAYOR: Mr. Crow.

MR. CROW: Speaking of Mr. Kealer's motion, at the risk
of offending this honorable body who took an opportunity to
be present here today, and naturally we are all very
thankful that we are getting to it, I could only summarize,
Mr. Chairman, that inasmuch as the Assembly has indicated
its approval of our position and thereby establishing public
policy, it would lead me to believe that we are on sound
ground as far as the City of Long Beach is concerned, and
I would like to at this point reiterate and put in the form
of a motion, if necessary, that insofar as the divided
interests are concerned, that this Council is not in favor
of such an act. I say that for the express reason that
today I have had -- and in all due respect to you gentlemen,
nothing that you have said has influenced me to the extent
that I feel that your position is any more tenable than ours,
and not as profitable. Now this is not said in any way to
cause undue anger or to hurt anyone's feelings, but I, in
all honesty as a representative of the City of Long Beach,
feel that the best possible return will be made on an
undivided type of an interest, and I could never support
any change in that policy. And I know that it is a rather
harsh statement, Mr. Champion, and I apologize to you and
the rest of you honorable gentlemen here today, but
nevertheless, that is my position. I feel that we have
taken it in all good sincerity, and I see no reason what-
soever to change our position. And in all of these meetings
by department heads and such are only going to be concerned
primarily with divided or undivided interests, and I think
that this Council should today take a position one way or
another how they feel about it at this particular time, so
there is no doubt left in these gentlemen's minds, so that
when they return to Sacramento or return to Los Angeles, that
this is the official expression of the City of Long Beach.

MR. KEALER: Mr. Mayor, may I respectfully suggest that the motion as it is phrased does not foreclose any method; that this is to explore everything and then come up with what is considered the best for all concerned, that will work.

THE MAYOR: Mr. Sullivan.

MR. SULLIVAN: Well, I concur with Mr. Crow. I am convinced that on what information that has been submitted to me, that what we have submitted is the best proposition. However, Mr. Crow, we have sent people to Sacramento and they have had conferences with the Lands Commission and they have taken reams of testimony, spent lots of their time and our time on the reports, and we are coming down at a point now to see if we can't arrive at some point. Now what they are going to investigate is to see just what impact there is between what they have suggested and what we have suggested.

Now I am willing to get that report. I am sure that when that report comes in, as I sit here, it is going to confirm the same position that I have and that you have. But I am willing to give them a chance to go into a conference and submit something. It doesn't mean that I have changed my position at all on this thing, because I have made the statement earlier that I thought our obligation, and what it was, and I have mentioned the Council, I don't have to repeat it, most dollars, orderly development, protection of subsidence, it's a public trust, public monies. But I do believe that it is in the interest of trying to get along with this thing to have this conference.

Mr. Champion speaking for the Commission agreed to
meet with us at this level, this type of a meeting, and see what they come up with, see if we can't get along with it.

MR. CROW: I don't disagree, and I certainly feel that out of this meeting today will come many fruitful thoughts, but I don't want there to be in anyone's mind, Mr. Sullivan, that there is a possibility that I might change my mind. And I feel that 99.9% of the discussion is going to be regarding the divided or the undivided interest, and I think that an expression by this Council as to how they feel about it is the most important thing as far as our Body is concerned.

Naturally, we can be overruled, but I don't think that we should take at any point a wishy-washy attitude. And you say, "time." I think that this city has, along with this Body, has graciously lent a great deal of its time to this, almost two years now, and do not have a drilling contract as yet. And until we reach a point where we have some positive thoughts as far as we are concerned, I don't know whether we are ever going to have a drilling contract, and anything that we can do to speed that eventuality up I think is most important. And as far as my own personal position, Mr. Sullivan, I could not regard changing it from an undivided to a divided interest. I am not -- there is nothing that I have learned here or learned before that would tend to sway my opinion, and that's the way I feel about it.

THE MAYOR: Mr. Crow, have you made this in the form of a substitute motion?

MR. CROW: Well, I would like this: I would like the Council today to reaffirm its position as far as the portion of the contract which deals with the divided and the undivided interest of the offshore oil development.
request that an amendment to the original motion may be
made, that we reiterate our previous position on that
portion of the contract, and I so move; if the maker of the
motion will accept that, I would feel very honored.

THE MAYOR: Mr. Kealer?

MR. KEALER: Mr. Mayor, the maker won't accept it for
the reason that the motion as it is now made does not
foreclose anything, and I don't think this Council can
stand up and say, "This is our policy," or "This is not
our policy," till we find out exactly what can or what
cannot be done.

MR. CROW: Then I will be forced to vote no on the
motion unless it is accepted, because this Council has
made its policy.

MR. KEALER: Mr. Crow, the Council has already by
unanimous motion stated that it thought that that contract
was best, the 100% single unit. It has already stated that
it thought that was best, and the Lands Commission is
perfectly aware of that. Now I don't know where we go
from here, but I think that after conference and a meeting
of minds we can find something that is workable, and I am
not in a position today to tell you what that is.

THE MAYOR: All right. On the motion by Councilman
Kealer, call the roll.

Would you read the motion.

MR. SULLIVAN: Let's hear the motion.

THE CLERK: "That representatives of the State Lands
Commission and the representatives from the City of Long
Beach get together and discuss thoroughly all of these
matters that have been brought before them today, and come
to the Council and the Lands Commission with their findings
so that they may act on them."

MR. CROW: On the motion, Mr. Mayor, I believe that the motion is superfluous. There need be no motion for that type of thing. That has been the purpose of the entire City Council for the last two years, and if the motion was not made it certainly would not in any sense of the matter cut off any relationship that we have with the Lands Commission. And I think our purpose is very clear, and what we have intended to do before, we are going to continue these discussions, sure, but if these discussions have any reference to making a divided interest out of this thing, I cannot support it.

THE MAYOR: Mr. Sullivan.

MR. SULLIVAN: Mr. Chairman, direction to Mr. Kealer: Mr. Kealer, I personally feel that the motion should be more specific. I haven't heard any evidence here today that convinces me that what I voted for, and that was one parcel, where I have made any error in this matter. And now if you are more specific, you want this staff to evaluate circumstances on this and make a report. Certainly I am willing to listen to information, but I haven't heard -- I agree with Mr. Crow -- I haven't heard anything today that forces me to believe I made a mistake in my vote. Now I think if you would be more specific in your motion on this, then you -- you give the staff of the State Lands Commission and our City a direct task, and I think that that is what we should have.

MR. KEALER: Mr. Sullivan, I have asked them to explore all avenues, and this is not -- this motion does not put the Council in a position to do this or that. If we wait till we hear what the representatives of both bodies bring
to you, and you could act on it as in your wisdom you see fit.

MR. SULLIVAN: Well, Mr. Kealer, I think it is a courtesy to our partner, to a department of the State of California, that their consideration should be evaluated. I think that we should operate that way. I think that is the only dignified and proper way to handle public business.

That doesn't mean that I have changed my mind on this, Mr. Crow. I am not going to give in on this thing until I am convinced that I have made an error, until we show that they have made an error; they may come up with something that would show something else, but up to now I don't believe that.

MR. CROW: We have established policy, and I think that a roll call would fairly well indicate at this point whether any member of this Council has changed his mind on a divided or an undivided interest.

THE MAYOR: Mr. Graham.

MR. GRAHAM: I would like to see in some way the motion worded in a different way. I don't want to preclude any more meetings on this level between the City Council and the State Lands Commission. However, I have to agree with Mr. Sullivan and Mr. Crow that we as a council in our better -- best judgement that we are capable of exhibiting, have concluded that the 100% operation would produce the greatest benefit to the State and to the City, as near as I can figure. And I, in a way, cannot see the worry about a monopoly, when we have been told both by Mr. Hortig and Mr. Mansell that no one company is large enough to handle this as a 100% bid, and even though they, the three or two or
three or four companies that might go together as a combine
to bid on this thing might be in the over-all situation be
handling maybe 25% of the oil produced in the State of
California, at the same time that production will be
divided among more than one major company who goes into
the combine to bid on this. It looks to me like the Lands
Commission should come back to us with some type of proposal
as to how much they feel that we should, in a way, compromise
our judgement, as to what discount we should accept to
protect what they call the moral or public welfare assumption,
that is necessary for them to swallow this, this contract.

MR. KEALER: I believe that I can add this to the
motion, that will probably satisfy the equation: that I
include in it that in these studies that are being made by
the both bodies, that they come up with specific evaluations
of what each of these, that of the unit, single unit, and
then that of the undivided interest, based on whatever the
percentages may be, but if they will come up with specific
evaluations of them, I believe then you could really act
objectively on it; also could possibly include alternate
bids, where you would bid on -- so that you could bid on
both.

MR. GRAHAM: I think I could accept that, but I mean,
I am the same way as Mr. Crow, I am not convinced that
the 100% bid isn't the best thing.

MR. CROW: How is the Commission going to arrive at
such a set of figures when it is at such a speculative
stage on this point? In their discussions how are they
going to be able to arrive at anything definite that they
can propose that is concrete, when we all agree at this
point that it has been highly speculative?
MR. SULLIVAN: I would say that we haven't given Mr. Brock an opportunity to present the Long Beach side of this. The Council has heard it, and I have heard from Mr. Hortig. I am sure that Mr. Brock has a very convincing argument that supports the position of the City Council on the one unit, and I think they could make a very good case on this thing, as we heard it, and that's why we voted for it.

MR. CROW: I am not so naive to think that this case has not been submitted before. That is how we arrived at our position.

MR. GRANT: Mr. Chairman, have we a motion before us?

THE MAYOR: Yes, we do, the motion by Councilman Kealer is before us.

MR. GRANT: I approve the amendment.

THE MAYOR: And the second, that is Mr. Grant, has approved the amendment.

MR. KEALER: I think that I can help you, I think that you can leave it as it is, but to include in it that the studies made by the two bodies, they come back to the Lands Commission and the Council with specific evaluation of different types of contracts as has been discussed here, and included in that the possibility of alternate bid, one unit basis and the other one on the undivided interest basis.

THE MAYOR: On the motion, Madam Clerk, call the roll.

(Roll called by the clerk.)

(Councilmen Kealer, Bond, Sullivan, Grant, Graham, Corbett, and The Mayor voted "Aye". Councilman Crow voted "No.".)

MR. KEALER: Anything further, Mr. Mayor?
MR. CROW: Move we adjourn.

THE MAYOR: Is there anything further, gentlemen?

Before we adjourn I would like to express officially our thanks to these gentlemen, Mr. Champion, the Chairman, Mr. Cranston, the Controller, and Governor Anderson, and the members of the State Lands Commission for making this trip to Long Beach. We gratefully appreciate it. We hope we haven't inconvenienced you by reason of coming here. Personally we feel that we have accomplished much in meeting with you here today.

Is there anything further?

MR. KEALER: If there is nothing further, move we adjourn.

MR. GRAHAM: Second the motion.

THE MAYOR: Motion made by Councilman Kealer, seconded by Mr. Graham; call the roll.

(call called by the clerk.)

(Meeting adjourned at approximately 5:20 P.M.)

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