TRANSCRIPT OF
MEETING
of
STATE LANDS COMMISSION
SACRAMENTO, CALIFORNIA
December 20, 1963

PARTICIPANTS:

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

Mr. F. J. Hortig, Executive Officer

OFFICE OF THE ATTORNEY GENERAL:
Mr. Howard S. Goldin, Assistant Attorney General

APPEARANCES:
Mr. John C. Spence, Jr., Assistant Attorney, City of Long Beach

Mr. W. A. Smith Assistant Chief Petroleum Engineer, Long Beach Harbor Department

***
<table>
<thead>
<tr>
<th>ITEM CLASSIFICATION</th>
<th>ITEM ON PAGE OF</th>
<th>PAGE OF</th>
<th>PAGE OF TRANSCRIPT</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ITEM</strong></td>
<td><strong>CALENDAR</strong></td>
<td><strong>CALENDAR</strong></td>
<td><strong>TRANSCRIPT</strong></td>
</tr>
<tr>
<td>1 Call to order</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 Confirmation of minutes September 30, 1963</td>
<td></td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>3 PERMITS, EASEMENTS, RIGHTS-OF-WAY, FEE</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Department of the Navy Off. of Naval Research</td>
<td>7</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>4 PERMITS, EASEMENTS, LEASES, RIGHTS-OF-WAY, FEE</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) R. W. Cypher</td>
<td>16</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>(b) John F. Dillon and C. C. Trunelle</td>
<td>11</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td>(c) Richfield Oil Corp.</td>
<td>6</td>
<td>11</td>
<td>2</td>
</tr>
<tr>
<td>(d) Richfield Oil Corp.</td>
<td>13</td>
<td>12</td>
<td>2</td>
</tr>
<tr>
<td>(e) Signal Oil &amp; Gas Co.</td>
<td>24</td>
<td>14</td>
<td>2</td>
</tr>
<tr>
<td>(f) Standard Oil Co. of Cal.</td>
<td>8</td>
<td>15</td>
<td>3</td>
</tr>
<tr>
<td>5 GEOPHYSICAL EXPLORATION PERMITS</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adoption of form of permit</td>
<td>21</td>
<td>17</td>
<td>3</td>
</tr>
<tr>
<td>(a) Humble Oil &amp; Refining</td>
<td>23</td>
<td>21</td>
<td>3</td>
</tr>
<tr>
<td>(b) Shell Oil Company</td>
<td>22</td>
<td>23</td>
<td>3</td>
</tr>
<tr>
<td>6 MINERAL EXTRACTION LEASES</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adoption of royalty schedule San Francisco Bay area comp.</td>
<td>18</td>
<td>25</td>
<td>4</td>
</tr>
<tr>
<td>(a) Rescission of authoriz. to offer; authoriz. to re-offer 126.33 acres pursuant to application Harry C. Thomsen</td>
<td>20</td>
<td>28</td>
<td>5</td>
</tr>
<tr>
<td>(b) Authoriz. offer 905.423 ac.</td>
<td>19</td>
<td>29</td>
<td>5</td>
</tr>
<tr>
<td>continued</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ITEM CLASSIFICATION</td>
<td>ITEM ON CALENDAR</td>
<td>PAGE OF CALENDAR</td>
<td>PAGE OF TRANSCRIPT</td>
</tr>
<tr>
<td>---------------------</td>
<td>------------------</td>
<td>------------------</td>
<td>--------------------</td>
</tr>
<tr>
<td>7 CITY OF LONG BEACH</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Wharf Area Ramp, Berth 4-5, 2nd phase</td>
<td>3</td>
<td>30</td>
<td>7</td>
</tr>
<tr>
<td>(b) Water Line Reconnection to Pier 2, second phase</td>
<td>1</td>
<td>32</td>
<td>7</td>
</tr>
<tr>
<td>(c) Property Purchase - Area 7, Lot 20, Tract 1960, second phase</td>
<td>4</td>
<td>34</td>
<td>7</td>
</tr>
<tr>
<td>8 Authorization to approve Dry Gas Sales Contract - Signal Oil &amp; Gas and City of Long Beach on gas from Oil &amp; Gas Leases 392, PRC 163, PRC 425, PRC 426, Huntington Beach</td>
<td>25</td>
<td>36</td>
<td>8</td>
</tr>
<tr>
<td>9 Selection of vacant Federal Land San Bernardino County (appl. James E. Paschall)</td>
<td>15</td>
<td>37</td>
<td>12</td>
</tr>
<tr>
<td>10 Exchange application of Delbert J. Sargent, County of Imperial</td>
<td>10</td>
<td>38</td>
<td>13 -Deferred</td>
</tr>
<tr>
<td>12 Proposed Budget - State Lands Division 1964-65 fiscal yr.</td>
<td>17</td>
<td>41</td>
<td>26</td>
</tr>
<tr>
<td>13 Service Agreement with Crescent City Harbor District Chapter 1510/63</td>
<td>2</td>
<td>45</td>
<td>14</td>
</tr>
<tr>
<td>14 Proposed Oil and Gas Lease, Parcel 17, Orange County</td>
<td>12</td>
<td>46</td>
<td>15</td>
</tr>
</tbody>
</table>

continued
<table>
<thead>
<tr>
<th>ITEM CLASSIFICATION</th>
<th>ITEM ON CALENDAR</th>
<th>PAGE OF CALENDAR</th>
<th>PAGE OF TRANSCRIPT</th>
</tr>
</thead>
<tbody>
<tr>
<td>15 Confirmation transactions of Executive Officer</td>
<td>5</td>
<td>48</td>
<td>15</td>
</tr>
<tr>
<td>Phillips Petroleum Co.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Richfield Oil Corp.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Union Oil</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>16 INFORMATIVE - Litigation</td>
<td>14</td>
<td>49</td>
<td>16</td>
</tr>
<tr>
<td>SUPPLEMENTAL</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pending Studies of Tide and Submerged Land Grants</td>
<td>26</td>
<td>52</td>
<td>17</td>
</tr>
<tr>
<td>Schedule of 1964 Meetings</td>
<td>27</td>
<td>54</td>
<td>23</td>
</tr>
<tr>
<td>Approval of Drilling and Operating Contract Long Beach Harbor Tidelands Parcel</td>
<td>28</td>
<td>56</td>
<td>28</td>
</tr>
<tr>
<td>Salary of Executive Officer</td>
<td>29</td>
<td>58</td>
<td>24</td>
</tr>
</tbody>
</table>

***
## INDEX
(In accordance with calendar item)

<table>
<thead>
<tr>
<th>ITEM ON CALENDAR</th>
<th>PAGE OF CALENDAR</th>
<th>PAGE OF TRANSCRIPT</th>
<th>ITEM ON CALENDAR</th>
<th>PAGE OF CALENDAR</th>
<th>PAGE OF TRANSCRIPT</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>32</td>
<td>7</td>
<td>21</td>
<td>17</td>
<td>3</td>
</tr>
<tr>
<td>2</td>
<td>45</td>
<td>14</td>
<td>22</td>
<td>23</td>
<td>3</td>
</tr>
<tr>
<td>3</td>
<td>30</td>
<td>7</td>
<td>23</td>
<td>21</td>
<td>3</td>
</tr>
<tr>
<td>4</td>
<td>34</td>
<td>7</td>
<td>24</td>
<td>14</td>
<td>2</td>
</tr>
<tr>
<td>5</td>
<td>47</td>
<td>15</td>
<td>25</td>
<td>36</td>
<td>8</td>
</tr>
<tr>
<td>6</td>
<td>11</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>15</td>
<td>3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>39</td>
<td>13</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>38</td>
<td>13</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>10</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>46</td>
<td>15</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>12</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>49</td>
<td>16</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>37</td>
<td>12</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>3</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>41</td>
<td>26</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>25</td>
<td>4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>29</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20</td>
<td>28</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**SUPPLEMENTAL**

<table>
<thead>
<tr>
<th>ITEM ON CALENDAR</th>
<th>PAGE OF CALENDAR</th>
<th>PAGE OF TRANSCRIPT</th>
</tr>
</thead>
<tbody>
<tr>
<td>26</td>
<td>52</td>
<td>17</td>
</tr>
<tr>
<td>27</td>
<td>54</td>
<td>23</td>
</tr>
<tr>
<td>28</td>
<td>56</td>
<td>28</td>
</tr>
<tr>
<td>29</td>
<td>58</td>
<td>24</td>
</tr>
</tbody>
</table>

**NEXT MEETING** 43
MR. CHAMPION: I will call the meeting to order.

Controller Cranston is delayed on a plane flight from Long Beach and I think will be with us soon. We had intended to take up the Long Beach matter first, which was on the supplemental agenda; but until he arrives, I think we will delay that and go through the regular agenda, and we will take the Long Beach matter up on his arrival.

First item on the agenda is confirmation of the minutes of September 30, 1963.

GOV. ANDERSON: So move.

MR. CHAMPION: Stand approved. Second: Permits, easements and rights-of-way to be granted to public and other agencies at no fee, pursuant to statute:

Department of the Navy, Office of Naval Research -- Permit to conduct underwater experiments using explosives, Mono Lake, Mono County, permit to expire on December 31, 1964.

GOV. ANDERSON: We gave them permission on that last year for the same thing, didn't we?

MR. HORTIG: For the same general type of operation.

GOV. ANDERSON: Did we have any repercussions on that?

MR. HORTIG: No, sir.

GOV. ANDERSON: Everything was all right?

MR. HORTIG: Yes, sir.

GOV. ANDERSON: I move it.

MR. CHAMPION: Second, stands approved.
Permits, easements, leases, and rights-of-way issued pursuant to statutes and established rental policies of the Commission:

R. W. Cypher -- Two-year prospecting permit for geothermal steam, all minerals other than oil and gas, and mineral waters, at standard royalty rates, on eighty acres submerged lands, Imperial County, sold and patented to Imperial Irrigation District.

John F. Dillon and C. C. Trunelle -- Ten-year lease Lot 7, Fish Canyon Cabin Site, Los Angeles County; annual rental, $65.

Richfield Oil Corporation -- Deferment of drilling requirements, State Oil and Gas Leases P.R.C. 308.1 and P.R.C. 309.1, Coal Oil Point, Santa Barbara County, through April 30, 1964. Additional time needed to complete the drafting of proposed unit agreement.

Richfield Oil Corporation -- Deferment of drilling requirements, State Oil and Gas Lease P.R.C. 1466.1, Rincon Oil Field, Ventura County, through June 30, 1964. Current development appears to provide adequate drainage of producing structures; however, studies for further development are continuing.

Signal Oil and Gas Company -- Issuance of new lease in exchange for State Oil and Gas Lease P.R.C. 129.1, Elwood Field, Santa Barbara County, for a term of five years, at same royalty and upon same terms and conditions as Lease P.R.C. 129.1.
Standard Oil Company of California -- Issuance of new lease in exchange for Gas Lease Agreement for Easement No. 415.1, Rio Vista Gas Field, Contra Costa, Sacramento, San Joaquin, and Solano counties, for a term of five years, at same royalty and upon same terms and conditions as agreement for Easement 415.1.

GOV. ANDERSON: I move them.

MR. CHAMPION: Second, and approved.

Geophysical exploration permits on tide and submerged lands of the State of California. Adoption of form of geophysical exploration permit, clarifying the statement of permit conditions by citing the precise language of the statute, said form to be utilized in the issuance of any new permit and for the extension of existing permits:

Humble Oil and Refining Company -- Geophysical exploration permit for six-month period from February 1, 1964 through July 31, 1964; Mendocino, Sonoma, Marin, San Francisco, San Mateo, Santa Cruz, Monterey, San Luis Obispo, Santa Barbara, Ventura, Los Angeles, Orange, and San Diego counties.

Shell Oil Company -- Geophysical exploration permit for period December 19, 1963 through June 19, 1964, on tide and submerged lands of Sacramento River and Suisun Bay (including Grizzly and Honker Bays), Montezuma Slough, Middle Slough, and other adjacent bays, sloughs, and rivers, in the counties of Napa, Contra Costa, Sacramento, San Joaquin, and Solano.
GOV. ANDERSON: Have we had any complaint from any of those counties -- any protests?

MR. HORTIG: No, sir.

GOV. ANDERSON: Either in (a) or (b)?

MR. HORTIG: In both of the situations, all affected counties and cities have been notified. There have been no letters of protests. There have been a minority of acknowledgments of the notice, and all of the acknowledgments have been on the basis that there is no objection to the conduct of the operation.

GOV. ANDERSON: I move it.

MR. CHAMPION: Second. Is there any comment?

(No response) Stand approved. Does this meet the problem that we have had in the last couple of meetings with Shell's operations -- this adoption of form of permit?

MR. HORTIG: No, sir. The problem is still a matter of discussion with Shell Oil Company under existing permits which are up for renewal.

MR. CHAMPION: Mineral extraction leases, San Francisco Bay and similar areas: Adoption of royalty schedule applicable to mineral extraction leases in the San Francisco Bay area complex, providing for an escalation factor of five per cent per year, leases in such areas to be issued for a term of five years with a preferential right in the lessee to renew for successive periods of five years each.

In that preferential right, is there any guarantee
of a limitation to increase -- any increase, say, of the five per cent per year?

MR. HORTIG: No, sir; that is open.

MR. CHAMPION: That is open?

MR. HORTIG: To be determined by the Commission at the time of renewal.

MR. CHAMPION: Rescission of June 27, 1963, authorization to offer a parcel of submerged land in Suisun Bay, Contra Costa and Solano counties, for mineral extraction lease; and authorization for Executive Officer to re-offer for lease for the extraction of sand at a minimum royalty of eight cents per cubic yard an area of 126.33 acres of submerged lands in Suisun Bay, royalty to be paid to be in accordance with schedule approved in preceding item (pursuant to application of Harry Crone Thomsen).

Authorization for Executive Officer to offer for lease, for the extraction of sand, an area of 905.423 acres of submerged land in San Francisco Bay, Marin County, royalty to be paid (eight cents per cubic yard) to be in accordance with schedule approved in Calendar Item 18 of this agenda (pursuant to application of United Sand and Gravel Company).

GOV. ANDERSON: Have there been any protests to (a) and (b)?

MR. HORTIG: No, sir, because they haven't been offered. These are authorizations to offer for competitive public bidding and at the time of receipt of bid and
considering whether lease should be awarded would be the time
that protests would be received, if any are to be received.

GOV. ANDERSON: Neither of these items have been
discussed with the counties and they would know nothing of
these?

MR. HORTIG: No, sir. There have been general
discussions about this type of operations, but these specific
operations have not been discussed.

MR. CHAMPION: Does this open up any unusual areas
or new policies with respect to obtaining minerals from
San Francisco Bay?

MR. HORTIG: No, sir. This is a continuation of
the policy and program under existing statutes which the
Commission has been following.

MR. CHAMPION: But it does not open a new area?

MR. HORTIG: No, sir -- in the sense that they are
in San Francisco Bay.

MR. CHAMPION: No, I mean a new part of the Bay.

MR. HORTIG: Generally speaking, no. These opera-
tions are surrounded by other pre-existing removal operations,
geographically.

MR. CHAMPION: So they in no way jeopardize the
current re-examination of policies on operations in the Bay?

MR. HORTIG: No, sir -- just in the order of degree.

GOV. ANDERSON: I'll move it.

MR. CHAMPION: Second, stand approved.
City of Long Beach approvals required pursuant to Chapter 29, 1956, First Extraordinary Session:

Wharf Area Ramp, Berth 4 to Berth 5, second phase: Proposed subproject expenditure from December 19, 1963 to termination of $4,000, with 100% estimated as subsidence costs.

Water Line Reconnection to Pier 2 -- Second phase. Estimated subproject expenditure from December 19, 1963 to termination, of $17,000, with $10,200 (60%) estimated as subsidence costs.

Property Purchase -- Area 7, Lot 20, Tract 1960, second phase. Estimated subproject expenditure from December 19, 1963 to termination of $3,000, with $1,890 (63%) estimated as subsidence costs.

GOV. ANDERSON: Who makes the estimation of the subsidence costs? Is that the City of Long Beach or what?

MR. HORTIG: This is submitted by the engineering section of the Long Beach Harbor Commission in connection with these three projects, which are reviewed by the engineering staff of the Commission. The final control, Governor, is as stated in the specific resolution for each item: "... that the amounts, if any, of each of the items to be allowed ultimately as subsidence costs... will be determined by the Commission upon an engineering review and final audit subsequent to the time when the work under any of these items is completed." They are subject to final engineering and audit review.
GOV. ANDERSON: By our staff?

MR. HORTIG: By the Commission staff; yes, sir.

MR. CHAMPION: But we do, in the process of fixing these percentages, review these?

MR. HORTIG: We do review them to see that they are reasonable and the City cannot expend these funds without prior approval of the Commission.

GOV. ANDERSON: I'll move it.

MR. CHAMPION: Second, stands approved.

Authorization for Executive Officer to approve the Dry Gas Sales Contract of May 1, 1963, between Signal Oil and Gas Company and the City of Long Beach, as a basis for sale and delivery by Signal of all dry gas marketed from Oil and Gas Leases 392, P.R.C. 163, P.R.C. 425, and P.R.C. 426, Huntington Beach.

GOV. ANDERSON: Will you explain this just a little bit?

MR. HORTIG: Yes, sir. Signal Oil and Gas Company is a lessee of the State Lands Commission on the enumerated four tideland leases at Huntington Beach. From these oil and gas leases they also produce, concurrently with the oil, gas for which they now have a sales contract with the City of Long Beach -- the City of Long Beach utilizing this purchased gas for their distribution facilities in the municipal gas department. Under all these oil and gas leases, if the lessee desires to dispose of the products for money, rather than
delivering the State's royalty share in kind -- which is
the nominal election and to date it has almost been the
universal preference to receive the royalty share in money --
then sales contracts for disposition of the products must be
approved by the Commission, in order to determine that the
prices at which these are marketed represent an equitable
basis, pursuant to requirement under the leases.

Pursuant to this, Signal has submitted the sales
contract for approval, proposing to sell to the City of Long
Beach under standard terms and conditions and conformance
with all other operations in the Huntington Beach Field; and
it is recommended that the Commission approve these contracts
as the basis for the calculation of the State's royalty in
each field.

MR. CHAMPION: In other words, by "standard terms
and conditions," you mean the prices for other gas sold in
the Huntington Beach area?

MR. HORTIG: Actually somewhat higher.

MR. CHAMPION: Higher quality?

MR. HORTIG: No, but the other element that goes
into it is the matter of being able to guarantee a particular
volume of gas to a gas department -- which commands a premium.

GOV. ANDERSON: Now, this is a five-year or less
than five year contract. Did the City of Long Beach handle
this without our approval prior to this time, or did we go
into the preparation?
MR. HORTIG: The sales contract is not between the State — the contract is actually at arms length and for royalty purposes between the State's lessee and the State it must be approved by the Commission.

GOV. ANDERSON: Who drew up the contract?

MR. HORTIG: The City of Long Beach and the City Gas Department.

GOV. ANDERSON: So the State doesn't get into this until it comes up for approval?

MR. HORTIG: Yes, sir.

GOV. ANDERSON: This was brought out in the hearing the other day, so I sort of got the feeling that we only get into a last-minute approval. I wonder if we shouldn't have a little more to say -- not just on this contract, but contracts in general.

MR. HORTIG: Governor, from the standpoint of our administrative difficulties I couldn't agree with you more. Our problem is that this is the way the present statutes and contracts have been drawn.

GOV. ANDERSON: We haven't recommended any change?

MR. HORTIG: No, but this will be the subject of study -- first, with respect to Long Beach particularly.

MR. CHAMPION: Let's not -- We have two very, very different situations here when we have an interest in what Long Beach does when it is contracting out to an operator — and we have been working steadily in that field to try to get
bilateral agreements -- and this situation, where we are operating under general State law with a lessee who pays us a royalty on the thing. We have a much different relationship with him in terms of how he disposes of dry gas and oil. He pays us, in effect, not as an initial contractor in the dry gas area, but as far as royalty is concerned. Therefore, he can do what he wishes with that gas. We don't have the special relationship with them that Long Beach has, though we do have a relationship on the dry gas contract.

MR. HORTIG: We do have some control relationship with respect to oil in the lease analogous to this.

MR. CHAMPION: We would not have approval for this kind of sales contract on the sale of oil from a lessee to some other agency or company, would we?

MR. HORTIG: No sir, except as to the fact that such other oil sales contract must meet the pricing criteria specified in the lease.

MR. CHAMPION: We must be paid according to that price criteria, but they can sell at any price they wish?

MR. HORTIG: At more or less, yes.

GOV. ANDERSON: I'll move it.

MR. CHAMPION: Second.

GOV. ANDERSON: I would like to have the staff prepare, for whatever may be coming up in the special session, something along this line -- that our staff does get into the drawing of these contracts at a much earlier stage, so that
we are not just approving something somebody else has given to us, and as a result we aren't too aware of many of the things that are involved in the contract until it comes to us. It is my feeling we should be a little more in the initiating stages of a contract of this or any other type. Maybe I am wrong.

MR. CHAMPION: I would agree with you, Governor, particularly not as to this situation so much but the situation we have before us of our operations under statutes under which we have Long Beach -- Chapter 29, particularly if we are going to be involved in increasing percentage of State participation. I think that there are some things that by bilateral agreement we have been reaching accord on in arriving at contracts; but as our percentage increases, presuming it does increase, the State will more and more need to take the lead or play a closer role in the course of contracts and operation of the field. So I quite agree with the instruction of the staff that we should have formulated a policy on what we ought to be able to do if that law is reviewed in the budget session of the Legislature.

Selection of vacant Federal land in San Bernardino County, for the benefit of the State, under lieu land application where applicant decided that he did not wish to proceed with acquisition of the land: 40.08 acres pursuant to the application of James Edward Paschall.

GOV. ANDERSON: I'll move it.
MR. CHAMPION: Second, stands approved.

MR. HORTIG: Mr. Chairman, with respect to the next item, 10, the participants in the application for the matter before the Commission, Delbert J. Sargent and County of Imperial, have both requested a deferment of consideration of the item to at least the next meeting of the Commission.

MR. CHAMPION: That is agreeable?

GOV. ANDERSON: Fine -- so move, if you need a motion.

MR. CHAMPION: Fine, second. Item 10 will be deferred to the next meeting of the Commission.


I don't think that quite says it on its face. Would you explain it, Mr. Hortig?

MR. HORTIG: Yes, sir. Pursuant to the existing gas production contract held by Standard Oil Company of California, which was issued pursuant to competitive public bidding for production of gas from under the Sacramento River area, the State's participation in the production from the entire field is made the subject of annual or periodic modifications depending upon the development within the field; and the percentage participation by the State in gas on which
royalty is paid is subject to engineering and economic review and approval by the Commission, as one of the contracting parties. In this item, the staff is recommending that the schedule which is attached, which follows on page 40 of your agenda item -- which provides for minor revisions in three of the four producing zones in the Rio Vista Field in which we are participating and, specifically, a small increase in participation in the West Emigh pool and a small decrease in the West Hamilton and East Midland pools -- be approved, because they have been found to be technically correct as presented by our lessee. This is an annual event with the Lands Commission under this contract because there is new development in the Rio Vista Field. The contract provides for this when the productive limits are changed substantially by reason of further development or by reason of an annual review.

MR. CHAMPION: Actually, we have had it more frequently than annually.

MR. HORTIG: Because there have been changes in the production limits of the field during an annual period.

GOV. ANDERSON: I'll move it.

MR. CHAMPION: Second, stands approved.

We are in the position of not being able to get a majority vote for the budget, because I will not vote for it, so we will have to pass that item.

Authorization for Executive Officer to execute a service agreement with Crescent City Harbor District for
surveying services to be rendered under the provisions of
Chapter 1510/63, payment to the State to be the Commission's
actual costs, not to exceed $7,200.

GOV. ANDERSON: I'll move it.

MR. CHAMPION: Second, stands approved.

Proposed Oil and Gas Lease, 3,420 acres tide and
submerged lands in Orange County -- Parcel 17.

Mr. Hortig?

MR. HORTIG: As the map following your agenda page
46 indicates, the Commission has previously authorized and
they are currently advertising 16-A immediately adjoining
the existing lease to Humble, which is the site of the
Monterey Island off Seal Beach.

The recommendation is that Parcel 17, the next
parcel to Parcel 16, may be authorized for bid -- pursuant to
the sequential bidding policy of the Commission.

GOV. ANDERSON: I move it.

MR. CHAMPION: Second, stands 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 items consisted solely of ex-
tensions for standard periods of time of three existing
geological survey permits previously authorized by the
Commission.

GOV. ANDERSON: I move it.
MR. CHAMPION: Second, approved. We have an informative report on the status of major litigation.

MR. HORTIG: On which the only particular change of substance on the last report to the Commission is with respect to Case Number 5 in the United States Supreme Court, United States versus State of California, relative to the location of the offshore boundaries between lands under the paramount jurisdiction of the State and lands owned by the State, for such purposes as minerals. Pursuant to this, there having been action by the United States Supreme Court and in view of the fact that this is being processed for us by Assistant Attorney General Goldin, perhaps the report on this and the requirements we are going to have to meet would now be in order. Mr. Goldin?

MR. GOLDIN: Yes, Mr. Hortig. The item is relatively itself explanatory. In March of 1963 the Federal Government filed a supplemental complaint in the old U. S. versus California case. The Attorney General's Office moved to dismiss this on the ground of mootness and because of failure to prosecute. Recently, the Supreme Court made its order permitting the Federal Government to file its supplemental complaint and denying the State's motion to dismiss. At the same time, the Supreme Court imposed certain time limitations. We have sixty days from December 2, 1963 to file an answer to the supplemental complaint and within the same time we are expected to brief the exceptions filed by the Special
Master with the Supreme Court in 1953, which exceptions have not been acted upon to date. We have also been afforded an opportunity to file and brief any additional exceptions we may care to present to the U. S. Supreme Court within that same time period.

MR. CHAMPION: What was the time period?

MR. GOLDIN: Sixty days from December 2, 1963.

MR. CHAMPION: Time is now running.

MR. GOLDIN: It is running, sir.

MR. CHAMPION: Is there anything further under litigation?

MR. HORTIG: No other substantive changes from the last report to the Commission, Mr. Chairman.

MR. CHAMPION: We have the next item -- Pending studies of tide and submerged land grants, a supplemental item. Will you explain that?

MR. HORTIG: If I may paraphrase the agenda item on pages 52 and 53, H. R. 512, written by Assemblyman Petris and Kennick has been referred to an interim committee on natural resources to study the conditions, provisions and restrictions in grants of tide and submerged lands, the utilization and development of these lands, the compliance with the provisions of grants, and the establishment of appropriate conditions, trust provisions, and reservations for grants of tide and submerged lands.

Mr. Chairman, you noted the existence of this
resolution and directed the staff to prepare a recommended position, including the interests of the State Lands Commission and the Department of Finance. Pursuant to this directive, the staffs of the State Lands Division and of the State Office of Planning have jointly undertaken the accomplishment of this assignment -- inventorying the terms under which grants have been made and the zoning practices, how they have been reporting back to the State with respect to the trust assets.

Preliminary results of the study indicate that a lack of continuity and a marked disparity in administrative authority relating to tide and submerged land grants has developed throughout the years. As one specific example, revenues obtained by virtue of the petroleum resources inherent to the tide and submerged lands granted in trust to the Cities of Los Angeles, Long Beach, Newport Beach and Redondo Beach are distributed differently. Originally, the grant in trust relating to tide and submerged lands to these cities permitted these cities to retain one hundred per cent of the revenue -- which, as you know, has been modified, but only in the case of the City of Long Beach, to provide for payment to the State of fifty per cent of the oil revenue and one hundred per cent of the dry gas revenues; and presently the Cities of Los Angeles, Newport Beach and Redondo Beach, during the years 1959-1963 produced in excess of two million dollars of oil and gas revenues, of which no portion was shared with the State. This averages out, as you can see,
only five hundred thousand dollars a year, but there are programs for additional development.

MR. CHAMPION: Did I hear you say only five hundred thousand dollars?

MR. HORTIG: Comparatively, comparing it with the order of magnitude of what happens to Long Beach, and only as yet with programs for expansion of this amount.

MR. CHAMPION: What relationship, if any, does this bear to the amount of money that was granted last year by the Legislature for upkeep of beaches of this area? This would be on top of this amount of money?

MR. HORTIG: Definitely and separately. Therefore, it is suggested, in view of the recent efforts to develop a more consistent policy with respect to conveyance and use of tide and submerged lands, that the Commission consider recommendations to the Legislature designed to insure a more equitable division of revenues derived from the mineral resources of tide and submerged lands granted in trust which could be incorporated in the future recommendations of the interim committee assigned to study House Resolution 512.

The purpose of this suggestion is to determine whether the Commission wishes to instruct the staff to pursue this particular phase as a specific phase to be included in recommendations to the Commission and the Department of Finance for recommendation to the interim committee studying tide and submerged land grants.
MR. CHAMPION: There are really two choices here:
One is whether to pursue it in connection with the possible
opening of the consideration of the percentages in Long
Beach; the other is to leave it to more general consideration
of tideland grants, on which the interim committee is due to
report in 1965.

MR. HORTIG: That is correct, sir. It was the
staff's thought, inasmuch as the purpose of House Resolution
512 is directed to some chance of achieving uniformity on
all tideland grants, and since Long Beach is already a
special case, that probably these others should be considered
in conjunction with developing a uniform policy for all tide-
land grants. It could go either way, but it would certainly,
in connection with the specialized consideration of Long
Beach, bring administrative and geographical problems into
an area of discussion that has been so far localized in Long
Beach only.

GOV. ANDERSON: What was the initial theory in
giving those areas one hundred per cent of it?

MR. HORTIG: Well, the initial theory was that the
lands were being granted for administration to the local
agencies for development of navigation and fishing. The
majority of these grants were made in 1911 to these communi-
ties for harbor purposes.

GOV. ANDERSON: Do they spend it for that purpose?

MR. HORTIG: When it was discovered, as in Long
Beach, that they were also overlaying oil and gas deposits, in Marshall versus the State of California the Supreme Court said that the State had granted the oil and gas with the other land granted, but they also required that any proceeds derived from these lands would have to be restricted and expended for trust purposes only. In fact, under the 1959 statutory requirement, these municipalities who have oil and gas revenues from tidelands must report the nature of the revenue to the State Lands Commission, to assure that there is a record that they did make such expenditures on tide and submerged lands for trust purposes.

GOV. ANDERSON: Now, in the case of these three cities, when they spend oil revenues do we check their expenditures?

MR. HORTIG: On the first of each year, they are required to report to us what they expended and the purposes for which they expended it, and we check it.

GOV. ANDERSON: And if we don't agree with it, what happens?

MR. HORTIG: Then we ask the Attorney General if the expenditure qualified or did not. As a matter of fact, we are in litigation as to determination of the proper handling of a portion of these funds with the City of Redondo Beach. It is in your tabulation of litigation.

GOV. ANDERSON: There isn't any prior approval?

MR. HORTIG: No sir, there is not.
MR. CHAMPION: But the grants in these cases have been identical, or the law is the same that requires expenditure of the money?

MR. HORTIG: They are substantially the same. The purposes of a specific grant may vary, but in each instance the revenues on the tidelands grant would be embraced.

GOV. ANDERSON: Shouldn't there also be a legislative change for prior approval of the expenditure? Coming in a year after they spend the money is a weak thing.

MR. HORTIG: This is correct, but practically it is again a matter in order of magnitude in a municipality that has low tidelands income. This is comparatively at the moment Newport Beach, who spent such a large amount of their municipal funds on harbor development. There is no real problem with respect to determining the qualifications of their expenditure of their tideland funds as a small percentage of their budget -- which is happening there; but as these things grow, it becomes a problem of whether or not there are extensive operations for which tideland funds are expended by a municipality -- which subsequently might be an extremely difficult situation to correct. Under those circumstances, again depending upon the degree and the order of magnitude, it could be very desirable to have a requirement for advance approval.

MR. CHAMPION: There are a number of questions of this kind that we are now considering, in connection with possible legislation concurrent with the '64 budget session
and the policy questions that will be involved in this survey of the interim committee. I would think we might well schedule a meeting, at which we would take up what would be the Lands Commission's official recommendations to this committee and the Legislature at that time -- sometime late in January before the session. Would that be agreeable?

GOV. ANDERSON: My only thought was that these points come up and we tend to forget about them. That's why I suggest every so often the staff prepare something. Today it's pretty clear to me there should be prior approval. A month from now, I might forget it.

MR. CHAMPION: I agree that we should have a comprehensive picture. In many things we are late. There are many problems in connection with these different grants and many situations. I would like to suggest, without firmly setting a meeting right now, that the staff would prepare a possible agenda on that matter and then suggest a possible meeting before the Legislature.

MR. HORTIG: We will do that.

MR. CHAMPION: After we have had a chance to examine an agenda for the meeting, we will see whether it would be a worthwhile enterprise.

Schedule of 1964 meetings of the State Lands Commission -- I think we ought to wait. Mr. Cranston will be here in five minutes, so we ought to wait on that.

GOV. ANDERSON: I haven't had a chance to check this anyway.
MR. HORTIG: This is actually being presented to the Commission today, for consideration by the Commissioners and possible determination at the next meeting as to needed changes.

MR. CHAMPION: Now, what is this item about the salary of the Executive Officer? I never heard of it. As Director of Finance, however, we did submit a formal request to everybody as to what their recommendations would be for salary increases. I assume this is in response to that.

MR. HORTIG: It's a follow-up on that, actually, Mr. Chairman. Under requirements of the Constitution with respect to the pay scales to be effective for any exempt position, we are informed that in the event of a consideration and recommendation by the Department of Finance to the Lands Commission, which the Lands Commission will consider at a future date after the Personnel Board has also made its determination as to pay scales for civil service positions, that any decision or any approval of the Lands Commission, hopefully upward, could not be effective prior to the date that the Lands Commission had declared the position's salary range open for adjustment study.

MR. CHAMPION: If the Commission declares the salary open, then on action by the Department of Finance that salary could be increased without further action?

MR. HORTIG: No, sir. It takes further action by the Commission; but even if the Commission were, as a hypothetical example, to take action at the January meeting, unless
the Commission had previously declared the salary open for
adjustment, such adjustment could not be effective any earlier
than the date of the Commission's resolution; and it is sug-
gested here that it be declared open for adjustment, so that
if the Commission later in January should determine this would
be appropriate, this could be effective on January 1, as it
assumedly will be for civil service positions.

MR. CHAMPION: I think it is appropriate the Commiss-
ion should do this because there will be consideration of
all salaries and the date should be fixed. I am not certain
it will be January. That certainly shouldn't be precluded,
however, in any way.

MR. HORTIG: I will state that the suggested date
is still up to the Commission.

MR. CHAMPION: I assume they will accept the same
pattern as the rest of the exempt positions. Is that satis-
factory to you? I'll move that we approve Item 9 regarding
the salary January first. It will stand approved.

I think that that really carries us to the two
subjects which are to be held open, and that is the one on the
Long Beach tidelands parcel and the other is the proposed
budget of the State Lands Division. I hesitate to begin the
discussion on that.

(At this point Mr. Cranston entered -- 11:10 a.m.)

MR. CHAMPION: The two items still requiring action
are, one, the proposed budget of the State Lands Division, on
which I traditionally reserve my vote because of a conflict as Director of Finance. Would you make that presentation, Frank?

MR. HORTIG: Yes, Mr. Chairman. As detailed on pages 41 through 44 of your agenda, the State Lands Division has submitted a proposed expenditure program for the '64-'65 fiscal year, in accordance with administrative policy and directives and within the allocation control recommended by the Department of Finance. Therefore, it is recommended that the Commission approve the submittal by the State Lands Division, which submittal in turn, of course, is still subject to review by the Division of Budgets and the Director of Finance.

MR. CHAMPION: I might add that there is something that should be noted in this budget proposal and that is, that it would establish in Sacramento a much higher level position as assistant to Mr. Hortig, to handle the affairs of the Commission in Sacramento, than has previously been the case. Technical problems and increasing volume of legislative concern in items before the Commission really make it necessary for this kind of liaison, in my opinion anyway, and there is such an approval of this kind of position.

This position is also intended to further investigate for the Lands Commission and meet what I would consider to be our responsibilities in the area of natural gas. There have been a number of proposals to bring the State's interest in natural gas to some focal point outside the Public Utilities
Commission, which has a regulatory responsibility and not a policy responsibility in terms of formulating State policy; and it is hoped that this position could also be used to provide a focal point for that interest.

Those two points are involved in that position. Otherwise, I don't think there is anything further new in the budget, Frank, is there?

MR. HORTIG: No, sir. There are no substantive changes in the proposal here before the Commission for recommendation and the review and recommendations of the Department of Finance.

GOV. ANDERSON: The "Document Reproduction" item of $25,000 -- what will that entail?

MR. HORTIG: This would be a one-item reproduction of the basic land title records that must by statute be on file with the State Lands Commission and available for public scrutiny, relative to land titles -- which are becoming frayed and obliterated and must be reproduced in order to be in usable form for perpetuity. As far as land title records are concerned, this is a replacement of records that the Lands Commission is required to keep.

GOV. ANDERSON: Those are records we keep in Sacramento?

MR. HORTIG: To replace records that are wearing out and which are on file here in Sacramento.

MR. CHAMPION: Any questions on the budget?
GOV. ANDERSON: I'll move it.

MR. CRANSTON: Second.

MR. CHAMPION: It will stand approved and record, please, that I am not voting.

MR. CHAMPION (continuing) The other item to come before us this morning is the approval of the drilling and operating contract, Long Beach Harbor Department tidelands, more commonly known as the "replacement" contract.

I have a wire which I'd like to read and I think we should hear some further expert opinion. It is addressed to me as Chairman of the Commission. It reads:

"Approval of the Long Beach Harbor Department Replacement contract which includes the trespassers area under existing and pending unitization agreements not only could render the contract invalid but may actually operate as a constructive fraud upon the State of California respecting the inalienable sovereign title held by the State pursuant to Article 15 Section 3 of the Constitution of this State. It is therefore requested that you not take action pending full investigation in the premises. Such non-action will not result in mandatory closing of the field as alleged by the agents of the trustee City of Long Beach inasmuch as the Harbor Department can legally continue operation during an interim period." (Signed) Virgil O'Sullivan, State Senator"
GOV. ANDERSON: I think the communication should read that it came to all of us, not just to you, because I know I got one.

MR. CHAMPION: All right. It has been received by all members. There was no such indication here.

MR. GOLDIN: Mr. Champion, I respectfully suggest that you, for the record, indicate when the communique was sent and when it was received.

MR. CHAMPION: Well, it was received by me --- it says "Deliver a.m." without any time stamp on it; but it was in my morning mail when I arrived this morning at nine o'clock.

GOV. ANDERSON: The same. When can we ask some questions about it -- later on or now?

MR. CHAMPION: I'd like to say some things in general about this, without special reference to this wire --- but just about the general situation; and then go to the particular questions in the telegram itself.

Some of the things that I wanted to say, and I'll say them as briefly as possible, were statements made before the joint committee hearings the other day but I think they bear repeating at this time.

One is that we are here dealing only with the replacement contract. We are dealing with the replacement of the present operating contract, which is different in several respects in content from any contract proposal before us with
respect to the new Wilmington Field -- which is, of course, so
much larger. The relative yields are under forty thousand
barrels under the replacement contract; potential yields are
estimated at one hundred sixty thousand barrels upward in the
new Wilmington Field daily.

At all stages of the discussion of the replacement
contract we have acted on the basis of advice of the Attorney
General, who is the official legal adviser for this Commission
as well as for the State of California, that the documents
are sufficient; that they are legal; that they do not involve
any of the various legal complications which have been raised
by those opposed to or questioning the contract.

There has not been, nor is not now before us, any
legislative request that we not approve this contract --
"legislative request" meaning any duly authorized committee
of the Legislature. In one committee a proposal was made
that we be asked to delay and it was disapproved by something
like a vote of eight to four, seven to three, something of
that character. Chairman Thomas of the General Audits Com-
mittee made it perfectly clear that his request for us to
appear was in no way intended as a request that we delay the
contract. He made that very clear and his committee made
no request for us to do so.

Every indication that we have had from our staff,
as well as from the agents of the City of Long Beach, has
been that there are either legal or practical obstacles to
any other solution in maintaining the field. Now, there may
be legal ways to do it that are not practical, and there may
be practical ways to do it which are not legal; but there are
no legal and practical ways that this field can be kept in
operation if this contract is not fulfilled.

I might also say, lest all of this seem to be cast
in responsive terms to criticisms that were made, that the
staff also informs us that this is a substantial improvement
on the present contract; that the affirmative efforts of the
Lands Commission to improve the terms and the affirmative
efforts of the City of Long Beach to improve the contract
over the form that was arrived at formerly have resulted in
very substantial improvements in this contract, and all of the
procedures in this have been as dictated by the Legislature
in the past and we have no new legislative instructions. We
have a law under which to operate and all of this has been
done under that law.

I might say with respect to some of the figures that
have been cited in the past as to profits under the old con-
tract, that this has never been within the province of the
State Lands Commission; that this is entirely a matter arrived
at before the Lands Commission was given the jurisdiction that
it now has; that it has had no authority under any legisla-
tion to deal with the terms of the contract arrived at before it
itself assumed its present responsibilities with respect to
this field.
There may be other points or questions, largely legal in character, that are posed by this; but this is the present situation which the Commission has before it in dealing with the proposed replacement contract; and I think now would be the time, first, for questions by the Commission of Mr. Goldin and Mr. Hortig and then, if there are others who would like to testify or speak to the points raised either in the wire or in the contract, why we would be glad to hear from you.

MR. CRANSTON: I'd like to ask Mr. Goldin to comment on the content of the Senator's wire.

MR. GOLDIN: Mr. Hortig, may I have it please? I am not certain that I perceive precisely the point or points which Senator O'Sullivan's telegram seems to make, but I will attempt to answer what I think the telegram means.

First, I would like to point out that the area covered by the contract does not include any area that is not clearly owned by the City of Long Beach. The contract does include a disputed nine-well area. However, this area is clearly owned by the City -- the only question is in what capacity, as a general municipality or as a tideland trustee; but, in whichever capacity the City owns this nine-well area, in our opinion it does not affect the validity of the contract.

Incidentally, the same nine-well area was always subject to the existent L.B.O.D. contract and its inclusion never was considered as having affected the validity of the
existent contract. So that, except for the nine-well area, the instant replacement contract has nothing to do with disputed areas in the Harbor District.

GOV. ANDERSON: The nine-well area you are referring to -- Is that what he talks about when he talks about the trespasser area?

MR. GOLDIN: I believe it is the portion — the only portion of what Senator O'Sullivan calls the trespass area, which is embraced within the replacement contract.

GOV. ANDERSON: When we think of the trespass area, we are thinking of the nine wells?

MR. GOLDIN: Within the meaning of this contract, yes, Governor.

MR. CHAMPION: And it is on that point that he is raising the question of a constructive fraud, so that being the case there is, in your opinion, no constructive fraud?

MR. GOLDIN: No, in my opinion, Mr. Chairman.

Next, the telegram alludes to existing and pending unitization agreements. In this connection, I would like to comment that the approval of this replacement agreement does not constitute Commission action or approval as to any future unit agreement. Such approval will have to be done as a result of independent action by the State Lands Commission.

Now, most of the so-called trespass area or disputed area is in Fault Block IV. The Legislature already has allowed for the extension of contracts in even disputed areas in Fault
Block IV by specific legislation. Now, I am trusting to my recollection, since I was not aware of this telegram before arriving here this morning. I think this legislation is Chapter 1551 of the Statutes of 1959, which allows for the extension of these contracts without competitive bidding; and by express provision in this statute, such extensions do not affect the status of any boundary dispute.

Similarly, even in the case of approval of a unit agreement, by specific provision in Public Resources Code Section 6879 the Commission's approval of a unit agreement does not affect the location of the uplands and the tidelands boundary in the Harbor District.

The last point that I would like to comment with respect to the telegram is a reference to a constitutional prohibition against alienation. In this connection, I respectfully direct the Commission's attention to the specific language of the replacement contract, Section 3, and more particularly that portion which is on page 15 of the contract. After the parties acknowledge that they have entered into the contract with full knowledge of the statutory trust provisions, the contract provides, and I quote in part:

"It is not the intention of the City to nor does the City grant, convey, give, or alien to or vest in the contractor for any purpose whatsoever any title, interest or estate in or to any lands whatsoever or any title, interest or estate in or to the oil, gas and/or other hydrocarbons.
and/or other minerals underlying any lands whatsoever or any title, interest or estate in or to said oil when removed from any lands until sold." The contractual provision then continues.

Consequently, in my opinion I do not believe there is a valid criticism based upon a violation of a constitutional prohibition against alienation.

In recapitulation then, gentlemen, as far as I can see the contract -- that is, the replacement contract -- does not affect in any way the trust character of any lands in the Harbor District. We fail to see how the approval of this contract can affect the status of any lands, either inside or outside the boundaries of the replacement contract; and as I said a moment before, the approval of the contract is not the approval of any unit agreement; but even in approving unit agreements, it is expressly provided by statute that the Commission action in so approving does not affect boundary locations.

MR. CHAMPION: Are there any further questions of Mr. Goldin? (No response) I'd like to ask one other thing that's raised in the telegram, although I did feel this is not wholly germane -- but just to deal with the question. That is the matter raised that non-action would not result in mandatory closing of the field because the Harbor Department could legally continue operation there. I think it is agreed that they could legally, is it not, Mr. Goldin -- that they
could legally continue operation there? I mean they could take over operations there, the Harbor Department of the City of Long Beach could legally take over the operation, as set forth in Senator O'Sullivan's telegram?

MR. GOLDIN: That is correct.

MR. CHAMPION: But the question is whether this is practical. Would you speak to that, Mr. Hortig?

MR. HORTIG: The practicability, I believe, would turn on the ability -- and despite excellent staffing in the Harbor Department -- to suddenly generate staffing of the order of magnitude and the capability of the present contractor, who is operating in the field, so that they could be available to continue the operation as of midnight March 20th, when the present contract expires.

In view of the fact that Harbor Department representatives, and particularly technical representatives, are here today, I think their comments on what sort of a problem they feel they would be faced with if this project were thrown upon them might be revealing to the Commission.

MR. CHAMPION: In view of the extended nature of this controversy, I'd like to settle even the irrelevant questions. Would the Long Beach Harbor District have a representative to speak to this question?

MR. SPENCE: Yes, sir. For the record, my name is John Spence, Assistant City Attorney, and with me is Mr. William Smith, Petroleum Engineer. I'll speak only of the
so-called legal aspects of this; Mr. Smith will speak about
the practical engineering aspects.

The big hurdle in this case, of course, is what we
would do with some forty thousand barrels of oil a day. We
have to dispose of it. We can’t shut the field down; we have
to operate, and with forty thousand barrels of oil a day we
don’t have an oil purchaser. An oil contract requires
the same procedure as an operator contract, so that is the
main practical hurdle there -- no way of disposing of this
oil.

MR. SMITH: I am W. A. Smith from the Port of Long
Beach. Some additional practical reasons for condemning this
idea of the City taking over operation -- the City does have
a technical staff and we do provide the majority of the super-
vision and engineering for the field. However, there is a
large staff of engineers and particularly field employees
which are presently employed by the existing contractor and
which will, we assume, be employed by the contractor under the
new contract. On such short notice, it would be virtually im-
possible for the City to acquire sufficient field staff to
conduct these operations and we have no assurance, of course,
that the present employees would even be available for a posi-
tion with the City under civil service.

One side aspect is that we would have to establish
these jobs under civil service, and this is a time-consuming
procedure.
In addition to this, the problem of acquiring materials and services for the operation of the field under the restrictions which the City has to operate -- that is, competitive bidding -- would be almost insurmountable. As you have been told before, there are thousands of different items which are required on a daily basis, on short notice, on an emergency basis in some instances, and for the City to attempt to acquire those, even down to the inexpensive items, by competitive bidding would be a complete handicap on the operation, as we see it now.

MR. CHAMPION: Thank you. Any further questions?

GOV. ANDERSON: How many employees are we talking about that L.B.O.D. has?

MR. SMITH: There are in excess of two hundred.

There are representatives of L.B.O.D. here and I can probably get that answer.

VOICE: Approximately three hundred.

MR. SMITH: Approximately three hundred.

MR. CHAMPION: Any further questions? (No response)

Is there anyone present who would care to make any further statement or comment on this matter? (No response) Well, that being the case, I would assume that we are prepared to consider it. I would like to again say what I said before, before we considered this last matter -- that the fundamental question before the Commission is not whether it can or should be delayed, but whether or not it is a good contract
on the basis of the analysis and the advice offered us by our technical staff and our legal staff. Gentlemen, what is your pleasure?

GOV. ANDERSON: I'd just like to ask Mr. Hortig: The ninety-one per cent that has been offered -- This is a pretty high bid, isn't it, as far as any State lease or any other lease that we are aware of? I'd like to have you establish just where this stands in comparison to any other high leases that we know of.

MR. HORTIG: Governor, the State Lands Division's economic analysis of the potentials of this operation confirm that the bid offer of ninety-one per cent of the net profits to the City of Long Beach under the proposed contract is a good, sufficient and equitable bid offer. I must stress this is for a service contract, not for an oil and gas lease. These are two entirely different methods of providing for petroleum development.

The State Lands Commission under the Public Resources Code has a range of choices with respect to specifics in oil and gas leases which they may offer for State-owned lands. The State Lands Commission does not have statutory authorization to consider a service contract of the type here proposed by the City of Long Beach.

GOV. ANDERSON: My question on that is have there been even service contracts where the percentage has been higher? Isn't this the highest?
MR. HORTIG: From the standpoint of the service contract, without having the experience under the new contract to compare with the existing contract, the net results of the total are probably equal to that which may be experienced, or even a little higher than that experienced, under the service contract held by Richfield Oil Corporation for another Long Beach Harbor parcel.

The point I wanted to stress was that for continuing development of an oil field, this proposal to the Long Beach Harbor Commission is demonstrably the best approach for all parties concerned. There are areas of State lands where, if the Lands Commission had similar authority to have a similar contract, the staff would not recommend that such a contract be utilized because of their potentialities. There are areas on which we receive cash bonus bids, which areas have never produced one drop of oil. Had a service contract or a straight royalty bid been received on those areas, the State would not have received one dollar on those lands.

So the situation is, as to type of lease or contract, this is something that has to be designed to fit the economics of the situation where you want to apply it. As a service contract, we feel that the bid offer and the terms and conditions for this particular operation are excellent or we would not have recommended it.

MR. CHAMPION: Do you also feel -- I think you
raised the question by what you said -- that the service contract is what you feel is the appropriate contract here in this particular situation?

MR. HORTIC: Yes, sir. I would amplify before the Commission takes action, Mr. Chairman, if I may, that implicit in the approval as recommended by the staff here today is also the subject which was brought to the attention of the Commission September 30, 1963, and I quote, "The City and the Board (or either) and the State will enter into agreements requiring consultation on major operational and policy matters with the Commission. The contract proposed authorizes such City-State agreements."

In accordance with this, a form of agreement has been entitled "Collateral Agreement Between State Lands Commission and Long Beach Board of Harbor Commissioners," which is attached to your agenda item as Exhibit D and which has been accepted in principle by the Board of Harbor Commissioners; and since the specific language has not been before the Board of Harbor Commissioners, the staff recommendation for approval of the basic contract today is that the approval also be subject to acceptance by the Long Beach Board of Harbor Commissioners of the collateral agreement attached hereto as Exhibit D and by reference made a part hereof. So the motion should, in approving the contract, approve this condition.

GOV. ANDERSON: I'll move the approval of the drilling and operating contract as recommended by the staff.
MR. CRANSTON: I second the motion. I'd like to make a few brief comments in so doing. First, operating as we must under the laws written by the Legislature, I believe and it is evident to the Commission at least that we have a good contract; that we got a good bid under that contract and, further, that no further time is needed. We have been working under a deadline imposed by the expiration of the present contract -- but, nevertheless, under present circumstances without regard to that deadline and with no real pressure from it, we are ready to act, I think with full confidence that we are acting soundly. I think all of us are grateful to the City of Long Beach for their part in working out this contract that has led to a successful bid.

I would also like to say that as far as I am concerned, and I think as far as the Commission is concerned, in our approval of this contract no precedent is set here, no indication is made here of what action will be taken by us sooner or later on the larger East Wilmington Field.

MR. CHAMPION: The approval with the amendment noted by Mr. Hortig has been moved and seconded, and it stands unanimously approved.

GOV. ANDERSON: I'd like to again reiterate my previous position to the staff -- that they would somehow get legislation changed, so that we can get in the position of helping draw these contracts at their start rather than be faced with them at the very end, after being drawn by
someone else.

MR. SPENCE: Members of the Commission, may I make a statement?

MR. CHAMPION: Yes.

MR. SPENCE: I'd like to have the record show that the Board of Long Beach Harbor Commissioners have already approved the collateral agreement — have already authorized the approval of the same; and I'd like to thank you.

MR. CHAMPION: We have one other matter before us — the next meeting. Tentatively, we will look to January 30th.

(Some discussion between Commissioners inaudible to reporter)

The meeting stands adjourned.

ADJOURNED 12 NOON

**********

**********
CERTIFICATE OF REPORTER

I, LOUISE H. LILLICO, reporter for the Office of Administrative Procedure, hereby certify that the foregoing forty-three pages contain a full, true and correct transcript of the shorthand notes taken by me in the meeting of the STATE LANDS COMMISSION held at Sacramento, California, on December 20, 1963.

Dated: Los Angeles, California, December 30, 1963.

[Signature]

LOUISE H. LILLICO