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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

I N D E X
(In accordance with Calendar Summary)

<u>ITEM CLASSIFICATION</u>	<u>ITEM ON</u>	<u>PAGE OF</u>	<u>PAGE OF</u>
	<u>CALENDAR</u>	<u>CALENDAR</u>	<u>TRANSCRIPT</u>
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2 Confirmation of minutes September 30, 1963			1
3 PERMITS, EASEMENTS, RIGHTS- OF-WAY, FEE			
(a) Department of the Navy Off. of Naval Research	7	1	1
4 PERMITS, EASEMENTS, LEASES, RIGHTS-OF-WAY, FEE			
(a) R. W. Cypher	16	3	2
(b) John F. Dillon and C. C. Trunelle	11	10	2
(c) Richfield Oil Corp.	6	11	2
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(e) Signal Oil & Gas Co.	24	14	2
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5 GEOPHYSICAL EXPLORATION PERMITS			
Adoption of form of permit	21	17	3
(a) Humble Oil & Refining	23	21	3
(b) Shell Oil Company	22	23	3
6 MINERAL EXTRACTION LEASES			
Adoption of royalty schedule San Francisco Bay area comp.	18	25	4
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(b) Authoriz. offer 905.423 ac. pursuant to applic. United Sand and Gravel	19	29	5

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(b) Water Line Reconnection to Pier 2, second phase	1	32	7
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8 Authorization to approve Dry Gas Sales Contract - Signal Oil & Gas and City of Long Beach on gas from Oil & Gas Leases 392, PRC 163, PRC 425, PRC 426, Huntington Beach	25	36	8
9 Selection of vacant Federal Land San Bernardino County (applic. James E. Paschall)	15	37	12
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11 Authorization of modification State's % under Rio Vista Ratable-Taking Plan, Rio Vista Gas Field, Std. Oil, Easement 415.1	9	39	13
12 Proposed Budget - State Lands Division 1964-65 fiscal yr.	17	41	26
13 Service Agreement with Cres- cent City Harbor District Chapter 1510/63	2	45	14
14 Proposed Oil and Gas Lease, Parcel 17, Orange County	12	46	15

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1 MR. CHAMPION: I will call the meeting to order.
2 Controller Cranston is delayed on a plane flight from Long
3 Beach and I think will be with us soon. We had intended to
4 take up the Long Beach matter first, which was on the supple-
5 mental agenda; but until he arrives, I think we will delay
6 that and go through the regular agenda, and we will take the
7 Long Beach matter up on his arrival.

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

10 GOV. ANDERSON: So move.

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

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

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

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

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

22 MR. HORTIG: No, sir.

23 GOV. ANDERSON: Everything was all right?

24 MR. HORTIG: Yes, sir.

25 GOV. ANDERSON: I move it.

26 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.

1 Standard Oil Company of California -- Issuance of
2 new lease in exchange for Gas Lease Agreement for Easement
3 No. 415.1, Rio Vista Gas Field, Contra Costa, Sacramento,
4 San Joaquin, and Solano counties, for a term of five years,
5 at same royalty and upon same terms and conditions as
6 agreement for Easement 415.1.

7 GOV. ANDERSON: I move them.

8 MR. CHAMPION: Second, and approved.

9 Geophysical exploration permits on tide and sub-
10 merged lands of the State of California. Adoption of form of
11 geophysical exploration permit, clarifying the statement of
12 permit conditions by citing the precise language of the
13 statute, said form to be utilized in the issuance of any new
14 permit and for the extension of existing permits:

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

20 Shell Oil Company -- Geophysical exploration permit
21 for period December 19, 1963 through June 19, 1964, on tide
22 and submerged lands of Sacramento River and Suisun Bay (in-
23 cluding Grizzly and Honker Bays), Montezuma Slough, Middle
24 Slough, and other adjacent bays, sloughs, and rivers, in the
25 counties of Napa, Contra Costa, Sacramento, San Joaquin, and
26 Solano.

1 GOV. ANDERSON: Have we had any complaint from any
2 of those counties -- any protests?

3 MR. HORTIG: No, sir.

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

5 MR. HORTIG: In both of the situations, all affected
6 counties and cities have been notified. There have been no
7 letters of protests. There have been a minority of acknow-
8 ledgments of the notice, and all of the acknowledgments have
9 been on the basis that there is no objection to the conduct
10 of the operation.

11 GOV. ANDERSON: I move it.

12 MR. CHAMPION: Second. Is there any comment?

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

16 MR. HORTIG: No, sir. The problem is still a mat-
17 ter of discussion with Shell Oil Company under existing
18 permits which are up for renewal.

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

26 In that preferential right, is there any guarantee

1 of a limitation to increase -- any increase, say, of the
2 five per cent per year?

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

4 MR. CHAMPION: That is open?

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

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

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

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

24 MR. HORTIG: No, sir, because they haven't been
25 offered. These are authorizations to offer for competitive
26 public bidding and at the time of receipt of bid and

1 considering whether lease should be awarded would be the time
2 that protests would be received, if any are to be received.

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

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

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

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

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

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

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

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

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

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

25 GOV. ANDERSON: I'll move it.

26 MR. CHAMPION: Second, stand approved.

1 City of Long Beach approvals required pursuant to
2 Chapter 29, 1956, First Extraordinary Session:

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

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

10 Property Purchase -- Area 7, Lot 20, Tract 1960,
11 second phase. Estimated subproject expenditure from December
12 19, 1963 to termination of \$3,000, with \$1,890 (63%) estimated
13 as subsidence costs.

14 GOV. ANDERSON: Who makes the estimation of the sub-
15 sidence costs? Is that the City of Long Beach or what?

16 MR. HORTIG: This is submitted by the engineering
17 section of the Long Beach Harbor Commission in connection with
18 these three projects, which are reviewed by the engineering
19 staff of the Commission. The final control, Governor, is --
20 as stated in the specific resolution for each item: "...
21 that the amounts, if any, of each of the items to be allowed
22 ultimately as subsidence costs... will be determined by the
23 Commission upon an engineering review and final audit subse-
24 quent to the time when the work under any of these items is
25 completed." They are subject to final engineering and audit
26 review.

1 GOV. ANDERSON: By our staff?

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

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

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

8 GOV. ANDERSON: I'll move it.

9 MR. CHAMPION: Second, stands approved.

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

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

18 MR. HORTIG: Yes, sir. Signal Oil and Gas Company
19 is a lessee of the State Lands Commission on the enumerated
20 four tideland leases at Huntington Beach. From these oil and
21 gas leases they also produce, concurrently with the oil, gas
22 for which they now have a sales contract with the City of Long
23 Beach -- the City of Long Beach utilizing this purchased gas
24 for their distribution facilities in the municipal gas depart-
25 ment. Under all these oil and gas leases, if the lessee
26 desires to dispose of the products for money, rather than

1 delivering the State's royalty share in kind -- which is
2 the nominal election and to date it has almost been the
3 universal preference to receive the royalty share in money --
4 then sales contracts for disposition of the products must be
5 approved by the Commission, in order to determine that the
6 prices at which these are marketed represent an equitable
7 basis, pursuant to requirement under the leases.

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

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

18 MR. HORTIG: Actually somewhat higher.

19 MR. CHAMPION: Higher quality?

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

23 GOV. ANDERSON: Now, this is a five-year or less
24 than five year contract. Did the City of Long Beach handle
25 this without our approval prior to this time, or did we go
26 into the preparation?

1 MR. HORTIG: The sales contract is not between the
2 State - - the contract is actually at arms length and for
3 royalty purposes between the State's lessee and the State it
4 must be approved by the Commission.

5 GOV. ANDERSON: Who drew up the contract?

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

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

10 MR. HORTIG: Yes, sir.

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

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

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

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

23 MR. CHAMPION: Let's not - - We have two very, very
24 different situations here when we have an interest in what
25 Long Beach does when it is contracting out to an operator --
26 and we have been working steadily in that field to try to get

1 bilateral agreements -- and this situation, where we are oper-
2 ating under general State law with a lessee who pays us a
3 royalty on the thing. We have a much different relationship
4 with him in terms of how he disposes of dry gas and oil. He
5 pays us, in effect, not as an initial contractor in the dry
6 gas area, but as far as royalty is concerned. Therefore, he
7 can do what he wishes with that gas. We don't have the
8 special relationship with them that Long Beach has, though
9 we do have a relationship on the dry gas contract.

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

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

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

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

20 MR. HORTIG: At more or less, yes.

21 GOV. ANDERSON: I'll move it.

22 MR. CHAMPION: Second.

23 GOV. ANDERSON: I would like to have the staff
24 prepare, for whatever may be coming up in the special session,
25 something along this line -- that our staff does get into the
26 drawing of these contracts at a much earlier stage, so that

1 we are not just approving something somebody else has given
2 to us, and as a result we aren't too aware of many of the
3 things that are involved in the contract until it comes to us.
4 It is my feeling we should be a little more in the initiating
5 stages of a contract of this or any other type. Maybe I am
6 wrong.

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

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

26 GOV. ANDERSON: I'll move it.

1 MR. CHAMPION: Second, stands approved.

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

7 MR. CHAMPION: That is agreeable?

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

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

12 Authorization for Executive Officer to approve
13 modification of State's participating percentage under Rio
14 Vista Ratable-Taking Plan for the Rio Vista Gas Field, sub-
15 mitted by Standard Oil Company of California, lessee under
16 agreement for Easement 415.1.

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

19 MR. HORTIG: Yes, sir. Pursuant to the existing
20 gas production contract held by Standard Oil Company of Cali-
21 fornia, which was issued pursuant to competitive public
22 bidding for production of gas from under the Sacramento River
23 area, the State's participation in the production from the
24 entire field is made the subject of annual or periodic modi-
25 fications depending upon the development within the field;
26 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

1 surveying services to be rendered under the provisions of
2 Chapter 1510/63, payment to the State to be the Commission's
3 actual costs, not to exceed \$7,200.

4 GOV. ANDERSON: I'll move it.

5 MR. CHAMPION: Second, stands approved.

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

8 Mr. Hortig?

9 MR. HORTIG: As the map following your agenda page
10 46 indicates, the Commission has previously authorized and
11 they are currently advertising 16-A immediately adjoining
12 the existing lease to Humble, which is the site of the
13 Monterey Island off Seal Beach.

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

17 GOV. ANDERSON: I move it.

18 MR. CHAMPION: Second, stands approved.

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

22 MR. HORTIG: These items consisted solely of ex-
23 tensions for standard periods of time of three existing
24 geological survey permits previously authorized by the
25 Commission.

26 GOV. ANDERSON: I move it.

1 MR. CHAMPION: Second, approved. We have an
2 informative report on the status of major litigation.

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

15 MR. GOLDIN: Yes, Mr. Hortig. The item is relatively
16 itself explanatory. In March of 1963 the Federal Government
17 filed a supplemental complaint in the old U. S. versus Cali-
18 fornia case. The Attorney General's Office moved to dismiss
19 this on the ground of mootness and because of failure to
20 prosecute. Recently, the Supreme Court made its order per-
21 mitting the Federal Government to file its supplemental com-
22 plaint and denying the State's motion to dismiss. At the
23 same time, the Supreme Court imposed certain time limitations.

24 We have sixty days from December 2, 1963 to file an
25 answer to the supplemental complaint and within the same time
26 we are expected to brief the exceptions filed by the Special

1 Master with the Supreme Court in 1953, which exceptions have
2 not been acted upon to date. We have also been afforded an
3 opportunity to file and brief any additional exceptions we
4 may care to present to the U. S. Supreme Court within that
5 same time period.

6 MR. CHAMPION: What was the time period?

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

8 MR. CHAMPION: Time is now running.

9 MR. GOLDIN: It is running, sir.

10 MR. CHAMPION: Is there anything further under
11 litigation?

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

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

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

26 Mr. Chairman, you noted the existence of this

1 resolution and directed the staff to prepare a recommended
2 position, including the interests of the State Lands Commis-
3 sion and the Department of Finance. Pursuant to this directive,
4 the staffs of the State Lands Division and of the State Office
5 of Planning have jointly undertaken the accomplishment of
6 this assignment -- inventorying the terms under which grants
7 have been made and the zoning practices, how they have been
8 reporting back to the State with respect to the trust assets.

9 Preliminary results of the study indicate that a
10 lack of continuity and a marked disparity in administrative
11 authority relating to tide and submerged land grants has
12 developed throughout the years. As one specific example,
13 revenues obtained by virtue of the petroleum resources in-
14 herent to the tide and submerged lands granted in trust to
15 the Cities of Los Angeles, Long Beach, Newport Beach and
16 Redondo Beach are distributed differently. Originally, the
17 grant in trust relating to tide and submerged lands to these
18 cities permitted these cities to retain one hundred per cent
19 of the revenue -- which, as you know, has been modified, but
20 only in the case of the City of Long Beach, to provide for
21 payment to the State of fifty per cent of the oil revenue
22 and one hundred per cent of the dry gas revenues; and presently
23 the Cities of Los Angeles, Newport Beach and Redondo Beach,
24 during the years 1959-1963 produced in excess of two million
25 dollars of oil and gas revenues, of which no portion was
26 shared with the State. This averages out, as you can see,

1 only five hundred thousand dollars a year, but there are
2 programs for additional development.

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

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

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

12 MR. HORTIG: Definitely and separately. Therefore,
13 it is suggested, in view of the recent efforts to develop a
14 more consistent policy with respect to conveyance and use of
15 tide and submerged lands, that the Commission consider recom-
16 mendations to the Legislature designed to insure a more equit-
17 able division of revenues derived from the mineral resources
18 of tide and submerged lands granted in trust which could be
19 incorporated in the future recommendations of the interim
20 committee assigned to study House Resolution 512.

21 The purpose of this suggestion is to determine
22 whether the Commission wishes to instruct the staff to pursue
23 this particular phase as a specific phase to be included in
24 recommendations to the Commission and the Department of Finance
25 for recommendation to the interim committee studying tide
26 and submerged land grants.

1 MR. CHAMPION: There are really two choices here:
2 One is whether to pursue it in connection with the possible
3 opening of the consideration of the percentages in Long
4 Beach; the other is to leave it to more general consideration
5 of tideland grants, on which the interim committee is due to
6 report in 1965.

7 MR. HORTIG: That is correct, sir. It was the
8 staff's thought, inasmuch as the purpose of House Resolution
9 512 is directed to some chance of achieving uniformity on
10 all tideland grants, and since Long Beach is already a
11 special case, that probably these others should be considered
12 in conjunction with developing a uniform policy for all tide-
13 land grants. It could go either way, but it would certainly,
14 in connection with the specialized consideration of Long
15 Beach, bring administrative and geographical problems into
16 an area of discussion that has been so far localized in Long
17 Beach only.

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

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

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

26 MR. HORTIG: When it was discovered, as in Long

1 Beach, that they were also overlaying oil and gas deposits,
2 in Marshall versus the State of California the Supreme Court
3 said that the State had granted the oil and gas with the
4 other land granted, but they also required that any proceeds
5 derived from these lands would have to be restricted and ex-
6 pended for trust purposes only. In fact, under the 1959
7 statutory requirement, these municipalities who have oil and
8 gas revenues from tidelands must report the nature of the
9 revenue to the State Lands Commission, to assure that there
10 is a record that they did make such expenditures on tide and
11 submerged lands for trust purposes.

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

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

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

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

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

MR. HORTIG: No sir, there is not.

1 MR. CHAMPION: But the grants in these cases have
2 been identical, or the law is the same that requires expendi-
3 ture of the money?

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

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

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

24 MR. CHAMPION: There are a number of questions of
25 this kind that we are now considering, in connection with
26 possible legislation concurrent with the '64 budget session

1 and the policy questions that will be involved in this survey
2 of the interim committee. I would think we might well schedule
3 a meeting, at which we would take up what would be the Lands
4 Commission's official recommendations to this committee and
5 the Legislature at that time -- sometime late in January
6 before the session. Would that be agreeable?

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

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

19 MR. HORTIG: We will do that.

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

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

26 GOV. ANDERSON: I haven't had a chance to check this
anyway.

1 MR. HORTIG: This is actually being presented to the
2 Commission today, for consideration by the Commissioners and
3 possible determination at the next meeting as to needed changes.

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

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

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

24 MR. HORTIG: No, sir. It takes further action by
25 the Commission; but even if the Commission were, as a hypo-
26 thetical example, to take action at the January meeting, unless

1 the Commission had previously declared the salary open for
2 adjustment, such adjustment could not be effective any earlier
3 than the date of the Commission's resolution; and it is sug-
4 gested here that it be declared open for adjustment, so that
5 if the Commission later in January should determine this would
6 be appropriate, this could be effective on January 1, as it
7 assumedly will be for civil service positions.

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

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

15 MR. CHAMPION: I assume they will accept the same
16 pattern as the rest of the exempt positions. Is that satis-
17 factory to you? I'll move that we approve Item 19 regarding
18 the salary January first. It will stand approved.

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

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

25 MR. CHAMPION: The two items still requiring action
26 are, one, the proposed budget of the State Lands Division, on

1 which I traditionally reserve my vote because of a conflict
2 as Director of Finance. Would you make that presentation,
3 Frank?

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

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

22 This position is also intended to further investi-
23 gate for the Lands Commission and meet what I would consider
24 to be our responsibilities in the area of natural gas. There
25 have been a number of proposals to bring the State's interest
26 in natural gas to some focal point outside the Public Utilities

1 Commission, which has a regulatory responsibility and not a
2 policy responsibility in terms of formulating State policy;
3 and it is hoped that this position could also be used to
4 provide a focal point for that interest.

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

8 MR. HORTIG: No, sir. There are no substantive
9 changes in the proposal here before the Commission for recom-
10 mendation and the review and recommendations of the Department
11 of Finance.

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

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

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

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

26 MR. CHAMPION: Any questions on the budget?

1 GOV. ANDERSON: I'll move it.

2 MR. CRANSTON: Second.

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

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

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

12 "Approval of the Long Beach Harbor Department
13 Replacement contract which includes the trespassers area
14 under existing and pending unitization agreements not
15 only could render the contract invalid but may actually
16 operate as a constructive fraud upon the State of Cali-
17 fornia respecting the inalienable sovereign title held
18 by the State pursuant to Article 15 Section 3 of the
19 Constitution of this State. It is therefore requested
20 that you not take action pending full investigation in
21 the premises. Such non-action will not result in
22 mandatory closing of the field as alleged by the agents
23 of the trustee City of Long Beach inasmuch as the Harbor
24 Department can legally continue operation during an
25 interim period." (Signed) Virgil O'Sullivan, State Senator"
26

1 GOV. ANDERSON: I think the communication should
2 read that it came to all of us, not: just to you, because I
3 know I got one.

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

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

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

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

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

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

23 One is that we are here dealing only with the
24 replacement contract. We are dealing with the replacement of
25 the present operating contract, which is different in several
26 respects in content from any contract proposal before us with

1 respect to the new Wilmington Field -- which is, of course, so
2 much larger. The relative yields are under forty thousand
3 barrels under the replacement contract; potential yields are
4 estimated at one hundred sixty thousand barrels upward in the
5 new Wilmington Field daily.

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

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

24 Every indication that we have had from our staff,
25 as well as from the agents of the City of Long Beach, has
26 been that there are either legal or practical obstacles to

3.
1 any other solution in maintaining the field. Now, there may
2 be legal ways to do it that are not practical, and there may
3 be practical ways to do it which are not legal; but there are
4 no legal and practical ways that this field can be kept in
5 operation if this contract is not fulfilled.

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

18 I might say with respect to some of the figures that
19 have been cited in the past as to profits under the old con-
20 tract, that this has never been within the province of the
21 State Lands Commission; that this is entirely a matter arrived
22 at before the Lands Commission was given the jurisdiction that
23 it now has; that it has had no authority under any legislation
24 to deal with the terms of the contract arrived at before it
25 itself assumed its present responsibilities with respect to
26 this field.

1 There may be other points or questions, largely
2 legal in character, that are posed by this; but this is the
3 present situation which the Commission has before it in deal-
4 ing with the proposed replacement contract; and I think now
5 would be the time, first, for questions by the Commission of
6 Mr. Goldin and Mr. Hortig and then, if there are others who
7 would like to testify or speak to the points raised either in
8 the wire or in the contract, why we would be glad to hear from
9 you.

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

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

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

24 Incidentally, the same nine-well area was always
25 subject to the existent L.B.O.D. contract and its inclusion
26 never was considered as having affected the validity of the

1 existent contract. So that, except for the nine-well area,
2 the instant replacement contract has nothing to do with dis-
3 puted areas in the Harbor District.

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

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

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

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

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

17 MR. GOLDIN: No, in my opinion, Mr. Chairman.
18 Next, the telegram alludes to existing and pending unitization
19 agreements. In this connection, I would like to comment that
20 the approval of this replacement agreement does not constitute
21 Commission action or approval as to any future unit agreement.
22 Such approval will have to be done as a result of independent
23 action by the State Lands Commission.

24 Now, most of the so-called trespass area or disputed
25 area is in Fault Block IV. The Legislature already has allowed
26 for the extension of contracts in even disputed areas in Fault

1 Block IV by specific legislation. Now, I am trusting to my
2 recollection, since I was not aware of this telegram before
3 arriving here this morning. I think this legislation is
4 Chapter 1551 of the Statutes of 1959, which allows for the
5 extension of these contracts without competitive bidding; and
6 by express provision in this statute, such extensions do not
7 affect the status of any boundary dispute.

8 Similarly, even in the case of approval of a unit
9 agreement, by specific provision in Public Resources Code Sec-
10 tion 6879 the Commission's approval of a unit agreement does
11 not affect the location of the uplands and the tidelands
12 boundary in the Harbor District.

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

22 "It is not the intention of the City to nor does
23 the City grant, convey, give, or alien to or vest in the
24 contractor for any purpose whatsoever any title, interest or
25 estate in or to any lands whatsoever or any title, interest
26 or estate in or to the oil, gas and/or other hydrocarbons

1 and/or other minerals underlying any lands whatsoever or any
2 title, interest or estate in or to said oil when removed from
3 any lands until sold." The contractual provision then
4 continues.

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

8 In recapitulation then, gentlemen, as far as I can
9 see the contract -- that is, the replacement contract -- does
10 not affect in any way the trust character of any lands in the
11 Harbor District. We fail to see how the approval of this con-
12 tract can affect the status of any lands, either inside or out-
13 side the boundaries of the replacement contract; and as I said
14 a moment before, the approval of the contract is not the
15 approval of any unit agreement; but even in approving unit
16 agreements, it is expressly provided by statute that the Com-
17 mission action in so approving does not affect boundary
18 locations.

19 MR. CHAMPION: Are there any further questions of
20 Mr. Goldin? (No response) I'd like to ask one other thing
21 that's raised in the telegram, although I did feel this is not
22 wholly germane -- but just to deal with the question. That
23 is the matter raised that non-action would not result in
24 mandatory closing of the field because the Harbor Department
25 could legally continue operation there. I think it is agreed
26 that they could legally, is it not, Mr. Goldin -- that they

1 could legally continue operation there? I mean they could
2 take over operations there, the Harbor Department of the City
3 of Long Beach could legally take over the operation, as set
4 forth in Senator O'Sullivan's telegram?

5 MR. GOLDIN: That is correct.

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

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

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

20 MR. CHAMPION: In view of the extended nature of
21 this controversy, I'd like to settle even the irrelevant ques-
22 tions. Would the Long Beach Harbor District have a repre-
23 sentative to speak to this question?

24 MR. SPENCE: Yes, sir. For the record, my name is
25 John Spence, Assistant City Attorney, and with me is Mr.
26 William Smith, Petroleum Engineer. I'll speak only of the

1 so-called legal aspects of this; Mr. Smith will speak about
2 the practical engineering aspects.

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

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

24 One side aspect is that we would have to establish
25 these jobs under civil service, and this is a time-consuming
26 procedure.

1 In addition to this, the problem of acquiring
2 materials and services for the operation of the field under
3 the restrictions which the City has to operate -- that is,
4 competitive bidding -- would be almost insurmountable. As
5 you have been told before, there are thousands of different
6 items which are required on a daily basis, on short notice,
7 on an emergency basis in some instances, and for the City to
8 attempt to acquire those, even down to the inexpensive items,
9 by competitive bidding would be a complete handicap on the
10 operation, as we see it now.

11 MR. CHAMPION: Thank you. Any further questions?

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

14 MR. SMITH: There are in excess of two hundred.
15 There are representatives of L.B.O.D. here and I can probably
16 get that answer.

17 VOICE: Approximately three hundred.

18 MR. SMITH: Approximately three hundred.

19 MR. CHAMPION: Any further questions? (No response)
20 Is there anyone present who would care to make any further
21 statement or comment on this matter? (No response) Well,
22 that being the case, I would assume that we are prepared to
23 consider it. I would like to again say what I said before,
24 before we considered this last matter -- that the fundamental
25 question before the Commission is not whether it can or
26 should be delayed, but whether or not it is a good contract

1 on the basis of the analysis and the advice offered us by our
2 technical staff and our legal staff. Gentlemen, what is your
3 pleasure?

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

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

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

24 GOV. ANDERSON: My question on that is have there
25 been even service contracts where the percentage has been
26 higher? Isn't this the highest?

1 MR. HORTIG: From the standpoint of the service
2 contract, without having the experience under the new contract
3 to compare with the existing contract, the net results of the
4 total are probably equal to that which may be experienced, or
5 even a little higher than that experienced, under the service
6 contract held by Richfield Oil Corporation for another Long
7 Beach Harbor parcel.

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

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

25 MR. CHAMPION: Do you also feel - - I think you
26

1 raised the question by what you said -- that the service con-
2 tract is what you feel is the appropriate contract here in
3 this particular situation?

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

13 In accordance with this, a form of agreement has
14 been entitled "Collateral Agreement Between State Lands Com-
15 mission and Long Beach Board of Harbor Commissioners," which
16 is attached to your agenda item as Exhibit D and which has
17 been accepted in principle by the Board of Harbor Commissioners;
18 and since the specific language has not been before the Board
19 of Harbor Commissioners, the staff recommendation for approval
20 of the basic contract today is that the approval also "be sub-
21 ject to acceptance by the Long Beach Board of Harbor Commis-
22 sioners of the collateral agreement attached hereto as Exhibit
23 D and by reference made a part hereof." So the motion
24 should, in approving the contract, approve this condition.

25 GOV. ANDERSON: I'll move the approval of the
26 drilling and operating contract as recommended by the staff.

1 MR. CRANSTON: I second the motion. I'd like to
2 make a few brief comments in so doing. First, operating as
3 we must under the laws written by the Legislature, I believe
4 and it is evident to the Commission at least that we have a
5 good contract; that we got a good bid under that contract
6 and, further, that no further time is needed. We have been
7 working under a deadline imposed by the expiration of the
8 present contract -- but, nevertheless, under present circum-
9 stances without regard to that deadline and with no real
10 pressure from it, we are ready to act, I think with full
11 confidence that we are acting soundly. I think all of us
12 are grateful to the City of Long Beach for their part in
13 working out this contract that has led to a successful bid.

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

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

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

1 someone else.

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

4 MR. CHAMPION: Yes.

5 MR. SPENCE: I'd like to have the record show
6 that the Board of Long Beach Harbor Commissioners have al-
7 ready approved the collateral agreement -- have already
8 authorized the approval of the same; and I'd like to thank
9 you.

10 MR. CHAMPION: We have one other matter before us --
11 the next meeting. Tentatively, we will look to January 30th.
12 (Some discussion between Commissioners inaudible to reporter)

13 The meeting stands adjourned.

14
15 ADJOURNED 12 NOON

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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.

Louise H. Lillico