TRANSCRIPT OF
MEETING
of
STATE LANDS COMMISSION
SACRAMENTO, CALIFORNIA
April 29, 1964

****

PARTICIPANTS:

THE COMMISSION:

Hon. Hale Champion, Director of Finance, Chairman
Hon. Glenn M. Anderson, Lieutenant Governor
(Hon. Alan Cranston, Controller, absent)

Mr. F. J. Hortig, Executive Officer

APPEARANCES:

Mrs. George D. LaMoree
Mr. Howard Leach, Department of Fish and Game
Mr. John B. Robinson, Department of Fish and Game
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**NEXT MEETING**

41
MR. CHAMPION: The meeting will please come to order. The Controller will not be with us today and he has no representative here.

The first item is confirmation of minutes of meeting of February 5th, which have been distributed to the members.

GOV. ANDERSON: Move it.

MR. CHAMPION: Second. Any question or comment?

(No response) Stand approved.

MR. HORTIG: Mr. Chairman, the order for confirmation of minutes should be for the minutes of the meeting of February 5, 1964 and February 26, 1954.

MR. CHAMPION: With amendment to that effect, without objection, that will be the order.

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

(a) Orange County Harbor District -- Permit to dredge approximately 200,000 cubic yards of material from Sunset Bay, Orange County, and deposit material on lands of the Harbor District.

(b) City of Redding -- 40-year life-of-structure permit for construction, operation and maintenance of a boat launching ramp and a log boom on 6.10 acres sovereign lands of the Sacramento River, Shasta County.

GOV. ANDERSON: I move them.
MR. CHAMPION: Second. Is there any question or comment? (No response) Stand approved.

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

(a) Associated Dredging Company -- 15-year lease of 9.385 acres tide and submerged lands of the Petaluma River, Sonoma County (to provide a water access to applicant's upland.) Annual rental, $434.90.

(b) Pacific Gas and Electric Company -- 15-year lease of 0.623-acre parcel of tide and submerged lands in the San Joaquin River east of Antioch, Contra Costa County -- to provide a barge dock facility for applicant's power plant on adjoining upland. Annual rental, $334.04.

(c) Socony Mobil Oil Company, Inc. -- 15-year lease 4.673 acres tide and submerged lands in the Rincon Field, Ventura County (to permit maintenance and use for oil operations of an existing pier, and to allow subsurface drill-through rights for State Oil and Gas Lease P.R.C. 427.1). Annual rental, $154.68.

(d) Lindsey H. Spight, d.b.a. Diablo Communications Center -- Sublease to Beasley Engineering Co. of portion of Lease P.R.C. 2364.2, State school lands on Mt. Diablo in Contra Costa County, for a microwave installation and control station.

(e) Lindsey H. Spight, d.b.a. Diablo Communications
Center -- Sublease to HEC Trucking Corporation of portion of Lease P.R.C. 2364.2, State school lands on Mt. Diablo in Contra Costa County, for a mobile repeater, transmitter, and receiver.

(f) Mrs. Allan H. Beckwith -- Permit to dredge not to exceed 10,500 cubic yards of material, at royalty of five cents per cubic yard, from 1.245-acre portion of the Salt Works Canal, Richardson Bay, Marin County, and to deposit material on tideland lots owned by applicant. Will create a navigable waterway to the general area.

(g) Everett S. Hamman -- Permit to dredge approximately 500 cubic yards of sand, silt, and gravel from 0.30-acre parcel of the bed of the Noyo River, Mendocino County, at royalty of six cents per cubic yard, and to deposit material on adjacent property owned by applicant (for stabilization of the river bank in the vicinity of the removal area, which is presently being eroded).

(h) Decon Corporation -- 6-month temporary encroachment permit, 0.312-acre parcel of submerged land in the City of Seal Beach, Orange County -- in order to erect a temporary cofferdam to facilitate construction of a bulkhead on adjacent private land. No consideration necessary.

MR. HORTIG: Mr. Chairman, the recommendation here stated is that of the staff. On review, the Office of the Lieutenant Governor has suggested that an alternative recommendation be considered by the Commission -- that inasmuch
as there will be occupancy for a period not to exceed six months on approximately one-third acre of tide and submerged lands for a temporary structure, this occupancy to be by private interests in connection with development on the upland, that the standard rental fees of the Commission relating to tide and submerged lands should be applied -- which, in this instance, would be $195 for the six months.

MR. CHAMPION: Has this been discussed with the corporation?

MR. HORTIG: Yes, sir; and they will accept it and will pay. However, the original permit for no consideration was predicated on the fact that the occupancy of the tide and submerged lands is temporary; there is a removal bond which will assure restoration of the tide and submerged lands to their original condition; and by reason of the works constructed on the uplands further beach erosion in the area will be prevented and will eliminate the need for Federal and State beach protection against erosion. It was felt that the effects in the future would equitably offset the standard charge for the use of the tidelands.

However, in strict application of rules governing use of public lands by private interests, irrespective of the purposes, then the rules and regulations of the Commission would require the $195 rental fee.

MR. CHAMPION: What is the pleasure of the Commission?
GOV. ANDERSON: Our contention was that this is a matter of principle, that there has to be a line drawn. Where do you draw it -- $190, $490? And almost everybody I have seen come up with these can give benefit to the State for erosion or clearing out a channel. It was just on this basis that we raised this point. If it embarrasses the staff, I wouldn't push it.

MR. HORTIG: Not at all.

GOV. ANDERSON: Our feeling was -- where do you draw the line; if it is six months, a year -- where do you draw the line?

MR. HORTIG: The total factors would require evaluation and judgment. The recommendation of the Lieutenant Governor's staff is strictly in conformance with the cold hard facts of the rules and regulations. There is no question of precedent and no problem of exercise of judgment; and the applicant would prefer to go ahead with the permit at cost or no cost, rather than to debate the subject with the Commission.

GOV. ANDERSON: I am not pushing it.

MR. CHAMPION: I will accept whatever your motion is.

GOV. ANDERSON: Do you have any objection to following our recommendation?

MR. HORTIG: No, sir.

GOV. ANDERSON: All right. I so move.
MR. CHAMPION: Second -- and we are speaking only to 4(h) -- and that will be the order; amended to follow the recommendation of the Lieutenant Governor's Office. That is Item 4(h) only.

(i) Southern California Edison Company and San Diego Gas and Electric Company -- 3-year permit for purpose of disposing of approximately 450,000 to 500,000 cubic yards of San Mateo Jands (to be removed from upland as part of site preparation for Unit 1 of San Onofre Nuclear Generating Station) on 16.67 acres of tide and submerged lands at San Onofre, San Diego County; and 3-year permit for temporary working area, covering 3.45 acres of tide and submerged lands at San Onofre, San Diego County, at annual rental of $2,070.

(j) Karl Pierce, et al. -- Deferment of operating requirements for lease-year ending April 13, 1964, Preferential Mineral Extraction Lease P.R.C. 2150.2, San Luis Obispo County. (Because of depressed chrome market, grade of ore on lease area cannot be mined economically at present.)

(k) Richfield Oil Corporation -- Deferment of drilling requirements, Oil and Gas Leases P.R.C. 308.1 and P.R.C. 309.1, Santa Barbara County, through July 31, 1964 to permit completion of -- (could I have an agreement with the staff never to use the non-existent word "finalized"?) -- finalized form of Unit Agreement for pooling productive areas with a view to modifying development and producing requirements of both leases.
MR. HORTIG: You have such agreement.

GOV. ANDERSON: Can I ask a question? The question doesn't pertain specifically to this one, but it pertains to the series of them; and I wonder if there is any relationship between these deferments of drilling requirements and the potential East Wilmington Field? Is there anything behind these deferments?

MR. HORTIG: I do not believe so, Governor, for the reason ......

GOV. ANDERSON: My question is not on any one of these. I don't want to raise a question on any one. It is just a general thing. I see four of them in a row.

MR. HORTIG: Just by the nature of the timing, primarily, for leases issued 1958 and subsequently -- the drilling and development program which was undertaken at that time and which, of course, could not have forecast the East Wilmington Field entering the picture. That drilling development program started originally in accordance with leases issued at that earlier date for a series of leases naturally brings about the same relationship and problems -- how many wells to drill, how many have been drilled to date, and the problem of determining which additional areas to drill. In one case, as a typical example here, the lessee is interested in developing as rapidly as possible in order to expedite payout, hopefully, on the investment.

MR. CHAMPION: In advance of the exploitation of
MR. HORTIG: Even so; because these started, as I say, for the most part in 1958, and there are leases here on which the operator proceeded with the development at the maximum rate, not taking advantage of the time between wells that he could take under the lease terms and conditions; so that they have actually, timewise, done all the drilling they would have been required to do through the year 1966. So they are really ahead of themselves and these deferment periods for the most part are deferment time until time catches up with them, so they are back to what would be required by the minimum schedule of the leases and to give them the opportunity to determine these additional geophysical and geological studies for the additional wells, rather than by the lease requirements in the first instance, as to how many wells can be drilled on an area.

GOV. ANDERSON: I realize they can have two meanings there, but I see the wording, "modifying development and producing requirements," and I assumed they want to reduce the amount of production we want.

MR. HORTIG: No, sir. That is with respect to Richfield Oil Corporation, item (k) only. It does not apply to the others, which are only for the deferment of drilling requirements. It is a different situation because here we actually have producing wells on two leases that should be combined into one lease operation instead of having two sets
of drilling requirements.

GOV. ANDERSON: Would the requirements then be reduced?

MR. HORTIG: Well, the requirements would be the same for the new unit area that had applied to each of the two leases previously, after the modification has been undertaken.

GOV. ANDERSON: So we would actually be combining the producing requirements rather than modifying them?

MR. HORTIG: That is right.

GOV. ANDERSON: It was the way I was reading it. I didn’t want us to be asked in future to modify downward any leasing requirements in view of future developments.

MR. HORTIG: The Commission to date has not modified any requirements downward on any oil and gas lease.

MR. CHAMPION: (1) Richfield Oil Corporation, et al. -- Deferment of drilling requirements, Oil and Gas Lease P.R.C. 2726.1, Santa Barbara County, through November 30, 1964. Area under constant study, but analysis of sonic gas exploder survey made in 1963 has not yet been completed.

(m) Standard Oil Company of California and Humble Oil & Refining Company -- Deferment of drilling requirements, Oil and Gas Lease P.R.C. 1824.1, Santa Barbara County, through December 9, 1964. Lessees conducting geological and engineering studies which may lead to drilling of additional development or exploratory wells.
Texaco Inc. -- Deferment of drilling requirements, Oil & Gas Lease P.R.C. 2206.1, Santa Barbara County, through December 13, 1964. Information developed during recent drilling of well necessitates complete review of all geophysical and geological data related to the lease.

GOV. ANDERSON: I move it.

MR. CHAMPION: Second. Is there any question or comment on any item? (No response) Stand approved.

City of Long Beach. Approvals required pursuant to Chapter 29, 1956, First Extraordinary Session:

Project (a) Raise 29 Oil Wells in Town Lot Area (2nd Phase) Estimated subproject expenditures from January 30, 1964 to termination of $493,000, with $310,590 (63%) estimated as subsidence costs.

The next is informative only. What is the pleasure of the Commission on the item?

GOV. ANDERSON: I move item (a).


(b) Informative only: The Harbor Department has submitted a "Development Plan, Parcel L" for study and review, to provide for immediate development to allow exploitation of recoverable petroleum reserves in a 25-to-30-year period. Total drilling costs estimated at $7,030,000; total production facility costs at $1,371,000. The plan proposes peripheral water injection with a line-drive to maintain full
reservoir pressure. Gross value of the 42 million barrels of recoverable oil estimated to be nearly $88 million; total costs, nearly $47 million, with net income probably in excess of $41 million. Staff opinion is that plan is in accordance with good petroleum engineering practice and should result in maximum recovery of hydrocarbons.

MR. HORTIG: Mr. Chairman, I should like to point out to the Commission the reason for presentation of this item inasmuch as this is the first time that the corollary agreements in connection with the recently approved and issued extension agreements in the Long Beach Harbor Department have taken effect; and those corollary agreements provided for advance information, time for review and comment on such operations in connection with the contract that became effective March 20th of this year.

This is the first of such operation developments and we felt we should report it to the Commission both as to the significant additional amount of money that will accrue to the City and State by reason of this agreement, and the fact that the corollary agreements are working.

MR. CHAMPION: This $41 million is in addition to the estimates of revenue -- previous estimates of revenue to be realized from the new contract?

MR. HORTIG: Yes, sir.

GOV. ANDERSON: I want to say that I think it is good that we are going to have this review plan ahead of
time so we can know and anticipate -- which is a lot better than in the past. The one thing that bothers me -- and I assume the fault is mine; it may have been staff's -- as far as I was concerned, I was not aware of this addition to the original Long Beach field and until I saw this it never came to my mind that we were adding this number of acres.

MR. HORTIG: About two thousand; but there had been no production on this area.

GOV. ANDERSON: Apparently it was secret information at the time it was added, because they could not have come in with this detailed report without information that there was this additional amount.

MR. HORTIG: It was anticipated there would be an addition, but the program and the economics of the thing are of current development and the total numbers were added up for the first time as of February 25th of this year; and it was, therefore, not until that time that Staff, on review of this program, and even the Long Beach Harbor Department staff, really realized the significance of this.

GOV. ANDERSON: That last part I question. I wonder if it was an unknown quantity to everyone up to February. It would look to me that the amount of information in this report would indicate that this has been going on for some time and they had this information.

MR. HORTIG: That is correct.

GOV. ANDERSON: Your staff may not have had it . . .
MR. HORTIG: One point -- It had not been translated into dollars, Governor Anderson. In all our previous estimates to the Commission and in connection with the discussion of the proposed extension contract, it was pointed out that by addition of this area in the tabulation it was estimated that an additional forty million barrels of oil would be produced, but we had not calculated at that time what the potential net profit was.

GOV. ANDERSON: My memory is that it was going to be a little larger field; it was going to coincide, was going to clear up the boundary lines, and so on. But I never realized the size of this field, and I know if I had I would have asked why wouldn't this be considered in the new field instead of bringing this way out in the Bay, which brings it into our new field.

MR. HORTIG: No, sir. It was westerly to the new field, which is why it was logical addition to the previously developed L.B.O.D. parcels. As a matter of fact, five years ago we made a very definite attempt to try to get this very area leased or developed, and could not get anybody to develop it because of various economic conditions; and it was realized the only way to get it into a development was at the time when a new contract with a new 25-year period would be available -- which was why it was added to this area.

GOV. ANDERSON: If there is any criticism, it is
due to me. I did not know at the time it was this big a field and it shocked me when it was explained to me.

MR. HORTIG: As I say, our prior calendar report did contain in the statistics the estimated additional production of forty million barrels. More detail was not available.

MR. CHAMPION: Let me ask this question in the light of that: Is this forty million in addition to the estimates with which we have been working on the East Wilmington contract?

GOV. ANDERSON: Using our old program, this is all in addition.

MR. HORTIG: At the moment, I believe ....

MR. CHAMPION: If it is, it would all come to the State.

MR. HORTIG: It will all come to the State because of the ceilings imposed under the present schedule -- an equivalent amount will come to the State.

MR. CHAMPION: Yes. I think that ought to be checked out, to be sure that the figures that were being used in the discussions before the legislative committees and the Commission -- as to whether the forty million is already included in those estimates or whether it is not.

MR. HORTIG: We can do that.

MR. CHAMPION: You think it is not?

MR. HORTIG: I am not positive; but either way,
under the present proposed schedule for distribution, the State is protected.

MR. CHAMPION: That's correct. Anything further?

GOV. ANDERSON: No.

MR. CHAMPION: Item 6 -- Land sales and exchanges. All items here presented have been reviewed by all State agencies having a land acquisition program, and unless otherwise indicated, no interest has been reported by those agencies in the lands proposed for sale or exchange.

(a) Sale of Vacant State School and Lieu Lands:

(1) J. Stanley Johnson -- Appraised value $10,400; bid $10,400.

(2) State of California, Public Works Board -- Appraised value $22,586.55, bid $22,586.55.

(3) Kelso V. B. Young -- Appraised value $17,893.58; bid $17,893.58.

MR. HORTIG: Mr. Chairman, if we may have a moment, we do have a protestant in the audience with respect to one of our items. No, I see we are not there yet. Please proceed.

MR. CHAMPION: What is the pleasure of the Board on Item 6(a)?

GOV. ANDERSON: I move it.


(b) Selection and Sale of Vacant Federal Land:

(1) John R. Chase, Jr. -- Appraised value $14,960; bid $14,960.
(2) Molybdenum Corporation -- Appraised value $10,900; bid $10,900.


MR. HORTIG: Mr. Chairman, with respect to the application of Mr. Curtis M. Rocca which you just read, there are indicated on page 37 of your agenda the legal descriptions of the five parcels that are included, and on page 38 a statement that all State agencies, as well as city and county governments and school districts, have recently been circularized under the Commission's newly adopted policy, and that the only indication of interest was expressed by Humboldt State College, that request being that two of the parcels be withheld from sale for the maximum two-year period. This request was subsequently waived. However, the Lieutenant Governor received the following telegram this morning addressed to Lt. Governor Glenn Anderson, State Capitol, Sacramento, California:

"RESPECTFULLY REQUEST STATE LANDS COMMISSION TO WITHHOLD SALE OF PARCELS LISTED IN OUR COMMUNICATION DATED 4-7 STOP RECONSIDERATION INDICATES FUTURE COLLEGE DEVELOPMENT MAY NEED THESE PARCELS.

C. H. SEIMENS, PRES. HUMBOLDT STATE COLLEGE"

The parcels referred to appear on Calendar Page 37, identified as Parcels Number 1 and Number 3; and, therefore,
it is recommended that the Commission resolution for approval for sale this morning exclude these parcels and put Parcels 1 and 3 on the hold list for the benefit of Humboldt State College again.

MR. CHAMPION: Well, let me ask two questions. First, do you know whether or not this affects Mr. Rocca's plans? He is buying five parcels. With two gone, does he still wish to proceed with the other three independently?

MR. HORTIG: The prior discussions, prior to the waiver by Humboldt State College, were to the effect that it was desired that the transaction proceed, even with the withholding of the two parcels. Additionally, none of the parcels listed here are contiguous lands. They are scattered over considerable territory.

MR. CHAMPION: I see. Is there any concern here about time, as far as Mr. Rocca is concerned?

MR. HORTIG: There certainly must be, in the sense that the original application for the acquisition of these lands from the Federal Government which is just now being consummated was filed in 1954 -- it is ten years old.

MR. CHAMPION: That is pretty speedy in this business. Well, I gather, then, if we should amend this, take out Parcels 1 and 3 until we can ascertain this other situation more closely, that this poses no problems.

MR. HORTIG: No, sir.

MR. CHAMPION: Then this would be the way for the
Board to act -- to amend that to exclude 1 and 3?

MR. HORTIG: Yes, sir.

MR. CHAMPION: And this does not mean a negative action on 1 and 3. It simply means we want to work this out with Humboldt State.

MR. HORTIG: Yes, sir; or, alternatively, a waiver or rewaiver.

MR. CHAMPION: I think we ought to have that reported to us factually, with regard to Humboldt State College's decision.

GOV. ANDERSON: I'll move, then, that the sale of (b) be approved, with the exception that we withhold 1 and 3 -- the description of Parcels 1 and 3 to be withheld from the sale for Humboldt State College.

MR. CHAMPION: Second. Any questions? (No response) That will be the order.

(c) Reject application of George D. La Moree to purchase 618.52 acres vacant State School land in San Bernardino County; direct return of all deposits to the applicant except the $5 filing fee; hold said land for two-year period from April 3, 1964, for purchase or lease by the California Department of Fish and Game.

MR. HORTIG: Mr. Chairman, Mrs. La Moree is in the audience this morning and wishes to report to the Commission with respect to this recommendation.

MR. CHAMPION: Would you care to come forward,
Mrs. La Moree.

MRS. LA MOREE: I thought perhaps I should call to your attention a few of the dates that seem significant to us in this action. We filed our application in 1960, in February, and on May 24, 1960 this new policy was adopted by the Board, whereby the agencies of the government were to be circularized. We were not informed of this until a year and a half later. However, during this period subsequent to 1960, our re-appraisal was continued and we paid the final re-appraisal fees, so that the total of all the money to be deposited was in to your office; the publications were made in the newspaper, and so forth.

In 1962, the Fish and Game Commission applied to have the sale held up, but there was no followup on it. Then in October 1962 we heard that there was no further word from the Fish and Game Commission. In December 1963 the City of Victorville also put in a claim, but they vacated this; and finally now in April 1964 the Fish and Game Commission is again heard from.

We went into this in good faith as private citizens and when we started there was no such rule or order whatsoever, and we feel that a strict application of this and just under the caprice of a Commission, which has previously been given an opportunity twice to save or reserve this land and then just at this particular date steps in again - - we feel that it's retroactive and capricious and not in the interest
of fair government for this to be allowed.

MR. CHAMPION: What is the character of the property?

MRS. LA MOREE: It is hilly, desert land; and we were a little resentful of the statement of the Fish and Game Commission, who said they didn't think it would be a good idea to have unplanned desert cabins there -- which we felt was not an accurate or correct statement of what we had in mind -- when they really did not know what was our plan.

We felt it is a situation which has been delayed. There have been other cases of action being held up and that action of deferral being rescinded. In 1961 that took place. We have felt that it has been too long and that the State Fish and Game Commission has been given so many opportunities -- I do not know when they were circularized, but Victorville in December 1963 defaulted, so I assume it was in the same period.

GOV. ANDERSON: How far is this from Victorville?

MRS. LA MOREE: I do not know.

GOV. ANDERSON: Where is it?

MRS. LA MOREE: It is north of Lucerne Valley.

MR. CHAMPION: Is there a representative of the Fish and Game Commission here? (No response)

MR. HORTIG: For the benefit of the Commission, the staff problem with respect to this situation is a letter of April 1, 1964, the current month, from the Director of the Department of Fish and Game, which in part states, and I
"This parcel of land is within a 131,000-acre area proposed for a wildlife management area and contains key wildlife and public access value. The Ord Mountain area is considered an exceptional wildlife and conservation site that should be preserved in public ownership. We feel that the above values are more important than seasonal cabin sites. We feel that too many scenic and important desert lands in California have already been spoiled by this type of unplanned development.

This letter is to inform you of our objections to this sale and that the Department of Fish and Game intends to purchase or lease the subject lands within two years from the date of this letter."

MR. HORTIG: (continuing) Both Mr. Leach and Mr. Robinson of Fish and Game are in the audience.

MR. ROBINSON: We are here on another matter and I am unaware of this situation. I am out of San Francisco.

Mr. Leach is headquartered in Sacramento.

MR. CHAMPION: Do you have any knowledge of this, Mr. Leach?

MR. LEACH: No, I didn't.

MR. CHAMPION: I don't think this is a matter we should just consider automatically. I am quite curious about the source of funding this operation within the next
two years. I think we have your statement, Mrs. La Moree. Could we put this matter over and have the representative of the Department of Fish and Game appear?

GOV. ANDERSON: Couldn't we have it next meeting, when it is down south, where it is a little easier for Mrs. LaMoree?

MR. CHAMPION: When is our next meeting in Los Angeles?

MR. HORTIG: The May meeting, latter part of May, is tentatively scheduled for Los Angeles.

MR. CHAMPION: Is that satisfactory to you? We would like to go into this and our policy is, of course, that on public lands public use has priority.

MRS. L. MOREE: May I just say Mr. Smith and Mr. Nathan in their office have been most helpful and have explained it in every possible way. It is such a complicated situation. We feel it was started under one law. This policy has been in effect four years and through all this period the Department of Fish and Game showed only a glimmer of interest, and now we feel it is capricious.

MR. CHAMPION: I think that is the question before us, whether it is capricious or not. Thank you for appearing.

GOV. ANDERSON: Do you want a motion?

MR. CHAMPION: I think, if there is no objection, there simply will be the order that the item will be put over to the next meeting.
MRS. LA MOREE: Will I be notified of this meeting?

MR. HORTIG: Yes, you will.

MR. CHAMPION: 7 -- Oil and Gas Leases: (a)
Approval of adjustments in royalty payments by Brazos Oil and Gas Company of $11,269.16 overpayment under Gas Lease P.R.C. 714.1 and deficit of $9,259.99 under Gas Lease P.R.C. 729.1, River Island Gas Field, Sacramento and San Joaquin counties; authorization to refund to Brazos of net difference of $2,009.17; and authorization for Executive Officer to present claim for refund to Board of Control with Commission's recommendation that such claim be allowed.

(b) Authorization for Executive Officer to execute a Compensatory Royalty Agreement with the Dow Chemical Company, Producing Properties, Inc., and the Howard Corporation, covering lands in the River Island Area, Sacramento and San Joaquin counties, so as to protect the State's interest in a portion of the bed of the Mokelumne River; lessees to pay standard royalties for gas and gas products produced.

(c) Authorization for issuance of an Oil and Gas Lease (Parcel 17), 3,420 acres in Orange County to Socony Mobil Oil Company, Inc., as highest bidder, with cash-bonus payment of $1,250,285.

(d) Authorization for issuance of an Oil and Gas Lease (Parcel 18A), 3,324 acres in Santa Barbara County, to Richfield Oil Corporation, Socony Mobil Oil Company, Inc. as highest bidders, with cash-bonus payment of $352,111.15.
(e) Authorization for Executive Officer to offer 5,553 acres tide and submerged lands in Santa Barbara County, designated as W.O. 5110 (Parcel 21), for oil and gas lease.

MR. CHAMPION: (continuing) And we have a Supplemental Item (f) -- Proposed oil and gas lease, 5,540 acres more or less of tide and submerged lands, Ventura County, W.O. 5130 -- Parcel 22.

GOV. ANDERSON: I move it.

MR. CHAMPION: Second. Any question or comment? (No response) Stand approved.

8 -- Approval of Maps: (a) Authorization for Executive Officer to approve and have recorded Sheets 1 through 10 of 10 of plats entitled "Plat of the Ordinary High Water Mark Along the Shore of the Santa Barbara Channel, Vicinity of Port Hueneme, Ventura County, California," dated February and March 1959.

GOV. ANDERSON: I so move.

MR. CHAMPION: Second. Stand approved.

9 -- 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, again, Mr. Chairman, are extensions of time for geological and geophysical survey permits previously authorized by resolution of the Lands Commission.

MR. CHAMPION: What is the pleasure of the Commission?
GOV. ANDERSON: I move approval.

MR. CHAMPION: Second. Stand confirmed.

Item 10 -- Report of status of major litigation.

MR. HORTIG: On which there are no substantive changes from the last report to the Commission, in that none of the actions listed have either gone to trial or been decided.

MR. CHAMPION: The members of the Commission have also been supplied with a list of legislative items now before the '64 First Extraordinary Session.

MR. HORTIG: Listing all the bills which are of potential interest to the Lands Commission in terms of either assigning new responsibilities, amending existing responsibilities, or granting tide and submerged lands with certain residuary requirements as to review and approval by the Lands Commission if this legislation is adopted.

MR. CHAMPION: Well, rather than go through this whole list, is there anything in which you have any special interest?

GOV. ANDERSON: Not that, no. I want to make a little statement on this other when you get around to it.

MR. CHAMPION: I think this is probably the time for discussion of legislation.

GOV. ANDERSON: I recognize that our Executive Officer is going to testify before a Senate Committee, I believe, as soon as he leaves here and I want at least to
get some of my views to you. I know we have been reading in the paper that you have been making statements and I have been making statements, and it identifies your remarks as those of the Chairman of the Lands Commission, Mr. Chairman. I realize that your presentation has been as Director of Finance, not as the Chairman of the Lands Commission ....

MR. CHAMPION: I was very careful about that.

GOV. ANDERSON: ... but the news items have always identified you as Chairman of the Lands Commission. So I wanted to bring up a couple points so Mr. Hortig would know our position. I realize it was kind of fuzzy at the time, I think, at the last Commission meeting.

We proposed amendments to A.B. 132 and we all looked at it, and we all sort of agreed that this was what we would have Mr. Hortig present for us. Among those suggestions we proposed one that would remove the settlement of the boundary dispute from the legislation and leave it to the courts. Now I see nothing of this or hear nothing of this in this discussion, and I still feel this is a wise position.

Second, Long Beach would present a master plan for the development of the shoreline area, that this be approved by the Commission; that the expenditures from the trust be made from this master plan, which could be amended from time to time. Again, there is no mention of this master plan in this proposed legislation. This is all part of this six-point thing we talked about.
Third, and the one I am most concerned about, is that we had concern about monopoly, and since our last meeting the legislation as proposed has an 80% interest; and our proposal has been breaking this up into undivided interests with the largest one not greater than 45%. You may recall at that time the 45% was itself subject to a 12 ½% selloff.

In addition, the legislation calls for inclusion of the Alamitos State Park lands, which I don't think we talked about, and this increases the size of the field approximately 10%.

If Frank is speaking for the Commission, I feel this proposed legislation would not best serve the interests of the public. It would exclude all other companies but the winning syndicate and subject us to the risk of a monopoly situation in the California oil industry and with even the 12 ½% selloff we would not be protected; the small companies would not be protected. It would be better to provide a way so that all companies would have a share in the oil.

I want to make it clear, so there isn't any question about Long Beach and the State receiving money -- I am in full favor of the State receiving the largest share of the tidelands oil revenues; I think this is a good compromise. I am also in favor of Long Beach receiving all the money it needs for its shoreline development. This isn't the thing that bothers me. The one that bothers me is the question of monopoly. I am not going to press it, but I still think the
Commission should take a position against Senate Bill 60.

I think Mr. Hortig should take a good close look at the Farr bill, which provides for a thirty per cent interest to any one company.

I realize, Frank, it is difficult for you to represent a Commission where I have one view and the second one has another, and the third one isn't here and hasn't actually given it; but I didn't want you to represent anything for the Commission that didn't go along with what we decided a month ago.

MR. CHAMPION: I would like to make some comments first and then have you respond, Mr. Hortig. In the first place, I was largely the author of those proposals and at the time suggested that these ought to provide a basis of a compromise. These were amendments in the absence of agreement and, as I specifically stated at the time, these should be the basis of further compromise in order to achieve some sort of agreement in this matter.

I want to make clear, however, that I very specifically said in each of my appearances and discussions on this that I was acting in my capacity as Director of Finance; that I did not represent the State Lands Commission in these discussions; that I thought it was impossible for the Commission itself as a party to conduct complicated negotiation of this kind. I have discussed the matter of the compromise in terms of principle with the third member of the Commission.
and he was not in disagreement with the principles, although he was otherwise engaged and could not go into further details; and I certainly would not want to commit him without his being familiar with all of the details.

First of all, I call attention to the fact that this, frankly, was an effort to achieve compromise for both parties. That means no one party has all his own way or no compromise is achieved. However, I would think each of the things in the compromise can be defended on its own merits, although in some cases would not go as far as we would like.

On the subject of the boundary litigation, I discovered in further conversation that our case was not, to put it bluntly, very good. I suppose since I do not represent us legally I should not so represent our case — but that we had been engaged in a long, a difficult bit of litigation that was getting nobody anywhere very slowly and that there was no easy or early solution in sight; that a good deal of very high class legal talent was being tied up.

Second, on the subject of the master plan, it was felt that we did explore this extensively and it was not the concern of Long Beach as to the application of this — I mean they were not concerned about the principle. As we worked at it to get to the mechanical details, we found there was not a practical solution as to how things could be done and done in time for this session. Therefore, it was felt it was better to go to a fairly precise outlining, an attempt to write into
the legislation a guideline to the Commission, and the Commission has more than ministerial function.

The most important question I think the Lieutenant Governor raised, and quite properly, has to do with protection against monopoly. There are really several elements involved, but I wish to point out first -- and I'd like to have Mr. Hortig comment if this is not true -- the legislation permits the Lands Commission to lease the Alamitos lands independently, and depending on the decision of the Lands Commission it need not be part of the 100%. You need not expand it; that is at the option of the Lands Commission to expand it. That is my understanding of the legislation. If that is not correct, I would certainly want to be sure that it is our intent to achieve that.

MR. HORTIG: This is the current intent of S.B. 69.

GOV. ANDERSON: How was that written in there?

MR. HORTIG: I am reaching for it right now, sir.

GOV. ANDERSON: The intent or permission.....

MR. CHAMPION: The intent was to give the Lands Commission full authority to decide which way it wanted to lease.

GOV. ANDERSON: Without any direction?

MR. CHAMPION: Without any instruction.

MR. HORTIG: This is all carried currently, Governor, in Section 3(g), page 8, of the Senate Bill 60 as amended April 21, 1964; and I have the specific language starting on
"The State Lands Commission, on behalf of the State of California, may negotiate and enter into the unit, unit operating or cooperative agreement for the development of oil, gas and other hydrocarbons, which agreement includes all or part of the Alamitos Beach Park Lands."

GOV. ANDERSON: The direction is the other way.

MR. HORTIG: "The State Lands Commission, on behalf of the State of California, may negotiate ...." 

GOV. ANDERSON: That is kind of a directive that we do that.

MR. CHAMPION: It certainly shouldn't be and if there is any question about it, our position is clear; if there is any question about it, the language should be reworded to carry with it the intent that we should be without direction.

MR. HORTIG: This was to give the Commission the alternative.

GOV. ANDERSON: I realize that, but often after things become law it kind of gives the implication the Lands Commission may do something, but the direction is pointed out and they will say, "This is what the Legislature meant at the time."

MR. HORTIG: In view of the fact, also, "in carrying out the purposes of this section, the State Lands Commission,
"on behalf of the State, may exercise any or all powers specified" in the cited section of the Public Resources Code -- the power is in the Lands Commission to lease these lands under the Public Resources Code under their discretion.

MR. CHAMPION: The other part of it, in the undivided interest problem -- there is no 80% share because the 80% share requires that a selloff of 12\%\% come out of that; and there is further provided in the legislation that no one group or company or beneficial interest of that company shall have more than 67\%\%, so there can be no control beyond 67\%\%.

Now, 67\%\% is roughly two-thirds of the oil. It is estimated that at peak production, as I recall, this will be 23% of California production. That would mean that 67\%\% would be roughly 15% of California production at that time. This does not by any means constitute monopoly control of California production.

Further, if it were to be lower, if the interest were to be lower, we had substantial testimony -- this is a subject of argument; everybody is entitled to his own speculation on this -- but my conclusion on this and that of those who participated in the negotiation, all of whom were interested in getting maximum revenue, is that it would cost the State to lower it -- it might cost the State two or three million dollars out of the whole field. We saw no reason to lower this at the expense of the State of California to subsidize other operators.
Let me point out we have these shares available for public bidding: 67½%, 12½%, 10%, (the 12½% being the sell-off), 5%, 2½%, 1½%, 1%. In addition, we have the further option of the rather substantial amount in the State Park land area, which would be another 10% on top — or somewhere in that area. We looked at the whole structure of the industry. There is available in that structure, for bid by any company of any size, a share which they could and would bid on if they were interested in oil from this field. There is no one in the industry who should not be able to get a requisite portion if he is the highest bidder.

This was the compromise. Here it was not compromise with Long Beach; it was an attempt to compromise between the two basic interests of the State — one, preventing monopoly, and, two, achieving the highest possible income; and we had adequate testimony from experts on oil company operations that there would be substantial loss to the State if we went further to the extent of breaking up the undivided interests in this field.

I think that concludes my statement, except that I think in any area as complicated as this one — and we have been through it for a year, year and a half — there is plenty of room for an honest difference of opinion. As a matter of fact, that is what we mostly have had — honest difference of opinion — and the difficulty was in trying to arrive at something in which enough people could agree to
provide a basis for the State and Long Beach to begin development of this great resource of the State. I felt this was a fair and reasonable settlement.

However, I did not, in making these compromises, in any way commit the State Lands Commission to full support of this. I understood the Lieutenant Governor did not agree with some of the provisions, but I was in the position of being a part of the negotiations. And that is my statement.

GOV. ANDERSON: Thank you. I'd like to ask Frank:

On this 80%, of which the 12^{1/2}\% selloff, if it is sold, will be deducted, the people that took this 12^{1/2}\% would not be able to derive the benefit of the depletion allowance on production?

MR. HORTIG: No, sir.

GOV. ANDERSON: How much would this mean they would have to pay more in percentage for that oil than the company who gets the initial bid? In other words, my query and my wonder is: Why would anybody want to buy that particular 12^{1/2}\% if they weren't able to take the depletion allowance and the other things that the major bidder would get?

MR. HORTIG: Because this 12^{1/2}\% would represent a source of crude to potential bidders, subject to competitive bidding, on exactly the same scale as they are buying the rest of their refinery input. In other words, of the seventeen operating -- and it may be sixteen today -- classified as independent refiners in California, probably 95\% of the oil purchased by those refiners is purchased from other oil
companies by procedures identical to the procedures that would be applicable to this 12 1/2% selloff. The independent refiners probably have not more than something in the order of five percent of owned production which they put into their own refinery, so they have to purchase the large bulk of their refinery needs.

GOV. ANDERSON: Is it your feeling that under the provisions of this, the 12 1/2% would be readily sold?

MR. HORTIG: If the refiners want to bid on it.

GOV. ANDERSON: I think the disadvantage to them is such they wouldn't bid. In some of our leases don't we have a selloff provision?

MR. HORTIG: Yes, sir.

GOV. ANDERSON: How many of those are being taken advantage of today?

MR. HORTIG: None.

GOV. ANDERSON: Why? The same thing is true.

MR. HORTIG: No, sir -- primarily because they are available at scattered locations.

GOV. ANDERSON: Some of them are pretty big.

MR. HORTIG: But no one has come in and offered a price equal to or received by the State. Therefore, the State could not sell the oil at a discount.

GOV. ANDERSON: Wouldn't that lead you to believe that 12 1/2% would fall in the same category?

MR. HORTIG: No, sir; because of this accumulation
in one location in the principal petroleum marketing area in California, this is a reservoir that could be offered and bid for. As a matter of fact, in respect to other Long Beach lands, not tidelands, quite recently five hundred barrels of production per day were offered for bid and, as I recall, there were eight bidders for it.

Now, the point is -- there is no guarantee that there will be customers for this $12\frac{1}{2}\%$ but if there are customers.

GOV. ANDERSON: If we are going to keep cutting down the $80\%$ to $67\frac{1}{2}\%$ there have to be customers for it. I realize what you say about the size of the field. However, the area isn't so big and transportation isn't difficult today, but none of the people are taking advantage of that selloff today.

MR. HORTIG: None of the independent refiners are taking advantage of this. We have two $12\frac{1}{2}\%$ percents here, Governor -- the $12\frac{1}{2}\%$ that comes off the top of the $80\%$ interest and drops it to $67\frac{1}{2}\%$.

GOV. ANDERSON: That's the one that won't have the depletion allowance.

MR. HORTIG: That's right; and also the $12\frac{1}{2}\%$ that comes off the top. In other words, we are talking about the $12\frac{1}{2}\%$ that keeps any one operator from keeping more than $67\frac{1}{2}\%$. If this condition exists in the bidding, and irrespective of if this exists in the bidding, there is a different $12\frac{1}{2}\%$
that drops the interest down in the event there is any one party interest that controls more than 67\(\frac{1}{2}\)%.

In other words, the maximum that could be made available for sale would be 67\(\frac{1}{2}\)\%.

Mr. Champion: Let me ask you this: Because of the interest, to put it mildly, that has been expressed in this field and its potential for the growing California market, do you not anticipate that whichever bidders are unsuccessful will want to share to the extent of providing a market for this oil?

Mr. Hortig: Almost definitely.

Governor Anderson: Would you restate that so we all hear?

Mr. Hortig: Almost definitely.

Governor Anderson: What?

Mr. Hortig: That the unsuccessful bidders for any of the percentage interests, of the undivided interests that would be put out to lease, all the people who are less than the high bidders, would still in the majority of instances almost definitely be in the market for acquisition of the selloff oil.

Governor Anderson: In other words, there is no question in your mind that the 12\(\frac{1}{2}\)% selloff will be readily taken?

Mr. Hortig: Periodically, that is correct.

Governor Anderson: Well, whenever it's ready, it will be readily taken?
MR. HORTIG: That's right.

GOV. ANDERSON: So, I mean there is no question that this will be sold off, so it will actually be 67\% and not 80\%? I mean I am depending on you as the expert in our Commission.

MR. HORTIG: Yes, sir.

MR. CHAMPION: As I understand this, and being away from this for a week the details get a little fuzzy, there is a precise limit on any one operator. He cannot retain beneficial control of more than 67\% of the oil. He must get rid of it.

MR. HORTIG: That is absolute in the bill.

GOV. ANDERSON: How is that written out? Does that apply to subsidiaries and things of that nature?

MR. CHAMPION: It is written in terms of beneficial interests.

MR. HORTIG: I am reading Section 3(f). The specific language states:

"The Contractors' agreement shall provide that in the event any one person party to the contractors' agreement, or any two or more such persons controlled by or under common control of any one person, shall at any time have, or acquire, the right to receive any percentage over and above 67\% percent of 100 percent of all oil assigned or allocated to the lands to be developed, said person or persons shall offer all oil in excess of said
"67\% \text{ percent for sale by competitive bidding.}"

GOV. ANDERSON: Shall sell to whom?

MR. HORTIG: Competitive bidders.

GOV. ANDERSON: In other words, they can turn around and one of their subsidiaries can buy it back?

MR. HORTIG: No, sir; for the simple reason it has been approved and has been considered in the contract before the Lands Commission -- which, of course, is not a part of the statute -- that as to the pricing base any participant in these undivided interests would have to account for all oil at the highest price paid for any portion of oil or any amount of oil he buys in Signal Hill Field, Huntington Field, and so forth; therefore, any portion of the syndicate having the operating contract, unless there were highly unusual economic conditions, could not afford to bid more for a portion of the oil because the moment he did he would raise his own price.

MR. CHAMPION: He would have to pay the State more money.

MR. HORTIG: That's right. It would be a stair-step deal. His latest offer wouldn't be the highest and he would have to keep on going right through the ceiling -- which, obviously, he isn't going to do.

MR. CHAMPION: Is there anything further? Would you like to add anything generally?

MR. HORTIG: Just one thing: I am happy to be
able to assure Governor Anderson that in connection with testimony and representations both before the Senate Governmental Efficiency Committee, Senate Resources Committee, and also the Senate Tidelands Committee, I have been particularly careful to point out precisely the sequence of events -- that the proposed amendments considered by the Lands Commission at the March meeting, which I was directed to present in connection with any negotiation settlement, had been deviated from; or that the concepts in S.B. 60 as it is in its present negotiated form were in such variance from the last approval by the State Lands Commission that I could not report that the Lands Commission as such had either taken a position on S.B. 60 nor had authorized me to testify on behalf of the Lands Commission with respect to S.B. 60; and I have represented only that such testimony has been on behalf of the Director of Finance, after appointment to the negotiating team that worked with the City of Long Beach pursuant to a request from the joint Tidelands Committee.

GOV. ANDERSON: I recognize you have done this and I recognize what Hale has done; but I also recognize that when it gets into the newspaper it always identifies you as Executive Officer of the Lands Commission, and Hale as Chairman of the Lands Commission. I know you are not going to change this, either; but I want to make it very clear, so there isn't any question, that I do not agree with all the things being compromised in this proposal. That's why I brought it up.
MR. CHAMPION: Is there anything further?
(No response) Any further items of legislation to be discussed?

GOV. ANDERSON: Did we get the Supplemental?

MR. CHAMPION: Yes, we handled that with the others.

Confirmation of date, time and place of next meeting --
Thursday, May 28th, 10 a.m. in Los Angeles.

GOV. ANDERSON: Yes.

MEETING ADJOURNED 11:20 a.m.

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CERTIFICATE OF REPORTER

I, LOUISE H. LILLICO, reporter for the Office of Administrative Procedure, hereby certify that the foregoing forty-one pages contain a full, true and correct transcript of the shorthand notes taken by me in the meeting of the STATE LANDS COMMISSION at Sacramento, California, on April 29, 1964.


[Signature]

OFFICE OF ADMINISTRATIVE PROCEDURE, STATE OF CALIFORNIA