TRANSCRIPT OF
MEETING
of
STATE LANDS COMMISSION

SACRAMENTO, CALIFORNIA
March 31, 1966
MEETING OF
STATE LANDS COMMISSION

SACRAMENTO, CALIFORNIA
March 31, 1966

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PARTICIPANTS:

THE STATE LANDS COMMISSION:

Hon. Alan Cranston, Controller, Chairman
Hon. Glenn M. Anderson, Lieutenant Governor
Hon. Hale Champion, Director of Finance, absent, represented by:
   Mr. John P. Sheehan, Chief Deputy Director of Finance
   Mr. F. J. Hortig, Executive Officer
   Mr. George Mitrovich, Administrative Assistant to Lieutenant Governor Anderson
   Miss Patricia Kimball, Research Analyst, Office of Controller

OFFICE OF THE ATTORNEY GENERAL:

Mr. Warren J. Abbott, Deputy Attorney General

APPEARANCE:

Mr. Walter P. Capaccioli, Attorney-at-Law, representing Ceaser Giannecechi, et al, and Deccaxagon Corporation

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(In accordance with Calendar Summary)

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MR. CRANSTON: The meeting will come to order.

The first item is confirmation of minutes of meeting of December 16, 1965. If there is no objection or amendment, the minutes are approved as submitted.

Item 3 -- Permits, easements, and rights-of-way to be granted to public and other agencies at no fee, pursuant to statutes:

(a) The Pacific Telephone and Telegraph Company -- Approval for location of submerged communications cable across ungranted sovereign lands of Big River, Mendocino County. Proposed crossing approximately 679 feet long and 50 feet wide.

(b) State Department of Public Works, Division of Highways -- One-year right-of-entry permit, to construct a fixed-span vehicular bridge within a 200-foot strip of sovereign land in Napa Slough, Solano and Napa counties. (The bridge will accommodate an access road to run from State Highway 37 to the Naval Reservation on Skaggs Island.)

(c) State Department of Fish and Game -- Permit to dredge approximately 1,000 cubic yards of material from each of six locations in Montezuma Slough, Solano County, for reclamation and flood control.

Motion is in order.

MR. SHEEHAN: Move approval.
GOV. ANDERSON: Second.

MR. CRANSTON: Approval moved, seconded, and so ordered.

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

(a) A. M. Burns -- Five-year recreational minor-structure permit, 0.052 acre sovereign lands in Piper Slough, Contra Costa County, for fee of $25, for construction of floating boat-shed and walkway.

(b) Vernon Greenleaf -- Five-year recreational minor-structure permit, 0.052 acre sovereign lands in Piper Slough, Contra Costa County, for fee of $25, for construction of floating wharf and walkway.

(c) Knights Landing Outboard Club, Inc. -- Five-year recreational minor-structure permit, 0.076 acre sovereign land in the Sacramento River, Sutter County, for fee of $25, for maintenance of a floating wharf.

(d) Pacific Gas and Electric Company -- Overhead-transmission-line easement across Alameda Creek, Alameda County, over Parcel 1, encompassing 0.392 acre of land acquired by the State in exchange with Leslie Salt Co., encumbered by a perpetual easement granted to applicant prior to acceptance by State; and Parcel 2, encompassing 0.273 acre contiguous to Parcel 1 and unencumbered, being part of original bed of Alameda Creek, for which total rental is to
be $300.90 for 15-year easement.

(e) Pacific Gas and Electric Company -- Amendment and reissue of Lease P.R.C. 1518.1, covering an easement for an existing overhead transmission line across Alameda Creek, Alameda County, for Parcel 1 encompassing 0.405 acre of land acquired by the State in exchange with Leslie Salt Co., encumbered by a perpetual easement granted to applicant prior to acceptance by the State; and Parcel 2, containing 0.273 acre unencumbered State land, being part of the last natural bed of Alameda Creek, for which total rental is to be $50 for a 49-year easement commencing May 13, 1955.

(f) Pacific Gas and Electric Company -- Amendment of Lease P.R.C. 513.1 to reduce width of crossings from 100 to 50 feet, covering six power-line crossings of tide and submerged lands in the Klamath River, Humboldt County, containing a total reduced acreage of 1.763 acres, and ten-year renewal of amended lease at total rental of $809.

(g) Southern California Edison Company -- Six 15-year overhead-wire-crossing easements, commencing April 1, 1962, across State school lands, Inyo County for construction, operation and maintenance of overhead electric power lines, as follows: and then they are itemized.

(1 - 2.826 acres - total rental $297.90
2 - 3.061 acres - total rental $297.90
3 - 3.048 acres - total rental $446.85
4 - 2.933 acres - total rental $297.90
5 - 3.747 acres - total rental $188.70
6 - 1.717 acres - total rental $168.75)
(h) Thomas P. Raley -- 15-year lease of: Parcel 1, 2.924 acres submerged land in Sacramento River bed, Yolo County, at annual rental of $4,203.70; and Parcel 2, 4.12 acres swamp and overflowed land at Broderick, Yolo County, at annual rental of $5,918.28 on which there are conflicting title claims as between the State and applicant. In event of decision adverse to the State, any rent on Parcel 2 to be credited to rental accruing for Parcel 1. Lease to be issued without prejudice to either party in any subsequent determination of title to Parcel 2.

(i) Cities Service Oil Company -- Six-month geological survey permit, for the period April 1, 1966 through September 30, 1966, to drill core holes in California state waters from the Oregon border to the Mexican border; Del Norte, Humboldt, Mendocino, Sonoma, Marin, San Francisco, San Mateo, Santa Cruz, Monterey, San Luis Obispo, Santa Barbara, Ventura, Los Angeles, Orange, and San Diego counties.

(j) Clipper Yacht Company -- Permit to dredge approximately 16,000 cubic yards of silty clay from 1.93 acres tide and submerged lands in Richardson Bay, Marin County, at a royalty of $0.05 per cubic yard.


(l) Socony Mobil Oil Company, Inc., et al. --
Deferment of drilling requirements under Oil and Gas Lease P.R.C. 2726.1, Santa Barbara County, through November 3, 1966.

(m) The Atlantic Refining Company (successor in interest to Richfield Oil Corporation) -- Deferment of drilling requirements under Oil and Gas Lease P.R.C. 2793.1, Santa Barbara County, through October 26, 1966.

(n) Union Oil Company of California and Humble Oil & Refining Company -- Deferment of drilling requirements under Oil and Gas Lease P.R.C. 3004.1, Santa Barbara County, through December 1, 1966.

That concludes Item 4.

GOV. ANDERSON: Move.

MR. SHEEHAN: Second.

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

5 -- City of Long Beach (Pursuant to Chapter 29/56, 1st. E.S., and Chapter 138/64, 1st E.S.):

(a) Approval of second-quarter drilling schedule, dated February 9, 1966, for the 1966 Plan of Development and Operations and Budget, Long Beach Unit, with the condition that Executive Officer approval shall be obtained prior to the injection of water into Ranger Zone Injection Well J-541.

(b) Approval of Third Modification of the 1966 Plan of Development and Operations and Budget, Long Beach Unit (the first-quarter drilling schedule, revised February 9, 1966) subject to the condition that Executive Officer approval shall
be obtained prior to injection of water into Ranger Zone Wells J-150, J-163, J-413, J-417, J-433, and J-544.

(c) Determine that the subsidence costs subsequent to April 1, 1956, and the State's share of such subsidence costs in the Port of Long Beach Authorized Fund Expenditure Number 13 that are deductible from oil revenue payable to the State, for Transit Shed, Berths 20-21, Pier C, should be $10,990.46 instead of $22,104.80, with credit due State of $11,114.34.

GOV. ANDERSON: I move.

MR. SHEEHAN: Second.

MR. CRANSTON: Approval moved, seconded, and so ordered unanimously.

6 -- Land Sales:

(a) Authorization for $29,280 to R. H. Emmerson & Son, the highest qualified bidder, of 85.63 acres State school land, Humboldt County, at $29,280 for Parcel No. 1 containing 43.18 acres (total appraised value $23,725.25); and at $53,040 for Parcel No. 2, containing 42.45 acres (total appraised value $36,773.59.)

MR. SHEEHAN: Move approval.

GOV. ANDERSON: Second.

MR. CRANSTON: Approval moved, seconded, so ordered unanimously.

7 -- Mineral leasing and leases:

(a) Approval and adoption of modified form of
Prospecting Permit approved April 29, 1965, as the form to be utilized for prospecting permits for geothermal steam and related products.

GOV. ANDERSON: Can I break in here?

MR. CRANSTON: Yes.

GOV. ANDERSON: Mr. Hortig, I received a call a while ago from Senator Begovich and he referred to Senate Bill 44, relative to leases in the area next to some of those items that are referred to. Did he talk to you about this?

MR. HORTIG: No.

GOV. ANDERSON: Senate Bill 44 is coming up for a full hearing this week and his recommendation was -- and I understood he was talking for the other members of his committee, or with their knowledge -- that he hoped we would not take action on anything that would conflict with anything they were holding their hearing on; and I assume you know which ones would not conflict. In looking at these, they seem to be on the same subject covered by that bill.

Do you know what they are talking about?

MR. HORTIG: Yes, Governor. A little history is outlined on page 39 of your agenda -- not with respect to any specific application for permit, but a form of permit which might be used for exploration for geothermal energy on lands on which the minerals only have been reserved to the State and the surface is reserved to a private landowner.
This item originally appeared on the January 26, 1966 agenda, but was deferred at the request of the Senate Fact Finding Committee on Natural Resources.

Subsequently on March 1st, again at the request of the Senate Fact Finding Committee on Natural Resources, further deferment was rescinded in that Senator Farr reported at that time that it was felt by the Senate Fact Finding Committee that due to the pendency of Senate Bill 44, which had been introduced as a special session item, it was no longer necessary to ask the Commission to withhold action and to withhold processing any of the pending applications that it had before it under the existing law -- with the anticipation if Senate Bill 44 became law, by its conditions permits under the existing law would be modified and transferred to new forms of permit under Senate Bill 44, under action of that law, and there was no reason for further deferment by the Lands Commission.

GOV. ANDERSON: You mean what we would do would be under the bill?

MR. HORTIG: No -- Permits not issued heretofore and those that the Commission has issued under the existing law -- Any permits and applications existing at the time Senate Bill 44 might become effective would be converted to new permits and new leases, with new conditions as provided in Senate Bill 44.

GOV. ANDERSON: In other words, every one we would
be allowing here now -- we would accede to their being changed according to the new law?

MR. HORTIG: As far as permits, yes.

GOV. ANDERSON: I mean -- the people who would get these permits, are they going to agree to a law they don't know about?

MR. HORTIG: This is the problem.

GOV. ANDERSON: I am not clear on this. It would seem to me if there is a bill pending which they indicate makes changes in this, and if there is to be a full hearing on this next week -- and we expect to be out of here in not too long a time -- it seems to me anything that falls within this bill ought to be deferred.

MR. HORTIG: Starting with the history on how it has been deferred and the deferment has been rescinded at the request of the Natural Resources Committee, then Senate Bill 44 -- which was introduced after the last meeting of the State Lands Commission -- was referred to the Senate Committee on Governmental Efficiency, of which Senator Begovich is a member.

As of yesterday afternoon, the first hearing was scheduled on Senate Bill 44 and with author's amendments it was sent out for reframing and hearing next Wednesday.

Additionally, this morning I received the following letter, signed by E. B. Towne, Agent for the S. I. Corporation:
"Gentlemen:

Re: Geothermal Senate Bill 44 . . ."

MR. CRANSTON: What corporation is that?

MR. HORTIG: S. I.

MR. CRANSTON: What is that?

MR. HORTIG: This is the name of the corporation, S. I. Corporation.

"Senate Bill Number 44, covering the exploration and development of geothermal steam, is before the Governmental Efficiency Committee of the California State Senate, and this Committee has scheduled full hearing on this bill for April 6, 1966.

"As you know, Senate Bill 44 affects the present law covering prospecting permits and leases on State lands. The undersigned is one of several companies that is opposed to Senate Bill 44.

"S. I. Corporation has on file with the State Lands Commission four applications for permits and is willing to have these applications delayed pending disposition of this bill.

"We believe it would be to the best interest of the State if all applications filed with the Commission be delayed until after April 6, 1966.

Yours very truly,

S. I. Corporation"

-- which is in concert with the thinking that you have just reported from Senator Begovich.

On the other hand, on the other side of the course, we do have for the Commission's approval as items (b) and (c) two applications for prospecting permits under existing law
from the owners of the surfaces of the lands overlying lands in which the minerals have been reserved to the State, who are willing to accept and wish to accept a permit pursuant to application under existing State law and pursuant to which the State Lands Commission has heretofore granted other permits and leases.

The applicants are represented here today and in connection with this and their reaction as to what effect the future law might have on their position and the acceptability of permits at the present time, I would like to suggest that the Chairman might wish to call upon them for presentation first hand of their reaction to this problem.

MR. CRANSTON: Yes, we should hear from them and we would like to.

MR. CAPACCIOLI: My name is Walter Capaccioli. I am an attorney-at-law, practicing law in South San Francisco. I represent the following persons who have pending before this Commission four applications. I represent:

Mr. Caesar Giannecchini, Mr. Albert E. Ottoboni, Mr. Antonio Ottoboni, Louis Ottoboni, David Ferrari, Elmer Ferrari, Peter Mazzanti, John Giampaoli, Ilva Filippi Giampaoli, Ione Giovannetti Ottoboni Pellegrini, Patricia Ione Ottoboni, James Bartholomew Ottoboni, and Louise Carolyn Ottoboni; and I also represent another tongue-twister, the Deccaxagon Corporation, who also has two applications.

We are unalterably opposed at this time to any
further delays with respect to our applications, and I will state the reasons:

It seems to us unfair to delay any further the applications, which, incidentally have been pending -- two of which have been pending since September 15, 1964 and October 8, 1964; the other two pending since February the 4th, 1965, and February 24, 1965; -- it's unfair to further delay simply because there is a bill now pending, with some uncertainty as to its initial ultimate passage.

It seems to us that the delays have been long and tedious and should now be called to a halt. We have complied in every respect with your requirements and Public Resources Act 6891. We are entitled to these applications as a matter of right. We are qualified applicants according to the findings of the Attorney General's Office, which I assume has already passed upon our applications.

The land has been classified as not containing commercially valuable mineral deposits.

We feel that any further delay will work a prejudice on our clients, and for these reasons I would simply ask that the delays be brought to a halt and we be allowed to proceed.

As it stands now, there is a workable -- there is some machinery in the law that would permit us to proceed on these applications and we would respectfully ask that we be allowed to proceed with them. The fact that the law may be changed makes no difference. We are willing to accept any
conditions. In fact, a denial now would be a denial of due process -- any further delay would be a prejudice to our clients.

GOV. ANDERSON: Why has there been a delay since October 1964?

MR. HORTIG: That is a two-part delay -- the first delay occasioned by the fact that the Commission had previously authorized prospects to the same applicants, which the applicants on a re-reading of the terms and conditions did not accept.

GOV. ANDERSON: I mean did we cause a delay in September 1964?

MR. CAPACCIOLI: Let me answer.

MR. HORTIG: If I may complete, the delay is in effect two steps: One, the fact that the applicants did not choose to accept finally the standard form of prospecting permit which was authorized for issuance by the State Lands Commission.

Subsequent negotiations and discussions with these applicants, as well as others, resulted in a conclusion that it would be desirable to adopt a modified form of prospecting permit; and it is this modified form of prospecting permit that is item (a) on the agenda before you today, which would remove the objections which the applicants had to the original form of permit.

GOV. ANDERSON: So they, in effect, objected to the
due process at the time and asked for a modification. They could have come in in '64 and taken our agreement at that time, or our proposal, and would be in there now?

MR. HORTIG: They would be permittees.

GOV. ANDERSON: Now, in the meantime, there is a bill pending and the people of the State have been notified that we are going to have a hearing this next week, and you want us to go ahead?

MR. CAPACCIOLI: Let me answer, Governor. First of all, the facts are correct. We did not do anything to delay them between the time we filed them and October last year. They came on your agenda in October and we approved them.

When we received the form permits, we found that they were designed, not for applicants who owned the surface rights, but for applicants who did not own the surface rights; and one paragraph of your form specified that we give back the land after the term of the permit expired.

We called this to the attention of the Attorney General's Office and they agreed the terms did not fit the situation -- we owned the surface, not the State; yet they were drawn as though the State were the surface owner. So it wasn't fair to us to accept those permits that did not fit the particular facts.

GOV. ANDERSON: But that was the due process ... 

MR. CAPACCIOLI: Remember, for over a year we did not do anything. At that time we were advised that the terms
in your permits did not fit. We are certainly not required to give back the land at the end of the period.

So I brought this to the attention of the Attorney General's Office and they agreed they didn't fit, and they rewrote them. Some of the changes -- in fact, many of the changes -- were authored by the Attorney General's Office. I have numerous correspondence in my file with the Attorney General's Office in Los Angeles.

In fact, the title reads, if you will read the permit:

"Permit to Prospect for Geothermal Energy, Mineral Waters and for all Minerals other than Oil and Gas on State Lands"

and these were our lands. We couldn't have accepted them; they didn't fit.

MR. CRANSTON: May we hear Mr. Hortig's comments on this point?

MR. HORTIG: Actually, in fact, the permit has been utilized. It is the original form and, as Mr. Capaccioli outlined, can be construed to have been ambiguous. Obviously, the Lands Commission never would have applied any such reversionary conditions under a contract as to lands that the State did not own. It was felt satisfactory to use this form of permit originally because, patently, only that could be returned to the State at the end of a permit which was owned by the State at the beginning of the permit. Therefore, if the surface owner was not the State, the surface would not be
returned to the State of California.

This left the area, however, from a strict contractual standpoint, uncertain and a permittee dependent upon the good faith of the State Lands Commission in the administration of the permit, which no previous permittee has had any problem with.

Nevertheless, in order to at the same time update the permit form for utilization on what was becoming an increasingly popular subject of applications -- geothermal energy for the first time -- it was obvious that the permit form could be improved in addition to eliminating ambiguities, in order to make it more directly applicable to the development of geothermal resources.

So these two sets of improvements and elimination of ambiguities were carried together through the Office of the Attorney General; and it is the result of that processing, that is, the modified form of prospecting permit, which is before you today as item (a) and pursuant to which, in effect, we have new applications from Mr. Capaccioli's clients on lands for which they previously applied but on which they did not accept the prior form of permit because of the objections they raised and which they now desire to have permits in the modified form issued to them under existing law.

MR. CRANSTON: As far as their objections that caused this delay, from what I understand has been said about it now, there was a rather logical reason for them to want a
change in the form -- which was not anything to their particular advantage but simply to have a form that suited the occasion where they owned the surfaces.

MR. HORTIG: That is true.

MR. CAPACCIOLI: I may also add, Governor Anderson, that when these permits were received I immediately telephoned Mr. Jones of the State Lands Division and we thought we could simply make the changes by interlineation. This is one of the changes I suggested and we toyed with that little idea for a week or so and nobody thought they had the authorization to make the changes, which they thought were changes in form, without approval by interlineation -- which I did on my own permits.

Then we found in talking with the Attorney General and certain people up there, they felt they couldn't do these things without your approval.

We brought only one objection to Paragraph 27:

"Permittee at the expiration of this prospecting permit or sooner termination thereof shall deliver up and surrender possession of the lands covered by this prospecting permit..."

Mr. Hortig soothes me, but didn't soothe my thirteen clients when I told them. I explained to them that the State probably wouldn't do anything about it, but you can't talk to clients some times. So I took the most judicious attitude and asked for the interlineation. We would have been happy with the interlineations on Paragraph 27, but they thought of
other problems and wanted to change the whole thing. Then you tell me we caused the delay.

GOV. ANDERSON: But don't tell us we denied you due process. You are asking us to do something that is about to be changed.

MR. CAPACCIOLI: You approved our application.

GOV. ANDERSON: Under the existing law. You asked us to change.

MR. CAPACCIOLI: We are not talking about the existing law. We are talking about a bad form. Would you, in good conscience, recommend that we accept Paragraph 27?

GOV. ANDERSON: I in good conscience recommend that we wait until the Senate asks us to change it and then we can go ahead.

MR. CAPACCIOLI: I want you to understand we didn't initiate these delays. We are as sorry as you are they occurred, but nothing has changed. The fact there is a bill pending does not mean it is going to be passed. We are speculating.

GOV. ANDERSON: What is the difference between the thing they are proposing -- what are some of the major changes we are really talking about?

MR. HORTIG: The major changes would permit applicants and permittees to hold much larger acreages than are permissible under present law and, additionally, the royalty rates would be fixed by the Legislature and this would be the
only exception for an extractive lease where the royalty on
the lease is not fixed by the State Lands Commission in
accordance with the market value of the products being ex-
tracted and the economic conditions as they apply at the time
of the issuance of the permit.

GOV. ANDERSON: What rights do other people have
bidding on the same field where it is owned privately, then?
Isn't that one of the things the new bill affects?

MR. HORTIG: It does because it establishes classi-
fications of proven or unproven areas. As far as geothermal
resources are concerned, under the present law under a pros-
specting permit, irrespective of the area within the permit,
the permittee may receive on discovery of commercially valu-
able mineral deposits -- or geothermal energy in this case --
a preferential mineral lease on not more than one hundred
sixty acres of the land held within the prospecting permit.

This one-hundred-sixty-acre limitation per permit
and per lease would be effectively eliminated under the new
law. There would be no restriction as to accumulation of
acreages until a large acreage -- I think 25,600 is the number
that sticks in my mind now -- has been accumulated by one
lessee or permittee.

MR. CRANSTON: Frank, is the group which is now
represented by the applicant before us, item (b)?

MR. HORTIG: (b) and (c) both.

MR. CRANSTON: They only want their matter before us
after we have acted on (a) favorably?

MR. HORTIG: That is correct.

MR. CRANSTON: Is there any part relevant to their application other than this fact being clarified that the land does not go to the State? Are there other aspects important to them in terms of their application?

MR. HORTIG: Actually not, because within our negotiation and discussion with them as to the problem with respect to the original prospecting permit which was offered and which was not accepted, the only objections that were raised, as Mr. Capaccioli stated, were with respect to this problem with the then Section 27 with respect to return or a claim on the surface; and which he was willing to accept with a modification as an interlineation in that one section of the permit.

But since other questions had also been raised by other applicants as to possible ambiguities and because the original prospecting form was not designed to fit either a non-State surface ownership or the extraction of geothermal resources per se, it was felt desirable to include all the improvements and all the modifications in a modified permit form at that time; and these are incorporated in the modified form proposed under item (a) before you today.

MR. CRANSTON: But the only portion of the new form of prospecting permit that is of interest to you is the one that would not claim the land?
MR. CAPACCIOLI: That was it originally, but the Attorney General brought up other points.

MR. CRANSTON: Which other points?

MR. CAPACCIOLI: For instance, the Attorney General changed the title...

MR. CRANSTON: You don't have to go through all of them, but do others have relevance?

MR. CAPACCIOLI: We would have accepted that but they are a whole package, part of a whole package, and this is part of our discussion — "A permittee shall remove all derricks and remove ..."

MR. CRANSTON: Let me ask you this: If the Lands Commission were simply to cover the single point that would clarify the condition that the State has claim to the land, you would proceed with your application?

MR. CAPACCIOLI: That's right.

MR. HORTIG: Under those circumstances, Mr. Chairman, the staff would have to recommend that modifications as recommended at least to Section 24 of the permit, with respect to indemnifying the State as against any loss, claim or damage, would have to be modified as recommended in order to cover the situation where the surface owner would assign or sell his surface ownership, so that the State would be protected against any acts of any subsequent lessee to whom the Commission had not issued the permit directly.

MR. CRANSTON: There is no such protection now?
MR. HORTIG: No, sir -- because there isn't a distinction now as to whether the State owns the surface or whether a private landowner owns the surface, so this was not necessary in that case.

MR. CRANSTON: Do you have any more questions?

MR. CAPACCIOLI: No, I have nothing more.

MR. CRANSTON: Anything more from the Commissioners?

(No response)

Is there anyone else who wishes to be heard on this matter?

GOV. ANDERSON: If the law is not changed by the Legislature, you would recommend that this new proposed modification, Exhibit A, be adopted as our policy?

MR. HORTIG: That is right -- for geothermal energy permits.

MR. CRANSTON: Then I guess my own feeling is different from yours, so it will be up to you to decide.

GOV. ANDERSON: I would have no objection to accepting the proposed modification so we know what we are talking about in case the Legislature does not act; but I surely would not want to vote for anything involved in a hearing this coming week. That would be giving someone an advantage of some type or another over other people.

MR. CRANSTON: My own feeling on it is that since the only apparent reason for delaying it was to clarify something which obviously should have been clarified for them, we
should approve it and make the change and proceed.

GOV. ANDERSON: Do you agree on item (a)? Do you wish to adopt that?

MR. CRANSTON: It seems to me that we should.

GOV. ANDERSON: You would recommend that?

MR. HORTIG: Yes, sir.

GOV. ANDERSON: If you start picking out one or the other, you may find yourself leaving something out.

This is the recommendation of the Attorney General's Office?

MR. ABBOTT: Yes.

GOV. ANDERSON: I would move that we adopt this proposed modification for our policy, as the future policy. I am going to oppose anything further than that.

MR. SHEEHAN: I'll second that.

MR. CRANSTON: Is there any comment? That is just on the modified form of prospecting permit. Any discussion from anyone present? (No response) If not, approval is made unanimous by the Commission.

Now, we come to the application under (b).

GOV. ANDERSON: I just feel it would be wrong for us to do anything when there has already been stated that a public hearing is to be held this coming week. People have been notified of legislation that affects this very matter.

I am sorry we have delayed these people. I didn't know we have delayed them this length of time and I do not
know why it took so long to get here since September 1964.

I would be in favor of having a special meeting in
a couple of weeks. For instance, if the Senate had their
hearing and defeated the bill, I would be in favor of a special
meeting, but as long as the bill is alive and on call of the
Governor, I think we should delay it.

MR. HORTIG: I may suggest to the Commission that
there are other items which will probably indicate the necessi-
ty for a special meeting of the Commission about the middle
of April and such consideration could be calendared at that
time.

MR. CAPACCIOLI: May I make one statement, then I
promise I'll sit down. The existing law, I neglected to men-
tion to you, gives us a preference as surface owners. It is
doubtful whether the bill as proposed will do that.

GOV. ANDERSON: My impression is that the proposed
bill gives outsiders a crack at it.

MR. CAPACCIOLI: I think that is one more reason to
protect our interests, to take action today. This has been
under discussion since '64, then all of a sudden ... 

GOV. ANDERSON: This is not something all of a
sudden. It is something the Legislature has been working on,
acting on, and the Governor has put it on call.

MR. CAPACCIOLI: You brought up a very good point.
And the person who owns the sub-surface there is something
that will be litigated in the future; I don't know.
MR. CRANSTON: Can you give us any pointers on deferring or acting under present law or present procedures when there is pending a revision in the Legislature?

MR. ABBOTT: Legal opinion -- whether you grant these applications is in your discretion.

MR. CRANSTON: We understand that, but what are the precedents of acting or not acting while the Legislature is working on it?

MR. ABBOTT: I'd have to defer to Mr. Hortig on that.

MR. HORTIG: The universal, uniform activity on the part of the Lands Commission has been to continue to issue permits, leases, and whatever has been in process pursuant to valid applications at all times irrespective of whether legislative changes were being contemplated in the Legislature -- because it could never be forecast with certainty that there would or would not be such legislative changes effected in the future.

The only time that the Lands Commission heretofore has withheld action under existing law was pursuant to request from legislative committees that such action should be withheld because of the pendency of legislation or a study that was being undertaken either by an interim or fact finding committee.

GOV. ANDERSON: When there is a pending hearing the following week you would give permits?
the Senate Governmental Efficiency Committee that has scheduled this hearing on Senate Bill 44 on Wednesday, at nine thirty.

MR. CRANSTON: Motion is in order.

GOV. ANDERSON: In the absence of another motion, I would move that we defer the item until after the Legislature has taken this matter up.

MR. SHEEHAN: Do you consider we have a formal request from the committee to do this?

GOV. ANDERSON: I didn't go as far as that. I don't know what Senator Begovich's position is on the committee.

MR. HORTIG: He is a member of the committee. He was in attendance in the hearing on Senate Bill 44.

GOV. ANDERSON: He called me. He didn't say, "I am chairman of the committee," or talk about it in the name of the committee. I didn't go that far. I am sure we can ask him. He is in session right now. I am not sure what the other members of the committee feel. When he called me, from the way he worded it I assumed he was speaking for the committee. He might have been speaking only for himself.

MR. CRANSTON: It is my impression we do not have a request from the committee itself. I don't know, but that is my impression.

GOV. ANDERSON: Well, I move we defer the action until a later date.
MR. HORTIG: Yes, sir -- because the outcome of the hearing, I don't have to tell you, Governor, is something we are not in a position to predict.

MR. MITROVICH: If there is a feeling that the present law is somewhat inequitable and might discriminate against certain interested persons, then at such a time the Legislature would determine whether or not it is inequitable in their minds, to be sure no one is being discriminated against and would not afford an advantage to one interested person against another.

MR. HORTIG: This is a valid point, Mr. Chairman, if I may respond. Of course, on the other side of the coin there are those, including the S. I. Corporation, whose letter I read this morning, who have stated, and I quote: "The undersigned is one of several companies that is opposed to Senate Bill 44," because of the contention that Senate Bill 44 is going to be inequitable.

Therefore, present law in their viewpoint is more equitable as they analyze it, so we again have both sides of the situation and the only rational basis for procedure by policy commissions heretofore has been, as I say, to proceed under existing law -- reflecting only deferments or other considerations where requested by legislative committees who have amendments pending or studies pending with respect to the existing law. In fact, this is the substance of the Governor's report from Senator Begovich, who is a member of...
MR. CRANSTON: Is there a second?

MR. SHEEHAN: I'll move that we approve the application.

MR. CRANSTON: I presume there is no second.

GOV. ANDERSON: I will not second it.

MR. CRANSTON: I'll approve that. It seems to me we should proceed.

GOV. ANDERSON: And I wish to be recorded as voting "No."

MR. CRANSTON: The move is seconded and adopted by a two-to-one vote. That was on Application (b).

Now, we have Application (c). That's the only other one in this category. The same motion on that?

MR. SHEEHAN: Same motion.

GOV. ANDERSON: And the same vote.

MR. CRANSTON: Moved, seconded, and the vote is the same.

Then we have (d) which is modification of resolutions adopted on October 21, 1965, in respect to applications of Dexagon Corporation and Ceaser Giannechini, et al., to prospect for geothermal energy, to authorize the use of the Amended Prospecting Permit Form as approved by the Commission on March 31, 1966.

Is there any comment on that?

MR. HORTIG: No, sir. These are actually the two that were not accepted in the prior form as outlined by Mr.
MR. CRANSTON: Is there any controversy on that?

GOV. ANDERSON: In the same line, I think. I feel the same on item (d).

MR. SHEEHAN: I'll move.

MR. CRANSTON: Adoption is moved and seconded by the Chair.

Item (e) Authorization for Executive Officer to offer six parcels of submerged land in the Santa Barbara Channel, Santa Barbara County, for oil and gas lease, as follows:

(1) Parcel 35 (W.O.6075) containing 780 acres.
(2) Parcel 36 (W.O.6080) containing 600 acres.
(3) Parcel 37 (W.O.6085) containing 800 acres.
(4) Parcel 38 (W.O.6090) containing 1,315 acres.
(5) Parcel 39 (W.O.6095) containing 1,165 acres.
(6) Parcel 40 (W.O.6100) containing 1,340 acres.

MR. HORTIG: Mr. Chairman, as shown on the maps before the Commission, the parcels herein recommended for lease offer are tide and submerged lands of Santa Barbara County lying at the seaward edge of existing oil and gas leases heretofore awarded by the Lands Commission between Point Conception and the Elwood Oil Field to the east.

As you can see, the total acreage is only six thousand acres for all six parcels; and, under the circumstances,
it would be the procedure for the staff in the call for bids to group the six parcels into two offers of three parcels each, with an intervening period of two or three days between receipt of bids for the two groups of parcels, in order that the total parcel offerings would be reduced at any one time to approximately three thousand acres per unit -- which is about the same order of magnitude as the minimum size parcels that the Commission has heretofore offered in its sequential bidding procedures.

The tentative schedule would be for three parcels to have bids close on June 9th, which is a Thursday, and the other three to close on June 14th, which is the following Tuesday.

GOV. ANDERSON: I raised the point earlier with Mr. Hortig that I questioned why these weren't put out one at a time, with the feeling that we might get better bids; that people would not have to put up their bid on all three items or six, or whatever it was. That's when he informed me he was putting up three at a time.

This is something that I am not entirely sure of, but my feeling is that we would get more money if we put them up one at a time. Frank tells me we won't and I think we ought to hear some statements from him on this, because if it is his judgment that this is the way we are going to get the most money for the State, then I would go along with his better judgment; but if there is any doubt in his mind that
we wouldn't get more money, if we put them up one at a time a day in between, or whatever is necessary, all we have lost is a little extra time and paper work.

I realize originally, when we were offering these big acreage items, it was a thing of undeveloped area and we were not exactly sure, no one was sure, what was going to be there; but now we are talking about, I believe, something not entirely knowledgeable but something we know a lot more about and although they are small in comparison -- six hundred to thirteen hundred -- still six hundred acres is a pretty good size piece of ground if we know there is oil under it.

we might get larger bids if we take one at a time and that's a point on which I'd like to hear from Mr. Hortig.

MR. HORTIG: The difficulty of forecasting, of course, Governor, is that we never have the luxury of a comparison retroactively to determine whether whatever practice was taken by the Commission would yield more or less revenue, because we never know what revenue would have been produced under an alternative procedure. So this is all a matter of estimating.

Considering the fact that the Commission's original thesis for offering sequential leases and not offering many on any one day was for the purpose of not requiring tremendous capital in order to present the good faith deposits that are required for a number of parcels and unsuccessful bidders could use their capital for subsequent bid offers a day or
two later, this was related to and established as being reasonable if no more than the maximum statutory size parcel were offered at one time of 5,760 acres.

As a matter of fact, in mid-April or May we are going to have two parcels in excess of three thousand acres each, which have been advertised and on which there has been no suggestion whatsoever that there was any disadvantage as a result of that offering.

GOV. ANDERSON: Are these proven fields, where we know there is oil?

MR. HORTIG: No, and neither can this be said with respect to these parcels.

GOV. ANDERSON: But you have pretty good reason to suspect it is there. This is entirely different from an undeveloped area.

MR. HORTIG: They are all within areas that generally produce oil, all of the parcels which we are discussing; although the accumulation of the oil and gas is limited and is scattered throughout the total area. In other words, everything from Point Conception to the Elwood Field does not produce oil, but there are numerous oil structures and gas structures within that total range.

Under these circumstances, if I might suggest, Governor, another re-evaluation after discussion with you this morning: I would suggest that we could and should recommend to the Commission offering these six parcels in three
groups of two, with a two-day period intervening; in other
words, Thursday, June 9th; Tuesday, June 14th; Thursday,
June 16th; -- under which circumstances, having reduced the
total acreage and the total number of parcels, the total
amount of capital necessary will be brought down to, I be-
lieve, anything that is within reason of anybody's capabili-
ties who is also capable of developing and operating these
parcels.

GOV. ANDERSON: 9th, 13th ...

MR. HORTIG: 9th, 14th, and 16th.

GOV. ANDERSON: Now, that wouldn't in any way
jeopardize our getting the money in time, and so on.

MR. CRANSTON: What reason is there for not going
all the way and not offering them separately?

MR. HORTIG: Simply mechanically I don't think the
additional advertising and additional processing costs would
be offset by any increased bids after we have judicially
selected the combination of two parcels for each of the
three dates.

MR. CRANSTON: What costs are you talking about?

MR. HORTIG: We haven't evaluated it -- total staff
time, publication in the newspapers, processing through State
Lands as well as the Attorney General's Office. It wouldn't
be great, but I still ... 

GOV. ANDERSON: Don't you have the same processing?

MR. HORTIG: Two at a time is easier than one every
other day is the only difference. Alternatively, if the Com-
mission feels that there might be any advantage, the staff
would certainly undertake to put it out that way.

MR. SHEEHAN: Is it possible there would be any
advantage?

MR. HORTIG: I do not feel that there would be,
which is the reason why I recommended as a minimum subdivision
three offers of two parcels each because the objectives to be
accomplished -- to minimize the need for accumulated capital,
which is a percentage of the bid offer -- certainly would be
met by not having more than two parcels offered at one time.
Considering the size of the areas, we know that the bids --
even though they be excellent bids on an acreage basis --
because of the limited acreage, they are not going to be
astronomical.

MISS KIMBALL: Would the offerings be more attractive
if they were grouped into two?

MR. HORTIG: I believe not only from the standpoint
of needed capital -- no, I don't believe there would be any
advantage or it would make them any more effective.

GOV. ANDERSON: I would personally prefer to see
them one at a time.

MR. CRANSTON: I would, too.

MR. SHEEHAN: I do, too.

GOV. ANDERSON: I feel two is better than parcels
of three.
MR. CRANSTON: It seems to me the costs you are
talking about are really minimal. The experience in Long
Beach indicated you do get more competition. It was a dif-
ferent situation there, but it seems to me there is an oppor-
tunity for more competition.

MR. HORTIG: We are talking about a different situa-
tion than where we were offering proven, really proven, acre-
age at Long Beach.

Additionally, the bids were received every day at
Long Beach; and in this instance the recommendation for
sequential offering is that there be enough space in between
so that the smaller bidders, if we can so qualify them, have
the opportunity to transfer their capital from one bid to
another, which takes a time space of one or two days in be-
tween bids. At Long Beach there wasn't any time for this.
There was only twenty-four hours between and, patently, the
bidders having the capability of bidding on Long Beach had
their capital available.

GOV. ANDERSON: Doesn't this come into this? --
Because of the fact this is between what we thought was our
present lease limit, due to the difference of the nautical
miles and the new decision by the Federal Government, if the
Federal Government ever opens this up, whoever controls these
strips will have a great advantage in the bidding and know-
ledge of what is in the Federal field if the Federal Government
opens it up. Isn't this what makes up a great interest in
this thing?

MR. HORTIG: We are certainly hoping that our prospective bidders feel this is the case, which is another reason and an advantage as to why the Commission should offer these at this time.

GOV. ANDERSON: For example, you take any one of these things -- They can't get out to find out what is out farther unless they have the next piece, even if it is a reasonably small strip of six hundred to a thousand acres, which is a pretty good piece of ground.

I would prefer to go for the one, if it does not cause too much difficulty.

MR. CRANSTON: Do you want to make a motion?

GOV. ANDERSON: What dates could we work, Frank -- because you raised the point also with me, and I sure don't want to disrupt our Department of Finance ... 

MR. CRANSTON: I hope not.

GOV. ANDERSON: ... and I want to make sure whatever we do gets in this fiscal year, so it will have to be timed right.

MR. HORTIG: Under these circumstances, I would recommend that the staff be authorized -- or directed, in this instance -- to offer the first parcel either the latter part of May or approximately June 1st, whichever day is appropriate, and offer the rest of the parcels sequentially with a day intervening in between bid openings.
MR. SHEEHAN: We would have a twelve-day bidding period, then.

MR. HORTIG: Twelve days over which bids would be received.

MR. SHEEHAN: One intervening day between each bid.

GOV. ANDERSON: I so move.

MR. SHEEHAN: Second.

MR. CRANSTON: Approval of (e) is now pending before the Commission, subject to this amendment that would make it an individual offering with a one-day gap between each offering. Is there anybody here that wishes to be heard on this matter? (No response) If not, the motion is made, seconded, and so ordered unanimously.

GOV. ANDERSON: I want to ask Frank another question on this. This morning he answered me fairly well, but I thought I would ask it again, just so I know we are protected in the future.

I am interested now in the question of not necessarily unitization but the question of pressurization. What control do we have in these leases if we find that there is any indication of subsidence or if there is any need to get better recovery? What protection do we have in our present contracts that might be strengthened, or do you think we are adequately protected at the present time?

MR. HORTIG: It is adequately covered insofar as it is authorized in the law for the Commission to include
provisions in leases.

You have asked a two-part question, Governor, the first being the question relative to subsidence. The lease forms utilized by the State Lands Commission provide for specific controls if there is ever any indication of land subsidence, which fortunately has not been the case with any of the areas leased by the State Lands Commission to date. Nevertheless, the leases which have been utilized, I believe for the last three years, provide specific control in the Lands Commission -- ranging from shutting down the operation until a development program can be devised which would permit further operation with a prevention of subsidence if this can be done in an effective repressurization, to whatever is necessary to control the situation.

GOV. ANDERSON: In other words, we are in control. We can move in immediately?

MR. HORTIG: Yes, sir.

GOV. ANDERSON: O. K. That's the first.

MR. HORTIG: As far as repressurization for increased economic recovery -- this is, of course, something that is of direct interest to the State's lessee as well as the State and we have, in fact, achieved enhanced economic recoveries under approvals granted by the Lands Commission to lessees in the Huntington Beach Field, where active repressurization operations have been undertaken.

GOV. ANDERSON: But this is on their move -- they
are the ones that determine this?

MR. HORTIG: It is the lessee's option to agree, but there are areas that are under discussion now where the State Lands Division technical staff are the moving force in suggesting and recommending consideration of such programs on the part of the lessee.

GOV. ANDERSON: This was the part I was a little vague on. It is to their advantage to get better recovery, too; but I thought there would be some place where we would initiate and they would agree with it. I am not entirely sure of my ground on this, but I would like to see you look into this a little deeper.

MR. HORTIG: The problem here, Governor, is that the capital necessary for secondary recovery projects is borne totally by the lessee under an oil and gas lease. Therefore, it is proper that the lessee be at least in a position to agree or not agree with the State Lands Division's technical staff as to whether an operation should be undertaken.

In distinction to this, in net profits arrangements such as the one in which the State is a party at Long Beach, there the State, having full economic responsibility for the development and the field effectively being developed with State money, full control and even direction and requirement that such operations be taken if desired by the State would be under the control of the State Lands Commission, because
the Lands Commission there controls the operating and development budget.

GOV. ANDERSON: It was that part that made me feel we ought to have a little better control of some kind in these fields as well.

MR. HORTIG: As I say, in a net profits arrangement, here the thing is being developed essentially with State money; whereas under these leases, it is being developed with the lessee's capital. This is the basic distinction.

GOV. ANDERSON: I just want to raise it because I think a little later I may want to go into it.

MR. CRANSTON: I presume we are ready to go on to the next item, which is Item 8 -- Rejection of application of Clear Lake Keyr Company to lease submerged land in Clear Lake, Lake County, for maintenance of an existing system of piling and floating logs to prevent debris and algae from the lake proper from accumulating in the dredged canals which provide lake access to the development, and authorization for the Executive Officer to institute action for removal of unauthorized structures, for the following reasons:

(1) Applicant has no littoral rights in the vicinity;

(2) Littoral owners have not consented to the installation, and have indicated their objections thereto;

(3) The Lake County Board of Supervisors has taken no official stand and has not agreed to assume responsibility for maintenance of the structure;
(4) The State Department of Fish and Game has reported that the structure does not produce any noticeable effect on the fish and wildlife of Clear Lake.

Motion is in order to reject.

MR. SHEEHAN: I'll so move.

GOV. ANDERSON: Second.

MR. CRANSTON: Moved, seconded. Any discussion?

(No response) If not, so ordered unanimously.

Item 9 - Administration -- (a) Authorization for Executive Officer to execute a service agreement with the City of Stockton, San Joaquin County, providing for surveying and platting services to be rendered the City pursuant to the provisions of Chapter 1700/Stats. 1965, at the Commission's actual costs but not to exceed $6,200.

MR. SHEEHAN: So move.

GOV. ANDERSON: Second.

MR. CRANSTON: Moved, seconded, so ordered.

Item 10 - Informative only -- no Commission action required: (a) Report on status of major litigation.

Anything to report?

MR. HORTIG: There have been no new actions commenced in which the State Lands Commission is involved. This is a report of the continuing status of those actions which have been heretofore discussed with the State Lands Commission.

Of concurrent interest, Mr. Chairman, is the fact that even as we are meeting here, there is a court session on
the injunction being sought by the Bay Conservation and Development Commission against the City of Emeryville. The latest flash this morning was that it was being continued.

MR. CRANSTON: Is that all on this item?

MR. HORTIG: Yes, sir.

MR. CRANSTON: We have one supplemental item -- Item 12: Request for approval of Natural Gas Processing Agreement, Tract Number 2 Agreement, Long Beach Unit, Wilmington Oil Field, Los Angeles County.

MR. HORTIG: The Commission will recall at the last meeting having authorized the award of the contract and the requirement for committing Tract 2, being the Alamitos State Beach Park parcel in which the State is the owner of the minerals, to the Long Beach Unit. As a corollary operation necessary to completing this commitment, it is required that there be approval of the gas processing contract to be effective April first, at the time of committing the tract to the unit -- because after April first gas will be allocated to the State's contractor and he will be accountable to the State for this gas and consequently it is necessary that there be an effective contract for accounting for this gas at that time.

It is recommended that the proposed contract, which is in conformance with the general industry standards, as well as those that are applicable to all other State oil and gas leases, be approved for this purpose.

MR. CRANSTON: Motion is in order.
GOV. ANDERSON: I'll move it.

MR. SHEEHAN: Second.

MR. CRANSTON: Approval moved, seconded, and so ordered unanimously.

Final item is date, time and place of next Commission meeting -- Thursday, April 28, 1966, ten o'clock, at Sacramento. If there is no objection, that continues to be the order.

We stand recessed.

ADJOURNED 11:20 A.M.
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 accurate transcript of the shorthand notes taken by me in the meeting of the STATE LANDS COMMISSION held at Sacramento, California, on March 31, 1966.

Dated: Los Angeles, California, April 4, 1966.

Louise H. Lillico