### TRANSCRIPT OF MEETING

STATE LANDS COMMISSION
SACRAMENTO, CALIFORNIA - APRIL 14, 1958

********

PARTICIPANTS

(THROUGHOUT BOTH MORNING AND AFTERNOON SESSIONS)

THE COMMISSION:

Messrs. John M. Peirce, Chairman
  Harold J. Powers
  Robert C. Kirkwood

STATE LANDS DIVISION:

Messrs. F. J. Hertig, Executive Officer
  Kenneth C. Smith, Supervising Land Title
  Abstractor
  Mrs. Julia T. Stahl, Secretary

ATTORNEY GENERAL'S OFFICE:

Jay Shavelson, Esq.

CONSULTANTS:

Messrs. H. H. Kaveler
  J. M. Wanenmacher

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MR. PEIRCE: The meeting will come to order.

I want to give recognition to the presence of our two consultants, Doctor Kaveler and Mr. Wanenmacher and I believe Assemblyman Hanna is present and Senator Richards. We are glad to have both of you members from the Legislature here -- and feel free to participate in our discussion. I believe, Mr. Hortig, we are now ready to proceed with the agenda. Will you take over, please?

MR. HORTIG: Mr. Chairman, the first page of the agenda following the cover sheet, entitled PROPOSED OIL AND GAS LEASES --

On February 11, 1958 the Commission directed that the staff review the bases for issuance of oil and gas leases with members of the Assembly Judiciary Subcommittee on Tidelands and with representatives of industry and to present final analyses as to recommended oil and gas leasing procedure to the Commission. A complete review of proposed oil and gas lease terms and conditions was held February 26 and 27, attended by four members of the Assembly Judiciary Subcommittee, thirty-six industry representatives, and State Controller Kirkwood.

As you gentlemen know, a copy of this transcript was transmitted to you previously. The transcript was also submitted to the office of the Attorney General, together with proposed form of oil and gas lease, as a basis for the form of the lease and requisite conformance with the
provisions of Division 6 of the Public Resources Code. Additionally, an informal opinion was requested on four proposed lease terms developed in the staff review. Copy of this is attached as Exhibit A and the pertinent portions of the opinion are reflected in terms and conditions of the proposed lease form as it is being considered by you gentlemen this morning. A proposed form of oil and gas lease which has been approved by the office of the Attorney General in conformance with Division 6 of the Public Resources Code is attached as Exhibit B.

Substantive differences with the recommendations by the Commission's special board of consultants are outlined in Exhibit C attached — and I might comment at that point that there are no differences in the lease form from the consultants' recommendations except as to two items on which it was not clear there was a legal basis for the Commission to include them, therefore they were the only ones eliminated out of the entire scope of recommendation by the staff.

Similarly, the scope of industry recommendations -- differences with industry recommendations -- are in Exhibit D attached. These differences are with reference to a form of lease form presented by the Western Oil and Gas Association, which was the frame of the discussion February 26 and 27. At the moment these are still of historical interest as to the transitions the form of lease
has taken. They do not directly include all the remaining differences here, if any, with reference to the form of lease discussed this morning because there has been informal discussion since that tabulation has been prepared.

Therefore, it is recommended that the Commission approve the form of lease attached as Exhibit B as the basic lease form to be issued on oil and gas leases pursuant to Section 6 of the Public Resources Code.

As you gentlemen are aware, representatives of the industry are here numerously this morning and are prepared to comment; and I see Mr. Home, who was the chairman of the special subcommittee of the Western Oil and Gas Association, which group have certainly labored long and diligently with the staff of the State Lands Commission in attempting to arrive at an equitable, workable, practical lease form, which are the criteria we believe are incorporated in the draft before you this morning.

MR. PEIRCE: Mr. Hortig, may I ask, before we call on representatives of the industry, whether in your judgment it would be in order to ask for comments from our consultants with regard to the lease form as it now stands?

MR. HORTIG: I believe it would be very much in order. We would appreciate their concurrence.

MR. PEIRCE: Now, for the information of all concerned, we have retained two nationally recognized consultants in
the field of petroleum engineering and petroleum geology
and they have met with us several times, and they have
advised us with respect to the steps we should take with
regard to carrying out the law regarding tideland oil
development; and again these two gentlemen, representing
their respective firms, are with us, and before we get
into a discussion of the lease form which is now before us
and which if adopted by the Commission will serve as the
guide in carrying out our future leasing program, I would
like to invite them to make any comments that they may
desire to make before we proceed further. Dr. Kaveler,
would you like to say something in regard to the lease
form as it now stands?

DR. KAVELER: Mr. Chairman and gentlemen of the
Commission, I haven't read this final draft through but
it is my understanding that Exhibit C reflects the three
points involved in the consultants' recommendations which
could not be adopted for legal reasons, and with that
understanding it is my opinion that the lease form as
drafted by the staff and recommended to you is to the best
interests of the State and I would join them in recommend-
ing to the Commission that it be adopted.

MR. PEIRCE: Senator Richards.

SENATOR RICHARDS: Mr. Chairman, may I be heard very
briefly at this time for one reason? I think perhaps be-
fore the rest of the testimony from your consultants or
the rest of the industry, pro and con, there is one small problem that may have been met in your mind, but if it isn't should be brought to your attention. I apologize to Mr. Hortig for not taking the opportunity of discussing this before coming to you. On the other hand, I didn't have that opportunity because only now did the lease form come to my attention.

I note the Attorney General's opinion on which your action is predicated is dated March 28th. As you know, the Legislature is now in session and, therefore, through no fault of anyone here, there might be something that might affect your lease form.

I call your attention to Assembly Bill 5 by Assemblyman Grant, representing the City of Long Beach; and Long Beach, as you know, is my territory and I carry it in the Senate. Assembly Bill 5 has been passed and is now out of the Senate. A. B. 5 has to do with the matter of subsidence to the extent that subsidence has to do with oil extraction. There may be some quick answers to this, but I do think it should come to your attention.

In your present lease form, on page 1 thereof, you have first the matter of referring to the two contracting parties, the lessee to be designated in the future and the lessor "acting by and through the State Lands Commission, sometimes hereinafter called the State..." Throughout the entire document we assume, of course, that the Land
Commission is the agency acting on behalf of the State as a contracting party, which would be normal. On the other hand, there is potential conflict, which is pointed out more clearly when you get over to page 21.

Page 21, paragraph 10 points out that the State -- and it has already been indicated that the "State" means the Land Commission -- reserves and retains the right when it receives any evidence of subsidence of the surface of either the leased or adjacent lands to determine that any or all operations of this lease would or might cause subsidence. In other words, the subsidence question is left to the State by and through the State Lands Commission.

This is again emphasized on the next page, top of page 22, in subsection (l) -- that "such determination may be made by the State Lands Commission ..." and what I wish to point out: When AB 5 becomes law, the question becomes, the question of subsidence becomes the responsibility of the Supervisor.

MR. PEIRCE: May I ask Mr. Hortig to explain the changes in Section 10 that might be affected? Are you reading from Section 10?

SENATOR RICHARDS: Yes.

MR. PEIRCE: You are referring to March 28th?

SENATOR RICHARDS: March 28th was the date of the opinion. This action follows the opinion. And the approval of this lease form, unless I am incorrect in regard to the
conflict, should not be made until such time as Mr. Hortig
and the staff and the experts and, certainly, the Commis-
sion itself is satisfied that a conflict does not exist
and no vitiation would occur in your contracts. Unless I
am mistaken, I think there is a clear, statutory conflict.
I don't think it would be any problem to correct, but I
don't think you should give approval until you are satis-
fied there is no conflict, because I am familiar with AB 5,
the way in which it was passed.

MR. PEIRCE. Thank you, Senator Richards. Mr. Hortig,
would you like to comment on Senator Richards' comments
before we proceed?

MR. HORTIG: Yes, Mr. Chairman. My comments will
not go to the legal complications potential, on which the
Senator is certainly more qualified to speak. Certainly
I speak without specific advice from counsel. However,
the practical problems of the situation were considered
by the staff, by the industry representatives who worked
with the staff, and by the office of the Attorney General,
and the criteria that led to the conclusion of adopting or
recommending the particular lease form which is before you
in the face of the existence of AB 5 were as follows:

One: As of today, Assembly Bill 5 has not been
signed by the Governor. We do not have a statute before
us with certainty that could be considered as to its
application.
Second: AB 5, at least in its fundamental presentation to the Legislature, was presented on the basis that it was necessary to aid the City of Long Beach in connection with solving an actual, existent subsidence problem. There are no other coastal fields within the State of California within the scope of AB 5, to which AB 5 would apply today, therefore would not apply to any new leases being considered currently. That is, as of today it would not apply to any new lease being considered currently, nor does it have any application, in fact, to the other leases which the State Lands Commission has heretofore adopted.

Therefore, our leases being considered this morning are no different than a number of leases already in existence, to which the problem of AB 5, which it should become law, must be resolved. In the light we see it, in both the physical and legal circumstances as they arise at some future date, and they may never arise, to that extent we feel our new lease form is no different as to whether AB 5 may have to be studied in the future; although the probabilities are rather remote, in view of the now thirty-odd years of tideland oil fields in which the Commission by inheritance has had no subsidence problems, on lands to be offered under this particular lease form.

It is our understanding that the normal bill report to the Governor, which the Attorney General makes, has no
yet been completed nor submitted to the Governor by the office of the Attorney General. Therefore, the staff did not feel that we could properly consider the area of application and what factors of AB 5 might be applicable to this lease, so these leases are perhaps entirely independent of the framework of AB 5, to be operated in whatever manner the law might provide in the future.

If AB 5 does provide amendments that have to be applied to these leases and other State leases in the future, this we won't know until we have subsidence in fact -- which is a condition precedent in qualifying an area under AB 5.

MR. PEIRCE: Would it be premature for the Commission to proceed with the adoption of this lease form without knowing whether AB 5 will become law?

MR. HORTIG: I was going to suggest that I would appreciate a statement of opinion from Mr. Shavelson, and also from possibly the Western Oil and Gas Association Subcommittee. At the present time, from the operational standpoint that in view of the fact that AB 5 covers general authorities, does not specifically relate to State lands as such, and from our prior operating experience its application will probably be a minimum in the future, we would be in an extremely difficult position at this time to attempt to forecast just what AB 5 is going to do with respect to any oil and gas leasing operations; because, again, the particular factors related to a subsidence
factor in the future are elements which will be reviewed under AB 5, and determining the applicability of AB 5, having no conditions under which to evaluate the conditions of AB 5 until we do have subsidence, it appears to be extremely difficult -- at least it appears to me to be extremely difficult -- to determine what language would cover the same type of lands which are already under operation and already under lease and have been for thirty years.

MR. PEIRCE: Mr. Shavelson, you have heard Senator Richards' statement and you have heard Mr. Hortig's response and appraisal in regard to the status of Assembly Bill Number 5, which is now awaiting the Governor's consideration. What are your comments in this regard?

MR. SHAVELSON: We, of course, knew of the status of Assembly Bill 5 when we worked on this lease. It's my personal feeling that it is proper for the State Lands Commission to reserve some degree of control. This Section 10 vests in the Commission the power to suspend production immediately on proper notice, to take very prompt action to stop production in those situations where there is liable to be damage onshore and there is possible pecuniary damage to the State. I have read AB 5, but it is an extremely complicated thing and I don't want to represent that all of the ramifications are embodied in any statement I make; but, generally, I think that the Division of Oil and Gas
has responsibility to protect the public against subsidence, whereas the State Lands Commission has an obligation to protect the State against any possible pecuniary liability that may result out of a lease of tidelands, and I think the responsibilities are not exactly the same; and for that reason I think that this provision is proper, even if Assembly Bill 5 does become law. And, of course, as Mr. Hortig pointed out, we have many, many preceding leases and to the extent that they are going to be affected by Assembly Bill 5 they are going to be affected anyway; and for those reasons I think this provision is proper at this stage.

MR. KIRKWOOD: In other words, since March 28th, the date of the A.G.'s opinion, this has been reviewed by the staff of the A.G.'s office, having in mind the operation or possible operation of AB 5, and this seems a proper lease form. Is that ....

MR. SHAVELSON: Yes, except that I would have to point out that we were under a very stringent deadline in approving this lease and we did a tremendous amount of work on the lease itself and the thorough study of Assembly Bill 5 was not possible in this time. I have read it, but haven't made a thorough study of it.

MR. PEIRCE: Mr. Hortig.

MR. HORTIG: If I may add on that point -- and this Mr. Shavelson is thoroughly familiar with -- and I think
it has not been stated -- In the course of considering appropriate language for this specific Section 10 of Exhibit A of the lease, there was a period in the development where there were actual references to Assembly Bill 5 in the proposed language, but because of the uncertainties of ...at actually may be gained by Assembly Bill 5 and uncertainties prior to the time that the Attorney General's Bill Report has been made, and the limited probability that in any event Assembly Bill 5 will actually be applicable to any of the State's lands, the provisions here were re-cast to give the protection for the features which, as Mr. Shavelson has already pointed out, are probably peculiarly the responsibility of the State Lands Commission and in such form is intended to not conflict with whatever application of AB 5 may ultimately become necessary as a matter of the actual statutory nature of AB 5.

MR. PEIRCE: Senator Richards, you have heard this discussion. Now, in the light of it, what are your comments?

SENATOR RICHARDS: Might I say, gentlemen, in the first place, I agree with substantially all of what both Mr. Hortig and Mr. Shavelson have said to you. I, however, feel that in view of their same statements, there should have been -- and that was my sole motive in coming here -- presented to this Commission the potentiality of this very conflict. I call to your attention, since both houses have passed AB 5 it is more than simply an idea in being,
it is more than a potential statute; and if the Governor should sign AB 5 this week and in ninety days it becomes statute -- and this is approximately the time your leasing forms are an actuality -- you then have before you that existing conflict. I would, therefore, present a legal idea of necessity of review of that potential conflict, in view of the clear fact that AB 5 does subject the determination of whether or not subsidence exists, coupled with three alternatives if they do so determine, coupled with the potential of unitization. The prospect that any one of these companies and the State would reconcile themselves to what appears to be a conflict in the lease form proposed by the Attorney General, I think there is no great difficulty in meeting; but I think it should be looked at, and if in your sound judgment ....

There certainly was no motive in AB 5 to cause delay in lease forms. It simply happened because, as Mr. Shavelson pointed out, it is a complex statute and does not cover just Long Beach, but the entire State of California, that I think there is this legal problem that has to be faced. I think Mr. Hortig is quite correct that in terms of practicality, there would probably be little or no application beyond Long Beach, but it is there and the law clearly subscribes the authority to the Supervisor and this lease form subscribes it to the Lands Commission. I would be just as willing to give it to the Lands Commission as the
Supervisor, but you can't leave it to both. I think you have to have an interpretation. Until it is solved, there is a practical conflict that hasn't been surmounted and that is all I want to bring to your attention, to decide as you think best.

MR. PEIRCE: Thank you, Senator, and I will say before we conclude this meeting consideration is going to be given to the points you have raised and any other points raised, because we don't want to make any mistake on any action taken this morning. Mr. Hanna -- Assemblyman Hanna.

ASSEMBLYMAN HANNA: I simply want to clarify something Mr. Shavelson said. Did I interpret out of one of your remarks, Mr. Shavelson, that you thought perhaps the situation Senator Richards might describe -- we might have within the lease form and within AB 5 dual jurisdiction predicated on two different types of responsibility insofar as subsidence is concerned?

MR. SHAVELSON: Yes, that was what I stated -- the two agencies I felt had slightly different responsibilities in regard to land leased by the State.

ASSEMBLYMAN HANNA: If this were in fact the case, there would be possibly no conflict, but simply we would have sometimes State and Federal rule overlapping in jurisdiction of these problems?

MR. SHAVELSON: Yes, and to the extent any conflict
would develop, I think certainly the statute would govern the lease provision.

MR. HORTIG: Mr. Chairman, if I may, so that we keep these things in context on a particular point — if I understood Senator Richards' primary basis correctly, this factor of possibility of conflict was always recognized and was considered and the provisions of Section 10 were drafted in the hopeful attempt to meet the question without in any way restricting the activities of the State Lands Commission or the lessee, but directing them to the point where they ultimately might be governed by the provisions of AB 5 if AB 5 did become a law and was actually applicable. As you recognize, Senator, from your very intimate knowledge of AB 5, there must be a very considerable period of time elapsed before the condition of initial qualification for an area under AB 5 took place. It is in that period and preceding that period, before the things happen that can put AB 5 in effect, that the Commission could determine to suspend operations if it were not in the State's interests to continue operations, following which resumption of the operations under this law would then take place only under proviso 3, as agreed to by the State and lessee, and which could very well be a program designated as satisfactory by a State Supervisor — thereby integrating the provisions of the lease with whatever criteria might be necessary to be stated under AB 5.
As a practical matter -- this may not be good
legally -- but as a matter practical, I don't see
we have any substantial potential future operating conflict.

MR. PEIRCE: At this time I want to recognize the
presence of Assemblyman Bruce Allen and Assemblyman Francis
Lindsay, who are very interested in the discussion. They
both came in after we started the discussion. We are happy
to have you with us and will be glad to have you partici-
pate in the discussion. Thank you, Senator Richards.

SENATOR RICHARDS: Thank you.

MR. PEIRCE: Mr. Wanenmacher, do you have any further
comments in addition to what Dr. Kaveler stated in connec-
tion with this lease form?

MR. WANENMACHER: I'd like to say we are very pleased
our recommendations were followed as fully as they were
and wish to apologize that we bumped into some legal ob-
stacles which we did not foresee. I'd like to say that in
all other states a well which is dually completed is con-
sidered as two wells. That is one point of difference.
That prevails in every producing state. In other words,
if a well is completed in two different zones, it is con-
sidered as a substitute for two different wells, as if
two wells were drilled. I am not criticizing the present
legal interpretation, but merely trying to explain why we
went astray.

MR. PEIRCE: There is plenty opportunity to go astray
in a subject as complicated as this.

MR. WNANEMACHER: Thank you.

MR. PEIRCE: Thank you, Mr. Wanenmacher. Now, Mr.
Hortig, do you have anything further to say before we call
on representatives of the industry?

MR. HORTIG: Not at this time.

MR. KIRKWOOD: Could I ask one question of the con-
sultants -- and this is on a phase of it that I have
wondered about a little bit -- and that is on Section 18,
just as to your impression as to the desirability from the
State's point of view as to Section 18, as to how it fits
into our future program. You are familiar with what I am
talking about without taking a few minutes? Are the con-
sultants satisfied with these provisions?

DR. KAVELER: If I may speak for Mr. Wanenmacher and
myself, Mr. Kirkwood, the consultants are satisfied with
that position because we understand the length to which it
goes is limited by statute here in the State. As you know,
the consultants have previously voiced the opinion that
certainly, in respect to State lands, all information gathered
in the drilling, completion and operation of wells should
become public. We understand there is a statutory limi-
tation on the distribution of that information publicly,
but to the extent that the lessee permits any employee of
the State to have that information, I think it's an
improvement over past statutes and we are satisfied with
it as the law stands today in this state.

MR. PEIRCE: Mr. Kirkwood, have you any further questions or points to raise before we call on representatives of the industry?

MR. KIRKWOOD: No. MR. PEIRCE: Governor Powers, any questions? GOVERNOR POWERS: No.

MR. PEIRCE: Mr. Allen.

ASSEMBLYMAN ALLEN: Mr. Chairman, members of the Commission, I am going to have to leave in a few minutes -- just one comment I would like to make before I go. In looking over this proposed lease, figuring out the way the proposed royalty scale, sliding scale, would operate, I have the personal opinion that the proposed sliding scale is low. A production of a hundred barrels per well, the royalty rate would be 18%, for example, compared to something like the Wilmington Oil field, which has a production of a hundred barrels per day; the State would get less than 18% compared to a prospective royalty that the State profits -- 55% under one lease, 70% under another. I suppose there are industry representatives present who will tell the Commission the sliding scale is too high, but I do have the opinion of my own that this scale is rather low.

I realize this is a matter of judgment and it is very difficult to predict what is the proper scale when you are leasing land. With that in mind, I would urge the Commission, if you go ahead with this lease and this scale
proposed, that you do so with caution and judge by experience.

I would also urge that the Commission give some use to the alternative of royalty bidding, because while we are in the dark in talking about what royalty the State should get on leasing of new tidelands, the only way you can find out really what the land is worth in terms of royalty is by putting it up for a bidding and seeing what the highest bidder feels it is worth and what the property would pay.

With that in mind, and feeling that cash bonus bid does not give the adequate return that we could get with royalty bidding, I would urge the Lands Commission in proceeding with this to give some use on these tidelands -- including lands that aren't known to be part of producing fields -- that the Land Commission give some use to the royalty bidding, so we can see what kind of royalties the highest bidder would offer in his own judgment.

MR. PEIRCE: Thank you, Mr. Allen. Do you want to comment on Mr. Allen's statement, Mr. Horig?

MR. HORTIG: Yes, I should, Mr. Chairman. With the exception of Mr. Allen's last proposal with respect to royalty bidding on wildcat parcels, which I should like to comment on separately, I can report that the staff has given consideration and even reviewed the other points which Mr. Allen made with Mr. Allen previously and prior to
preparing this particular recommendation to the Commission. With respect to the royalty bidding, previous consideration has been given both by the staff and by the consultants, with the conclusion that in general -- and this may be too much of an oversimplification -- but that in general probably the only advantageous procedure on the part of the State would be to apply that to known and proven lands. Admittedly, without knowing the eighteen to one chance of never producing any oil isn't going to give the State any substantial return. With the probabilities of a particular parcel producing -- when it is wildcat and is unknown, as the areas which we hope to recommend for lease at this time are, when the opportunity for developing production is so low -- a royalty bid appears to be a relatively poor method of assuring adequate return to the State on the parcel. Hence the recommendation that these parcels which are at this time for consideration be limited to cash bidding.

In the area of proceeding with caution, the staff will recommend to the Commission that only a limited number of parcels be considered at this time for lease, to which royalty bidding may well be applied in the future, but certainly not disposing of all the State lands wholesale under this procedure, in order that we may have that opportunity for learning and experience as Mr. Allen has recommended.
MR. PEIRCE: Would you like to comment on Assemblyman Allen's statement, Dr. Kaveler?

DR. KAVELER: Mr. Chairman, gentlemen of the Commission, Mr. Allen -- the consultants, believe it or not, share Mr. Allen's viewpoint substantially. We feel the State of California should get the highest possible bonus, whether it be dollars directly or dollars indirectly out of a higher royalty. As Mr. Allen made his statement, I was struck by this situation -- you are going through a very substantial transition period with respect to at least your minerals in this State of California. If I recall the date correctly, it was only in the year 1957 that permits were required for exploration ... Is that correct?

MR. HORTIG: For core drilling.

DR. KAVELER: Prior to that time it was open country, open range. Now, the thought you have in mind, in my opinion, is entirely proper; but until the State builds up a background or a catalog of information with respect to those lands, you are far, very far, away from that critical decision you suggest we should take. Two or three or four or five years from now, the State is going to be in an entirely different situation than it is today, because it is going to have geological information. The Legislature has been stepping in lately, whereby it has been setting up certain rules. That's one element you have to give weight to. The other element is this -- that high
royalties are not, per se, to the benefit of the State. I don’t think that you could derive much satisfaction if on a lease with respect to lands not explored -- and these lands are not explored to the State’s knowledge even geologically -- if someone came in with a lease of 90% royalty. You could not, as a result of that bid, feel that the State had fair treatment. Five years from now you may be pleased that the State took twenty million dollars for the leases that may be offered here because they may be dry as a bone. In spite of what one may wish or may read about, you only find oil by boring in the ground. I have a chap here (bringing out newspaper clipping) that will tell you where oil is but you have to spend your money to have him tell you. That’s the situation the State is now in. This chap -- (looking at clipping) 916 George Street -- he says "Oil hunters, why drill dry holes?" He’s not getting any business. Now, the only way I know of proving consultation advice is to employ that fellow. I am not trying to be overly facetious, but we are in the dark, and it is only by having drilling on there that we can put in your ideas, Mr. Allen. I think in the second run, the State can put out leases on the royalty bid. I think the substantial change that has come about as a result of the Legislative action is to permit this business of two kinds of leases on State lands. I think that’s substantial and I think your ideas will prevail later.
MR. PEIRCE: Thank you, Mr. Kavoler. Do you have any comment, Mr. Wanenmacher?

MR. WANENMACHER: Mr. Allen, we have recommended at first a lease for the high cash bonus and retain some of the lands, and later lease those on a high royalty basis after the oil is found.

ASSEMBLYMAN ALLEN: In other words, you are suggesting checkerboard leasing?

MR. WANENMACHER: Yes. Now, this meeting is not a discussion of the policy of this Commission in leasing, but a matter of lease form and I'd like to call attention if our recommendations are followed there will be a period when royalty bidding will be solicited, but this is the first stage and we feel that the State should by all means get all the cash they can on this first step because it is very speculative. It is not like drilling in the Wilmington Field.

MR. PEIRCE: Mr. Allen.

ASSEMBLYMAN ALLEN: Mr. Chairman, one more thing and I have to leave. I am not recommending that the Lands Commission resort to this gentleman's services. I am not proposing that the Lands Commission delay this matter any further, but I do feel that the extent to which there are oil lands unleased in the tidelands is not so unknown in the industry as it is to those of us in public office.

In hearings we had before the 1957 bill was enacted, we
discovered there was a great deal of coredrilling going on in the tidelands under no permit and the operators refused to tell us how deep they were drilling. We do urge this Commission proceed with this form, this cash bonus bidding, proceed with caution. I wouldn't want to wake up five years from now when the major portion of oil-bearing lands had been leased and the State is getting 18½ royalty where it could have gotten a very much higher return if we had allowed the oil company with the best information to bid a royalty. I do think the Commission has taken a wise action in retaining these consultants and wish you luck.

MR. PEIRCE: Thank you, Mr. Allen. Now, I believe the time has come for us to hear from representatives of the industry and Mr. Paul Home, chairman of the special committee of the Western Oil and Gas Association is here and we would like to hear from you, Mr. Home.

MR. HOME: Mr. Chairman, members of the Commission, I would like to take this opportunity to express the very sincere appreciation of the members of the Subcommittee of the Western Oil and Gas Association for the cooperation which we have had in trying to arrive at a satisfactory lease form, both from the staff and from the consultants who were retained by the State. This has been a long and arduous process to arrive at some semblance of a form that will be satisfactory, we hope, to the industry generally.
and will meet the State's requirements.

After our last series of meetings in Sacramento, the staff published a rough draft of lease form — which, in general, we felt carried out most of the things which had been discussed and upon which tentative agreement had been reached at that meeting. Thereafter, in review of such rough draft, the Attorney General's office brought forward certain suggestions that resulted in changes in the initial rough draft, which we felt were in certain respects wholly unsatisfactory.

Following receipt of that second draft with these changes or deletions, there was little time within which to review. We selected the three major points at which we felt the lease form had been seriously impaired.

One of those was the liability clause. Initially, that clause was drafted so as to relieve the lessee of potential liability for non-negligent damage to subsurface reservoirs. That language got changed in the second draft, but thanks to the Attorney General's office and the staff it is back in, in revised form, in the lease form we are considering this morning.

Another element of considerable dissatisfaction was the provision relative to the time between wells.... I believe that's paragraph 3 of Exhibit A, the matter of 120 days from cessation of drilling to commencement of the next well -- because cessation of drilling, if it simply
means stopping turning the bit, is not the point of comple-

tion of a well, you are not past your trouble at that
point in drilling a well. So the lessee could well have
found himself with a fishing job or other troubles in the
wells while his 120-day period was running, so he would
not have reasonable opportunity to start the next successive
well. After discussion and trying out a number of alterna-
tives, it was decided to define drilling operations in the
lease in such a way to include therein most of the opera-
tions that take place in the boring of the well during
which there can be troubles that result in delays, and
such a definition has been prepared and placed in para-
graph 3 of Exhibit A.

Then, there was one further and perhaps more
serious difficulty. That was this matter of paragraph 10,
the requirement, or actually the authorization, I should
say, of the State Lands Commission merely upon the finding
that it would be in the best interests of the State to
require the lessee to engage in a program of second recovery
or pressure maintenance without any participation whatso-
ever by the State in the cost of such an operation.

In the face of that requirement, it was felt that
so long as the Commission merely had to find that it would
be in the best interests of the State or the public inter-
est to require such a program, that there were no criteria
to base such a determination -- obviously economics did not
enter into it -- if the State could make an additional thousand dollars, it would probably be your duty to require the lessee to engage in such a program even though it might cost the lessee a million dollars in loss. That was pointed out to the staff and was discussed with the members of the Commission and a new paragraph 10 has been placed in the lease which places a substantive requirement upon the Commission that they find, when subsidence is occurring, that damage or loss to onshore property may result. After a hearing, then they can require the lessee to suspend or curtail his operations which are so resulting in loss or subsidence.

Now, that was designed not unmindful of Assembly Bill 5. The staff, the Association representatives working with them, and the Attorney General's office, all considered "How would this provision work in with Assembly Bill 5 in the event that bill becomes law?" The present provision places in the hands of the Commission the power to make a finding that subsidence is occurring, that damage may result, and to compel the lessee to shut down his operations. It does not go beyond that. The lessee must shut down until a program is put in to alleviate subsidence damage. That places a powerful weapon in the hands of the Commission. It enables them to stop the lessee in thirty days' time. It enables them to require the lessee to conform with whatever requirement may exist under
Assembly Bill 5 at that time before he may resume his operations.

So, with those changes and elimination of the old requirement whereby the Commission could order a lessee into a full scale pressure maintenance operation, and with many other minor, lesser changes throughout the lease form which have been made, I have no hope that this form will meet all of the desires of all the persons present in this room but I feel in general we should have a form that should be generally acceptable to the industry and on which we could proceed.

MR. PEIRCE: Would you recommend that we proceed to adopt or approve this form today?

MR. HOME: That would be my recommendation.

MR. PEIRCE: Are you speaking for your committee or yourself?

MR. HOME: I am speaking primarily for myself in this matter because we have not had opportunity in the short time since release of the last draft to review it with all of the committee and get the views of all the Association members.

MR. PEIRCE: You are of the opinion, however, that the present draft of the proposed lease form would meet with the general approval of the industry, though there may be some dissent?

MR. HOME: That is my opinion, although I believe
the general representation of the industry is present
today. You will undoubtedly hear those views, particularly
those who wish to dissent.

MR. PEIRCE: Mr. Kirkwood.

MR. KIRKWOOD: I was curious -- This 10 is a pro-
vision I am looking at for the first time this morning.
I was curious as to why it was in the exact language it
was in instead of the language presented here. And this
is both to you and Mr. Shavelson -- Why was the damage
restricted to onshore developed recreational or residential
property rather than on "property"?

MR. HOME: I believe that's the language of Assembly
Bill 5.

MR. SHAVELSON: No, that's the language of 6874.

MR. KIRKWOOD: I have an idea .... we had onshore
residential, but we do have the S.P. tracks; we do have
that liability. I assume they would come after us. You
spoke of "property". In our imposing limits on offshore
things, we are restricted on those hearings to residential
and recreational, but I wouldn't think in this area ....

MR. SHAVELSON: We had in mind property on submerged
lands under a lease and there would have to be some kind of
monetary damage, pecuniary loss rather than damage to the
ocean.

MR. KIRKWOOD: Wouldn't a statement "developed
property" rather than "residential or recreational" meet that?
MR. HOME: I would think so.

MR. KIRKWOOD: We are talking of "adjacent.

Would that materially change the thinking on this?

MR. HOME: I do not think so, no.

MR. HORTIG: As a matter of fact, in terms of definition, the way this came up -- Particularly being conscious of specific language of qualification in AB 5, unless there be any future attempt to tie this operation specifically to AB 5 in a matter which might be determined not applicable by AB 5 itself, we elected to specify other conditions and seized upon specific language out of the Public Resources Code which you recognized, without any thought, however, of using it in its limited sense. As you indicate, and upon cold re-reading it here, it can well be so interpreted.

MR. HOME: The Public Resources Code uses this terminology: "The Commission in determining whether the issuance of such lease would result in such impairment or interference with the developed shore line, recreational or residential areas adjacent to the proposed leased acreage or in determining such rules and regulations as shall be necessary in connection therewith shall at said hearing receive evidence upon and consider whether such proposed lease ... would be detrimental to the health, safety, comfort, convenience or welfare of persons residing in, owning real property, or working in the neighborhood of such areas; (b) interfere
with the developed shore line, residential or recreational areas to an extent that would render such areas unfit for recreational or residential uses ...."

MR. KIRKWOOD: I know it's in there and I would think that's a different applicability. Here, we are looking at protecting the State against liability and this would not be a restriction on that.

MR. HOME: I would think there would be no broader terminology, provided we get away from the idea that the mere fact of subsidence itself is a damage. It certainly may not be in the area at which we are now looking. A great deal of subsidence could occur without damage to property.

MR. KIRKWOOD: On page 21, line 23, for example: "... might aggravate or cause subsidence to the impairment of property of areas adjacent to the leased lands" --- instead, saying "... to the impairment or interference with the developed shoreline recreational or residential areas adjacent to the leased lands" rather than having "... the developed shoreline recreational or residential areas." There would have to be one other place that would have to be done. Unless there were substantial reason to have it the other way, I think it should be from that point of view.

MR. HORTIG: Might I suggest retaining the language and adding "or damage to other property"?
MR. KIRKWOOD: All right. I thought "areas adjacent to the leased lands...."

MR. HORTIG: On shore properties.

MR. PEIRCE: All right. You have made a note of that, Mr. Hurtig and Mr. Shavelson?

MR. KIRKWOOD: I don't think that's anything to cause us to hold this over. May I come back again .... I find the only problem I have in this thing -- I mentioned it to you the other day briefly -- is on this Section 18. Are you in agreement -- again, I may propose this to you and Jay -- that this is as far as we can go under existing law in requiring this information to be made public, or is this a policy we are adopting here? What bothers me here, it seems to me this Section 18 gives to the operator who gets this first lease a tremendous foot in the door and, in effect, it excludes anybody else wanting to bid on the subsequent leases on proven areas, so called, proven in the minds of the operator and proven in the minds of the Commission, without anybody else having access to the information. This one worries me a bit. Is this as far as we can go? By this lease we are tying the hands of the State. Maybe the Legislature could come along -- but maybe we would be dealing without due process. Either one of you can answer.

MR. HORTIG: I would mention this. This is an ancient and honorable custom in the oil business to start with;
that Section 6826 of the Code relative to conduct of
geological and geophysical surveys, taking of samples,
does indicate an expression of legislative intent that:
"The Commission shall require, as a condition for the
issuance of any permit ... that the permittee make avail-
able to the Commission, upon request, all factual and
physical exploration results, logs, and records resulting
from the operations under the permit. Any such factual
or physical exploration results, logs, or records which
the permittee is required to make available to the Commis-
sion shall be for the confidential use of the Commission
and shall not be open to inspection .... without the
written consent of the permittee."

That, of course, is in reference to the permits for
geological and geophysical operations. It does not nec-
essarily affect the terms of the lease; but we felt, at
least, that it was the legislative intent that these
factual results obtained in the offshore area would be
treated in a confidential manner.

MR. KIRKWOOD: Frank, would you or Jay like to
comment?

MR. SHAVELSON: I would just like to say, as far
as our office was concerned the original requirements were
a little more stringent and we wanted to make it clear, at
least in case of litigation, that the State wouldn't have
its hands tied in cases of litigation between the lessee
and the State. It's my opinion -- which I can't absolutely bind our office to -- it's my personal opinion that under the waiver provisions of the 3000 sections of the Public Resources Code, relating to the confidential nature of material filed on oil and gas, that we can abstract a complete waiver from the lessee. Therefore, we could go farther as a matter of law if it is a matter of principle. But the angle our office approached it from this time was the policy to make it confidential and we just wanted to make it available to the extent it was necessary in matters of litigation.

MR. KIRKWOOD: Policy of the Legislature?

MR. SHAVELSON: No, the State Lands Commission.

MR. KIRKWOOD: Frank, do you want to comment?

MR. HORTIG: Yes. The factors, for your information, that went into setting the scope of this; the factors that were considered by the State Lands Commission; why this section goes as far as it goes and doesn't go any farther -- were, as Mr. Home indicated, there definitely would have been dissatisfaction on the part of a potential bidder with the extreme deviation from the ancient and honorable custom (as he stated) of the information being available subsequent to his own investments in the property. We are actually proposing in this lease form to clearly set forth, which has been the program of the Commission before, that which is already an expansion away from that activity, in that in
lines 9 and following on page 2 of the lease form it will be provided that the State, however, will "permit others (that is, others than the lessee) to conduct geological or geophysical surveys on the leased lands or drill core holes into said lands ...." So, when the time comes there are adjoining parcels which the State wants to lease and persons on the adjoining land feel it is proper to have information on the leased parcel to help them evaluate the parcel for lease, they can, at their own expense and with the permission of the State Lands Commission, acquire such data. So under this proposed lease form, he normally wouldn't be in the position he is in under other than State leases where he would have exclusive control of data on the prospective lands.

MR. KIRKWOOD: Our only control would be, in effect, on an evaluation, to set up what we think ought to be the minimum royalty scale bid. It would still give the advantage to the operator at that time. In a private operation, the landlord has the right to sit down and negotiate -- it isn't a question of open bids. This one puzzles me a bit.

MR. HORTIG: Where we fall off that, Mr. Kirkwood, is that at certain times -- and certainly this has been demonstrated heretofore, particularly in State leases -- the possession of the operating or the production data doesn't always determine who the successful bidder is
going to be. There are so many elements of the economic
position of the oil supply situation at the time that a
bid is received, all of which situations are highly differ-
ent in this highly competitive industry, that we have
actually had .... well, I can think of one not too distant
oil and gas lease offer where the potential lessee with
most of the geological data was the undisputed low bidder
out of thirteen bidders.

MR. KIRKWOOD: Do the consultants want to comment
on this?

MR. WANENMACHER: I would like to say that every-
where else except in California, as far as I know, informa-
tion is released and ......

MR. KIRKWOOD: You mean by that across the board, on
private as well as on public?

MR. WANENMACHER: The State records are public
records. The operators turn their electric logs into the
log bureau or allow the logging companies to sell copies
of these logs. Wherever there is a state where there is a
severance tax and the pipelines are reported, they become
public. There are scouting services that give complete
information. The well information and the log that are
turned into the state are considered public information and
are available by simply ordering them and paying the cost
of production.

Our firm first came to California some ten years ago
to help Frederick Harris when they were studying the subsidence at Wilmington and we were amazed at the way California operators held on to their information. We eventually got it because we were working for the U. S. Navy; but it is a time-honored tradition here that the operator keeps everything secret. It is my own personal opinion that the operator would be better off if the information was released because it gives the appraiser something to work with and he finds oil.

In this particular instance, I believe that it might be to the benefit of the State if the information from the wells on the leases which are granted was released -- not promiscuously, but at the date bids were solicited. In other words, the State would keep it confidential until they wanted to release a bid on a high royalty bid on a nearby parcel.

MR. PEIRCE: Any further questions.

MR. SHAVELSON: I believe, in connection with Dr. Kaveler's (sic) statement -- perhaps I didn't make myself clear as to my personal opinion; that we aren't limited by Section 6826, which isn't applicable to leases at all, and that we can put as liberal provision as we want as to disclosure in light of the waiver provisions of the Public Resources Code filed with the D.O.G. If I didn't make myself clear before -- if it is clear now 

MR. KIRKWOOD: You mean it can be in the ....
MR. SHAVELSON: Yes, I think it's a matter of discretion with the Commission is what I meant to say.

MR. KIRKWOOD: I don't at this date want to throw any monkeywrenches into our getting a lease, an invitation to lease, but this one — If there were some way along the line that Mr. Wanenmacher suggested of a restricted availability as of the time that we are using this as a pattern ... In other words, if we ever go out with a lease adjoining, except as a wildcat, this wouldn't be made available; but somehow so this could be evaluated by the prospective bidders. That would be the purpose of it.

MR. WANENMACHER: Yes.

MR. PEIRCE: Mr. Hortig?

MR. HORTIG: May I comment?

MR. PEIRCE: Yes.

MR. HORTIG: The primary difficulty the staff has recognized on that problem — if we could carry a program as you have suggested — the primary difficulty is the difference in statutory provisions and the practice which has grown up, to suggest to the Commission that it should be provided that this data be released under a State Land Commission lease when the identical data are required to be filed as confidential information with the Division of Oil and Gas and aren't even available under subpoena. So from a State policy, it would appear to be incongruous to require on the one hand that a document be filed as
confidential and on the other hand another agency proceeds
to broadcast the information. This could well be a problem
that the Legislature should reconcile.

MR. PEIRCE: Any further discussion? Dr. Kaveler.

DR. KAVELER: Mr. Chairman, in view of Mr. Hortig's
last statement, and in sympathy with Mr. Kirkwood's state-
ment, it might be well -- the Commission might well con-
sider putting an open door in this paragraph, so in the
event there was legislative action to clear the point or
make other provisions, that this lease would come under
that future act of the Legislature -- at least give you an
open door to do the things you have in mind.

MR. KIRKWOOD: Would that be feasible, Jay?

MR. SHADELSON: If I am correct that it can be
done now, it seems to me that would be a lot simpler --
not meaning to intrude on policy, but as a statement of
legislative intent. It seems to me there is a difference
between a statute making these things secret as to every-
one primarily concerned probably with private oil leases
and private operators who want to keep the information
confidential, and a lease applying to State lands; that
a legislative policy applying to all oil lands necessarily
applies to a lease by the State Lands Commission.

MR. PEIRCE: Any further discussion?

MR. KIRKWOOD: What is the problem, Jay, what
would be the problem if no mention is made in this lease

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if the lease goes as it is now -- and subsequently a law were enacted applicable, requiring this to be done on State-owned lands and under State leases? Could it affect the findings under this lease after the adoption of that act?

MR. SHAHEELSON: I think to the extent this lease makes the information confidential, conceivably that would be an impairment of a contractual obligation and would therefore be invalid. I don't want to commit ourselves to that.

DR. KAVELER: This lease is subject to the conditions available under date of bidding, so if you issue new regulations by legislative act you have to leave the door open in order to make this lease come under anything like that.

MR. ERCK: Martin Erck, Monterey Oil Company. Mr. Chairman, members of the Commission, at the moment I don't know the answer to the question that has been propounded. I am sensitive to your problem and I am also sensitive to the ancient and honored custom in California. My company represents interests in California and abroad and I suppose most of the Gentlemen here do. As a result, I don't know what the answer would be as to which they would prefer. I do have the feeling it is a very basic question that has been discussed here. It is not a question that has been raised in previous lengthy discussions of the form. It is
a question of policy. While it may have arisen, it is not a matter that has been given the attention that it should be given and because of the fact that I don't know, for example, for my company what my answer would be -- we operate in both places -- I think if other representatives knew what their companies' policy would be that they would be up letting you know, that's what they are here for today, to let you know what they want you to know about -- I think this is so deep and the policy so fundamental, it should not be changed just prior to the eleventh hour of this lease.

MR. LOWER: After that invitation by Mr. Erck, I think I should say that for my company, Superior Oil Company, we are opposed to free dissemination of drilling and geological information. I can understand the viewpoint of Mr. Wanenmacher and how, in all deference to him and his associates, how they might look at a situation of this kind, being in consulting practice. The oil companies who are spending their money have traditionally, in California, considered their geological information as part of their investment in the property. This concept has been carried over into the State law. The Legislature has always recognized the confidential nature of information filed with the Division of Oil and Gas; and it has gone so far as to allow the operator to withhold filing his logs on wildcat wells until six months after they have been
completed.

Now, I think for this Commission to take any other viewpoint is just inviting further disinterest on the part of industry in these properties. I get the impression from two things that were said -- first by Senator Richards, regarding the possible conflict on this subsidence question. I am inclined to agree with Senator Richards. I think if there is one authority in this State that's vested with an authority to make a decision and another Commission that's vested with the same authority, the operator can be in violation of his lease terms by complying with the State statute. It seems to me from that and what has been said about State lands being different from private lands and therefore they should be able to publicize this information, it looks like an effort is being made to give special treatment to the lands of the State of California. In other words, it's all right for the Legislature to pass laws but it's all right if they don't apply to State lands.

I wouldn't want the inference left that the lease form in its present form is acceptable as far as my company is concerned. We think the royalty rate as established is 'way too high. We think it will discourage bidding. We think it will dissuade an operator in producing his wells at maximum rate so as not to get into an unprofitable operation. Thank you.
MR. PEIRCE: Are there any other representatives of the industry who would like to discuss the subject that Mr. Kirkwood raised before we come back to the body of the lease form itself?

MR. SHAFER: Mr. Chairman -- Shafor of the Texas Company. I think this would be a good time to back away a little from these specific problems and look at the over-all. As Mr. Lower said, some of these things we don't like are not too bad...By this I mean so bad that they would cause us to back away from this problem. But you've got one paragraph that is almost unacceptable, and another one almost unacceptable and on top of that you add something here that is contrary to our operating habits and practices for many, many years -- and one of us is required to bid on these lands. So I suggest that consideration be given to the over-all picture as the oil companies have to look at it and see whether by adding these little things here and there that you are not over-loading this thing to the point where it becomes unattractive as a whole.

MR. PEIRCE: Mr. Hanna.

ASSEMBLYMAN HANNA: Is it my .... I would like to make a statement. It appears to me if it is a fact that the practice under similar situations in other oil areas of the United States requires the public dissemination of this information we are talking about, that there should
be some showing of different circumstances in the State of California, so that we could come to a proper evaluation of this historical practice. I don't think we can justify a practice simply because it has been done for a long period of time. We certainly should have substantial evidence of its desirability and I think it is incumbent upon the industry to show that to the Commission, so they can make a proper policy decision -- if this is going to be a policy question. I think it's certainly information, too, for the Legislature, if they were going to contemplate changes -- and I am almost sure there will be some changes contemplated in the 1952 session, related to this whole problem.

MR. PEIRCE: Any further discussion?

MR. WANENMACHER: I would like to tell you, sir, that all of this is not compulsory -- most of it is voluntary. In other words, not all of the records are submitted to the State and released by the State authorities. For example, electric logs are exchanged and in the old days, twenty years ago, it used to be they would trade. In order to make it convenient, they turned them over to a blueprint company and they print them. In other words, if a man drills a well he may hold that information a few months.

MR. HONE: I would like to point out again that it would be totally inconsistent with the regulations relative to core drilling and other types of information such as
seismic information -- which under the present lease form anyone may go on to the leased premises and obtain pursuant to permit core information, seismic information, that which is to be treated as such under the statute. Why should it be a different rule with respect to wells drilled by the lessee on ... lands? This information is available to a person if they go on to the premises. I see no justification and certainly a horrible conflict if the lessee is forced to submit all his information and third persons are permitted to go on and obtain information of the same or similar type.

MR. PEIRCE: Mr. Hortig, what is your comment at this stage of the discussion?

MR. HORTIG: Well, with respect to the particular section under consideration at this time relative to the availability of data, I have already reviewed in general the criteria or the factors which the State Lands Division thought were relevant thereto, all except one; and that is, that in the resolution of the conflict, as Mr. Home mentioned, if data were required to be disseminated and a particular lessee felt he had not achieved by his investment a competitive advantage, I believe it must necessarily follow -- although it cannot be demonstrated precisely -- on a lease offer on that basis, a lessee making a critical evaluation would include some insurance for the condition that he no longer had a competitive advantage; and this
insurance would be in a lower bid to the State for such a lease.

MR. PEIRCE: Mr. Kirkwood, you raised this question of disclosure of information. What is your position at this point with respect to its applicability to the lease form?

MR. KIRKWOOD: Let's take a look at whatever else we are putting in the lease. I certainly realize this is one of a series of things that balance each other. I certainly wouldn't want to go beyond the conclusions here, all certainly which would indicate that if the law of regular application were subsequently adopted, making public similar material, this would be covered or subsequently developed information would be covered by that law. That would be as far as I would want to go. Let's see where we end up. I judge .... we have one blank in the lease on the size of the parcels ...

MR. HORTIG: If I may suggest, this would follow in the next calendar item which would go to proposed specific application of this lease form as adopted, as a basis for proceeding. Both size of parcels and rental provisions will be discussed in the next calendar item.

MR. KIRKWOOD: You are not talking in terms of this exhibit, whatever it is?

MR. HORTIG: Yes, it would be ...

MR. KIRKWOOD: That does give the rental formula?
MR. HORTIG: No. The rental is a blank on page 3 of the lease.

MR. KIRKWOOD: I would certainly reserve at this point, John .... I would say let's take a look at the other things; and I am not making any suggestion or proposing any amendment of the lease until I have a chance to look at the other things and have a chance of discussion with the consultants and so forth as to what they are recommending here.

MR. PEIRCE: Are there other representatives who wish to be heard with respect to the proposed lease form? If so, we would be delighted to hear from you now.

MR. WATSON: Mr. Chairman, for the record my name is Glenn R. Watson. I am appearing today as attorney for Edwin H. Pauley and Associates and Phillips Petroleum Company. We have two points bearing on the proposed lease which we feel should be considered by the Commission.

Mr. Hortig just referred to the annual rental figure as still blank. We note that $1.00 per acre has been recommended by the staff but has not yet been inserted in the lease. We would simply say we support the staff's recommendation of $1.00 in that respect.

With reference to the size of the parcels, we feel it is entitled to great consideration, at least while the terms of the lease are under consideration; and if it is agreeable, I would like to discuss the feeling of those
two companies with respect to size of the parcels. That is important to the Commission ... and, well, Edwin Pauloy and Phillips Petroleum Company are of the opinion that fixing the size of these wildcat parcels at 5,760 acres would be in the best interests of the State of California. Certainly, parcels of that size would be more attractive to industry and, therefore, should result in high amount of cash bonus bid. We believe that not only would the total bonus per parcel be greater but that the industry would bid more cash bonus per acre on the larger size. The amount of bonus is affected by the probable revenue of the lessee if the parcel is obtained. The size of the parcel will influence the size of expenditure on platforms and other operational requirements. Such expenditures would be greater for a small parcel than for a larger parcel -- which, of course, would result in a smaller net profit on the smaller parcels. The larger parcels should produce the greater dollar return per dollar spent per acre, thus making more dollars available for the payment of a higher cash bonus to the State.

Therefore, we are of the opinion that fixing the size of the original parcels at 5,760 acres is sounder from a business and economic viewpoint, will have the effect of increasing the bonus to the State of California and will decrease the number of platforms and installations and thus be beneficial to Santa Barbara and onshore interests.
Further, the Legislature has expressed parcels of 5,760 acres in size by the Cunningham Shell act in 1955 and re-enacted this in 1957. The Legislature apparently contemplated that parcels not 5,760 acres in size would be appropriate in proper cases. This offer, we feel, is the logical place of following the legislative intent by fixing the size of the parcels at 5,760 acres.

The second point which we wish to bring before you, which we are most concerned with and which concerns the Commission, concerns the royalty formula. The staff has recommended a bonus bid and sliding royalty, but there has been publicly little discussion regarding the suitable royalty formula. We believe that the royalty formula proposed in Exhibit B for consideration is not proper for these wildcat lands. In fact, this formula is comparable to the ones on the majority of the State lands in the Santa Barbara lands and Ventura, on which leases have been made on proven lands, except in one case in cash bonus.

We would like to submit a formula which, in our opinion is more suitable to wildcat lands. This formula lies somewhere between the extremes that have been advocated, one suggesting a flat 16-2/3 and the other a sliding scale up to 50%; which appears on Exhibit B for consideration.

For the purpose of clarity, I would like to hand the Commission a sheet showing our proposed formula and its
effect on proposed production. There is one for about every-one to have one and in about five seconds I can put in on the board so the other gentlemen can see it.

Now, you will note that under this formula 16-2/3% royalty remains effective until a production of 196 barrels per well per day has been reached. The royalty then increases on a sliding scale up to the maximum to be fixed by the Commission. We recommend a maximum of 25% on this offshore wildcat acreage. In our opinion, this formula would make the lease more attractive, would increase the competition, and would result in a higher cash bonus payment to the State. This sliding scale royalty that we are proposing in our formula is higher than the royalties demanded by Louisiana, Texas, the Federal government in the Gulf of Mexico, and other jurisdictions, with which the oil industry must compete. We feel it is important for California to be in competitive position with other jurisdictions. This formula we propose is a fair one. The company will spend millions of dollars for cash bonus, platforms, exploration and testing. At least, the cash bonus, exploration and drilling costs will be a total loss if drilling is unsuccessful. Every bidder must consider these factors in the event production is not obtained, in determining the cash bonus. The potential reward must take care of those losses. The less the potential reward, the less the cash bonus to the State.
In our opinion, this should have the careful consideration of the Commission. We trust our recommendations on the size of the parcels and a suitable formula will be considered before final action is taken.

MR. PEIRCE: May I ask, Mr. Watson, did you or someone representing the companies you are representing today present your thinking on this subject to the committee of the Western Oil and Gas Association?

MR. WATSON: I don't believe the committee has met since the royalty formula was first proposed by the Lands Commission and came out with a tentative draft in March. To answer you directly, sir, I don't believe it has been discussed with the Commission.

MR. PEIRCE: Were your companies represented at the discussion at which members of our staff met with members of the industry here in Sacramento on February 26 and 27, I believe, with the consultants present, discussing various ramifications of this problem?

MR. WATSON: The two companies were represented at the hearing and according to the writer, there was no discussion concerning the particular formula. All of the discussions were directed toward cash basis, and so on. This has not received public discussion.

MR. PEIRCE: In other words, your presentation today is the first time that this particular proposal has been presented to our staff or to our consultants?
MR. WATSON: No, I wouldn't say that. It's the first public discussion. The formula has been presented to Frank, but this is the first opportunity, actually this is the first time the formula has been publicly discussed to our knowledge.

MR. PEIRCE: Mr. Hortig, have you any comments to make with regard to this matter?

MR. HORTIG: Yes, sir. As Mr. Watson reported, representatives of Phillips Petroleum did discuss with me this proposed royalty formula sometime back. This was one of a multitude of formulas and proposals which have been evaluated against the tests of the Commission's experience, the recommendations of the special board of the consultants to the Commission; and inasmuch as -- I point out, I probably shouldn't admit this -- I am one of the parents or the parent of this particular form back in 1938, I felt I had particular familiarity with this formula.

The basic problem, making this short, is that the staff has recommended to the Commission, after consideration of all aspects, from all aspects, the particular formula which is in the lease form before you today. All other variations are desirable, and supportably desirable, depending upon the particular end desired to be achieved by the specific proponent. You have here today, on one hand, Mr. Lower unqualifiedly stated the royalty formula proposed by the staff is too high; Mr. Watson in behalf
of his clients has another one lower, and, therefore, the recommended formula is too high; Senator Allen stated unqualifiedly the royalty formula is too low.

You have, out of the total considerations and the representations made by everyone, the staff's considered recommendation and the considered recommendation of your special board of consultants; and even in the light of the support for the particular formula which Mr. Watson has advanced, that nevertheless the royalty formula that should be adopted by the Commission is that set forth in the lease form before you.

I might add, additionally, for those proponents of the situation who feel that potential high cash bonus bids are restrictive and undesirable in connection with a State lease, that adoption of the royalty formula proposed to the Commission would be more desirable in the royalty form here proposed, in that I think it is recognized as axiomatic that with the high royalty formula, the cash bonus bids would be lower.

MR. PEIRCE: Dr. Kaveler, would you like to comment on Mr. Watson's statement?

DR. KAVELER: Mr. Chairman, I don't believe I could add anything over what Mr. Hortig has said. There is no basis for determining what a royalty should be. It is a matter of business judgment. As you have discussed extensively from time to time in this hearing, Mr. Hortig
calls attention to the fact that the lease is a thing in sum total. If the royalty is higher, the bonus will be lower. I think Mr. Wanenmacher joins me. Both as to the size of the lease and the royalty to be applied, they have unto themselves a policy problem. The diverse opinion what exists in this State, I think, would drive the Commission to a compromise position. I think you should derive a great deal of satisfaction out of the fact that if both sides are dissatisfied with the result that equity has probably been done. It would be fatal, in my opinion, that either side walked out of here satisfied. Then, I think, equity would not be done.

One has to weigh his words in this ticklish situation . . . but I am persuaded . . . the statement I made to Mr. Allen, the statement I made in respect to the statutes on minerals in the State of California has undergone transition. At the last meeting we had, it was all understood that what we decided today is not fixed -- it is in an evolutionary process. I think what the staff has recommended today is as good a middle-of-the-road lease that you could have. I would recommend that the staff's recommendations on lease size and other things be approved.

MR. PEIRCE: Mr. Wanenmacher?

MR. WANENMACHER: I concur.

MR. PEIRCE: You concur. Now, we have been here for nearly two hours. I would observe that this matter
has been studied for many, many months. We have tried to bring into our considerations of a very difficult problem every possible viewpoint and, as Dr. Kaveler has observed, perhaps it is too much to expect that everyone shall be entirely satisfied either from the State's viewpoint or the industry's viewpoint. We have a law under which we are operating and we have endeavored to interpret that law, with the advice of the Attorney General and our consultants, in a manner that will protect the interests of the State and yet to give recognition to proper inducements which will cause the industry to explore for and find oil such as may exist under the tidelands of this State. Now, Mr. Kirkwood and Governor Powers, I believe we have, at least, exhausted in a preliminary fashion the testimony that is offered by those present. What is your pleasure with regard to the staff's recommendation that we approve the lease form as amended?

MR. KIRKWOOD: Could I ask a question, please, first, John? Mr. Watson, I would be curious on one thing. You are Senator Richards' partner?

MR. WATSON: I am.

MR. KIRKWOOD: Have you had opportunity to discuss with him the point he raised with reference to possible operation of AB 5?

MR. WATSON: I have not read AB 5 and I have inquired of him what effect it would have; but I am not otherwise
familiar.

MR. KIRKWOOD: Do you feel, after the discussion you heard this morning, that it is proper for us to go ahead with this lease, with the provision of 10 of the exhibit; that we are not getting into a problem there? Is that anything you can express a view on?

MR. WATSON: No, it is not. Phillips Petroleum and Pauley have no position on that. The only ones we wish to comment on are the ones within our presentation.

MR. PEIRCE: Mr. Shavelson.

MR. SHAVERSON: I'd like to point out that Section 5 reserves to the State the right to exercise a power. In other words, it's not something that is automatically operative.

MR. KIRKWOOD: You mean AB 5?

MR. SHAVERSON: Excuse me, I meant Section 10 of Exhibit A; and for that reason it is not, it does not have a head-on sort of conflict with the statute. I have a statement, a one-sentence proviso, which really says no more than would be implied anyway, but it might be a good idea just to clarify this matter saying "The rights reserved and retained by the State under this Section 10 shall be exercisable to the extent and only to the extent that such exercise is permitted by law at the time of such exercise." I think that would certainly eliminate -- if by minute study of AB 5 there should be some question, we should
conclude there is a legal conflict between this retained power in Section 10 -- then I believe this would make it clear that we are not trying to do anything inconsistent with the law and, of course, that would be the thing anyway. We don't like to have any provision of doubtful validity -- even though it is undoubtedly severable, it doesn't affect the validity of the lease.

MR. PEIRCE: Mr. Hutchins.

MR. HUTCHINS: My name is J. Barton Hutchins. I represent Edwin Pauley. I am not trying to cut the ground down under a lawyer. It is true that Phillips and Pauley have not had a discussion about this, but I discussed it with Pauley last night and he is very apprehensive that down the road there is probably going to be a head-on collision ... (laughter) ... my apologies, collision. (I am glad you are listening to me anyway.) I have discussed this with the Senator himself; I have read the act. I am not a lawyer but it seems to me you have got two sets of rules to go by. Looking at this -- it doesn't have to take a month, a year, but I think more detail should be gone into than Mr. Shavelson remarks. I feel like Mr. Lower. I believe we ought to take a good look at this thing.

MR. KIRKWOOD: Did Mr. Lower make that statement?

MR. PEIRCE: Mr. Kirkwood has asked, did you make that statement that was referred to by Mr. Hutchins -- that
is, that we delay action on the approval?

MR. LOWER: I didn’t ask that the Commission delay action. What I said was that I thought there was a conflict in AB 5 and Section 10 as previously written.

MR. KIRKWOOD: Wouldn’t this insertion of Mr. Shavelson take care of any possible conflict?

MR. LOWER: I think it would, yes. If it makes Section 10 subject to the effect of AB 5 and the rights of the Commission to act thereunder subject to any legislative enactment which might be contrary to its provisions, I think it would.

GOVERNOR POWERS: That is the part I would be interested in. We certainly don’t want to pass a rule in conflict of the law.

MR. KIRKWOOD: I can’t see there is any conflict. I think this would take care of it.

MR. HORTIG: If I may, Mr. Chairman, I should like to add something that isn’t generally advised. AB 5 or not, and assume AB 5 is a panacea for Long Beach, which it is designed to be, Section 1.0 of the lease form is still going to be desirable for the control of operations on any State lands, particularly from the standpoint that there cannot be extensive damage resulting from operation of a State lease, which extensive damage could otherwise still result under the criteria of AB 5 long before AB 5 can be triggered into action.
MR. KIRKWOOD: Might I ask, Frank, what is our agenda here? You say the lease parcel size doesn't come up until items later in the agenda?

MR. HORTIG: The item succeeding this.

MR. KIRKWOOD: Is it calendared?

MR. HORTIG: Yes, it follows immediately behind.

If you gentlemen wish preferentially to consider them together......

MR. KIRKWOOD: I think that gives us the whole picture of what we are talking about and what we haven't gotten into discussion of. Wouldn't you say that, John?

MR. PEIRCE: I think we ought to take them together.

Mr. Watson links them together.

MR. KIRKWOOD: Are we suggesting five parcels be put out?

MR. HORTIG: Yes sir.

MR. KIRKWOOD: And each one is 3,840 acres?

MR. HORTIG: Yes sir.

MR. KIRKWOOD: $1.00 per acre per year?

MR. HORTIG: Yes sir.

MR. PEIRCE: And the lease form we are discussing would apply.

MR. KIRKWOOD: And the royalty also.

MR. HORTIG: Here is a map with the geographical locations. (Short discussion off-the-record, looking at map)
MR. PEIRCE: All right. The meeting will then come to order. Before we conclude on Agenda Item No. 1, Mr. Hortig, will you now pass to Item No. 2, which involves five proposed lease offerings?

MR. HORTIG: Yes, Mr. Chairman. On September 13, 1957, the Commission initiated consideration of offering oil and gas leases pursuant to Division 6, Public Resources Code, in an area of approximately 54,000 acres of tide and submerged lands extending from westerly of the Elwood area to Point Conception, Santa Barbara County. The County of Santa Barbara was notified pursuant to Section 6873.2 Public Resources Code of the pending consideration of lease offers. The county did not request a public hearing. Time required for filing such request expired November 15, 1957. Recommendations as to royalty rates, lease sizes and lease locations were presented to the Commission by a special board of consultants on February 3, 1958. The following staff recommendations are within the scope of the consultants' recommendations:

It is recommended that the Commission authorize the Executive Officer to offer parcels of tide and submerged land in Santa Barbara County for oil and gas lease pursuant to Division 6 of the Public Resources Code. The lease award is to be made to the qualified bidder offering the highest cash bonus payment in consideration of the issuance of an oil and gas lease. The bid lease to be offered for
the parcels shall be the form authorized pursuant to Item 1 of this calendar. The areas are not within the geological structure of any known oil or gas field, therefore they are in the areas listed by the consultants as wildcat and exploratory.

There follows three parcels of 3,840 acres each, the parcels being approximately two miles along shore, three miles into the sea. The specific map coordinates, so these parcels can be precisely located on the earth, are listed. The three parcels under discussion all lie easterly of Gaviota and extend to approximately 1½ miles west of the westernmost lease of the existing Elwood Oil Field. The landward and northerly boundary of each parcel is the ordinary high water mark of the Pacific Ocean. The seaward or southerly boundary would be parallel to the ordinary high water mark and seaward three miles.

The lease rental is to be set at $1.00 per acre per year.

As provided in the lease form, no permanent filled lands, platforms or other fixed or floating structures for well sites or other operations for operating oil and gas development from the area leased shall be constructed, used or operated at any location less than one mile seaward of the ordinary high water mark of the Pacific Ocean.

The bid lease form to be offered for the next following described parcels shall be the same form, of course
omitting any limitations as to location, placement or use of pier structures or filled lands by deleting the appropriate restrictive language from the lease form -- which provides for the restriction of these operations in the lease form -- for these two parcels westerly of Gaviota and easterly of Pt. Conception. Parcel description follows.

There are two parcels, 3,840 acres each. Again, the northerly boundary is to the ordinary high water mark and the seaward boundary or southerly boundary to be parallel to the ordinary high water mark seaward three miles; with the ordinary rental 1.00 per acre per year.

For the record, if I may, Mr. Chairman, at this point note that in the lease form which has been discussed this morning -- on page 19 we should like to have the record reflect that page 19, line 5, should read "at least" rather than "lease" -- with a "t"; and page 19, line 10, should read "at least."

MR. PEIRCE: We have before us the recommendation of the staff that the Executive Officer be authorized to offer for lease five parcels of tide and submerged lands in Santa Barbara County. Are there any questions on the part of the members of the Commission?

MR. KIRKWOOD: Well, to get the matter formally before us, I move the recommendation of the staff.

GOVERNOR POWERS: I'll second.

MR. PEIRCE: Does that apply to both recommendations?
MR. KIRKWOOD: Well, yes, I think if we adopt this we are accepting the form.

MR. HORTIG: For this particular lease only.

MR. KIRKWOOD: But I want to ask the consultants before I vote on that.

MR. PEIRCE: If I understand correctly, Mr. Kirkwood has moved that the State Lands Commission approve the two recommendations of the staff -- first, with respect to the lease form as amended; and, secondly, with respect to offering of these five parcels of tide and submerged lands. Those are the two recommendations before us, is that not right, Mr. Hortig?

MR. HORTIG: That is correct. At this point, may I ask that the record show that the lease form as amended, referred to, includes on page 21, line 24, after the word "lands" the addition of the phrase "or other shoreline properties" as was suggested by Mr. Kirkwood.

MR. PEIRCE: Mr. Shavelson:

MR. SHAVELSON: I was just wondering also if we want to include that little phrase at the end of Section 10 that I suggested.

MR. PEIRCE: Will you read it aloud, please?

MRS. STAHL: The rights reserved and retained by the State under this Section 10 shall be exercisable to the extent and only to the extent that such exercise is permitted by law at the time of such exercise.
MR. SHAVELSON: That would follow the words "Section 10" on line 33, page 22.

MR. KIRKWOOD: Won't the same -- shouldn't the same addition that's made on page 21 be made on page 22, line 9?

MR. SHAVELSON: That's right.

MR. HORTIG: Exactly.

MR. KIRKWOOD: All of the amendments we are adopting are in this one section?

MR. HORTIG: Yes. Page 22, line 9 -- actually it should go in line 8, Mr. Kirkwood, after "residential areas" -- "or other shoreline properties."

MR. KIRKWOOD: That one, we want to be sure is the exact language. I am a little bothered in the reading of that.

MR. LEOVY: I wonder if we could read the language of that change a little louder?

MR. PEIRCE: Can you read that, Mr. Hortig?

MR. HORTIG: Which one?

MR. LEOVY: The one at Section 10.

MR. HORTIG: The rights reserved and retained by the State under this Section 10 shall be exorcisable to the extent and only to the extent that such exercise is permitted by law at the time of such exercise.

MR. LEOVY: I was wondering if it would be better to say "shall be exorcised by the State Lands Commission"
only to the extent ..." In other words, the State is still going to do it.

ASSEMBLYMAN HANNA: It's in the lease, it would have the same ... in other words, the conflict here is going to be by the State -- the D.O.G. or State Lands Commission.

MR. PEIRCE: Are we all of the same mind with respect to the text of these changes in the lease form?

MR. KIRKWOOD: Now, I might ask, then, John, of the consultants whether you are in a position to recommend this and having particularly in mind the discussion on Section 18, whether you feel with these other provisions and with the balance we have, that you are prepared to recommend this as appropriate.

DR. KAVELER: Yes, Mr. Chairman. In response to Mr. Kirkwood's question, yes, I would recommend the lease adoption as now written.

MR. PEIRCE: Mr. Wanenmacher?

MR. WANENMACHER: Our firm will also recommend the lease as changed and amended.

MR. PEIRCE: The motion has been made ....

GOVERNOR POWERS: I seconded it, yes.

MR. PEIRCE ... and it has been seconded. Is there any further discussion on the part of the members of the Commission? (No response) Has anyone else anything to say before we take action with respect to those two
of the Public Resources Code was amended, providing more flexible operating and developing conditions for leases thereafter, and with the option in the Commission to include any such conditions in any pre-existing lease by amendment. Such amendment may be included in pre-existing leases also in the opinion of the Attorney General.

Application has been received from Standard, as operator, requesting approval of the amendments to provide for the additional operating conditions and it is recommended that the Commission approve such modification. This is identical with the modifications approved by the Commission heretofore in upwards of twelve existing leases.

MR. PEIRCE: Any questions? (No response).

MR. PEIRCE: Recommendation is approved.

MR. HORTIG: Page 24, gentlemen. The staff is happy to report that with respect to the calendar item on page 24 this represents a consolidated report of the closing of certain projects which have been completed pursuant to prior authorization by the Commission for expenditure of subsidence funds. The determination of the allowable subsidence deductions in the light of the operations that have been conducted has been completed in accordance with the requirements that there be an engineering review and final audit at the time the items are completed. The results of the final engineering review and audit are tabulated on page 26 and represent only four
projects, show for four projects in the final column "Credit Due State" the amount of funds heretofore withheld by the City of Long Beach on an estimated subsidence basis, which have now become due to the State, in view of the fact that allowable deductions are found to be less than those paid the City of Long Beach. So, for the projects as listed, the amounts due the State are indicated in the right hand column and it is recommended that the Commission determine that the subsidence costs in these respective fund assignments be authorized on the basis of this determination, and that the Executive Officer be authorized to execute appropriate written instruments requiring that appropriate adjustments on the accounts considered herein be made to the State of California as necessary and indicated on Exhibit A on page 26.

MR. PEIRCE: Does this meet with the approval of the City of Long Beach?

MR. SPENCE: Meets the approval of the City of Long Beach.

MR. KIRKWOOD: How does this happen? Are these all under the original estimates?

MR. HORTIG: This will be the situation in the majority of instances.

MR. KIRKWOOD: We are not closed from our original finding from adjusting upward?

MR. HORTIG: No sir, we are not. As we have gone
along, you gentlemen have approved additional amounts and ultimately it could well be that. As the tabulation was originally set up, it reflected "Credit due State or Long Beach" and it can go either way, but in this particular instance, since the credits are due the State only, the column was omitted for clarity.

MR. KIRKWOOD: We don't have any further documentation on this except this?

MR. HORTIG: Solely the working papers.

MR. KIRKWOOD: Those are in the hands of the staff?

MR. HORTIG: They are in the files of the State Lands Division. Copies are in the files of the Long Beach Harbor Department, and the results here are also the final determination after rather extensive reviews and agreement and determination with the Long Beach Harbor Department staff. In other words, these are not unilateral determinations.

MR. KIRKWOOD: Jay, in your opinion is this sufficient documentation to act on without in effect delegating someone to go into it? Should we have some sort of outline from the staff as to their procedure? This is the first one we have done?

MR. HORTIG: Yes.

MR. SHAVERSON: The Commission has, of course, given its prior approval to these expenses subject to subsequent engineering and accounting review. I don't
know what would be intermediate between this general summary and actually going into the tabulation of the working papers. I don't think that ....

MR. KIRKWOOD: You think this is sufficient as a basis for us to determine that this is the proper division?

MR. SHAVELSON: In this instance, where it doesn't go above your original estimate, I feel pretty comfortable with it. As far as the future, if the costs do exceed it, it's quite possible we ought to formulate a procedure under which, when the City sees that it is going to exceed the estimated cost, that the Commission is informed so that it may, if possible, act before the excess funds are spent.

MR. HORTIG: That has been our ..... 

MR. SHAVELSON: That has been. I think you have given your prior approval of the expenditure of up to this amount at least and under these circumstances I think it is satisfactory.

MR. HORTIG: I may have complicated this unduly, if I may suggest — I did not read the full calendar, but the calendar item itself outlines the steps that were taken and including the final review with the Harbor Department. This, I believe, was something in the nature of something intermediate, as Jay has suggested.

MR. KIRKWOOD: None of these are particularly controversial areas — they are not ones where we would get into serious problems.
MR. HORTIG: No, they were clearly within the Harbor Commission, so we have no difficulty as to location. They were definitely in an area that has and is continuing to subside and the funds were clearly spent for the purpose of subsidence remedial work. Many discussions were necessary to clear up how you subsidize a portion of a project, and, as a matter of fact, the reason these are all credits due the State was the fact that there had been considerable difference of opinion in the City's estimate as to what were subsidence items and our determination arrived at subsequently.

MR. KIRKWOOD: M-m-mhm.

MR. PEIRCE: Any further questions?

MR. KIRKWOOD: No.

MR. PEIRCE: The recommendation is approved.

MR. HORTIG: Page 27 is a continuation of the month-to-month program, or the program analogous to and necessary in conjunction with those programs approved heretofore by the Commission on a month-to-month basis because the total program data are not yet sufficiently developed in order to permit the particular segment to be included on a fiscal year basis; and in this instance additional subsidence studies are deemed to be critically necessary in connection with evaluation of subsidence work planned for the future; and while there has been prior approval of this type of project in principle and for a
limited time and funds, it has developed that additional costs will have to be incurred by the Harbor Department for the sub-project "Consultants and Contingencies" which is outlined at an estimated total of $10,000 on page 28; and it is recommended that the Commission approve such costs to be expended by the City of Long Beach, subject to the standard reservations for determination of allowability upon engineering review and final audit subsequent to the time when these operations have actually been completed.

MR. KIRKWOOD: M-m-mhm.

MR. PEIRCE: Any questions? (No response)

Recommendation is approved.

MR. HORTIG: Page 29 -- item

Recommendation is approved.

MR. KIRKWOOD: M-m-mhm.

MR. PEIRCE: The recommendation is approved.

MR. HORTIG: Again ... the Commission heretofore approved on a fiscal year basis a project under the title of "Roads and Streets". It has now developed that additional unforeseen costs will be incurred by the Harbor
Department for work on the sub-project of the pontoon bridge relocation. The west approach to the Pontoon Bridge remains low and the request is made to obtain prior approval for raising the site of Seaside Boulevard and the surrounding area which will be necessary to meet the Pontoon Bridge. No approvals are being requested in connection with work on the bridge as such, which is not qualified. It is recommended the additional costs be approved as detailed.

MR. KIRKWOOD: Move the approval.

MR. HORTIG: .... page 32, subject to the standard limitations.

MR. PEIRCE: O.K.?

GOVERNOR POWERS: Yes, that's O.K.

MR. PEIRCE: Recommendation is approved.

MR. HORTIG: The Commission has also approved (page 33) the Pier E area project for the 1957-58 fiscal year, but it has been determined from proceeding with the project that additional costs will have to be incurred for earth filling the area between bulkheads and the road in the center of the pier, which were not clearly foreseen at the time of presentation of the original Pier E project estimates to the Commission. It is recommended that conditional authorization or approval be given for expenditure of the additional funds.

MR. KIRKWOOD: O.K.
MR. PEIRCE: Any questions? (No response)

Recommendation is approved.

MR. HORTIG: Page 35 is strictly the monthly continuation of the Town Lot project which still is not processed sufficiently to be proposed in its entirety and therefore the Harbor Department is again ....

MR. KIRKWOOD: Approved.

MR. HORTIG: ... submitting a request on a monthly basis.

MR. PEIRCE: Any questions? (No response) The recommendation is approved. That takes care of Long Beach?

MR. HORTIG: I believe that takes care of all personal appearances, if you would care to raise the question.

MR. PEIRCE: Does anybody have any matter before the Commission upon which you would like to be heard? Otherwise, we will return to the agenda and consider it in order. (No response)

MR. HORTIG: Page 6, then. Mineral Extraction Lease P.R.C. 1498.2 was issued in anticipation of the development and shipment of commercial grade uranium ore. The lessee has labored diligently to develop such a process that would be economically feasible but has been unable to meet the specifications of the Atomic Energy Commission, who have since also curtailed purchases of uranium oxide.
from new mills. There are no royalties due on the lease and advance rental for the year 1957 has been paid.

MR. PEIRCE: Recommendation is approved.

MR. KIRKWOOD: Are all of those dates right in there? Some of those are subsequent, but I guess that's O. K.

MR. HORTIG: Well, the next one that comes up is May 31, 1958. We are not there yet, and the Commission's prior approval of deferment was for the preceding year rather than the advance year.

The Commission has heretofore approved a prospecting permit covering certain areas in San Luis Obispo County, initiated for the development of chrome ore. It has been found that commercially valuable deposits of minerals have been developed under the prospecting permit. The prospecting permittees have requested that a preferential mineral extraction lease be issued as provided for in the permit. The royalty rates were also set forth in the prospecting permit at the time of issuance and are repeated here. It is recommended that the Commission authorize issuance of a preferential mineral extraction lease to Carl Pierce, Ferree Pierce and Frank Pierce covering Lots 1 and 7, in accordance with those sections of the prospecting permit that are delineated in Prospecting Permit 1899.2, subject to the deposit of performance bond in the amount of $1,000.00.
MR. KIRKWOOD: O. K., I guess.

GOVERNOR POWERS: M-m-mhm.

MR. PEIRCE: All right. The recommendation is approved.

MR. HORTIG: Ken, Page 9.


Application has been received for the purchase of 40 acres in San Diego County. The appraisal is established at $500.00 or $12.50 an acre. Under the competitive bidding, seven separate bids were received, ranging from a low of $520 to a high of $1001.20. Two of those bids were faulty -- that by Esther Bradberry, since it was not submitted on the form prescribed by the Commission in the public notice, and also the bid of James G. Ronis -- the envelope did not contain the notation "School Land Bid - Offer No. 183" as specified in the public notice. The first applicant, who had the right to meet the highest bid, indicated he did not wish to do so.

It is recommended that the Commission find that the 40 acres in San Diego County are not suitable for cultivation without irrigation, reject the following bids for failure to comply with the regulations set forth and required: The bid of Esther Bradberry -- form of bid not submitted on the form prescribed by the Commission; bid of James Ronis -- sealed bid did not contain the notation on the outside thereof "School Land Bid - Offer
No. 183;" and by reason of the first applicant having relinquished his right to meet the highest bonafide bid, authorize the sale to the highest bidder -- authorize the sale to the next highest bidder, Samuel M. Caplin, at $1,000, with all usual reservations.

MR. PEIRCE: Recommendation is approved.

MR. SMITH: Page 11 -- sale of vacant school land. It is recommended that the Commission authorize the sale of school land for cash at the highest offer, in accordance with the following tabulations, such sales to be authorized according to all standard reservations including minerals.

MR. PEIRCE: Any question? (No response) The recommendation is approved.

MR. SMITH: Page 16. This is a sale of vacant Federal land, where the applicant to the State has cancelled. It is recommended that the Commission determine it is to the advantage of the State to select 80 acres in San Bernardino County; that the Commission authorize the sale of said land and authorize sale thereof in accordance with the rules and regulations governing the sale of vacant school lands.

MR. PEIRCE: Any questions? (No response) Recommendation is approved.

MR. SMITH: Page 19. Sale of vacant Federal land. It is recommended that the Commission determine it is to the advantage of the State to select 40 acres in Los Angeles.
County; that the said Commission find the said land is not suitable for cultivation without artificial irrigation; that the Commission authorize the sale for cash to Wesley P. Beans at the appraised price of $600, subject to all statutory reservations including minerals, upon the conveyance of the land to the State.

MR. PEIRCE: Any questions?

GOVERNOR POWERS: O. K.

MR. PEIRCE: The recommendation is approved.

MR. HORTIG: Page 20. An application has been received for permit to conduct seismic surveys in San Francisco Bay off Candlestick Point, which is the same area that the Legislature has authorized the Commission to sell to San Francisco, and such lands will be used for utilization as a parking lot for the Giants' baseball stadium. Inasmuch as these shots will be jetted in unoccupied lands, in other words holes in the Bay, permit will be authorized by Fish and Game, who will have an inspector on the site, the only thing that will be hurt by this operation. It is recommended that permit be issued for the seismic ......

MR. KIRKWOOD: O.K.

MR. PEIRCE: Recommendation is approved.

MR. HORTIG: Page 37. Sorry -- back to 23......

MR. PEIRCE: Page 23?

MR. HORTIG: ... which represents what was done by
the State Lands Division in cooperation with and at the request of the City of Santa Barbara and Division of Beaches and Parks, because an upland owner decided to grade his lot and pour his excess fill material on the beach, to the alleged detriment of Arroyo Burro Beach Park; and in order to determine the equities and the rights, it was necessary that we know the boundaries of the State lands, and so our staff recorded the survey of the high water mark and it was necessary that this map be recorded as future evidence of the boundary of the tidelands.

MR. KIRKWOOD: O.K.

MR. PEIRCE: Recommendation is approved.

MR. HORTIG: Now, we will try 37. There follows, from 37 through 50, tabulation of the actions taken by the Executive Officer under delegation of authority and issuance of standard permits, easements and rights of way.

MR. PEIRCE: It has been moved and seconded that these items be approved. So will be the order.

MR. HORTIG: Following, on page 51, a supplementary calendar item -- Ken?

MR. SMITH: That involves a sale of sovereign lands pursuant to Chapter 1437 of the Statutes of 1957. The Commission is authorized to sell a parcel of sovereign land in Arcata Bay consisting of 3.27 acres. The act provides that the owner or owners of the land abutting the described...
parcel shall, upon application, be the preferred purchaser for a period of one year from the act. The Commission on August 8, 1957 authorized the Executive Officer to proceed with the sale at the appraised market value, subject to all statutory reservations, except that mineral rights shall be conveyed with the surface rights and subject to final approval by the Commission.

In view of the fact that the act is silent on mineral rights, the reservation of all minerals by the State under any sale is considered mandatory pursuant to applicable sections of the Public Resources Code.

An application to purchase has been received from Bracut Lumber Company. A review of the records indicates that A and F Lands Company, Inc. is an abutting landowner to the extent of 300 feet on the northerly portion of the parcel to be sold. This parcel is approximately half a mile in length. A waiver of the preferred right to purchase by reason of being an abutting landowner has been obtained on March 17, 1958.

The appraisal of the land is $75.00 an acre, and it is recommended that, in accordance with the provisions of Chapter 1437, Statutes of 1957, the Commission authorize the sale to the abutting landowner at a cash price of $245.25, subject to including all statutory reservations including minerals, of the land described; and it is further recommended ...
MR. KIRKWOOD: O.K.

MR. PEIRCE: Recommendation is approved.

MR. KIRKWOOD: Isn't that a different type of setup than we have had?

MR. HORTIG: Yes sir, this is one that is unusual. We have had others like it scattered over the years. What occurred was -- two different surveyors surveyed two supposedly adjoining parcels and actually left a space between the parcels, where there shouldn't have been a space. Fifteen years later, under a title report, people who thought they owned it and had paid taxes on it, found out they didn't own it. And through this legislation we have the authority to sell the equitable interest in it.

MR. PEIRCE: Does that conclude the agenda?

MR. HORTIG: It does except one point. Shall we proceed as usual with your secretaries to arrange for a meeting early in May?

MR. PEIRCE: I think you should proceed in the usual way. Mr. Hortig, I don't think we concluded our discussion this morning -- or did we -- on the matter of your suggestion with respect to our future employment of our consultants. Do you want to discuss that now or is this something that should be taken up at a later time?

MR. HORTIG: I can discuss it now because I also have had the advantage of a conference during the luncheon recess with the consultants, so I know on what basis things
can be recommended to the Commission. We are not completely certain whether the existing service contracts with the consultants are going to require modification at this time in terms of funds allotted to those contracts. It is anticipated there may be a necessity for augmenting those contracts and I would propose at that time that that augmentation also approve -- subject to the approval of the Commission and yours as the Director of Finance -- a revision in those contracts to extend to the end of this fiscal year, with the anticipation then that should it be desirable for the Commission to have a consultant review of bids, if a basis for evaluation of rejection ever arose, that we have the contract for services of these gentlemen -- and they have evinced a willingness to continue with the contract on that basis.

MR. PEIRCE: Now, Dr. Kaveler and Mr. Wanenmacher, in behalf of myself -- and I am sure I speak for my two fellow members of the Commission -- I want to express to you our deep appreciation of the services you have rendered to us under circumstances that could otherwise have been very, very difficult. We have been wrestling with this problem for several years, as a matter of fact, and to have had the advice and counsel of two men nationally recognized, as you two are, and your respective firms, has been a source of great comfort to us; and I am sure your counsel will have proved invaluable to us as time goes on.
and we proceed with our leasing operations. I, personally, feel most comfortable with regard to your looking over our shoulders during these difficult times, and I am sure that the results will greatly benefit the people of the State of California; and yet I am sure that your counsel has given equal importance to the interests of the oil industry in having those inducements that are necessary for them to go out there and risk their capital and find oil, if oil is to be found.

I want to pay special tribute to Mr. Kirkwood for having originated the idea of employing special consultants. It has worked out wonderfully well and I am glad he thought of it originally.

We are grateful to you and, as Mr. Hortig has indicated, with the passing of time we can determine the extent to which we will need further advice from the two of you. Have you any comments, Mr. Kirkwood?

MR. KIRKWOOD: Yes. I'd like to join with you in your expression of gratitude to the consultants. I certainly feel they have been extremely helpful and I know I have had a great deal out of the discussions I have had with them and feel it has been very helpful to me. I do want to ask one question of Mr. Kaveler off-the-record — I think this is something we are going to need on evaluation. I think it does point to our problem. This sort of thing is going to be tough on us, I am sure, at the time...
these bids in and I think we want as much support for our action as we can get.

DR. KAVELER: I might say, on behalf of Mr. Wanenmacher and myself, that we appreciate the words of the Chairman of the Commission. Seldom do our clients tell us our work is beneficial, so we appreciate it. Of course, we found here an extreme courtesy on the part of the Commission and the staff, so we found everything to facilitate our work. We appreciate the courtesies extended us by the staff.

MR. PEIRCE: Is there any further business?

MR. KIRKWOOD: Let's find out now on this staffing thing. Is that ready for review?

MR. HORTIG: Not completely. We have Keplinger and Wanenmacher's recommendations in hand in my office in Los Angeles. I have to review further what is to come from Dr. Kaveler, which he expects to be here some time next week. We will make additional copies and get them to you gentlemen for additional discussion and review with you.

MR. KIRKWOOD: The other thing is this Kraft thing.

MR. HORTIG: In view of the change in geography, I was unable to arrange to have him present here today, so with the high hope that you gentlemen will meet in Los Angeles in May ....

MR. KIRKWOOD: It can be deferred until then?
MR. PEIRCE: It doesn't complicate things to defer it?

MR. HORTIG: Not for him -- just that much longer I don't have an assistant.

MR. PEIRCE: All right. I guess that concludes the meeting.

MEETING ADJOURNED 3:22 P.M.

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DIVISION OF ADMINISTRATIVE PROCEDURE. STATE OF CALIFORNIA
CERTIFICATE OF REPORTER

I, LOUISE H. LILlico, reporter for the Division of Administrative Procedure, hereby certify that the foregoing ninety-two pages contain a full, true and correct transcript of the shorthand notes taken by me at the meeting of the STATE LANDS COMMISSION held in Sacramento, California, on April 14, 1958.

Dated at Sacramento, California April 30, 1958.

[Signature]

LOUISE H. LIIICO