

26. (SALARY INCREASE FOR POSITION OF EXECUTIVE OFFICER - PERSONNEL.) The following report was presented to the Commission:

"In accordance with the general understanding in connection with Item 275 of the Budget Act of 1955 that an approximate 5% increase in salary would be forthcoming to all State employees effective July 1, 1955, the compensation of the Executive Officer has been understood to be 'open' since July 1, contingent upon the action of the State Personnel Board and the Department of Finance in respect to civil service classes and exempt employees generally.

"Pursuant to the Budget Act of 1955, and as of July 1, the State Personnel Board took action to increase the salaries of nearly all civil service classes by 5%. This action included all classes of employees on the staff of the Division of State Lands. Also, as of July 1, 1955, the Department of Finance revised the salary range for the exempt position Executive Officer, State Lands Commission, from salary steps \$782. - \$950. to salary steps \$821. - \$1,000. As of June, 1955, the salary of the Executive Officer was \$950.

"In view of the fact that the Executive Officer's salary has been understood to be 'open' since July 1, 1955, it is recommended that the Commission take action to fix the salary from that date forward."

UPON MOTION DULY MADE AND UNANIMOUSLY CARRIED, IT WAS RESOLVED AS FOLLOWS:

THE SALARY FOR THE POSITION EXECUTIVE OFFICER, STATE LANDS COMMISSION, WHICH HAS BEEN UNDERSTOOD TO BE "OPEN" SINCE JULY 1, 1955, IS HEREBY FIXED AT \$1,000. MONTHLY AS OF JULY 1, 1955, THE EFFECTIVE DATE OF THE NEW SALARY RANGE OF \$821... \$1,000. PER MONTH FOR THE CLASSIFICATION, AS ESTABLISHED BY THE DEPARTMENT OF FINANCE. THE EXECUTIVE OFFICER IS AUTHORIZED TO TAKE SUCH STEPS AS MAY BE NECESSARY TO EFFECTUATE THIS ACTION.

27. (PROPOSED OIL AND GAS LEASE, TIDE AND SUBMERGED LANDS, HUNTINGTON BEACH, ORANGE COUNTY - W.O. 1864(B), P.R.C. 1551.1.) The following report was presented to the Commission:

"On August 10, 1955 four bids were received in response to a published notice of intention of the State Lands Commission to receive offers to enter into a lease for the extraction of oil and gas from approximately 647 acres of tide and submerged and park land in Huntington Beach, Orange County. Publication of this offer was authorized by the Commission July 6, 1955 (Minute Item 18, pages 2407-09). A summary tabulation of the bonus payment offers received pursuant to the lease proposal is attached. The combined bid-lease form was approved by the Office of the Attorney General prior to the lease offer as to compliance with applicable statutes and rules and regulations. The Office of the Attorney General has also reviewed the high bid submitted by the Richfield Oil Corporation, Hancock Oil Company and Signal Oil & Gas Company, and has determined that the bid submittal is in compliance with all specified bid conditions.

"All drilling and production operations would be conducted by the high bidders from approved offshore filled-land drillsites located at least one mile seaward of the ordinary high water mark."

The Commission was informed that a telegraphic protest to issuance of this lease had been received from Edwin W. Pauley, dated August 15, 1955, as follows: "Colonel Rufus W. Putnam, State Lands Commission, 302 State Building, Los Angeles. To you, as the members and counsel of the State Lands Commission, I hereby express my protest against the acceptance of the bid of Signal, Hancock and Richfield upon parcel W.O. 1864(B) of the tidelands off Huntington Beach. It is perfectly obvious, under the known existing circumstances, that my bid of \$505,954.00 is of much greater benefit to the State than the bid of \$516,766.00 of the above named companies. The circumstances referred to are that the State offered the lands for bid because they are being drained by wells not located on State tidelands and that such drainage should be prevented by drilling in State lands at the earliest possible time. The terms of bidding permitted drilling from the uplands in which event drilling must begin within 60 days after acceptance of the bid, or drilling from filled lands located at least one mile offshore in which event drilling is not required until two years after the acceptance of the bid. The bid of the named companies specifically states that they will drill from filled lands offshore whereas my bid states drilling will be from the uplands. The acceptance of the bid of the named companies may and can result, therefore, in a 22 month delay in preventing the existing drainage from State lands. This delay will occasion the State the following damage: First, the drainage from the lands in question to other properties; and in this connection, it is important to note that one of the named companies has drilling rights in most of the uplands adjacent to parcel 1864(B) upon which uplands it presently has wells now draining the parcel, and it will no doubt continue its drilling of wells and draining of these particular State lands during the two year period which it has to commence drilling from offshore. In the same connection it is also interesting to note that the reason the State permitted the bid from offshore locations was to give companies who did not have uplands locations an opportunity to join in the bidding. As before said, one of the companies has more of the uplands adjacent to this parcel than any other company and it is using this provision, not for the purpose for which it is intended, secondly, my engineers advise me that, during the period of the delay in beginning drilling, occasioned by drilling offshore rather than from the uplands, the State according to our engineer-estimates will be deprived of revenue in excess of \$1,000,000 which the acceptance of my bid would produce. The existing law, as well as the terms of the bidding, authorize you to refuse to accept a challenged bid on parcel 1864(B) and to accept my bid. When you consider the detriment to the State which will be occasioned by your acceptance of the above named companies' bid, I respectfully submit that the welfare of the State leaves you no choice; you should accept my bid and thus obtain the immediate development of parcel 1864(B). Should you wish to hear evidence from my engineers, or a more detailed expression of the above, I shall be glad to appear before the Commission for this purpose providing that you postpone the time of acceptance of the bid on parcel 1864(B) from Tuesday, August 16th, until a few days thereafter. Edwin W. Pauley."

Discussion followed the reading of the protest, with statements in support of the protest being made by:

J. Barton Hutchins, and  
J. Paull Marshall, both representing Edwin W. Pauley

In opposition to any delay in issuance of the lease, appearances were made by:

Mervyn Phelan, on behalf of the Richfield-Hancock-Signal group  
Paul Ottoson of Signal Oil & Gas Company, and on behalf of the  
high bidders  
James K. Wootan of Signal Oil & Gas Company, and on behalf of  
the high bidders

The Executive Officer of the Commission pointed out that two main points were raised by the protest: (1) Whether or not the request for bids permitted consideration of unspecified intangibles in the bid evaluation; (2) The fact that if the Commission rejected the high bid, all bids would have to be rejected and a new offer prepared.

Mr. Powers emphasized that his original resolution of July 6, 1955, in regard to lease authorization, was based on there being drainage of the State lands and that protection from drainage must be provided by the recipient of the award of the lease, but he did not object to a reasonable delay in award of the bid if review of further data should appear to be advisable.

Mr. J. Barton Hutchins, appearing for Mr. Edwin W. Pauley, reiterated the request for delay made by Mr. Pauley in his telegram.

Mr. Phelan, representing the Richfield Oil Company, pointed out that the Office of the Attorney General had heretofore ruled that the Commission does not have a choice of accepting the next highest bid if the high bid is rejected, and that the sole condition of accepting the bid was that it be based upon the highest cash bonus; it could not be based upon intangibles.

The Commission was informed by the staff that if all bids were rejected it would be at least eight months before another lease could be issued.

Mr. Ottoson, representing the Signal Oil & Gas Company, also appeared on behalf of the high bidder, and stated that he concurred in the statements made by Mr. Phelan. He informed the Commission that the Signal Oil & Gas Company has a lease from the City of Huntington Beach for an upland drillsite, embracing approximately 45 acres at the northwest corner of Highways 39 and 101 of the flat or low lands lying to the east toward Newport, and that in addition to straight hole rights, Signal holds the right to drill offshore. Embraced within said leasehold is a parcel consisting of approximately eight acres, from ordinary high water mark to the Pacific Electric strip, lying between Highway 101 and the sand, and running from Highway 39 in a westerly or northerly direction toward the City of Huntington Beach. The City of Huntington Beach is agreeable to the use of those lands as a drillsite.

Mr. J. Paull Marshall appeared next, on behalf of Edwin J. Pauley, and stated that inasmuch as Mr. Ottoson had indicated he had no objection to a delay, he would like the opportunity of working with the staff for a few days to make absolutely certain that the right decision was being made.

Mr. Peirce asked Mr. Marshall if he were of the opinion that Mr. Pauley's upland drillsite was superior to the site held by the Signal Oil & Gas Company. Mr. Marshall did not know. Mr. Peirce indicated that if they had a superior drillsite, this could be taken into consideration.

In response to a question by Mr. Peirce, Mr. Ottoson was of the firm opinion that the successful bidder, when awarded the lease, would have the option of drilling either way, under both the law and the lease.

Mr. Ottoson stated that, holding an upland drillsite, probably the best upland drillsite by reason of proximity, they expect and intend, in good faith, as soon as reasonably possible, to offset the drainage believed to exist. He brought out the point that both bidders have the option to use either upland drillsites or filled lands.

Mr. Peirce was of the opinion that in the light of the fact that all bids would have to be thrown out if the high bid was rejected, and that drainage would then continue for eight months, the State's financial interests would be best protected by awarding the lease as soon as possible.

Mr. Ottoson stated that the lease which Signal holds for the upland drillsite is of record, and there is no provision in it against assignment; that they intended to share their rights with their two other bidders.

The Executive Officer, upon a request from Mr. Peirce for his recommendation in the light of the discussion, recommended that the Commission adopt the recommendations as presented in the Calendar. Mr. Peirce asked the same question of the staff, and Messrs. Watson and Hortig concurred.

UPON MOTION DULY MADE AND UNANIMOUSLY CARRIED, IT WAS RESOLVED AS FOLLOWS:

THE EXECUTIVE OFFICER IS AUTHORIZED TO ISSUE AN OIL AND GAS LEASE TO RICHFIELD OIL CORPORATION, HANCOCK OIL COMPANY AND SIGNAL OIL & GAS COMPANY, THE HIGHEST QUALIFIED BIDDERS, EACH AS TO AN UNDIVIDED ONE-THIRD INTEREST, IN ACCORDANCE WITH DIVISION 6 OF THE PUBLIC RESOURCES CODE, FOR THE 647-ACRE PARCEL OF TIDE AND SUBMERGED AND PARK LANDS IN HUNTINGTON BEACH, ORANGE COUNTY, AS DETAILED IN THE PUBLISHED NOTICE OF INTENTION UNDER W.O. 1864(B) PUBLISHED JULY 14 AND 21, 1955, THE CASH BONUS PAYMENT IN CONSIDERATION OF ISSUANCE OF THE LEASE TO BE \$516,776.00, AS OFFERED BY THE BIDDERS IN THE BID FORM OF LEASE.

Attachment: Summary

	<u>SUMMARY</u>	W. O. 1864(B)
	<u>BIDDER</u>	<u>CASH BONUS OFFERED</u>
1.	Richfield Oil Company, Hancock Oil Company and Signal Oil & Gas Company	\$516,776.00
2.	Edwin W. Pauley	505,954.00
3.	Standard Oil Company of California	286,379.00
4.	Monterey Oil Company, Humble Oil & Refining Company and Seaboard Oil Company	5,133.35