

3. (PROPOSED OIL AND GAS LEASE
COUNTY, W. O. 2718(B), P.R.C. 2

S, SANTA BARBARA

Following presentation of Calendar Item 33, Mr. Wananmacher, one of the Commission's special oil and gas consultants recommended, on behalf of all three oil and gas special consultants -- Dr. Kaveler, Mr. Keplinger, and himself -- that the Commission award the lease on Parcel "B" on the basis of the bid received from the Standard Oil Company of California and Humble Oil & Refining Company, joint bidders. Mr. Wananmacher stated that the consultants were reluctant at first to recommend acceptance of this bid because of the fact that much higher bids had been received on the other tracts, but that after reviewing the additional data on Parcel "B" and analyzing the tract on its own merits, it now appears that the possibilities of finding oil on Parcel "B" are much less than the consultants had formerly believed. He called attention to the fact that the bonus offer amounted to \$200 an acre, which is a sizable sum, and that recently on a lease offer made by the University of Texas, the bonus on the high bid averaged only \$116 an acre, without a sliding-scale royalty, and that other bids made recently had averaged only \$15 an acre on Oklahoma school lands, and \$17.64 an acre on an offer in South Dakota. Mr. Wananmacher was of the opinion that if the Commission were to hold up action on Parcel "B", it might later find that all cash bonuses will be much lower.

UPON MOTION MADE BY MR. POWERS AND SECONDED BY MR. KIRKWOOD, THE FOLLOWING RESOLUTION WAS UNANIMOUSLY ADOPTED:

IN ACCORDANCE WITH THE PROVISIONS OF DIVISION 6 OF THE PUBLIC RESOURCES CODE, THE EXECUTIVE OFFICER IS AUTHORIZED TO ISSUE AN OIL AND GAS LEASE TO STANDARD OIL COMPANY OF CALIFORNIA AND HUMBLE OIL & REFINING COMPANY, JOINT BIDDERS, WHO SUBMITTED THE HIGHEST QUALIFIED BID FOR THE 3,840-ACRE PARCEL OF TIDE AND SUBMERGED LANDS DESIGNATED AS PARCEL "B", IN SANTA BARBARA COUNTY, AS DETAILED IN THE NOTICE OF INTENTION UNDER WORK ORDER 2718(B) PUBLISHED APRIL 28 AND MAY 5, 1958, THE CASH BONUS PAYMENT IN CONSIDERATION OF ISSUANCE OF THE LEASE TO BE \$770,837.70 AS OFFERED IN THE JOINT BID. THE AWARD OF LEASE IS TO BE SUBJECT TO THE DESIGNATION BY THE JOINT BIDDERS OF A LEASE OPERATOR TO BE FULLY RESPONSIBLE FOR PERFORMANCE UNDER THE TERMS OF THE LEASE TO BE ISSUED.

Attachment

Calendar Item 33 (3 pages)

CALENDAR ITEM

OIL & GAS

33.

(PROPOSED OIL AND GAS LEASE, TIDE AND SUBMERGED LANDS, SANTA BARBARA COUNTY - W. O. 2718(B).)

On June 27, 1958, three 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 3,840 acres of tide and submerged lands designated as Parcel "B", Santa Barbara County.

The office of the Attorney General has reviewed the high bid submitted by Standard Oil Company of California and Humble Oil & Refining Company, and has determined that the bid submittal is in compliance with all specified bid conditions. A summary tabulation of the bonus payment offers received pursuant to the lease proposal is attached.

On July 25, 1958 (Minute Item 5, page 4138):

"UPON MOTION DULY MADE AND UNANIMOUSLY CARRIED, A RESOLUTION WAS ADOPTED POSTPONING CONSIDERATION ON PARCEL "B" OF THE PROPOSED OIL AND GAS LEASES IN SANTA BARBARA COUNTY AND DIRECTING THE STAFF TO ARRANGE FOR A REVIEW OF THE BID EVALUATION WITH THE BIDDERS AND CONSULTANTS AND TO REPORT ON THIS AT THE NEXT MEETING OF THE COMMISSION."

In consideration of the fact that all parties could not be available for a conference prior to the Commission meeting of September 2, 1958, a resolution was adopted on that date to postpone action on Parcel "B" until the next meeting of the Commission (Minute Item 19, page 4202).

On September 8, 1958, a conference, attended by the joint bidders' representatives, by the State's consultants, and by a representative of the staff, was held in Tulsa, Oklahoma. At this conference the joint bidders presented summaries of exploration data for the area proposed for lease offshore from Santa Barbara County.

Factors developed in this review follow in composite summary:

1. There has been industry-wide seismic reconnaissance of the subject area for the last ten years as well as exploration by "dart" and "jet" coring.
2. Five deep core holes were drilled in the subject area under permit by two operators. The small number of core holes drilled on Parcel "B" can be considered to indicate that private analyses of the seismic exploration data did not warrant the expenditure of the large sums necessary to conduct more extensive core drilling operations within the area.
3. The tract offered is less favorable geologically for the production of oil, based upon present data, than any of the other adjoining tracts offered.

OIL & GAS 33. (CONTD.)

4. The bid offer received is a reasonable offer based on known information at this time.
5. Rejection of the bid for Parcel "B" and future re-offer for lease could result in a higher return. However, this result cannot be warranted and withholding the area for future re-offer would be based upon business speculation normal to the oil industry on the theory that prospectively, the State has at least an even chance of getting as much, or more, bonus at some future time.

In the event that substantial production were to be developed in the area included in Parcel "B", the sliding-scale royalty specified in the lease would provide for an equitable return to the State on all oil and gas produced.

IT IS RECOMMENDED THAT, IN ACCORDANCE WITH THE PROVISIONS OF DIVISION 6 OF THE PUBLIC RESOURCES CODE, THE COMMISSION AUTHORIZE THE EXECUTIVE OFFICER TO ISSUE AN OIL AND GAS LEASE TO STANDARD OIL COMPANY OF CALIFORNIA AND HUMBLE OIL & REFINING COMPANY, JOINT BIDDERS, WHO SUBMITTED THE HIGHEST QUALIFIED BID FOR THE 3,840-ACRE PARCEL OF TIDE AND SUBMERGED LANDS DESIGNATED AS PARCEL "B", IN SANTA BARBARA COUNTY, AS DETAILED IN THE NOTICE OF INTENTION UNDER WORK ORDER 2718(B) PUBLISHED APRIL 28 AND MAY 5, 1958, THE CASH BONUS PAYMENT IN CONSIDERATION OF ISSUANCE OF THE LEASE TO BE \$770,837.70 AS OFFERED IN THE JOINT BID. THE AWARD OF LEASE IS TO BE SUBJECT TO THE DESIGNATION BY THE JOINT BIDDERS OF A LEASE OPERATOR TO BE FULLY RESPONSIBLE FOR PERFORMANCE UNDER THE TERMS OF THE LEASE TO BE ISSUED.

Attachment
Summary

SUMMARY

W. O. 2718(B)

Bidder

Cash Bonus Offer

Humble Oil and Refining Company, and
Standard Oil Company of California

\$770,837.70

Edwin W. Pauley,
Pauley Pan-American Petroleum Company, and
Pauley California Tidelands, Inc.

103,500.00

Monterey Oil Company, and
Newmont Oil Company

81,000.00