

TRANSCRIPT OF
MEETING
STATE LANDS COMMISSION

DECEMBER 12, 1957 - 9:30 A. M.

PARTICIPANTS:

THE COMMISSION:

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

STATE LANDS DIVISION:

Mr. Frank J. Hortig, Executive Officer
Mr. Kenneth C. Smith, Sup. Land Title Examiner
Mrs. Julia T. Stahl, Secretary

ATTORNEY GENERAL'S OFFICE:

Mr. Howard Goldin

and ... in the order of their appearance:

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Reporter: Louise H. Lillico
Division of Administrative Procedure

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1 MR. PEIRCE: The meeting will come to order. First
2 order of business is the approval of the minutes of the
3 meeting of the State Lands Commission which took place in
4 Sacramento on November 12, 1957. Copies of the minutes
5 have been mailed to the Commission. Your pleasure, gentle-
6 men?

7 GOV. POWERS: I move we approve the minutes.

8 MR. KIRKWOOD: Second. There are no technical correc-
9 tions on it.

10 MR. PEIRCE: The motion has been made and seconded and the
11 minutes will stand as written. Now, Mr. Hortig, do you want
12 at this time to say something with respect to the next
13 Commission meeting?

14 MR. HORTIG: If the Commission please, we should, I
15 believe, consider the necessity again of a Commission meet-
16 ing in the first half of January, prior to January 15th,
17 due to recurring items for consideration of the Commission
18 which must be considered prior to the 15th of the month,
19 in order to eliminate administrative difficulties. If the
20 Chairman please, the staff will be glad to undertake to
21 consult with your secretaries to determine an available
22 date in that area. We might also suggest, if the Commis-
23 sioners do not consider it unfeasible, that it might be
24 desirable to have that meeting in Los Angeles because a
25 high proportion of the calendar items to be considered at
26 that time, as far as importance is concerned, relate to

2
1 oil and gas lease offers, rules and regulations and related
2 matters, on which the majority of personal presentations
3 which may be made from the outside will probably be organi-
4 zations having headquarters in Los Angeles.

5 MR. PEIRCE: It would meet with my approval and con-
6 venience to have the meeting in Los Angeles.

7 GOV. POWERS: All right with me if you make it just
8 as close to the 15th as possible. I will be out of the
9 State the first part of the month, I know that.

10 MR. PEIRCE: The second week of January?

11 MR. HORTIG: That will be entirely satisfactory and
12 we will tailor it to the convenience of your calendar.

13 GOV. POWERS: I will be back about the 10th.

14 MR. PEIRCE: That's O. K. with me.

15 MR. KIRKWOOD: As far as I know ...

16 MR. PEIRCE: It appears that that will meet with the
17 convenience of the three members of the Commission, so,
18 Mr. Hortig, if you will proceed on that basis.... With
19 respect to the agenda today, in what order do you wish to
20 have the various items taken up?

21 MR. HORTIG: If the Commission please, I think we
22 should take them up in respect to the order of personal
23 appearances relating to the various items. This is not to
24 indicate any priority of one over the other, but simply as
25 a matter of convenience it would appear that possibly we
26 should start at the back end of the calendar this morning --

1 on Page 57. The Commission will recall prior presentations
2 by the City and County of San Francisco relative to the
3 necessity of acquiring either title or operating rights in
4 certain areas of San Francisco Bay, to be used as a parking
5 lot in conjunction with the establishment of a new baseball
6 stadium, an operation in which the Commission directed that
7 the staff cooperate fully and with the maximum of expedition
8 for the City and County of San Francisco.

9 Consideration of these applications and these require-
10 ments resulted in the two agenda items now about to be con-
11 sidered. In that the area to be utilized by the City and
12 County of San Francisco involves a portion of an abandoned
13 underwater railroad right-of-way which reverted to the State
14 of California, which is already under lease in part, there-
15 fore on page 57 the calendar item proposes that pursuant
16 to the application of the City, and with the concurrence of
17 the present lessee of that railroad right-of way ... excuse
18 me, that should be page 58 that 6.86 acres of the area,
19 currently under lease P.R.C. 835.1 to Piombo Construction
20 Company and Charles L. Harney as lessees, be deleted from
21 that lease and that the same 6.86 acres be leased to the
22 City and County of San Francisco at the same rental rate
23 which is now applicable under the existing lease, which
24 would be at an annual rental of \$654.72. The recommendation
25 is that a 35-year lease be issued, effective January 1, 1958.
26 May I expand that recommendation

1 MR. PEIRCE: Mr. Doyle, page 57 and 58.

2 MR. HORTIG: ... expand that recommendation to include
3 that the effective date of the lease should be determined
4 by funds being available by appropriation by the City and
5 County of San Francisco, so that if funds are not actually
6 available on January 1st, the initial date of the lease
7 will be tailored to coincide with the availability of such
8 funds.

9 Before we consider action on this railroad right-of-
10 way portion just read, we should like to refer you to page
11 57, which is the companion item and which relates to 27.89
12 acres of underwater streets in San Francisco which are part
13 and parcel of the same project, which streets, according to
14 independent appraisals, do not have the same value as the
15 railroad right-of-way we have just discussed. As a matter
16 of fact, independent appraisals indicate an annual rental
17 value considerably less than the \$100 annual minimum which
18 is in the Commission's rules and regulations for lease
19 issuance. Therefore, it is proposed that a lease for 35
20 years, coinciding with date funds are available, be issued
21 to the City and County of San Francisco for approximately
22 27.89 acres of underwater streets at an annual rental of
23 \$100.

24 Representatives of the City and County of San Fran-
25 cisco are here this morning, Mr. Peirce, and I believe they
26 would like to present a brief statement on this project.

1 GOV. POWERS: Your \$100 is your minimum?

2 MR. HORTIG: \$100 is the minimum that would apply
3 to the underwater streets. The railroad right-of-way portion
4 would be leased at \$654.72 per year.

5 MR. PEIRCE: You are representing the Mayor of San
6 Francisco? (To gentleman in audience)

7 VOICE: That is right.

8 MR. PEIRCE: Your name for the record?

9 MR. WARD: B. J. Ward -- and the statement we would
10 like to make, Mr. Chairman and gentlemen of the Commission --
11 this plan of leasing the streets is an interim plan. In
12 other words, the City and County of San Francisco is going
13 to seek from the Legislature a fee for this property. How-
14 ever, because of the necessity of beginning the work by
15 March ... if we get on the calendar ... we need this land to
16 do the work immediately. On the other hand, if it does not
17 get on the calendar, we would have the lease in the regular
18 session in 1959. We want the record to show that the Com-
19 mission is aware of the fact that in leasing this, we are in
20 no way intending to tie our hands, and will bring this up
21 in the Legislature at the first available time. Should any
22 question arise that we have it on the leases and then switch
23 it over to the fee, we want it recognized that we are ulti-
24 mately seeking a fee, but want the leases now so that we can
25 go ahead with the project as soon as possible.

26 MR. PEIRCE: The record will so show that this arrangement

1 if approved by the Commission will be an interim arrangement
2 pending determination at the next session of the Legislature.

3 MR. KIRKWOOD: Move the two recommendations on 57
4 and 58.

5 GOV. POWERS: I'll second.

6 MR. PEIRCE: It is moved that the two recommendations
7 be approved, and so will be the order. Does that take care
8 of you, Mr. Ward?

9 MR. WARD: Thank you very much.

10 MR. HORTIG: Having started in reverse order, gentle-
11 men -- page 55. The Commission has previously authorized
12 expenditures by the City of Long Beach of certain funds
13 under the project titled "Back Areas of Piers A to D." This
14 project was approved on a fiscal year basis, authorizing
15 expenditures to not later than June 30, 1958. Operating
16 developments have shown that currently additional costs
17 will be incurred in connection with engineering and grading
18 and placement of a rock base for construction of a storage
19 area within the limits of the previously authorized project.
20 Therefore, it is recommended, after review by the staff
21 which has been had, that the Commission approve the cost
22 proposed to be expended by the City of Long Beach, including
23 subsidence remedial work, in a total estimated amount not
24 to exceed \$20,000 in "Back Areas of Piers A to D", to be
25 expended not later than June 30, 1958; with the standard
26 reservations to the Commission of the right to determine

1 the amount finally allowable as determined from engineering
2 review and final audit subsequent to completion of the
3 final items.

4 MR. KIRKWOOD: This is the usual request -- an
5 addition

6 MR. HORTIG: An augmentation of the previous project.

7 GOV. POWERS: All right.

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

10 MR. LINGLE: That's right.

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

13 MR. HORTIG: Page 43 is an analogous item for the
14 benefit of the City of Long Beach, relating to expansion or
15 additions to Project "Pier A" for the Port of Long Beach,
16 previously approved by the Commission for the balance of
17 the fiscal year, and an additional item within the scope of
18 that project on which approval had been withheld previously,
19 relating to the proposed construction of the new Administra-
20 tion Building. The data relative to this site and the
21 necessary cost and engineering studies have been completed,
22 and it is now recommended that the Commission therefore
23 authorize the addition, to the project "Long Beach - Pier A"
24 previously approved, of the work proposed to be conducted
25 relative to the new Administration Building in an estimated
26 total expenditure amount not to exceed one million dollars,

1 as shown on page 44, Exhibit A of this item, to be expended
2 prior to June 30, 1958.

3 MR. KIRKWOOD: Move the approval.

4 GOV. POWERS: That's O. K.

5 MR. PEIRCE: Moved and seconded. The item is approved.

6 MR. HORTIG: The Commission has previously approved,
7 on a monthly basis, expenditure of funds for certain areal,
8 fills within the limits of a project titled "Areal Fill ..
9 Property Purchase" in the "Town Lot" project, as detailed
10 on Exhibit A (page 46) of this item under discussion. The
11 project as a whole has not yet been sufficiently processed
12 to be able to recommend to the Commission a basis for full
13 fiscal year approval. Therefore, again at this time it is
14 being recommended that expenditures be approved for the
15 month of December 1957 and January 1958 on a monthly con-
16 tinuing basis, identical with that which the Commission has
17 utilized in the previous four approvals.

18 MR. KIRKWOOD: Move the recommendation.

19 GOV. POWERS: Yes.

20 MR. PEIRCE: Moved and seconded. The recommendation
21 is approved. Does that conclude Long Beach?

22 MR. HORTIG: Yes.

23 MR. PEIRCE: All right. Now, have you gentlemen from
24 Long Beach anything to say while we are still within your
25 bailiwick?

26 MR. LINGLE: Not this time.

1 MR. PEIRCE: You reserve that right for a later meeting?

2 MR. LINGLE: We seem to be getting our modus operandi
3 down so we go along fine.

4 MR. PEIRCE: I want to give recognition to the
5 presence of Assemblyman Hanna from Orange County. Do you
6 have anything that you are particularly interested in, that
7 you would like to have us take for your convenience?

8 ASSEMBLYMAN HANNA: No, I am particularly interested
9 in one case you will be covering, but I am interested in
10 the whole thing.

11 MR. PEIRCE: All right. Well, you feel free to
12 participate in the discussion to the fullest extent, and
13 we are happy to have you with us this morning. All right,
14 Mr. Hortig.

15 MR. HORTIG: Page 1. I don't believe there is a
16 basis for further selection so we will revert to the original
17 order.

18 MR. PEIRCE: Page 1.

19 MR. HORTIG: The Commission has heretofore authorized
20 the deferment of drilling and operating requirements under
21 State Oil and Gas Lease P.R.C. 1524.1, held by Douglas Oil
22 Company of California. Two wells have been drilled on this
23 lease and are on production and during July and August of
24 1957 operators on adjacent leased areas to the west drilled
25 a geological exploration core hole. An application has
26 been received from the lessee requesting a further extension

1 of drilling and operating requirements for such period as
2 may be deemed advisable by the Commission, with the request
3 that further time will be needed for use on the geological
4 survey already acquired in conjunction with additional
5 information obtained in coring operations on the adjacent
6 lease and future explorations.

7 Therefore, it is recommended that the Commission
8 authorize the granting to Douglas Oil Company of California
9 a deferment of drilling and operating requirements under
10 State Oil and Gas Lease P.R.C. 1524.1 to September 1, 1958....
11 (If I may inject there parenthetically, this date will
12 appear in additional items and would put all extensions on
13 this and adjoining leases in the Huntington Beach area to
14 the same date.) ... subject to the express condition that
15 during the period of deferment the lessee will perform one
16 of the following actions: Initiate development of the lease;
17 quitclaim the undeveloped lease area; or present new adequate
18 bases for any further consideration.

19 MESSRS. POWERS and KIRKWOOD: That's all right.

20 MR. PEIRCE: The recommendation is approved.

21 MR. HORTIG: An analogous item on the adjoining lease
22 to the east of the one just considered: Request for defer-
23 ment of drilling and operating requirements by Signal Oil and
24 Gas Company, as one of the joint lessees with Richfield Oil
25 Corporation and Honolulu Oil Company. Signal Oil and Gas
26 Company are the operators on the lease. The lessees have

1 drilled two wells, neither of which has been productive of
2 oil or gas, and extensive instrumental surface and other
3 analyses were made during the course of the drilling of
4 these wells to obtain more than the normal exploration data
5 usually available from the drilling of a well, which data
6 are now under continuing consideration. An application has
7 been received from the lessee, requesting a further extension
8 of drilling and operating requirements to September 1, 1958.
9 The staff of the lessees are interpreting and further evalua-
10 ting the data and the additional time will be used to further
11 evaluate these data to determine the feasibility of further
12 exploratory work.

13 MR. KIRKWOOD: All right. Moved.

14 GOV. POWERS: O. K.

15 MR. PEIRCE: Moved and seconded. The recommendation is
16 approved.

17 MR. HORTIG: Page 3. On October 8th the Commission
18 authorized the initiation of procedures under the provisions
19 of the Government Code for amendment of -- consideration of
20 amendment of the rules and regulations, including Section
21 2100(b), by the addition of certain language. In accordance
22 with the provisions of the Code, proposed amendments were
23 published, with the specification that statements relative
24 thereto would be received during a thirty-day period termin-
25 ating December 2nd. One statement suggesting modification
26 of the proposed amendment was received. However, the consensus

1 of all informal discussions has been for adoption of the
2 amendments as originally authorized for consideration; and
3 in view of this it is recommended that the Commission adopt
4 the following additions to Section 2100(b) of the Public
5 Resources Code, to read:

6 The taking of cores and other samples may be
7 conducted on and under tide and submerged lands
8 of the State only if a permit therefor is first
9 obtained from the State Lands Commission.

10 Geophysical survey permits are required for the
11 conduct of geophysical surveys on all State lands
12 by any seismic method employing explosives.

13 Geological survey permits are required for the
14 conduct of geological surveys on and under tide
15 and submerged lands of this State where geological
16 samples are obtained through any drilling operations.

17 and to amend Section 2100(c) to read:

18 A person

19 If I may suggest, the amendment differs from the existing
20 rule and regulation in striking the words "as required" and
21 in a reference to "a core drilling permit", to eliminate a
22 conflict with core drilling in 2100(b) precedent. In other
23 words (c) is simply for clarification and not to change the
24 substance.

25 MR. KIRKWOOD: There is no controversy on this?

26 MR. HORTIG: There may be a few gentlemen here. Here
they are in legislative draft form -- the rule as it was and
as it would be amended as a result of this recommendation.

 MR. FEIRCE: Now, these changes in the California
Administrative Code are made necessary by changes in the law

1 made by the Legislature of the last session?

2 MR. HORTIG: No sir, not this particular suggested
3 set of changes. These were indicated to be necessary for
4 clarification purposes in that permittees felt that, lacking
5 a specification of particular areas of exploration for per-
6 mits to be required, that permits would otherwise be required
7 for any type of exploration; and it was concluded that there
8 were many types of instrumentation that did not result in
9 an occupancy of State lands and penetration of State lands,
10 and, obviously, there is still much to be invented, which
11 it did not appear to be the intent of the Legislature to
12 require permits for that type of operations. Therefore,
13 this language was proposed so that ^{permits} would be required --
14 geophysical permits pertaining to explosives and geological
15 permits for studying the ocean floor. This appears to be
16 satisfactory in consensus of all industry representatives
17 with whom it was discussed and the only adverse comment,
18 or comment suggesting other language, was received -- I
19 believe Mr. Hutchins, in behalf of Edwin Pauley, desires to
20 present that to the Commission before the Commission takes
21 action.

22 MR. PEIRCE: Mr. Hutchins, would you care to express
23 the views of your company with regard to these proposed
24 changes in the Administrative Code?

25 MR. HUTCHINS: Thank you. Mr. Chairman and members
26 of the Commission, may I guide your attention to the last

1 paragraph of the proposed amendment to Section 2100(b)?

2 It reads as follows:

3 Geological survey permits are required for the
4 conduct of geological surveys on and under tide
5 and submerged lands of this State where geo-
logical samples are obtained through any drilling
operations.

6 We would propose and expect to recommend that you
7 consider, and that the staff reconsider their recommendation
8 here, by adding the following language: After the word
9 "operations" put a semi-colon and proceed as follows, add
10 this language: 'Provided, however, that drilling operations
11 as used herein shall include only those types of operations
12 wherein the bored hole is drilled using conventional rotary
13 or cable tool drilling equipment and shall not apply to nor
14 shall a permit be required for operations wherein geological
15 samples are obtained by "jet" and/or "dart" or "ocean floor
16 grab sample" methods.' In other words, where cable equipment
17 is not used or employed.

18 Among some of the oil industry, particularly those
19 interested in this type operation, remarks were made and
20 copies sent to me by those who had something to say. There
21 were three or four of them that came in endorsing the amend-
22 ment. Some even wanted to go further. As far as I know,
23 there were no adverse comments addressed to a committee that
24 was to handle this type of legislation -- for part of the
25 oil industry anyway. So, therefore, without any fanfare, I
26 would like Mr. Hortig and the staff to reconsider their

1 recommendation and see if they couldn't insert that. The
2 purpose of this is for the same reason that he mentioned to
3 you with reference to the other amendment -- for clarification
4 as to what should be done and should not be done. I
5 am presenting this because some of the lawyers with whom we
6 deal feel that it would be easier to have it clarified
7 rather than to have it extend to drilling where ordinary
8 core work and standard tools are used and to eliminate the
9 possibility of these grab samples or other samples.

10 MR. PEIRCE: Are there other representatives of the
11 oil industry who wish to be heard with reference to the
12 recommendations submitted by Mr. Hutchins? Mr. Home.

13 MR. HOME: Mr. Chairman, members of the Commission, I
14 am in full sympathy with both the desires of Mr. Hortig and
15 Mr. Hutchins. Generally speaking, we all feel the require-
16 ment of permits should be limited to those operations involv-
17 ing explosives or substantial penetration into State lands.
18 I believe the suggestion Mr. Hutchins made would certainly
19 make clear that intention, although I do have one substantial
20 reservation with respect to it. The entire statement refers
21 to "conventional" rotary methods. As of today, I think I
22 understand what that means. I am not sure but what there
23 may be other rotary methods which would be unconventional
24 varieties, for example, something in a drill stem where
25 nothing turns but the bit. Is that conventional or uncon-
26 ventional? So, while I am in sympathy with the objectives

1 of the proposed amendment, I do have a slight reservation
2 with respect to the precise wording of the proposal made
3 by Mr. Hutchins.

4 MR. PEIRCE: Mr. Cook, Richfield Oil Corporation,
5 have you any comment with regard to this?

6 MR. COOK: I have no comment to make.

7 MR. PEIRCE: Mr. Ottoson, Signal Oil and Gas?

8 MR. OTTOSON: No, we don't have any particular com-
9 ment, Mr. Peirce.

10 MR. PEIRCE: Would you recommend either one way or
11 the other?

12 MR. OTTOSON: I hesitate, that what I might say might
13 be taken in the realm of criticism. I think you are over-
14 doing the matter from both vantages myself. I am not too
15 certain any of us are sure what Section 2100(b) as amended
16 means. We are not too concerned how it might read. I would
17 like to, for my own personal interest, I'd like to have a
18 little more explanation from Frank, Mr. Hortig, on his or
19 the Attorney General's thinking with respect to the where-
20 fore and why there is any concern with the addition of such
21 language as Mr. Hutchins proposes. I don't see much difference.

22 MR. PEIRCE: Mr. Leovy, do you have any comments with
23 regard to this proposed change?

24 MR. LEOVY: I haven't heard any. I think maybe the
25 purpose of it is good. I agree with Mr. Home that the
26 language is probably too broad, that the prohibition against

1 the conventional rotary drilling, I think, is too broad.
2 I think maybe you should say "jet or grab methods" or some-
3 thing of that kind, but there may be other methods that you
4 can't trace. I hadn't heard it until I came this morning
5 but it is just -- my reaction is just about the same as Mr.
6 Home's.

7 MR. HUTCHINS: Mr. Chairman ...

8 MR. PEIRCE: Mr. Hutchins.

9 MR. HUTCHINS: It's all right with our people to elim-
10 inate the word "conventional." Our only idea is to -- I
11 agree with Mr. Home, the time may come when and nothing
12 rotates. I agree that we can scratch the word "conventional."

13 MR. PEIRCE: Now we have heard from several representa-
14 tives, Mr. Hortig, what is your reaction to the suggestion of
15 Mr. Hutchins?

16 MR. HORTIG: In summary to the Commission, the sugges-
17 tion by Mr. Hutchins was considered in industry sessions
18 held on proposed rules and regulations. The statement and
19 the proposed alternative language were the only suggested
20 deviation that was received from the language as it is pro-
21 posed before the Commission. The consideration of the sug-
22 gested deviation developed another, I believe basic, objection
23 to including the deviation in that it would be stating in the
24 rule certain exceptions, but by no means all techniques which
25 are excepted from permit requirements. Therefore, it was
26 felt that more hazards could be created than problems solved

1 by stating exceptions, when we couldn't at this time state
2 and enumerate all exceptions, including those not yet in-
3 vented. Therefore, it would be better to have the rules
4 stated broadly as to the two general types of operations for
5 which a permit would be required, rather than state a series
6 of exceptions; and on that basis, the recommendation has been
7 suggested to the Commission.

8 If I may suggest to you gentlemen -- If the Commis-
9 sion feels that further consideration should be given to the
10 rules and regulations, if the consensus of the industry rep-
11 resentatives is that it should be, that should be the order
12 of the Commission rather than to amend as given here and
13 give opportunity to all parties for further consideration.

14 MR. PEIRCE: In other words, time is not of the essence
15 and delay until the next meeting will not interfere with our
16 operations?

17 MR. HORTIG: As a practical matter, we have two schools
18 of thought there, Mr. Peirce -- number one, those operators
19 who feel it is necessary to have protection in the form
20 which is desired here; and the other operators who have
21 proceeded to operate and have operated for years without
22 the protection of this form. We have so operated, this
23 has been the policy of the Commission and would continue to
24 be the policy of the Commission to operate in this manner,
25 even without this in the rules and regulations at the present
26 time, so the hazards of the delay are probably minimal.

1 MR. PEIRCE: May I ask a technical question? What
2 is referred to by this "jet" mechanism?

3 MR. HORTIG: Nominally, a hydraulic jet with a high
4 pressure water stream excavating the hole, so that it per-
5 mits the pipe to follow down. Simplest analogy would be a
6 nozzle on your garden hose, where you have the nozzle pene-
7 trating into a hole in the ground.

8 MR. PEIRCE: Isn't that capable of obtaining a core
9 sample?

10 MR. HORTIG: Yes, but it isn't capable of obtaining
11 a core sample of the type obtained from other methods.

12 MR. PEIRCE: You do not object to the type?

13 MR. HORTIG: No sir, except if we go into enumerating
14 all the types, we have the technological difficulty that
15 we can't name all of them, so we very well may overlook some;
16 and tomorrow somebody will invent something and it, in turn,
17 will not be acceptable. So we like to keep it in general
18 terms.

19 MR. KIRKWOOD: The exception should come in the
20 first paragraph. The first paragraph is applicable only
21 in the case of the second and third paragraphs, isn't that
22 right?

23 MR. HORTIG: Yes sir.

24 MR. KIRKWOOD: Any drilling operations wouldn't
25 include these. You wouldn't expect, in other words, to
26 acquire a permit and a jet operation wouldn't be a drilling
operation?

1 MR. HORTIG: Not a drilling operation, for obtaining
2 geological samples. The normal operation of the jet in geo-
3 logical exploration would be the operation of*
4 which takes nothing away from the ground but data.

5 MR. KIRKWOOD: What do you want us to do?

6 MR. HORTIG: Under the circumstances, authorization
7 to publish notice of intention as to the rules and regula-
8 tions to be considered by the State Lands Commission to
9 effect amendment of Section 2100 of the rules and regula-
10 tions relating to geophysical and geological exploration.
11 I assume we will have to, therefore, undertake another meet-
12 ing delay and develop a form of language proposed to be con-
13 sidered, to be authorized by the Commission, for considera-
14 tion at the next meeting.

15 MR. PEIRCE: The effect of your suggestion is delay
16 until the next meeting?

17 MR. HORTIG: Yes sir.

18 MR. PEIRCE: Anybody present who wants to comment
19 further with respect to the matter? We are going to delay
20 this decision until the next meeting of the Commission.

21 MR. KIRKWOOD: What if that first paragraph were
22 amended, just thinking of resubmitting it -- if you said
23 "... taking of cores and other samples may be conducted on
24 and under tide and submerged lands of the State without
25 permit, except that a permit must first be obtained"
26 in these two cases. Isn't that really what they are trying

1 to have said?

2 MR. HORTIG: I believe so -- better draftsmanship.
3 The intent here was the easy way -- the first paragraph is
4 in the existing rules and regulations and the other two
5 to be additions -- obviously mechanically cumbersome.

6 MR. KIRKWOOD: I would think the A. G. within the
7 law would explore whether it can be put in as an exclusion.

8 MR. HORTIG: The proposed draft of language represent-
9 ing the review of the A. G.'s office and, I trust, a consensus
10 of industry will be presented to the Commission at the next
11 meeting.

12 MR. PEIRCE: All right. So will be the order.

13 MR. HORTIG: Page 5. Mr. Edwin W. Pauley has made
14 application for authorization to conduct submarine geophysi-
15 cal exploration on those tide and submerged lands under the
16 jurisdiction of the Commission lying between Coal Oil Point,
17 Santa Barbara County, and a north-south line between Pt.
18 Dume, Los Angeles County, and between Pt. Fermin, Los Angeles
19 County, and the northerly corporate limits of the City of
20 Newport Beach, Orange County. A permit has been requested
21 for a ninety-day period commencing January 1, 1958. The
22 boards of supervisors of the affected counties and the mayor
23 and city council of the City of Santa Barbara have been in-
24 formed that this application is to be considered. In geo-
25 graphical order, the City of Santa Barbara reported they would
26 make no presentation, did not reply; Ventura County reported

1 no presentation will be made; Los Angeles County reported
2 that there is no objection; and the Board of Supervisors of
3 the County of Orange referred the matter to the county
4 counsel to ascertain the extent of the county interest and
5 the county counsel has not replied. Therefore, it is
6 recommended that the permit be authorized to be issued under
7 the standard terms and conditions heretofore established by
8 the Lands Commission.

9 MR. PEIRCE: Mr. Hanna.

10 ASSEMBLYMAN HANNA: Just as a matter of curiosity,
11 have you had any reaction from the County of Orange?

12 MR. HORTIG: Yes sir, letter that the Board of Super-
13 visors had directed a letter to the county counsel to deter-
14 mine their interests.

15 MR. KIRKWOOD: Move the approval.

16 GOV. POWERS: Yes.

17 MR. PEIRCE: The recommendation is approved.

18 MR. HORTIG: Page 6. San Diego Gas and Electric
19 Company has applied for right-of-way easement in the south-
20 erly end of San Diego Bay for two parcels to provide for the
21 intake and discharge of cooling water in connection with a
22 generating plant. In addition to the easements there would
23 be dredging necessary in order to provide the required volume
24 of water and the material removed by dredging would necess-
25 arily be authorized only under mineral extraction lease
26 issued pursuant to public bidding. Therefore, it is

1 recommended that the Executive Officer be authorized to
2 issue to the San Diego Gas and Electric Company an easement
3 for cooling intake and discharge channels in South San Diego
4 Bay adjacent to an electric generating plant, the area for
5 easement 225.6 acres and the term to be 49 years at a total
6 rental of \$14,742.55 to be paid in advance.

7 It is also recommended that the Executive Officer be
8 authorized to offer a lease for the removal from the easement
9 area of a total of approximately 3,555,000 cubic yards of
10 material at a minimum royalty of 3 cents per cubic yard.

11 MR. KIRKWOOD: There are no minimum requirements under
12 that latter?

13 MR. HORTIG: The minimum royalty rate is the only
14 requirement under Commission policy. As to total amount
15 to be removed, there is no minimum.

16 MR. PEIRCE: They are not going to use the material?

17 MR. HORTIG: No sir. They wish they could lose it.

18 MR. PEIRCE: Mr. DeVore.

19 MR. DEVORE: Mr. Chairman, Frank -- I have one or two
20 questions here I am wondering about. In the contract for
21 the removal of the spoil, would it be for $3\frac{1}{2}$ million or for
22 the amount we propose to take out at this time, 655,000?

23 MR. HORTIG: It would be a mineral extraction lease
24 with no specified amount to be taken out at any time. The
25 reference to the 3,555,000 cubic yards is to give the Com-
26 mission a gauge of what may be the ultimate to be removed

1 under the lease. There is no commitment to remove and pay
2 for this amount of material.

3 MR. DeVORE: I have a couple more questions I'd like
4 to bring up. The initial 655,000 cubic yards, Mr. Chairman,
5 will be used on our property. The remaining 2 million --
6 right around 3 million -- cubic yards, we would like to
7 have blown away. Since Chula Vista is the only remaining
8 area remaining open for development in San Diego County, it
9 is possible we could make an arrangement with them to use
10 the spoil. This is over a period of 10 to 15 years. I am
11 wondering if the Attorney General might come up with an
12 opinion as to whether this spoil to be placed on lands under
13 the trust of the City of Chula Vista, if it is possible that
14 the company can get by with some kind of ruling that we
15 wouldn't have to pay the 3¢ a yard on this spoil.

16 MR. HORTIG: May I suggest, in order to expedite this
17 matter, that that would appear to be a subject for explora-
18 tion; that if the Attorney General can determine that the
19 public interest and benefit is such as to not require the
20 continued payment of royalty rates under mineral extraction
21 leases for private use, the leases are subject to termination
22 by mutual consent if that is determined to be legally feasible,
23 without making any commitment that this can be accomplished.

24 MR. KIRKWOOD: You suggest that rather than limit the
25 lease to the 655,000 yards?

26 MR. HORTIG: I don't believe there is a maximum limit

1 or a maximum commitment now, therefore this matter can be
2 explored during the term of the lease regardless of the
3 material removed or not removed.

4 MR. DeVORE: That's fine. As you understand, Frank,
5 there are so many things going on down south; if
6 (unintelligible to reporter) we might not need to do any of
7 this. We are very well satisfied.

8 MR. PEIRCE: Does that involve an amendment?

9 MR. KIRKWOOD: Move the amendment.

10 MR. POWERS: Yes.

11 MR. PEIRCE: Subject to that understanding, the recom-
12 mendation is approved.

13 MR. HORTIG: Page 7. Connolly-Pacific Co. has a
14 lease covering tide and submerged lands adjacent to Santa
15 Catalina Island, which is the site of construction wharves,
16 which it is desired to be extended for a one-year period.
17 An advance annual rental of \$50 has been deposited and it
18 is recommended that extension for one year be approved.

19 MESSRS. POWERS and KIRKWOOD: O. K.

20 MR. PEIRCE: Recommendation is approved.

21 MR. HORTIG: Ken ...

22 MR. SMITH: Page 8 -- sale of vacant school land to
23 the Department of Fish and Game. The Department applied to
24 purchase 58.78 acres in Siskiyou County. It is recommended
25 that the Commission authorize the sale of the acreage in
26 Siskiyou County to the State of California Department of Fish

1 and Game, without advertising, at the appraised cash price
2 of \$1763.40, plus \$71.00 costs, subject to all statutory
3 reservations including minerals. The Commission has hereto-
4 fore withdrawn the land from public sale until December 31
5 of this year, for sale to the Department of Fish and Game.

6 MR. PEIRCE: Just where is this located?

7 MR. SMITH: It's located on Indian Tom Lake, which
8 is a small lake in Siskiyou County, fronts on that lake.
9 The Department desires the land, I believe, for public
10 hunting ground -- for public shooting grounds.

11 MR. PEIRCE: Also access.

12 MR. SMITH: Access to the lake, that is correct.

13 MR. KIRKWOOD: All right.

14 GOV. POWERS: Yes.

15 MR. PEIRCE: The recommendation is approved.

16 MR. SMITH: There are no conflicting private applications.

17 Sale of vacant school lands - page 9. It is recommended
18 that the Commission authorize the sale of vacant state
19 school land at the highest offer in accordance with the fol-
20 lowing tabulations, such sales to be subject to all statutory
21 reservations including minerals. There follows a tabulation
22 of sixteen individual sales, all of which are routine.
23 There is no conflict on any of those.

24 GOV. POWERS: I move they be accepted.

25 MR. KIRKWOOD: Second.

26 MR. PEIRCE: Moved and seconded. The recommendation
is approved.

1 MR. SMITH: Page 29. This is a request for an
2 extension of a withdrawal of vacant State school land from
3 public sale by the Department of Water Resources, in con-
4 nection with the proposed Wilson Valley Reservoir site in
5 Lake County. The Commission heretofore withdrew the land
6 from public sale until December 31st of this year and the
7 Department is now asking for an additional one-year extension
8 on the withdrawal to formulate their plans and submit them.

9 It is recommended that the withdrawal from public
10 sale of 709.37 acres in Lake County be extended to December
11 31, 1958 and that an additional 40 acres be included therein --
12 which was not, incidentally, included in the original request.
13 It is further recommended that in the event the lands em-
14 braced in Application 5202 are restored to entry, Frances
15 Cain be granted the right of filing the first application
16 thereon as authorized by resolution adopted by the Commission
17 at its meeting of August 5, 1956. There was an application
18 at the time the Commission originally withdrew the land from
19 sale.

20 MR. KIRKWOOD: Is progress continuing to be made on
21 this dam?

22 MR. SMITH: That's correct.

23 MR. HORTIG: On the studies.

24 GOV. POWERS: Well, I guess that's all right.

25 MR. PEIRCE: The recommendation is approved.

26 MR. SMITH: Page 31. This is the acquisition of

1 vacant Federal land through the exchange procedure. The
2 recommendation -- It is recommended that the Commission
3 authorize the Executive Officer to certify to the Governor
4 that it is to the advantage of the State to exchange with
5 the United States 400 acres of unsurveyed school land in
6 Mono County for 400 acres in Mendocino and Lake Counties
7 of approximately equal value; that the Executive Officer
8 be authorized to execute, on behalf of the Commission, certificate
9 provided by Section 6444 of the Public Resources Code; and
10 that the State, upon acquisition from the United States of
11 the 400 acres, offer said land for sale under competitive
12 bidding in accordance with the rules and regulations govern-
13 ing the sale of State school land, under the application
14 currently on file.

15 MR. PEIRCE: This is the usual procedure that we
16 would follow?

17 MR. SMITH: Yes sir, it is.

18 MR. KIRKWOOD: O.K.

19 GOV. POWERS: That's all right.

20 MR. PEIRCE: Recommendation is approved.

21 MR. SMITH: Sale of vacant Federal land involving
22 three parcels. It is recommended that the Commission deter-
23 mine that it is to the advantage of the State to select the
24 lands comprised in the following tabulations; that the Com-
25 mission find that the said lands are not suitable for culti-
26 vation; that the Commission authorize the sale of said lands

1 for cash, at the total appraised value, in accordance with
2 tabulations attached, subject to all statutory reservations
3 including minerals.

4 GOV. POWERS: Nothing wrong with that. Move that we
5 accept the recommendation.

6 MR. KIRKWOOD: Second it.

7 MR. PEIRCE: Moved and seconded. Recommendation is
8 approved.

9 MR. HORTIG: That finish you?

10 MR. SMITH: That does it, Frank.

11 MR. HORTIG: Page 37, gentlemen. At the last meeting
12 of the Commission, the Commission established the value of
13 tide and submerged lands proposed to be annexed by the City
14 of Richmond. The valuation was established on an estimated
15 average basis for an area proposed to be annexed, as reported
16 by the City of Richmond. Richmond City Assessor-Tax Col-
17 lector has now reported that the total area of land proposed
18 to be annexed is less than originally reported, a total of
19 only 3,821 acres. Therefore, it is recommended that the
20 Commission authorize the revision of the resolution of
21 November 12 to read: The Executive Officer is authorized to
22 advise the City of Richmond that the total current value of
23 the lands proposed to be annexed under Resolution No. 6579
24 has been set at \$382,100 pursuant to the provisions for such
25 determinations as provided in Section 35313.1 of the Govern-
26 ment Code.

1 MR. PEIRCE: This is merely an amendment ...

2 GOV. POWERS: Changing ...

3 MR. HORTIG: Decreasing the acreage.

4 MR. KIRKWOOD: Doesn't change the average value?

5 MR. HORTIG: No sir, same average value.

6 GOV. POWERS: That's O.K.

7 MR. PEIRCE: Recommendation is approved.

8 MR. HORTIG: Page 38. The Statutes of 1953 freed
9 certain lands from the public trust for navigation and
10 fisheries in the Black Point area in Marin County and pro-
11 vided for action against the State to quiet title and
12 ascertain validity. A plat of the affected lands was
13 approved for recordation by the Commission in January 1956.
14 Recent field investigation has shown necessity of correct-
15 ing this plat because of an erroneous location established
16 for a lot corner. Therefore, additional field work was
17 done to position all structures in the area and it is
18 recommended a revised plat be recorded.

19 MR. KIRKWOOD: Move it.

20 MR. PEIRCE: Recommendation is approved.

21 MR. HORTIG: Page 39. City and County of San Fran-
22 cisco have applied for a life-of-structure permit on a
23 portion of tide and submerged lands in San Mateo County
24 for collecting sewers in the southeast portion of the city.
25 It is recommended that authorization be granted to issue
26 a life-of-structure permit, not to exceed 49 years, to the

1 City and County of San Francisco for the tide and submerged
2 lands of San Mateo Canal for collecting sewers and a diver-
3 sion structure

4 MR. KIRKWOOD: O.K.

5 GOV. POWERS: All right.

6 MR. PEIRCE: Recommendation is approved.

7 MR. HORTIG: Page 40. In prior delegations of author-
8 ity by the Commission to the executive staff relative to
9 the acceptance of faithful performance bonds secured by
10 collateral in the form of negotiable securities of the
11 United States Government, to be deposited with the State
12 Treasurer and to be held in lieu of normal type of surety
13 bond, these delegations were made to Rufus Putnam and
14 J. Stuart Watson. Therefore, there is no one on the staff
15 to carry out these directives for the Commission. It is
16 recommended that Frank J. Hortig and Frank W. Porter be so
17 authorized ...

18 GOV. POWERS: I think that's all right.

19 MR. KIRKWOOD: Yes.

20 MR. PEIRCE: Recommendation is approved.

21 MR. HORTIG: Page 42. The City of Hermosa Beach re-
22 quested the State Lands Commission to map the State tide-
23 lands boundary along the shore of the Pacific Ocean within
24 the city limits of Hermosa Beach, which holds a legislative
25 grant and is particularly interested in knowing the loca-
26 tion of that boundary, in that they are proposing to lease

1 their tide and submerged lands for oil development. Such
2 survey has been completed and a map has been prepared at
3 the cost of the City of Hermosa Beach, and it is recom-
4 mended that permission be granted to have the map recorded.

5 MR. KIRKWOOD: All right.

6 GOV. POWERS: O.K.

7 MR. PEIRCE: The recommendation is approved.

8 MR. HORTIG: Page 47, which commences the tabulation,
9 ending on page 55, of transactions consummated by the Ex-
10 ecutive Officer under delegations of authority and for
11 which confirmation of the issuance of the standard permits
12 and easements as listed is requested.

13 MR. PEIRCE: All appear to be in order.

14 MR. KIRKWOOD: I move -- Does that even need a motion?

15 GOV. POWERS: It's O. K.

16 MR. PEIRCE: The recommendation is approved. Is there
17 any further business, Mr. Hortig?

18 MR. HORTIG: Not to my knowledge, sir.

19 MR. PEIRCE: Mr. Hanna, have you anything you would
20 like to say to us before we adjourn?

21 ASSEMBLYMAN HANNA: No sir.

22 MR. PEIRCE: We are glad to have had you here and
23 that you have allowed yourself to listen in on our delibera-
24 tions. We have some difficult problems to resolve at times
25 and we are always glad to have members of the legislature
26 with us. Is there anybody else present who would like to

1 be heard before we adjourn? (No response) If not,
2 there being no further business, we stand adjourned.

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4 ADJOURNED 10:30 A.M.

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CERTIFICATE OF REPORTER

I, LOUISE H. LILLICO, reporter for the Division of Administrative Procedure, hereby certify that the foregoing is a full, true and correct transcript of the shorthand notes taken by me at the meeting of the State Lands Commission on December 12, 1957 at Sacramento, California.

Dated at Sacramento, California, on the 13th day of December, 1957.

Louise H. Lillico

January 13, 1958

BEFORE THE STATE LANDS COMMISSION

OF THE

STATE OF CALIFORNIA

28
1529

IN THE MATTER OF THE STATE LANDS)
COMMISSION MEETING HELD AT LOS)
ANGELES, CALIFORNIA. }

TRANSCRIPT OF MEETING held in Room 709,
State Building, Los Angeles, California,
on Monday, January 13, 1958 at the hour
of 2:00 P.M.

JOHN J. RABASA, C. S. R.

224 WILSON BUILDING

132 WEST FIRST STREET

LOS ANGELES 12, CALIFORNIA

MUTUAL 5863

BEFORE THE STATE LANDS COMMISSION
OF THE
STATE OF CALIFORNIA

IN THE MATTER OF THE
STATE LANDS COMMISSION
MEETING HELD AT LOS
ANGELES, CALIFORNIA

The above-entitled matter came on regularly for hearing before the State Lands Commission in Room 709, State Building, Los Angeles, California, on Monday, January 13, 1958, at the hour of 2:00 P. M.

APPEARANCES:

For the State Lands Commission:

JOHN M. PIERCE, Chairman and Director of Finance,
State Lands Commission

ROBERT C. KIRKWOOD, Member, State Comptroller

FRANCIS J. HORTIG, Executive Officer of the
State Lands Commission

A. W. PFEIL, Mineral Resources Engineer,
State Lands Commission

HERMAN H. KAVELER, Consultant,
State Lands Commission

J. M. WANENMACHER, Consultant,
State Lands Commission

FRANK W. PORTER, Administrative Assistant,
State Lands Commission

1 APPEARANCES: (Continued)

2 For the State Lands Commission:3 KENNETH SMITH, Supervising Land Title Examiner,
4 State Lands Commission5 JULIA P. STAHL, Secretary,
6 State Lands Commission7 Parties In Attendance:

8 RICHARD RICHARDS, State Senator

9 BRUCE F. ALLEN, Chairman,
10 Assembly Judiciary Subcommittee on
Tidelands.11 HAROLD A. LINGLE, Deputy City Attorney,
12 City of Long Beach13
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I N D E X

Parties In Attendance PAGE
 Who Spoke Before The Commission:

HERMAN H. KAVELER 3

J. M. WANENMACHER 6

HAROLD A. LINGLE 20

Calendar Items for Discussion:

Confirmation of the Minutes of the 4
 meeting of the State Lands Commission
 held in Sacramento on December 12, 1957.

Determination as to the date of the next 4
 Commission meeting.

Page 1 of Agenda 5

" 2 through 10 20

" 11 23

" 12 25

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" 14 28

" 15 30

" 16 31

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" 23 33

" 24 and 25 19

" 26 34

" 27 through 33 34

" 34 26

1 LOS ANGELES, CALIFORNIA, MONDAY, JANUARY 13, 1958

2 2:00 o'clock p. m.

3 ---0---

4
5 CHAIRMAN PIERCE: The meeting will now come to order.
6 The Lieutenant-Governor will not be with us today. He is
7 out of the State on official business so that Mr. Kirkwood
8 and I will constitute the members of the Commission for
9 this meeting.

10 The first order of business is the approval of
11 the minutes of the meeting which took place on December
12 12, 1957. Copies were mailed to members of the Commission.
13 Do they meet with your approval, Mr. Kirkwood?

14 MR. KIRKWOOD: Yes.

15 CHAIRMAN PIERCE: They meet with my approval, and
16 the minutes will stand approved as written.

17 Do you wish to discuss at this time the next
18 meeting of the Commission, Mr. Hortig?

19 MR. HORTIG: Yes, sir. It is the desire again, as
20 has been the normal requirement for the Commission, that
21 a meeting be held in February or prior to February 15th.
22 It is suggested that we attempt to arrange with your
23 respective calendars for sometime in the week starting the
24 9th of February, unless you gentlemen have any specific
25 difficulties that you can foresee at this time, otherwise
26 we will arrange with your respective secretaries for a

1 mutually satisfactory date.

2 CHAIRMAN PIERCE: All right. If you will clear with
3 them, a meeting date will thus be fixed on the basis of
4 our mutual convenience.

5 MR. HORTIG: Yes, sir.

6 CHAIRMAN PIERCE: Now, Mr. Hortig, if you will,
7 proceed with the agenda on the basis of the convenience
8 of most people who may be here for the purpose of testi-
9 fying.

10 MR. HORTIG: Well, then, Page One, gentlemen:
11 Pursuant to service contracts authorized by the Commission
12 on September 13, 1957 (Minute Item 7, page 3444), Dr.
13 Herman H. Kaveler, and Mr. J. M. Wanenmacher of Keplinger
14 and Wanenmacher have conducted studies relative to oil
15 and gas lease procedures to be recommended for action
16 under existing legislative authorization for the issuance
17 of oil and gas leases.

18 Preliminary reports relative to recommended
19 procedures and to the scope of studies to be completed
20 will be presented to the Commission by the respective
21 consultants at this time at the pleasure of the chair.

22 CHAIRMAN PIERCE: I would like to state that Mr.
23 Kaveler and Mr. Wanenmacher are both nationally recognized
24 petroleum engineers. They come to us highly recommended
25 on the basis of their background and their ability, and
26 they are in the middle of making a survey of our leasing

1 procedures in the interest of advising whether or not we
2 are on the right track or there are instances where we
3 should change our approach under existing law in order
4 to protect the best interests of the State.

5 These gentlemen are here today to give us a
6 progress report concerning the study they are making,
7 and at a later meeting, possibly next month, they will
8 be prepared to submit final reports containing their
9 findings and recommendations. At that time those reports
10 will be made public, and all interested parties will have
11 an opportunity to study them and to advise us further
12 with respect to this matter. I would like to call on
13 these gentlemen.

14 Mr. Kaveler, would you like to lead off or
15 would you prefer Mr. Wanenmacher? I leave it up to you.

16 MR. KAVELER: I would prefer to have Mr. Wanenmacher
17 lead off, but I will leave it up to the Chairman.

18 CHAIRMAN PIERCE: All right. Mr. Wanenmacher, will
19 you give us a preliminary report concerning your obser-
20 vations up to this time, please.

21 MR. WANENMACHER: I would like to say that we were
22 highly honored to be asked by the Commission to help
23 them in their problems.

24 We have reviewed the statutes, the past lease
25 forms which have been used by the Commission, and we
26 have reviewed the history of the leases in only a general

1 way so far as the royalty received by the State is
2 concerned. We have also visited with Mr. Horting and
3 have seen the manner in which the C and E staff conduct
4 their business.

5 I would like to say, as everyone knows, the
6 statutes leave broad discretionary powers to the Com-
7 mission even though they are specific on many points.
8 These discretionary powers are numerous and they are very
9 broad.

10 I have made little progress further than a
11 study of the problems which now confront the Commission,
12 and my idea of which of these are the most important.
13 In other words, we don't have the answers.

14 It is my opinion that there are four main
15 problems with which the Commission will be faced in
16 using its discretionary power. Number one is the policy
17 which the Commission will adopt on deciding whether a
18 lease will be offered on the basis of the highest cash
19 bidder or on the basis of the highest royalty. A second
20 question is the question of well spacing. The third
21 question is, should the State lease all of its acreage
22 to a prospect or should the State retain a portion of
23 that acreage and lease only a part. The fourth one and,
24 as I would say, the \$64,000 question, is the determination
25 of a sliding scale royalty to be applied when the leases
26 are given to the bidder who gives the highest cash bonus.

1 Now, this is required by law. The minimum is set at
2 sixteen and two-thirds per cent. The maximum limit is
3 within the discretion of the Commission.

4 To me there are many factors which must be
5 considered in this problem. We haven't analyzed all of
6 them.

7 I hate to come here and make a progress
8 report and say that we have nothing to report but we are
9 getting along. We want to study the problem further,
10 and our main efforts will be along the line of these
11 four problems which I have just mentioned.

12 CHAIRMAN PIERCE: Thank you, Mr. Wanenmacher. Now,
13 Mr. Kaveler, you will advise us concerning your progress.

14 MR. KAVELER: Mr. Chairman and Mr. Kirkwood, in
15 making my report to the Commission, which is a report
16 to the Commission of the progress that I have made in
17 studying the leasing policy, I would call the Commission's
18 attention to the following which represents our present
19 line of thought:

20 Whether or not the Commission has announced
21 publicly a set of general policies which it will follow,
22 it seems to me that at least three elements of that
23 general policy are important to a well based general
24 leasing policy.

25 Now, the statutes that Mr. Wanenmacher said
26 to you gives the Commission many discretionary powers,

1 and it would seem to me that the Commission should dili-
2 gently exercise those discretionary powers whenever
3 circumstances require such exercise in order that the
4 terms of the lease may be made effective and that the
5 ultimate results under the lease issued comes to the
6 point that the Commission had in mind when the lease
7 was issued.

8 There are such matters as the determination of
9 the spacing of wells, the number of wells to be drilled
10 per acre. There are such matters as the determination
11 of the daily rate of production of wells. There is the
12 matter of whether or not this Commission would encourage
13 pressure maintenance of water flooding operations when
14 circumstances dictate, and there is the matter of whether
15 or not this Commission would encourage or cause the
16 pooling or the utilization of separate lease holds, all
17 of these being discretionary powers lodged by the statutes.

18 As a matter of general policy, too, it seems
19 to me that the Commission should look toward maintaining
20 not only a competent staff but a sufficient staff to
21 accomplish its own independent appraisal of the prospects
22 of production on unleased lands and the efficiency of
23 operations of the development lands.

24 It would seem to me that the administration
25 of the statutes, as contemplated by the legislature,
26 could not be accomplished until the Commission, if it

1 does not already have -- I don't pass judgment at this
2 time on the point -- but the Commission, if it does not
3 already have, should have an adequate staff so that its
4 proper acts in respect to the issuance of leases can be
5 based upon information that comes from its own sources.

6 The third matter of general policy that I
7 think is important is that the Commission must exercise
8 its full and complete right to reject all bids in any
9 instance when after receipt of the bid it appears to the
10 Commission that none of the bids are to the best interest
11 of the State, and that matter of rejecting bids may
12 evolve such a procedure as a rejection of a royalty bid
13 and the substitution, therefore, of an invitation to
14 bid on a cash basis, and in an extreme case they might
15 reject the cash bids and go back to the royalty bids,
16 but I think that the burden as well as the responsibility
17 is on the Commission to decide after the bids are in
18 whether or not all of the bids in this particular
19 instance should be rejected.

3 20 I might mention in respect to specific policies,
21 go to such questions as these: What shall be the size
22 of the tracts which are granted under any particular
23 lease, and if I may be permitted in this preliminary
24 report to use general terms, it is my opinion that the
25 Commission should adopt a policy of leasing small tracts
26 as compared to large tracts, and let the words "large"

1 and "small" just simply be relative for the moment.

2 The Commission should also invite bids on
3 the basis of whether or not the lands can be regarded
4 as being wildcat lands; as to whether or not they can
5 be regarded as semi-proven or probably productive lands,
6 and whether or not the lands to be leased can be regarded
7 as proven. Now, by proven I think we can understand the
8 plans that are offsetting producing wells or producing
9 properties could be regarded as proven lands. Lands
10 that are located geologically on a producing structure
11 at such a geological location as to indicate a higher
12 probability of being productive, would be a second
13 category, and then, of course, all lands other than
14 those would be wildcat lands.

15 In my present opinion the Commission should
16 lease lands only when one or more potential bidders make
17 a request that the lands be put up for lease.

18 Now, I would recommend, I think, that the
19 Commission adopt a policy -- going back to the matter
20 of a large lease and a small lease -- that the Com-
21 mission adopt a policy of stepwise leasing of any known
22 prospect rather than to grant a lease so large, as in
23 the first instance, it might encompass the entire field.

24 Now, the Act here in California provides that
25 there shall be a drilling term not to exceed three years,
26 and provides that there shall be a primary term not to

1 exceed twenty years or to be twenty years, rather. The
2 drilling term of not more than three years may be ex-
3 tended at the discretion of the Commission. The Act
4 also provides that there be an annual rental of not less
5 than \$1.00 per acre. Now, with respect to the drilling
6 term, which I think is the matter of immediate importance,
7 my present opinion is that the Commission should reason-
8 ably expect any lessee to commence operations for the
9 boring of a hole in the earth within the three year
10 primary term. While my present reading of the statutes
11 in respect to what constitutes a commencement of operations
12 is a bit puzzling at the moment, I would recommend to the
13 Commission that it regard only actual boring operations
14 as a commencement of drilling. So it is a primary term.
15 Any steps taken to prepare a location or do other work
16 preliminary to boring operations, would not be considered
17 a commencement of drilling operations within the drilling
18 term.

19 In my opinion the three-year drilling term
20 should be extended only under most unusual and very
21 compelling conditions.

22 I would recommend to the Commission, also,
23 that an annual rental be charged and be made a provision
24 of the lease. The annual rental would be due and payable
25 on the anniversary date of the lease, and that the
26 annual rental not be waived in the event the Commission