

1 APPEARANCES:-

2 For the State Lands Commission:

3 JOHN M. PEIRCE, Chairman

4 ROBERT C. KIRKWOOD, Member

5 LT. GOVERNOR HAROLD J. POWERS, Member

6 HERMAN H. KAVELER, Consultant, State Lands
Commission

7 C. H. KEPLINGER, Consultant, State Lands Commission

8
9 Staff Members in Attendance:

10 F. J. HORTIG, Executive Officer, State Lands
Commission

11 KENNETH SMITH, Supervising Land Title Examiner

12 JULIA ^{S.} P. STAHL, Secretary, State Lands Commission

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

15 Members of the Assembly Judiciary Subcommittee on
16 Tidelands:

17 BRUCE F. ALLEN, Chairman

18 RICHARD HANNA, Member

19 Others in Attendance:

20 HOWARD ^{S.} P. GOLDIN, Attorney General's Office

21 S. M. ROBERTS, Director of Finance, City of Long
22 Beach

23 JAY L. SHAVELSON, Deputy Attorney General

24 PAUL K. HOME, Standard Oil Company

25 HAROLD A. LINGLE, Deputy City Attorney, City of
26 Long Beach

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1 LOS ANGELES, CALIFORNIA, TUESDAY, FEBRUARY 11, 1958

2 10:00 a.m. Session

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5 CHAIRMAN PEIRCE: The meeting will come to order.
6 I want to welcome assemblyman Miller and Assemblyman
7 Hanna, members of the Assembly Judiciary Subcommittee
8 concerned with tidelands oil development and related
9 matters, and they are seated at the head table to the
10 Lt. Governor's right, and I invite them to participate
11 in our discussion this morning, and I assure both of them
12 that we are very happy to have them present.

13 The first order of business is the approval
14 of the minutes of the meeting of the State Lands Commission
15 which took place on January 13, 1958. Copies have been
16 mailed to members of the Commission.

17 MR. KIRKWOOD: Recommend approval.

18 LT. GOVERNOR POWERS: I second the approval.

19 CHAIRMAN PEIRCE: The motion has been made and
20 seconded that the minutes be approved and so will be the
21 order.

22 Now, Mr. Hortig, did you want to say anything
23 at this time with respect to the next meeting of the
24 Commission?

25 MR. HORTIG: The next regular meeting of the State
26 Lands Commission should be planned, as is normally

1 necessary, due to certain time commitments, for early
2 in the month of March, Mr. Peirce. However, it is not
3 essential at this moment that the exact date of that be
4 set.

5 In accordance with the normal procedure, if
6 we may, we may check with the Commissioner's secretaries
7 as to the available date, probably the second week in
8 March for the next regular meeting.

9 CHAIRMAN PEIRCE: All right.

10 LT. GOVERNOR POWERS: That will be in Sacramento?

11 MR. HORTIG: At that time, in as much as the
12 Legislature will again be in session, it will be planned
13 to schedule that meeting for San Francisco.

14 LT. GOVERNOR POWERS: Right.

15 CHAIRMAN PEIRCE: All right. Mr. Hortig, we have
16 the agenda before us, and what is your recommendation
17 for procedure in order to accommodate the convenience
18 of those who may wish to be heard this morning?

19 MR. HORTIG: In accommodating a maximum number in
20 attendance for a particular item, Mr. Chairman, it is
21 coincidental that this item is also item No. 1 on the
22 agenda, which is a matter of the Consulting Board review
23 of oil and gas leases on page 1.

24 Or January 13, 1958, Dr. H. Kaveler and Mr.
25 J. Wanenmacher of the firm of Keplinger and Wanenmacher
26 presented progress reports on surveys undertaken for the

1 Commission on oil and gas leasing procedures to secure
2 the best interests of the State under existing law. At
3 that time the Commission directed that final reports of
4 the Consultants be made public not later than the next
5 meeting date of the Commission. Copies of the final
6 joint report of the Consultants have been distributed to
7 all organizations in attendance at the January 13th
8 meeting, with the Western Oil and Gas Association for
9 further distribution to the Association membership, and
10 to Assemblymen Allen, Burton, Hanna and Miller, members
11 of the Assembly Judiciary Subcommittee on Tidelands.
12 Dr. Kaveler and Mr. Keplinger are available to review
13 the joint report for the Commission.

14 A special subcommittee of the Western Oil and
15 Gas Association have prepared and submitted a draft of
16 proposed lease form, which is attached to your calendar,
17 gentlemen, in the latter pages, and representatives of
18 industry have requested an opportunity to present state-
19 ments on specific phases of the oil and gas leasing
20 policy under consideration.

21 CHAIRMAN PEIRCE: Two of the Consultants are here
22 today, Mr. Kaveler and Mr. Keplinger. Mr. Keplinger is
23 the partner of Mr. Wanenmacher, who was at the last meet-
24 ing of the Commission, and if the other two members of
25 the Commission concur, I would like to suggest that they
26 present their report to us today, particularly in

1 reference to the recommendations contained therein, and
2 then it may be that persons in the audience may desire
3 to ask questions in further amplification of the findings
4 and recommendations contained in the report, and then
5 it may be that the Commission should decide to take the
6 report under advisement and that will give an opportunity
7 to our staff to analyze the report and submit their
8 thinking with respect to the conclusions contained therein;
9 also, that will give others an opportunity to discuss
10 with us further the findings contained in the report.

11 Now, Mr. Kaveler, you are the first one to
12 appear on the scene in connection with this inquiry. Is
13 it your desire that you present the report or do you want
14 Mr. Keplinger to join you?

15 MR. KAVELER: Mr. Chairman, our suggestion is that
16 we give Mr. Keplinger an opportunity to appear and he
17 will present the report on behalf of the Consultants.

18 CHAIRMAN PEIRCE: All right. Mr. Keplinger, perhaps
19 it would be convenient for you to stand at the rostrum
20 where you can be heard more readily.

21 MR. KEPLINGER: Mr. Chairman, members of the
22 Commission: On behalf of the Consultants we want to
23 express our appreciation for the staff's help in acquaint-
24 ing us with the problems, and also we want to thank the
25 members of industry who have given us their time, actually
26 far beyond what we had anticipated, so that we would know

1 all the ramifications of this problem.

2 Before making our recommendations to you, I
3 think it might be well to emphasize again the importance
4 that this particular job has for the Commission; that
5 at this time we have off the coast of California the best
6 hunting grounds for finding oil. I am sure that the
7 Commission knows that, it has been emphasized to you by
8 others that have appeared before you, and it is definitely
9 necessary for the Commission to get leases and rules and
10 regulations so that this land will be available for the
11 industry to prospect on and for the State of California
12 and their citizens to get the benefit of it.

13 You have heard figures of three billion to
14 four billion barrels of oil, and before that oil can be
15 produced, it must be found. Those are estimates; they
16 are really speculations, but it doesn't mean that that
17 oil is there. You have to give the industry a chance to
18 go out and find it, and it is on that basis and those
19 facts, really, that our recommendations are made, so
20 that the industry can have rules under your supervision
21 where they can go out and attempt to get this oil for the
22 people of California and for your use here in the state.

23 Our recommendations are set out in the first
24 part of our report, which is dated February the 3rd, 1958,
25 and they are on the basis of determining a leasing
26 policy, determining rules and regulations based upon

1 sound petroleum engineering principles. The Consultants,
2 or your consultants are petroleum engineers, and it is
3 on the basis of sound conservation and sound operating
4 policies that we make these recommendations to you.

5 Our recommendations concerning tideland oil
6 and gas leasing policy are:

7 I. Leasing policy must be flexible and
8 adjusted to circumstances and the facts existing in
9 respect to any area from time to time, since there is no
10 way to know beforehand whether or not a tract of land
11 will be "dry," "marginal," or "highly productive," as
12 tidelands offer no more or no less an attractive venture
13 for discovery of oil reserves and for profit than did
14 the upland areas except for the additional expense of
15 tideland operations. The over-all problem of leasing
16 tidelands is not substantially different than would be
17 the leasing of uplands under similar circumstances. The
18 Commission can do no more than exercise its best business
19 judgment within the limits of statutory authority, since
20 there is no formula that can remove the speculative or
21 risk element in the search for and development of oil and
22 gas production.

23 II. The Commission should maintain an
24 adequate staff to provide its own source of interpretation
25 of the facts that are developed in respect to any tract
26 proposed to be leased, and in respect to producing

1 operations on State lands.

2 III. Lands should be leased only on request
3 of prospective bidders except when development drilling
4 is required to offset drainage from State lands, and,
5 leasing as to any separate structure should be "step-wise,"
6 that is, giving wildcat tract leases first, with a portion
7 of the land reserved for leasing as proven or probably
8 productive in the event of discovery on any separate
9 structure.

10 IV. The lands should be classified as "wildcat
11 and exploratory" or as "proven or probably productive"
12 for the Commission's purpose of fixing lease terms.

13 V. Wildcat acreages should be leased in
14 tracts from one and one-half to two miles wide along the
15 shore by three miles long (seaward), in the range of
16 2880 to 3840 acres in size; and, proven or probably
17 productive tracts should be leased in the range of 1440
18 to 1920 acres in size with a three-mile seaward dimension
19 except when immediate or anticipated circumstances
20 dictate larger or smaller size leases.

21 VI. Leases on wildcat lands should be awarded
22 on the basis of a cash bonus bid. Leases on lands
23 considered proven or probably productive should be offered
24 on the basis of a royalty bid where the lease also
25 specifies a first-year annual rental in an amount
26 sufficient to be a cash bonus in addition.

VII. "Commencement of drilling operations"

1 should be earth boring for the purpose of completing an
2 operating well; 120 days should be granted as time
3 between wells under the continuous drilling clause; time
4 between wells should be counted commencing the day that
5 drilling operations reach total depth of the well last
6 drilled; the drilling term of wildcat leases should be
7 three years, and, for proven or probably productive
8 leases, less than three years.

9 VIII. The Commission should offer wildcat
10 leases on a cash bid with a specified royalty of $P/(5+.01P)$,
11 where "P" refers to barrels per day per well, with a
12 specified maximum not in excess of 40 to 50 per cent,
13 that is, a specified maximum royalty; and, proven or
14 probably productive leases on a royalty bid factor for
15 the formula $P/(3+.01P)$, where "P" represents barrels per
16 day per well, with a specified maximum of 100 per cent,
17 that is, royalty, and an appropriately high first-year
18 rental specified. The minimum royalty should at all times
19 be $16.2/3$ per cent since the Commission cannot renegotiate
20 royalties in the stripper stage or in the case of other-
21 wise uneconomic royalty burden.

22 IX. Gas and oil product royalties in wildcat
23 leases should be at 20 per cent, and, for proven or
24 probably productive lands at $33\ 1/3$ per cent.

25 X. No provision to share cost of dehydration
26 of oil should be made.

1 XI. The right to determine well-head prices
2 for purpose of determining royalty due under any State
3 lease should be reserved to the Commission in every lease.

4 XII. The right to take royalty in kind at
5 specified points of delivery at any time should be
6 reserved in every lease.

7 XIII. There should be no provision in any
8 lease for the State's participation in future investment
9 or expense of any required or advisable lease operation.

10 XIV. Leasing of the available 54,000 acres
11 in Santa Barbara County should be initiated by granting
12 not more than five segregated non-contiguous leases, each
13 covering 2880 to 3840 acres offered on a cash bonus bid
14 and the remaining acreage should be held pending develop-
15 ments.

16 XV. The draft of a lease as proposed on
17 February 11, 1958, by the Western Oil and Gas Association
18 should be adopted except for conflicting recommendations
19 made in this report.

20 XVI. The Commission must exercise its right
21 to reject bids found to be insufficient in bonus or
22 royalty because it can only determine what lessees will
23 offer for a lease after bids are received on one basis
24 only.

25 XVII. "Average-production-per-well-per-day"
26 for purposes of computing royalty due on oil should be

1 determined on the basis of monthly oil production,
2 calendar days in the month, the number of bona fide
3 "producing" wells as determined by the Commission, days
4 each such producing well operates, and counting operated
5 injection wells as producing wells, if such injection
6 wells were previously approved by the Commission. Dually
7 completed wells completed on approval of the Commission
8 would be counted as a producing well for each separate
9 zone that qualifies as a "producing" well.

10 XVIII. Every lease should define "zones" or
11 "pools" or "common reservoirs" as synonymous terms mean-
12 ing a stratum of porous, permeable rock containing a
13 common accumulation of oil or gas constituting a separate
14 source of supply from any other zone, pool or common
15 reservoir, for the purposes that such a definition is
16 required.

17 This is respectfully submitted by Dr. Kaveler
18 and ourselves, Keplinger and Wanenmacher.

19 Now, the back portion of the report -- in the
20 back part of the report the various recommendations are
21 discussed in detail, and at this time I don't know of any
22 point which should be clarified. We have, of course,
23 offered the Commission a little leeway in our recommenda-
24 tions as to the exact area, the exact acreage which
25 should be submitted, and in reference to our recommendation
26 No. 9, "gas and," that should be corrected to be "gas and

1 gas products royalty." This is a typographical error.

2 I believe that is all we have.

3 CHAIRMAN PEIRCE: All right. Thank you, Mr.
4 Keplinger. Now, before you leave the stand, I am going
5 to ask if the Lt. Governor or Mr. Kirkwood have any
6 questions they would like to direct to you.

7 LT. GOVERNOR POWERS: I don't think I do if we are
8 going to take this under submission before we finally
9 adopt it. Is that right?

10 CHAIRMAN PEIRCE: Well, now, what is your pleasure,
11 gentlemen? What is your thinking, Mr. Kirkwood? Do you
12 concur in the suggestion that I made at the outstart,
13 that we might want to take this under submission and
14 have the staff analyze it before we take any action there-
15 on?

16 MR. KIRKWOOD: Yes, I think we need to do that. It
17 might be helpful to the staff that we have some dis-
18 cussion of it today. I don't know what the procedure
19 would be. I assume there would be further discussion at
20 the time of the staff recommendation, both by industry
21 and is it planned that Mr. Kaveler or either Mr. Keplinger
22 or Wanenmacher would be available then?

23 CHAIRMAN PEIRCE: Is that your thought, Mr. Hortig?

24 MR. HORTIG: That would be the staff recommendation
25 for procedure, Mr. Peirce.

26 CHAIRMAN PEIRCE: In other words, after you have

1 completed your analyses of this report and we then take
2 it up for final decision, we would have our consultants
3 with us for further advice on this matter?

4 MR. HORTIG: That would be correct, sir, and also
5 such representations as industry felt were appropriate
6 on the staff recommendations at that time.

7 May I suggest at this point, and possibly
8 even prior to your consideration in whether to take this
9 particular report under submission, there is also pending
10 a question on behalf of the Western Oil and Gas Association
11 Subcommittee, a request to present to the Commission this
12 morning, possibly in very brief form, a proposed form of
13 lease, which does contain some elements which are
14 counter to the recommendations of the Consultants, but
15 which are also in the manner of the Consultants'
16 recommendation 15 as it has just been outlined by Mr.
17 Keplinger. So you gentlemen have not yet had the
18 presentation of all of the elements that possibly should
19 be taken under submission.

20 MR. KIRKWOOD: I would like to ask just a couple of
21 questions.

22 CHAIRMAN PEIRCE: Mr. Kirkwood

23 MR. KIRKWOOD: With reference to the staff, you
24 suggest that there should be an adequate staff. Do you
25 have in mind any particular changes that should be made
26 or have you developed in your own thinking any different

1 kind of a staff pattern that is any different than what
2 we presently have?

3 MR. KEPLINGER: The recommendation that I have in
4 that report is that the geological portion of your staff
5 should be as strong as humanly possible because that
6 information which is given to the Commission is confiden-
7 tial, and the Commission must rely on their staff to
8 interpret the information, the industry -- the oil
9 industry representatives will not do that for you, and
10 that is probably the biggest point that I would like to
11 make.

12 CHAIRMAN PEIRCE: In other words, you believe that
13 our technical staff should be augmented, particularly in
14 the field of geology, so that we will be able to analyze
15 what information is made available to us under these
16 various leases?

17 MR. KEPLINGER: Yes, sir. Not only the technical
18 staff in geology, but also in petroleum engineering,
19 because we at the present time know so much more about
20 reservoirs than when the Commission was first established,
21 and the ways to produce oil today are far different and
22 conservation practices and secondary recovery through the
23 injection of water and gas and other gaseous fluids
24 increase the production of oil, and the Commission should
25 have a competent staff to deal with the industry.

26 MR. KIRKWOOD: I think it could be very helpful,

1 Mr. Chairman, if the Consultants, again sitting down with
2 Mr. Hortig, could give us some indication as to what in
3 their mind would give us this sort of a staff. I think
4 we need some technical assistance on that, too.

5 I assume -- I saw this report this morning for
6 the first time and I haven't had a chance to review it
7 before -- I assume that somewhere along the line we will
8 have, if we don't have it here in your explanatory
9 material, the points of difference between your suggestions
10 and our past lease practices or our present lease
11 practices and what is involved; a little bit of the
12 arguments both ways. Some of that will show up in your
13 analyses; is that right, Frank?

14 MR. HORTIG: That would be a definite phase of the
15 staff analyses, Mr. Kirkwood. Due to the time of sub-
16 mittal of the Consultants' report, the Western Oil and
17 Gas Association Special Subcommittee draft, which again
18 represents in some areas a different viewpoint, we were
19 unable to prepare such a comparison for your consideration
20 today, and it is the recommendation that this would
21 necessarily come during the period of staff consideration
22 and preparation and a final report for your consideration.

23 MR. KIRKWOOD: I was wondering specifically on
24 recommendation 13 as to how that affected what we have
25 talked about on repressurization and that sort of activity.
26 Is that different from what we have had before or has

1 there been some ---

2 MR. HORTIG: Well, in effect, it results in a
3 recommendation of returning the Commission's lease bid
4 form to the condition in which it was prior to the last
5 lease offer, which, for the first time, included pro-
6 visions for possible State participation in economic
7 burdens of subsidence protection.

8 MR. KIRKWOOD: Would the provision in XVII, with
9 reference to counting inoperative ejection wells offset
10 that in part? That is the sort of thing I would like to
11 see analyzed. I find myself not knowing exactly where
12 the differences come in and what the offsetting factors
13 are.

14 MR. HORTIG: You are correct. The purpose of
15 counting ejection wells, of course, is to assist in that
16 direction, particularly in cases where there are secondary
17 recovery projects operated for secondary recovery features
18 per se, but recommendation XVII goes one step further,
19 and the difference of opinion at the moment as between
20 the Consultants and the industry's proposed lease form to
21 be reconciled, is this matter of whether or not the State
22 in a lease offer should offer to consider to participate
23 in emergency and unforeseeable operating costs that are
24 not directly a normal function of oil operations.

25 MR. KIRKWOOD: Are we going to be able to get these
26 differences boiled down somewhere in outline ahead of the

1 next meeting so we can review it?

2 MR. HORTIG: Yes. That is the purpose of the staff
3 review.

4 CHAIRMAN PEIRCE: Do you contemplate having two
5 columns, for example, with our Consultants' recommenda-
6 tions, or possibly three columns, then their recommenda-
7 tions, your concurrence or nonconcurrence, and then the
8 industry's comments and recommendations with respect to
9 columns 1 and 2?

10 MR. HORTIG: That will be one mechanical approach.
11 If I may suggest to the Commission, we have had in mind,
12 and this may well serve the purpose, of preparing a lease
13 draft form which would, where there was concensus, have
14 one statement of the terms and conditions for the
15 particular section, and where there are differences of
16 opinion, both or the three versions of language that
17 propose to cover the subject supplemented by an explana-
18 tion and recommendation as to which of the three versions
19 it is recommended that the Commission adopt for that
20 particular section of the lease form, so that after con-
21 sideration and adoption on that basis, the net result is
22 that the Commission's action would be an authorized lease
23 form to be used in the next featured lease offer -- lease
24 offered for bidding.

25 MR. KIRKWOOD: Yes.

26 CHAIRMAN PEIRCE: Any further questions from members

1 of the Commission? Assemblyman Miller, would you like
2 to ask Mr. Keplinger any questions?

3 ASSEMBLYMAN MILLER: Mr. Chairman, I don't want to
4 prolong this meeting at all. If it is contemplated that
5 we would be able to be in on any future conference of
6 the staff and your consultants, or even without the
7 members themselves, in which some of the questions that
8 I have in mind might be discussed, I would defer any
9 examination here on some questions that are in my mind
10 to that point where you have a working meeting, but it
11 would depend on that. If I didn't have an opportunity
12 to ask Mr. Keplinger any questions subsequently, I would
13 like to ask him now, but I wouldn't want to burden your
14 meeting with them if I would have that opportunity later
15 on.

16 CHAIRMAN PEIRCE: Well, I believe that most of us
17 are at a disadvantage today with regard to asking
18 questions because we haven't had an opportunity to
19 examine this report carefully in order to have had the
20 benefit of the staff analyses, and I assure you that you
21 and members of the Assembly Committee will have an
22 opportunity to study this report and this recommendation
23 and to participate in future discussions before a final
24 decision is made.

25 Mr. Hanna, have you any questions that you
26 would like to ask at this time?

1 ASSEMBLYMAN HANNA: I have just one simple
2 question. I probably expose my ignorance in this deal,
3 but I am wondering about Paragraph VIII, where you have
4 used "P" in the formula. Is there a definite distinction
5 between the definition of "P" as used in the formula in
6 Paragraph VIII and Paragraph XVII, I think it is, refer-
7 ring to the definition of an average production per well
8 per day?

9 CHAIRMAN PEIRCE: Mr. Keplinger.

10 MR. KEPLINGER: Mr. Hanna, that is the same "P,"
11 yes.

12 ASSEMBLYMAN HANNA: I thought it was. Thank you.

13 CHAIRMAN PEIRCE: All right. Thank you.

14 ASSEMBLYMAN HANNA: I have some questions but I
15 will wait, as Mr. Miller, until the next time.

16 CHAIRMAN PEIRCE: All right. Mr. Home, you are
17 Chairman of the Committee of the Western Oil and Gas
18 Association, are you not?

19 MR. HOME: Yes, I am.

20 CHAIRMAN PEIRCE: Have you any questions you would
21 like to ask at this time, or any comments or anything to
22 say in behalf of the industry committee in the presence of
23 Mr. Keplinger?

24 MR. HOME: I would like to say only this, Mr.
25 Peirce, and members of the Commission, that the industry
26 committee have met on two occasions or members of the

1 Committee have met on two separate occasions with Dr.
2 Keplinger and Mr. Wanenmacher or Mr. Keplinger, and we
3 have had some discussions, but it is true that we have
4 come out with some points of difference between the
5 industry's recommendations and those of the staff
6 consultants. However, the industry has had the final
7 recommendations of the consultants for a very short time.
8 We have not yet had an opportunity to consolidate any
9 industry viewpoint with respect to certain of the
10 differences of points of view, although in the majority
11 I feel that we do have such a viewpoint.

12 The thing that I would ask this morning would
13 be that the industry likewise be given an opportunity at
14 some future time, either at or prior to the next meeting
15 of the Commission, within which to submit the reasons
16 for its differences in viewpoint from the various points
17 that are mentioned in the consultants' report and
18 recommendations.

19 CHAIRMAN PEIRCE: You will be given that opportunity,
20 Mr. Home, and the members of your committee.

21 At this point I would like to ask Mr. Hortig,
22 have you any suggestions in that regard?

23 MR. HORTIG: Mr. Chairman, in view of the necessity
24 of timing with respect to preparing adequate presentations
25 for the Commission, and the necessity for bringing the
26 consultants from Tulsa, Oklahoma, at such times as there

1 can be a complete conference and eventually a meeting of
2 the minus, may I suggest that it may serve the purposes,
3 and I would like to put this in the form of a question to
4 Mr. Miller, if I may, and Mr. Hanna, whether it would
5 serve their purpose to consider scheduling a Commission
6 meeting, as Mr. Home has suggested, where the staff
7 review the final industry review and would be presented
8 to the Commission for consideration, at which meeting the
9 special Consultants for the Commission would also be
10 present, and full consideration could be had in the sense
11 that it would be suggested that such meeting be set to
12 hear one agenda item only, and that to be this matter
13 of the oil and gas leasing policy, and to be set in the
14 very near future. Would this meet your purposes, Mr.
15 Miller?

16 ASSEMBLYMAN MILLER: Yes, sir.

17 CHAIRMAN PEIRCE: How soon do you think this
18 material can be analyzed and your comments reported?

19 MR. HORTIG: Obviously reviews and re-reviews could
20 be continued ad infinitum, but in view of the desirable
21 necessity for getting some final reports to the Commission,
22 and which can then result in proceeding with oil and
23 gas leasing, as in actual matter, as Mr. Keplinger has
24 already mentioned, is past necessary, I should like to
25 suggest that the staff be directed to attempt to set a
26 meeting date that would be mutually convenient to the

1 Commissioners, probably in Sacramento, and during the
2 week of February 24th.

3 CHAIRMAN PEIRCE: The last week of February?

4 MR. HORTIG: Yes, sir.

5 LT. GOVERNOR POWERS: It would have to be after the
6 25th for me.

7 CHAIRMAN PEIRCE: What is your comment in that
8 regard, Mr. Kirkwood?

9 MR. KIRKWOOD: Well, I think it is going to be
10 difficult to bring all these things together and get
11 them in shape for us to act upon within the reasonable
12 future, that is our problem.

13 LT. GOVERNOR POWERS: The Legislature will be in
14 session and I will be up there the first week in March.

15 MR. KIRKWOOD: I was wondering this, again in an
16 effort to get the different points of view available
17 and in a position where they can be compared for us,
18 whether it might be well to suggest to Mr. Hortig to
19 conduct a meeting at which the industry's point of view
20 would be presented, and, if possible, the questions
21 that the Legislative committees might have would be
22 posed, and draw the material together for submission to
23 the kind of a report that we originally talked about of
24 bringing the issues out at the next Commission meeting.
25 I would hope that I would be able to sit in on such a
26 meeting even if Frank were conducting it, rather than

1 have a full Commission meeting, but it does seem to me
2 that if it is a full Commission meeting --- I think this
3 is going to take time, that is my problem, and to hold
4 all three of us together these days is a little tough,
5 just as I would suspect that Allen and Assemblyman
6 Hanna would come in for part of the time, perhaps to
7 raise their points, and we could get it screened. I
8 would want to sit in as much as I could, but I am just
9 wondering about the time problem, whether that might
10 save some time, and then have all of that material
11 available to us at our meeting and have further dis-
12 cussions at that time.

13 CHAIRMAN PEIRCE: That would be done in the absence
14 of the Consultants or in the presence of the Consultants?

15 MR. KIRKWOOD: No. I would hope that the
16 Consultants would be available.

17 CHAIRMAN PEIRCE: In other words, you would suggest
18 that Mr. Hortig conduct a hearing which would be
19 attended by representatives of the industry, the
20 Consultants would be there, and members of the Assembly
21 Subcommittee and members of the Commission to the extent
22 that they could participate in this informal discussion
23 trying to resolve the various points of difference, and
24 clear any points of confusion before the matter is
25 formally presented to the Commission?

26 MR. KIRKWOOD: In any event, we are going to have

1 two meetings, one for this discussion and one at which
2 we decide on the final form of lease and the acreages
3 to be included, and it just seems to be that that first
4 one might be conducted by Frank rather than be a formal
5 Commission meeting.

6 CHAIRMAN PEIRCE: What do you think, Governor
7 Powers?

8 LT. GOVERNOR POWERS: Well, I would like to sit in
9 on it. I suppose your theory is to have it run con-
10 secutively along, two or three days right together, so
11 you can bring the Consultants in; is that right?

12 MR. HORTIG: It wouldn't take two or three days.

13 LT. GOVERNOR POWERS: Well, it would take two days.
14 You are stuck with two.

15 MR. HORTIG: May I ask, did you have in mind, Gov.
16 Powers, that this review session would be followed
17 immediately thereafter by a formal Land Commission
18 meeting?

19 LT. GOVERNOR POWERS: That would be my idea,
20 because your Consultants would want to be there both
21 times and it would save making trips to Sacramento, and
22 that is why I thought it should be postponed until just
23 before the Legislature convenes. At that time it would
24 be more convenient for all of us in connection with the
25 Legislature.

26 MR. HORTIG: One technical difficulty that occurs

1 to me would be the resolution and consolidation as
2 a result of that informal session in such manner that
3 it could be presented to the Commission. If there would
4 be consecutive sessions there wouldn't be any opportunity
5 for that.

6 MR. KIRKWOOD: I think we want the advice of Mr.
7 Hortig after just as many points as possible have been
8 raised.

9 Now, granted, as he says, we can go ahead and
10 re-analyze and re-analyze forever, we have to have a
11 stopoff date, but I think we need to get all of this
12 discussion out on the table and then give Frank time to
13 analyze it, and, as the head of our staff, make re-
14 commendations that are considered recommendations, and
15 at that time, sure, we are going to have to have further
16 discussions of them so that we understand them fully
17 and there are no questions about our support or non-
18 support of the particular proposal.

19 LT. GOVERNOR POWERS: Well, you would want them a
20 week apart; is that right?

21 MR. KIRKWOOD: I think that would be almost
22 necessary.

23 CHAIRMAN PEIRCE: Well, may I make this suggestion,
24 that Mr. Hortig and the Consultants and representatives
25 of the industry and the Legislative Subcommittee, and
26 members of the Commission, hold an informal meeting the

1 last week in February in Sacramento, the latter part
2 of that week, and then a week later the Commission will
3 hold a formal meeting, at which time, now, we will have,
4 presumably, final answers from Mr. Hortig and a final
5 analysis of this preparatory to our taking any formal
6 action with respect thereto.

7 What is your reaction to that, Mr. Kirkwood?

8 MR. KIRKWOOD: That sounds all right.

9 LT. GOVERNOR POWERS: Yes, that is all right. I
10 would just like to know the dates.

11 CHAIRMAN PEIRCE: Well, the days have to be worked
12 out by Mr. Hortig so as to meet the convenience of all
13 concerned. You can do that, can't you, Mr. Hortig?

14 MR. HORTIG: Yes, sir, and for Gov. Powers' benefit,
15 we will definitely shoot for the latter part of the week
16 of the 24th so that we will coincide with your necessity
17 for meeting later than the 25th.

18 LT. GOVERNOR POWERS: Fine.

19 MR. KIRKWOOD: The 26th or 27th are open at this
20 point for me.

21 CHAIRMAN PEIRCE: I think they are both open for
22 me.

23 ASSEMBLYMAN HANNA: That is okay for me.

24 LT. GOVERNOR POWERS: That is all right for me.

25 CHAIRMAN PEIRCE: That would be the understanding,
26 Mr. Hortig, that you make a note of that and make the

1 necessary arrangements.

2 Before we conclude this discussion, is there
3 anybody else in the audience who wishes to speak in
4 regard to this in addition to what Mr. Home has already
5 said in behalf of the Western Oil and Gas Association
6 Committee?

7 (No audible response.)

8 CHAIRMAN PEIRCE: All right. If not, I want to
9 thank Mr. Keplinger and Mr. Kaveler for their participa-
10 tion in our discussion today, and for the record, they
11 have submitted, and I am sure that your findings and
12 recommendations will be very helpful to us in resolving
13 a problem that is difficult at best. We have a most
14 important assignment and we want to come out with the
15 right answers and to do this in the best interest of
16 the people of the State of California.

17 All right, Mr. Hortig, if you will, proceed
18 with the next item on the agenda, please.

19 MR. HORTIG: Calendar page 2, gentlemen.

20 The Committee will recall prior authorization
21 for a consideration of the amendment of the existing
22 rules and regulations relating to the conduct of
23 geophysical and geological surveys on tide and submerged
24 lands.

25 After extensive review with all interested
26 parties, and complete consultation on the legal phases

1 with the office of the Attorney General, the language
2 has finally been developed which is satisfactory to all
3 interested parties to accomplish the desired control
4 without over-controlling and requiring permits for
5 types of operations that were apparently never contem-
6 plated to be controlled or reviewed, and, therefore, it
7 is recommended that the Commission adopt the proposed
8 amended language for Section 2100(b) of the Rules and
9 Regulations of the State Lands Commission, in the form
10 of the resolution as stated in this calendar item for
11 adoption by the Commission; that after proceedings had,
12 in accordance with the provisions of the Administrative
13 Procedures Act, and pursuant to the authority vested
14 by Section 6108 of the Public Resources Code, the State
15 Lands Commission hereby amends and adopts its regulations
16 in Title II, California Administrative Code, as follows:

17 Amends Section 2100(b) to read:

18 "(b) The taking of core and other samples
19 may be conducted on and under tide and submerged
20 lands of the State, except as follows:

21 Geophysical survey permits are required
22 for the conduct of geophysical surveys on
23 all State lands by any seismic method
24 employing explosives.

25 Geological survey permits are required
26 for the conduct of geological surveys on and

1 under submerged lands of this State where
2 geological samples are obtained through any
3 drilling operation. The "dart," "jet," and
4 other similar techniques, shall not be
5 regarded as methods of drilling operations
6 where geological samples are obtained within
7 the meaning of this subsection.

8 This order shall take effect on the 30th
9 day after its filing with the Secretary of
10 State as provided in Section 11422 of the
11 Government Code.

12 The Executive Officer is authorized to file
13 this amendment of Title II, California Administrative
14 Code, with the Secretary of State.

15 CHAIRMAN PEIRCE: You have heard the reading of
16 the proposed regulation. Is there any discussion?

17 MR. KIRKWOOD: Well, I move the approval of the
18 recommendation.

19 LT. GOVERNOR POWERS: It is all right with me.

20 CHAIRMAN PEIRCE: It has been moved and seconded
21 that the recommendation be approved, and so will be the
22 order.

23 MR. HORTIG: Mr. Chairman, and gentlemen, noticing
24 the attendance today with respect to particular agenda
25 items, it is suggested that the Commission next consider
26 the item on page 32 of the agenda relating to proposed

1 expenditure of tideland oil funds by the City of Long
2 Beach pursuant to Chapter 29 of the Statutes of 1956.

3 The City of Long Beach has requested that the
4 Commission approve an expenditure by the City from its
5 tideland oil funds of such sums as may be necessary to
6 hold a special election on March 4, 1958.

7 The office of the Attorney General has
8 submitted the conclusion that the particular proposed
9 use of the City of Long Beach share of tideland oil
10 revenues is neither a legitimate cost of oil production
11 nor a permissible use within the meaning of any subdivision
12 of Section 7 of the authorizing statutes.

13 Additionally, while the Commission may give
14 prior written approval to expenditures not stated
15 specifically in the authorizing statutes, pursuant to
16 Section 10 of the stipulation which has been filed as
17 to entry of decree in the case of People of the State of
18 California vs. City of Long Beach, it also has been
19 concluded by the office of the Attorney General that,
20 because of inability to find any legal justification
21 for the requested approval of the proposed expenditure,
22 the Commission cannot safely approve such requested
23 expenditure.

24 Therefore, it is recommended that the Commission
25 determine not to approve the request of the City of
26 Long Beach of January 15, 1958, as to proposed

1 expenditures from the City's share of tideland oil funds
2 of such sums as may be necessary to hold a special
8 election on March 4, 1958.

4 CHAIRMAN PEIRCE: Does the City of Long Beach
5 desire to protest this recommendation?

6 MR. LINGLE: For the record, I am Harold Lingle,
7 Deputy City Attorney of Long Beach.

8 For our record, we do desire to protest it.
9 I don't wish to belabor the point here, but we feel that
10 the only purpose in holding this special election was
11 to amend our charter so that we could enter into
12 contracts in the oil fields for the lack of the pro-
13 ductive life of the field, and it is for no other purpose
14 than that. So to preserve our record, and if there is
15 some other step that we desire to take, we do protest
16 that particular ruling, and we disagree with the Attorney
17 General.

18 CHAIRMAN PEIRCE: Thank you, Mr. Lingle. Is there
19 any further discussion of the recommendation?

20 We are guided by the Attorney General's advice
21 in this regard. Therefore, the Attorney General's
22 advice is so recommended.

23 MR. KIRKWOOD: I move the adoption of the recommenda-
24 tion.

25 LT. GOVERNOR POWERS: I will second the motion.

26 CHAIRMAN PEIRCE: It has been moved and seconded

1 that the recommendation be approved and so will be the
2 order.

3 The next item, Mr. Hortig?

4 MR. HORTIG: Page 33. The Commission has previously
5 approved the cost to be expended in the 1957-58 fiscal
6 year by the Harbor Department of the City of Long
7 Beach, including subsidence remedial work, for the
8 Pier B area project. Subsequent to these approvals, it
9 developed that arrangements could not be concluded with
10 the potential lessee, thus eliminating the necessity
11 previously planned for construction of the passenger
12 terminal. Accordingly, complete revision of plan will
13 be made for the Pier B reconstruction involving deletion
14 of the passenger terminal, and enlargement of the
15 originally contemplated Transit Shed with appropriate
16 changes in the service facilities thereto. Such costs
17 as have been disbursed for preliminary work and for
18 transition planning have been previously approved.

19 Due to the changes in the nature of the work,
20 the Long Beach Harbor Department has submitted new plans
21 and estimates, and has requested State participation in
22 the costs of the new work.

23 This revised project has received initial
24 staff review, is considered to include some subsidence
25 costs as defined in Chapter 29, but not necessarily all
26 of those costs as estimated by the City of Long Beach.

1 It is recommended that the Commission rescind
2 the approval of the excess of approved costs over the
3 actual costs to February 11, 1958, for reconstruction on
4 the Pier B project previously authorized, and approve
5 costs proposed to be expended by the City of Long Beach,
6 including subsidence remedial work, as indicated on
7 Exhibit "A" attached hereto, for the period February 11,
8 1958, to June 30, 1958, subject to the standard
9 reservation conditions heretofore adopted by the
10 Commission relative to final determination of allowability
11 of subsidence costs dependent upon engineering review
12 and final audit subsequent to the time when the work
13 under any of these items is completed.

14 CHAIRMAN PEIRCE: Does the City of Long Beach
15 concur in this recommendation?

16 MR. LINGLE: Yes, we do concur with this recommenda-
17 tion.

18 CHAIRMAN PEIRCE: Thank you, Mr. Lingle. Any
19 discussion?

20 MR. KIRKWOOD: Move the approval.

21 LT. GOVERNOR POWERS: Second it.

22 CHAIRMAN PEIRCE: Moved and seconded that the
23 recommendation be approved, and so will be the order.

24 The next item.

25 MR. HORTIG: Page 35, gentlemen. Again the
26 Commission has previously approved costs to be expended

1 in the '57-58 fiscal year, including subsidence remedial
2 work for a project which has been classified as the
3 Pier D area project. Subsequent to this approval and
4 study, it developed that additional costs will have to
5 be incurred because when construction work was actually
6 undertaken it was found that there actually had been
7 more prior damage due to subsidence than was contemplated
8 would have to be repaired when the plans were developed.

9 MR. KIRKWOOD: Well, this is routine?

10 MR. HORTIG: This is routine, except that it is
11 necessary for the Commission's approval to augment the
12 funds.

13 MR. KIRKWOOD: Recommend approval.

14 LT. GOVERNOR POWERS: Seconded.

15 CHAIRMAN PEIRCE: Moved and seconded that the
16 recommendation is approved, and so will be the order.

17 MR. HORTIG: Also on the same general classification
18 of routine, as in Mr. Kirkwood's definition, on page 37,
19 in which the Commission has heretofore been approving
20 expenditures of funds, subject to final review, but on
21 a monthly basis, in as much as the project classified
22 as Town Lot project is not currently processed sufficiently
23 to be proposed in its entirety for approval on a fiscal
24 year basis, it is again recommended that the Commission
25 authorize expenditures for the next succeeding months
26 as outlined on Exhibit A attached thereto on page 38.

1 MR. KIRKWOOD: Move the approval.

2 LT. GOVERNOR POWERS: Seconded.

8 CHAIRMAN PEIRCE: It has been moved and seconded
4 that the recommendation be approved. So will be the
6 order.

6 MR. HORTIG: Page 39 is again in the same nature
7 as the second preceding item in that it has been
8 determined that additional costs of repair will have to
9 be undertaken which were not available at the time that
10 the project was approved on a fiscal year basis, and it
11 is recommended that the additional costs to be incurred
12 be approved, again subject to the standard limitations
13 for review on completion of the project.

14 MR. KIRKWOOD: I move the approval.

15 LT. GOVERNOR POWERS: Second it.

16 CHAIRMAN PEIRCE: It has been moved and seconded
17 that the recommendation be approved. So will be the
18 order.

19 MR. HORTIG: Page 41. The item proposed herein is
20 by the City Engineer of the City of Long Beach in view
21 of the fact that the operations to be undertaken are
22 outside the specified limits of the Long Beach Harbor
23 District, which are the limits of all the preceding
24 projects, which you gentlemen have considered here this
25 morning.

26 The particular project involved herein is the

1 construction of a new Navy landing, the major item in
2 the project being the construction of facilities for
3 the unloading of United States Navy personnel, and, of
4 course, the adjoining boat base and facilities necessary
5 to handle the fleet boats. The construction will
6 involve subsidence costs, and as defined in Chapter 29,
7 but from a staff review it is indicated these are not
8 necessarily all of the costs as estimated by the City
9 of Long Beach.

10 Therefore, within the authorization of Chapter
11 29, it is recommended that the Commission approve the
12 expenditures by the City of Long Beach --

13 MR. KIRKWOOD: Move the approval.

14 MR. HORTIG: -- of the construction item, subject
15 to the standard reservations for future review.

16 LT. GOVERNOR POWERS: Second it.

17 CHAIRMAN PEIRCE: It has been moved and seconded
18 that the recommendation be approved. So will be the
19 order.

20 That concludes the Long Beach items?

21 MR. HORTIG: If I may check a moment.

22 MISS STAHL: You have one special item.

23 MR. HORTIG: I believe we will bring that up at the
24 end of the meeting. It is not on the agenda.

25 Page 31, gentlemen. Chapter 2000 of the
26 Statutes of 1957 direct the Commission to proceed with
the study of boundaries of the tide and submerged lands

1 in the Long Beach area, with particular reference to
2 those tide and submerged lands previously granted by
3 the Legislature to the City of Long Beach and granted
4 in trust, and under this statute, the Commission shall
5 report to the Legislature not later than February 15,
6 1958, its progress in carrying out the purposes of this
7 Act.

8 As you gentlemen will recall, on September
9 13, 1957, authorization was granted for proceeding with
10 the office of the Attorney General in determining the
11 boundaries of the tide and submerged lands in conform-
12 ance with the requirements of Chapter 2000, Statutes of
13 1957.

14 The Attorney General's office and the State
15 Lands Division Staff have completed a detailed inves-
16 tigation of the origin and extent of public and private
17 land titles along the Long Beach waterfront.

18 A summary report of the study results will
19 be presented this morning by the office of the Attorney
20 General, together with a request for Commission author-
21 ization to the office of the Attorney General to commence
22 litigation in the name of the Commission, and to take
23 other steps regarded as necessary to protect the State's
24 interests.

25 Separate from the request that will be
26 presented by the Attorney General's representatives this

1 morning, it is recommended that the Commission authorize
2 the Executive Officer to report to the Legislature not
3 later than February 15th the progress of the Commission
4 in carrying out the purposes of Chapter 2000, Statutes
5 of 1957.

6 CHAIRMAN PEIRCE: Mr. Shavelson, are you going
7 to handle this for us?

8 MR. SHAVELSON: Yes. My name is J. Shavelson,
9 Deputy Attorney General. I have a written report from
10 our office to the State Lands Commission. If it is
11 the Commission's pleasure that that be read I will be
12 glad to do so, but it might be just as well to
13 distribute copies to the members of the Commission and
14 I have a few extra copies available for other persons
15 who might be interested.

16 The purpose of our report is to summarize
17 the progress that we have made to date for the purpose
18 of helping the State Lands Commission staff to prepare
19 the report to the Legislature that is required under
20 Chapter 2000, and, furthermore, to inform the Commission
21 that we have reached our conclusions within the office
22 as to what we think will be the proper course of action,
23 and to get authorization from the Commission to commence
24 litigation and to send notices and take any other steps
25 proceeding to litigate title in those areas that we
26 regard as ligatable, and also to inform the Commission

1 of the decision within the Attorney General's office
2 to have our conclusions examined by independent counsel,
3 who have not as yet been selected, to test the validity
4 of our conclusions and to make sure that the course of
5 action that we propose is the one that is in the best
6 interest of the State.

7 We want to avoid, on the one hand, casting
8 needless clouds on extremely valuable properties by
9 commencing litigation which might be fruitless. On
10 the other hand, we wish to move promptly in those areas
11 that we do regard as ligatable, in order to prevent any
12 loss of revenues to the State, and we feel that the
13 course of action that we propose here achieves the scope
14 of these objectives as closely as possible. To the
15 extent that they are somewhat inconsistent, we have to
16 sacrifice one for the other, but we try to accomplish
17 both objectives by our proposed course of action.

18 We do intend to file litigation in the very
19 near future as soon as certain mechanical details have
20 been taken care of. That is, I have outlined the
21 details in written form there. I could read the report.

22 CHAIRMAN PEIRCE: Mr. Shavelson, may I ask this
23 question: Mr. Hortig has sent members of the Commission
24 a suggested draft of the report to be submitted to the
25 Legislature in compliance with this Statute, and he
26 advises that you assisted in the drafting of this report