

1 limitation -- that such operations in turn are also con-
2 trolled from the standpoint of impingement on navigation and
3 conflict with navigation by the United States Corps of
4 Engineers. There are many places where an upland owner might
5 desire to develop a marina, but because of a particularly
6 narrow turn or otherwise they couldn't get clearance from
7 the United States Army Corps of Engineers, so from this stand-
8 point it would never permit leasing all of the river for this
9 particular type of purpose.

10 However, as long as there are recreational permits
11 and the applications are submitted in accordance with the rules
12 of the Commission, which provide only for leasing of tide and
13 submerged lands to the adjoining owner or his lessee, and the
14 lessee proposes to pay the established rental rate for the
15 land, these have heretofore been approved consistently by
16 the Lands Commission where they were fully qualified; and
17 this application, incidentally, may be -- if I have to hazard
18 a guess -- somewhere between number 50 and 100 of this type
19 of operation which the Commission has already authorized
20 heretofore.

21 MR. CARR: What restrictions are placed on the struc-
22 tures? What qualifications does he have to meet by the
23 Engineers or whoever controls the bank with regard to its
24 protection against erosion, flood, and all that stuff?

25 MR. HORTIG: Actually, there in general and particu-
26 larly along the Sacramento and San Joaquin Rivers and so close

1 to Sacramento, any operator is also faced with compliance
2 with requirements of the Reclamation Board with respect to
3 levee penetration, levee maintenance; the requirements of
4 the California Debris Commission to keep the stream clear;
5 the requirement of the United States Corps of Engineers to
6 insure no infringement on the main channel; and the require-
7 ments of the Lands Commission that all these things be kept
8 in good repair and to prevent floating away, which is covered
9 by his thousand dollar performance bond. So it is pretty
10 well covered in comparison with the minor magnitude of opera-
11 tions of this type.

12 MR. ZWEIBACK: I would like to expand for just a
13 moment on what Mr. Hortig has touched on and that is the need
14 for developing these properties by private parties, as I
15 think there is a growing tendency by the counties to step in
16 and try to get title to these lands; and unless we have a peg
17 to hang our hat on, that is to show we are deriving income
18 from these lands, the county steps in and says "You are not
19 doing anything with it -- why not turn it over to us?"
20 Whereas, if we show we have income from it, we have something
21 to resist this.

22 MR. CARR: I am not so sure it is in the public interest
23 to resist them.

24 MR. ZWEIBACK: You may be correct, but I am only
25 thinking in terms of the State's interests as against the
26 counties'.

1 MR. CARR: Of course, there is no obligation on the
2 Lands Commission to control overdevelopment of these opera-
3 tions, but they might become a nuisance. In the other
4 direction, if everybody wants to put in a marina and they go
5 broke and everything goes to pot, I doubt if a thousand dol-
6 lar bond would clear up the mess they walk away from.

7 I am just interested in the early stages of these
8 developments -- this is going on very rapidly now -- in the
9 early stages it might be very well to have a policy looking
10 forward to what might happen in the next ten or fifteen years.

11 GOV. ANDERSON: Are the counties advised? For
12 example, in this case, Yolo County -- have they been informed
13 of this application?

14 MR. HORTIG: Through their legislators pursuant to a
15 resolution of the State Senate at the last session, requiring
16 notification of affected legislators as to any proposals of
17 operations of any magnitude apparently to be conducted within
18 their respective districts. The respective legislators within
19 whose district this operation is contemplated would be
20 notified. If you will turn to page 13, you will note the
21 code symbols A 3, S 11.. This is to show the Assemblyman and
22 the Senator within which these proposed operations would be
23 have been notified of this calendar item and sent a notifica-
24 tion of this Commission meeting.

25 GOV. ANDERSON: And presumably they would take it up
26 with the county?

1 MR. CRANSTON: What about the local planning
2 commissions?

3 MR. HORTIG: There does not appear to be a direct legal
4 chain and request of a planning commission would not, per se,
5 be mandatory upon the State Lands Commission. I can only
6 cite as precedent I have yet to see a planning commission
7 lose a battle before this Commission.

8 MR. CRANSTON: But they might not necessarily be
9 aware of this before this was under way. Would these people
10 have to get permission from the county planning commission?

11 MR. HORTIG: If the operation were located within the
12 scope of zoning that had been designated by the planning com-
13 mission they would also have to have such approval.

14 GOV. ANDERSON: How would they know? We notify the
15 local Senator or Assemblyman and he notifies the planning
16 commission, they know it; but if he doesn't, they would have
17 no way of knowing about it.

18 MR. HORTIG: This is possible. We also have the con-
19 verse about operations of counties on State lands, which we
20 find out posthumously. This is the age-old problem with
21 sixteen million people. However, we know that everyone is
22 notified of what is going on in all lines of government that
23 might affect them and we felt the level to which notice
24 should be sent was resolved by the Senate resolution, which
25 we have accepted as mandatory to notify all legislators with
26 respect to such operations.

1 MR. CARR: Are there any fresh water sailors around
2 here that can tell me what the restrictions are as to speed
3 and things like that around here? In salt water areas where
4 you have boats tied up in slips, speed boats in rapidly
5 moving traffic cause a lot of damage because of the rocking
6 and chafing in the moorings. What is the rule on the river?

7 MR. HORTIG: The answer, I think, is one word -
8 quote "confused" unquote, actually, within the navigable
9 inland waters and this goes for Lake Tahoe and all out in the
10 ocean -- not the ocean, but in the salt water harbors. The
11 first and foremost authorities for setting speed limits within
12 the harbor are usually the local port district or harbor board
13 having jurisdiction. You, of course, are referring to Newport
14 Bay and this was set by the harbor commissioners for Newport
15 Bay and it is so posted.

16 There are speed limits in both El Dorado and Placer
17 County sections at Lake Tahoe, as well as clearance areas
18 demarked for bathers, and so forth, pursuant to county ordin-
19 ance. There are some segments of the Sacramento River that
20 are similarly controlled and in those areas where there isn't
21 a statute controlling it, most marinas of the type considered
22 here post their own signs and at least say "Please go slow
23 here; please don't exceed five miles an hour," and so forth.
24 On the average, the boater sees those and recognizes if he
25 were to be arbitrary his boat may be the one to get it next
26 and may well slow down.

1 But the short form of answer to your question is:
2 there are no uniform set of criteria nor are there uniform
3 set of controls for all navigable waters of the State of
4 California at the present time. This is another problem
5 that the Small Craft Harbors Commission is working on as a
6 corollary to their development of small craft harbors, both
7 in terms of licensing funds and in conjunction with the
8 Coast Guard, formulating a uniform code of operations.

9 MR. CARR: Did you say there were fifty such leases
10 on the Sacramento River?

11 MR. HORTIG: Sacramento River, San Francisco Bay, some
12 sloughs in southern California, Noyo River, other northern
13 California rivers, plus all of the commercial boat harbor
14 marina type and ship repair type of operations at Lake Tahoe.

15 MR. CARR: Mr. Chairman, I am satisfied as far as this
16 question is concerned it seems to be apparent that there
17 should be some study given this from the standpoint of insur-
18 ing the fact that these things will ultimately be a pleasure
19 instead of a nuisance -- which they could very well be if
20 they aren't properly regulated and leases are granted more
21 or less indiscriminately.

22 I am perfectly willing to move the approval of this
23 but I think we ought to take a look at this situation and see
24 what is involved. We are always getting into crises because
25 we don't take a long look at things and plan ahead; then all
26 of a sudden we find out we have created some kind of a

1 monstrosity and somebody gets hurt.

2 MR. HORTIG: There are counter parts, Mr. Carr. If
3 we continue to seek and be certain we have the ultimate for
4 the greatest number of people, by that time our applicant
5 may well have died of old age.

6 MR. CARR: He should be so lucky.

7 MR. HORTIG: However, on the affirmative side in
8 connection with your suggestion, I would like to state to
9 the Chairman that the staff will first take an evaluation of
10 what type of study might be profitable in this area; and the
11 first area that occurs to me, and one we will review with that
12 agency, is a basis for liaison and coordination in the planning
13 with the Small Craft Harbors Commission as to where these
14 harbors, marinas, and so forth should go in the Statewide
15 interest.

16 GOV. ANDERSON: Then we will move on to item (1) of
17 the agenda -- the Santa Catalina Island Company.

18 MR. CRANSTON: I would like to suggest in whatever
19 further look we take at this we do consider whether the
20 rental rates do take into account what might be derived in
21 the way of better income to the State.

22 MR. HORTIG: Basically, of course, in consideration of
23 the fact that all our appraisals of State land, for whatever
24 purpose, are appraised for their highest and best use, we
25 should be making a reasonable approach to that answer.

26 MR. CRANSTON: Are we taking full account of the rapid

1 development of this type of usage of land adjacent to wharves?

2 MR. CARR: I don't think we are when we look at what
3 land is worth where population is dense.

4 MR. CRANSTON: It seems to me we are not.

5 MR. CARR: It seems to me almost a nominal rental.

6 MR. HORTIG: On the other hand, in terms of considera-
7 tion of the amount of land involved, the privately owned
8 land that backs up this operation, and the comparatively
9 large capital investment as soon as you get into a marina
10 operation, the bare tide and submerged lands ordinarily
11 unfortunately don't carry the same appraised value as the
12 solid upland.

13 MR. CRANSTON: Of course they are in conjunction
14 with the operation and without that the operation is zero.

15 MR. HORTIG: Certainly without water the operation is
16 zero.

17 MR. ZWEIBACK: Would that cut two ways? The upland
18 owner is in the same position. They can't do anything without
19 us.

20 MR. CRANSTON: Yes, but the upland owner is the one
21 making the profit.

22 MR. HORTIG: The final answer in a very few instances
23 without even attempting to secure a State lands lease, upland
24 owners have made their own evaluation and decided to stay out
25 of any kind of governmental control whatsoever and simply
26 have their boat harbor within the confines of their adjoining

1 privately owned lands and from then on only go out on the
2 river for a navigation easement, which leaves us with the
3 adjoining State lands that they might have used and leased
4 for their operation unleaseable.

5 MR. CARR: In view of the budget we just turned over
6 to the Governor, I don't think this 296 bucks is going to
7 balance it, but we still need to take a look at this situation.

8 GOV. ANDERSON: Then we will pass on to the next item --
9 item (i) -- The Santa Catalina Island Company. Any question
10 on that? (No response)

11 Item (j) -- Shell Oil Company; item (k) -- Signal Oil
12 and Gas Company, and I'd like to have that one reviewed.

13 MR. HORTIG: If I may refer to the preceding item,
14 Mr. Chairman -- I didn't get into gear fast enough. I would
15 like to explain with respect to the Shell Oil Company geo-
16 physical exploration permits. Shell Oil Company has existing
17 permits, all validly issued by the State Lands Commission, as
18 have some other operators. Since 1950 it has been a require-
19 ment of the permits of the State Lands Commission that the
20 only explosives that may be used for such operations -- the
21 only explosive is black powder of a specified grade, this
22 having been determined as being least detrimental to the
23 marine life.

24 Then, from findings which have been accepted and
25 adopted by the State Fish and Game Commission, the proposed
26 amendments as they appear on page 15 relate to a revision in

1 the type of explosive which may be used, which is acceptable
2 and has been authorized by the State Fish and Game Commission
3 but not authorized heretofore by the State Lands Commission,
4 to also permit using Hercules EP 198-B powder in lieu of
5 black powder as previously specified -- field control experi-
6 ments having been conducted under the supervision of the
7 Fish and Game Department to assure them that such alternative
8 explosive would be acceptable.

9 The Lands Commission control in its earlier permits
10 was based solely on the findings of the Fish and Game Commis-
11 sion in the interests of preserving the marine life. In view
12 of the fact the Fish and Game Commission feels it would be
13 appropriate to permit this rather recently developed explosive
14 to be used, there does not appear to be any reason why the
15 Lands Commission should not so specify in its permits -- and
16 this is the recommended amendment.

17 MR. CARR: Mr. Chairman, as a matter of curiosity --
18 what are the advantages of this other powder?

19 MR. HORTIG: Lesser cost, greater handling safety,
20 easier acquisition; (Black powder is hard to buy, believe it
21 or not, because the mills don't like to make it because it is
22 unsafe) lesser storage problems; and, finally, a better seismic
23 record as a result of the detonation with Hercules powder
24 instead of black powder.

25 MR. CARR: I don't want to take up the time of the
26 Commission, but to make black powder you take charcoal, salt-

1 peter....(few words here unintelligible) -- and get out of
2 the way.

3 MR. HORTIG: That's the trouble. They don't always
4 get out of the way. We'd like something to give them a little
5 more time.

6 GOV. ANDERSON: Next item, item (k), and I'd like to
7 have an explanation of this one.

8 MR. HORTIG: Yes, Mr. Chairman. As stated on page 16
9 of the Commission's copy of the calendar, the oil and gas
10 lease under consideration here was issued pursuant to com-
11 petitive public bidding on August 16, 1955. The lease, as
12 issued at that time, provided for a cash bonus bid. This
13 was -- the exact figures escapes me -- it was in excess of
14 \$500,000 for an area of 650 acres. This was the high bid.
15 The lease also provides for a sliding royalty scale on produc-
16 tion as, if and when developed. Concurrently with the issu-
17 ance of this lease, there were also leased some 3,000-plus
18 acres to the east, all of the area at that time having been
19 felt to be productive.

20 The 3000-plus acres were valued by the highest bidder
21 in the cash bid in excess of \$5,000,000. Five million
22 dollars' bonus and three million dollars' exploration costs
23 later, the lessees surrendered this lease to the State, not
24 having been able to develop commercial production.

25 Exploration has been conducted on Lease P.R.C. 1551.
26 No production has been developed. The lease terms require

1 drilling of additional wells unless such drilling is deferred
2 by action of the State Lands Commission. The present lessee
3 does not feel that further drilling at this time is justified
4 economically. On the other hand, there is always the hope
5 that with development of new technology, development of
6 additional data from drilling which is continuing spasmodically
7 westerly of the present lease, might lead to some clue which
8 might permit them to discover production in the distant future.

9 Therefore, the lessee has requested simply that they
10 be granted a deferment of drilling and operating requirements
11 for one year to January 1, 1961, to decide whether at that
12 time they quitclaim the lease or hopefully have started opera-
13 tions within the period, or may have bases for consideration
14 as to any further deferment of drilling and operating require-
15 ments.

16 The entire problem reduces itself to the simple element
17 that 650 acres are here under lease at an annual rental of
18 a dollar an acre per year. This is 650 in round numbers.
19 There are no other potential lessees in the current market
20 for this area. If the State chose not to grant the deferment
21 and, rather, cancelled the lease for failure to perform, we
22 would have 650 acres of unused tide and submerged lands and
23 unleased tide and submerged lands added to the 3,000-plus
24 which the Commission accepted the quitclaim on at the option
25 of the lessee earlier this fall.

26 There do not appear to be any advantages at this time

25A
1 to cancelling the lease; and there do not appear to be any
2 disadvantages in letting the lessee have another year's
3 opportunity to evaluate his position on whether or not this
4 lease can ultimately be developed or cancelled.

5 Along with Mr. Carr's comment about helping the
6 contributions to the treasury to balance the budget, the only
7 thing that cancellation of the lease would accomplish would
8 be the non-collection of \$650.

9 GOV. ANDERSON: I see in their argument or their
10 reason, they say "In view of such factors as..... the present
11 economic condition of the oil industry, no operations
12 are ... being conducted." In other words, the market value
13 of the oil is down and they are not interested in continuing
14 exploration; and I would fear if we were to grant deferments
15 like this that you would find the oil companies tying up
16 land, wanting to defer it year after year -- just continue it
17 until the market would be better for them to develop oil.
18 And I would kind of think maybe the other way around -- that
19 you are not going to get any potential lessee on a piece of
20 property that's held under lease by a present company. No
21 one is going to come in and make an offer for something some-
22 one already has -- at least, I don't think they would -- and
23 if you give them a deferment for another year, it is going to
24 discourage any other bidder from coming in and bidding. If
25 you put this back on the market wouldn't you have a better
26 chance to have someone come in and make a bid?

21
1 MR. HORTIG: A short form answer on that, Mr. Chairman,
2 is "no" and for the following reasons: Currently, leases
3 are not being sought avidly -- even what might be termed
4 better quality lands in California -- primarily because of
5 the unfavorable economic position in which the industry finds
6 itself. I concur with your thought that a statement of
7 economic conditions should not be a basis for granting of
8 deferment by this State Lands Commission.

9 GOV. ANDERSON: Have we ever done this before?

10 MR. HORTIG: Not based on economic conditions, and I'd
11 like to elaborate on that. This is a recitation, in effect.
12 The statement with respect to economic conditions is not, as
13 you noted, a condition or suggested as a reason for the defer-
14 ment. It was intended to recite the conditions which have
15 been reported by the lessee.

16 I am certain that the lessee would not object and the
17 staff would not recommend that if the Commission considered
18 this grant of deferment that we be specific and eliminate by
19 definite language from the grant of deferment any basis for
20 consideration in the future that economic conditions are a
21 precedent for granting a deferment; that it be specifically
22 pointed out that the economic conditions were not the basis
23 upon which this deferment was granted, if it was to be granted.

24 Further, on whether we could reoffer the lease at this
25 time and possibly do better and have some activity, the fact
26 remains that when this lease was originally issued in 1955

1 the area had a much higher potential value in the minds of
2 the industry -- as witness, as I said, the area immediately
3 adjoining which brought a five million dollar cash basis, but
4 three million dollars of development on the adjoining land
5 and eight or nine dry holes has put this neighboring property
6 now in a much less favorable light than it was felt to be in
7 in 1955.

8 So it's even beyond a reasonable assumption -- it just
9 must be that if we were to reoffer this area for lease today,
10 even if the petroleum industry wasn't in the economic straits
11 they are, we wouldn't expect to get a comparably favorable
12 bid for this lease and a comparably favorable royalty rate,
13 which would be the condition applicable under the lease if
14 production is discovered under the existing lease. In other
15 words, it's a good lease; if we only had oil on it, we wouldn't
16 have any problems.

17 MR. CARR: Mr. Hortig, I am a little bit confused.
18 Has this been drilled at all?

19 MR. HORTIG: Yes sir.

20 MR. CARR: How many dry holes have they produced on
21 this lease?

22 MR. HORTIG: Two, if I recall -- yes, two wells under
23 the lease from which there have been sidetrackings which were
24 logged very extensively; electric logs, cores were taken,
25 everything that could be done to evaluate the geology was done.

26 MR. CARR: How far down did they go?

1 MR. HORTIG: The exact depth? I do not have the data
2 with me, but sufficient to penetrate beyond the depth of all
3 known horizons on adjoining Huntington Beach, plus the area
4 which was quitclaimed I know was drilled to 9,000 feet.

5 MR. CARR: Mr. Chairman, I don't see any great loss
6 in granting this for one year.

7 GOV. ANDERSON: How about the precedent of using this
8 "for economic conditions"?

9 MR. CARR: That's the reason I asked the question.
10 Apparently the economic reason was that they drilled some
11 holes and didn't find anything and until they can find some
12 way to go deeper

13 GOV. ANDERSON: I think the economic conditions are the
14 oil market, not the fact that they sunk two wells. I think the
15 price is so low today that they just don't want to find any
16 more oil.

17 MR. HORTIG: No, I would say "no" -- of course, it
18 would be hard to demonstrate

19 MR. CARR: Apparently they looked if it has gone down
20 to the depth of any known production.

21 MR. HORTIG: If there were any clue known to the operator
22 or to the State Lands Division that offered any hope oil could
23 be found, the lessee would be drilling today. We just wouldn't
24 know where to dig the next hole with the hope at the present
25 time of finding oil.

26 GOV. ANDERSON: Is two holes on 650 acres sufficient?

1 MR. HORTIG: Not always, but also since this is
2 adjoined on the west by an operating lease and completely
3 surrounded on the east by the 3,000-plus acres which have been
4 explored, and the lessee has correlated this information to
5 give by extension a good cross-section over the entire section,
6 coming from the east and the west in addition to the two wells
7 that were drilled on this lease. If we had an isolated 650-
8 acre parcel of land, where we had no information at all, two
9 wells would not be an adequate base, but where we had two
10 wells and had 3,000 acres on the east immediately adjoining
11 and have marginal producing areas on the west and we also know
12 what is inside the fence, we have at least as good a picture
13 as can be economically sought to date.

14 MR. CRANSTON: I am prepared to proceed.

15 GOV. ANDERSON: My only limitation would be that I
16 would hate to have this economic condition played back to us
17 in the future by other oil companies citing this to us as an
18 example why they would like their lease deferred for a year.
19 Can the agreement be drawn up as to why we are granting this?

20 MR. HORTIG: I would propose, Mr. Chairman, that the
21 deferment specifically exempt this.

22 GOV. ANDERSON: And shouldn't we in the future, as a
23 calendar item

24 MR. HORTIG: Simply report, as you note, an application
25 has been received and we have therefore summarized what the
26 application of our applicant stated.

1 GOV. ANDERSON: . . with the understanding that when
2 you draw up this agreement, that that is included in there.

3 MR. CRANSTON: I move the approval of all items in
4 that classification.

5 MR. CARP: Second.

6 GOV. ANDERSON: Item 4, (a) through (j) moved and
7 seconded. No objection, so ordered.

8 MR. CRANSTON: (a) through (k).

9 GOV. ANDERSON: (a) through (k). Item 5 -- Long Beach
10 projects -- approvals required pursuant to Chapter 29, 1956.

11 Item (a) - General maintenance due to high tides,
12 dike fills, sandbagging, water pumping and utility costs.
13 Mr. Hortig.

14 MR. HORTIG: The Commission has previously approved a
15 subsidence maintenance area project for the fiscal year 1959-
16 1960 and subsequent to this approval it developed that addi-
17 tional unforeseen costs (that is, unforeseen at the time of
18 approval) will be incurred by the Harbor Department for an
19 increase of work over that originally contemplated project.

20 Therefore, it is recommended that the Commission allow
21 upward approval for additional subsidence remedial work, sub-
22 ject to the standard reservations which the Commission has
23 utilized in all such approvals -- that the amounts ultimately
24 allowed as subsidence deductions will be determined upon an
25 engineering review and final audit subsequent to the time
26 when the work under the items is completed.