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NEXT MEETING

21

1 MR. CRANSTON: Will the meeting please come to
2 order? The first item to come before us is the confirmation
3 of minutes of meetings of December 6, 1962 and of December
4 20, 1962. If there is no objection they stand approved as
5 submitted, is that correct?

6 MR. HORTIG: Yes, sir.

7 MR. CRANSTON: In order to take up matters before
8 us today which have attracted a large number of people to
9 this hearing, we will seek to speed through the agenda and
10 take up matters now where people are present, and leave until
11 the end of the day those which are not controversial, where
12 we have no people before us.

13 I have one request to take up an item which I have
14 been assured will not take up any time, which is Item Classi-
15 fication 4 (j). If there is no objection, we will take that
16 up now and then one or two other matters; then seek to get
17 to the oil matter which will consume a large amount of time.

18 Applicant (j) is T. Jack Foster -- Assignment to
19 Estero Municipal Improvement District of Mineral Extraction
20 Lease P.R.C. 2613.1, San Bruno Shoal, San Mateo County, sub-
21 ject to continuing obligation of T. Jack Foster.

22 As I understand it, there is no objection to this.

23 MR. HORTIG: There are no objections, Mr. Chairman,
24 and the application is for assignment of a lease which was
25 issued heretofore pursuant to competitive public bidding;
26 and the application is in full compliance with the statutes

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and the rules and regulations of the Lands Commission; and
the chair recommends approval.

MR. CRANSTON: Bert, do you wish to comment?

MR. LEVIT: No, I think not.

MR. CRANSTON: Motion is in order to approve.

MR. CHAMPION: Move.

MR. CRANSTON: Motion is made to approve, seconded
and done unanimously.

Is there anyone here who wishes to take up anything
other than the Brisbane matter and the oil matter, before
we adjourn? If not, let's proceed to Item Classifica-
tion providing we can settle it by ten thirty, say, which
we will be able to; and if it is not definite at that time,
we will proceed to the oil matter -- for which we have many
people here from a much further distance.

Frank, do you wish to state briefly the subject
of Item Classification 6 -- Proposed Annexation?

MR. HORTIG: Yes, Mr. Chairman. Pursuant to the
provisions of the Government Code, the City of Brisbane,
in processing an annexation of additional territory to
beyond their existing city limits, submitted the requis-
ite notification to the State Lands Commission for appraisal
of that portion of the area desired to be annexed
which include and submerged lands; and the Commission's staff
conducted appraisal and had recommended that the Commis-
sion approve the notification to the City Council of the

1 City of Brisbane that pursuant to requirements of the Govern-
2 ment Code, the Commission has determined the present value of
3 the State-owned tide and submerged lands proposed to be an-
4 nexed under City of Brisbane Council Resolution No. 70 to
5 be \$14,584,000.

6 As of yesterday evening, the staff received a
7 telegram reading:

8 "State Land Commission

9 The Bayshore Sanitary District a public utility
10 contests the Brisbane annexation. Your valuation
11 of the tidelands is requested by Brisbane should
12 consider Section 35313.1 of the Government Code.
13 A letter follows explaining this. The Brisbane
14 annexation proceedings are now in litigation in
15 Superior Court. Please call my office to
16 further discuss this subject.

17 Tom Bocci
18 Attorney Sanitary District "

19 Also from Mr. Bocci, a letter to State Land Commission,
20 attention Bert Tucker, who is the supervisor of our commer-
21 cial and recreation leasing section, who had been processing
22 this application on behalf of the City of Brisbane:

23 "Dear Sir:

24 I represent 4,000 residents of Bayshore City
25 and Bayshore Sanitary District who are con-
26 testing the right of the City of Brisbane
to annex an entire area of land that includes
tide and submerged lands.

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"Under Section 35313.5 of the Government Code, your Commission, upon application, must set a value on the tidelands under the circumstances set forth in this Code section. In 35313.1, a formula is established for establishing the value to publicly owned property. This value is that which would be assessed to the property on the assessment rolls in the County Assessor's Office if privately owned. Since the two sections must correlate, it would appear that your valuation would be the valuation to be placed thereon by the County Assessor for assessed valuation purposes. Such a valuation would be less than 25% of market value.

"Since this is a most important issue to the City of Daly City, which is also annexing this area, the 4,000 residents of Bayshore City and the Bayshore Sanitary District, who is contesting the Brisbane annexation, I would respectfully ask that the interpretation to be made of 35313.5 Government Code section be in keeping with the remaining provisions of Section 35313.1 through .5.

Yours very truly,
Thomas L. Bocci "

MR. HORTIG (continuing) The proposed annexation report by the staff recommended to the Commission is in strict conformance with the same procedure which has been utilized at all times, with the approval of the Office of the Attorney General, in connection with applications of the same type; and there is no record in State Lands of any proposed annexation by the City of Daly City with respect to the subject area, as contained in the referenced letter from Mr. Bocci.

MR. CRANSTON: Does anyone here wish to appear on this matter?

1 MR. REISCH: Mr. Chairman, members of the Commis-
2 sion, my name is Conrad Reisch. I am the City Attorney of
3 the City of Brisbane. The Mayor of the City, Mr. Turner, is
4 present; and the City Manager, Mr. Brady, and some of the
5 councilmen. We are prepared to answer any questions which
6 you may have concerning this particular matter.

7 I can advise the members of the Commission unequiv-
8 ocally that the lands that are under the State Lands Commis-
9 sion, that are proposed for annexation to the City of Bris-
10 bane, are not included in any annexation being proposed to
11 the City of Daly City.

12 GOV. ANDERSON: This Sanitary District group --
13 is this all located in Brisbane?

14 MR. REISCH: The Bayshore Sanitary District is a
15 district operating under the Sanitary District Act of 1923.
16 It s jurisdiction generally is in the area to the north of
17 the city limits of the City of Brisbane.

18 GOV. ANDERSON: Does it cover the area that is to
19 be annexed?

20 MR. REISCH: Some of the Sanitary District is in
21 some of the area proposed to be annexed to the City of
22 Brisbane. The major part of the Sanitary District is an
23 area presently being proposed for annexation to the City of
24 Daly City. There is no conflict with respect to boundaries
25 in the areas proposed to be annexed to the City of Brisbane
26 and the City of Daly City.

1 GOV. ANDERSON: The four thousand residents they
2 state they represent, are those four thousand residents in
3 Brisbane or just where are these four thousand people?

4 MR. REISCH: These four thousand people reside in
5 the area proposed for annexation to the City of Daly City.
6 I might add parenthetically that I am confident that Mr.
7 Bocci does not represent four thousand.

8 MR. HORTIG: Mr. Chairman, the staff would like to
9 suggest for consideration, however, in view of the fact that
10 at least a portion of the area is the subject of litigation,
11 possibly the clearest manner in which this matter could be
12 disposed of would be consideration by the City of Brisbane
13 to withhold action on its annexation application until the
14 completion of the litigation; and thereafter the Lands Com-
15 mission could process the application expeditiously in
16 accordance with whatever judicial determinations had been
17 made.

18 MR. CHAMPION: What relevance does that have to
19 our evaluation?

20 MR. HORTIG: It has no relevance to our evaluation.

21 MR. CHAMPION: Why should we delay?

22 MR. HORTIG: Only, sir, because -- as Governor
23 Anderson has pointed out previously with respect to applica-
24 tions of this type, an appraisal by the Lands Commission at
25 this time of this order of magnitude could be alleged to
26 have been one of the persuasive features in overcoming pro-
tests of citizens in the other area.

1 In other words, the Lands Commission appraisal
2 submitted at this time could be the determining factor in
3 resolving what is strictly a local problem; and the question
4 is could the Lands Commission -- not deliberately, but un-
5 wittingly -- be placed in that position?

6 MR. CHAMPION: It seems to me we are just asked
7 to comply with the statute. We are not asked to make any
8 particular judgment. Whatever the result of our obligation
9 to carry out the statute, that is something of local concern.

10 MR. HORTIG: This is the alternative of the two
11 that the Commission has before it.

12 MR. CHAMPION: I move we approve the original
13 staff recommendation.

14 GOV. ANDERSON: I'll second it.

15 MR. CRANSTON: Approval is moved, seconded, and
16 without objection it is made unanimously.

17 MR. REISCH: Thank you, Mr. Chairman.

18 MR. CRANSTON: We will now proceed to the matter
19 of the Long Beach Wilmington Oil Lease, having disposed of
20 matters involving people present here on the agenda.

21 (The next item considered was Calendar Item 28:
22 Unit Agreement, Unit Operating Agreement, Exhibits
23 and Field Contractor Agreement, Long Beach Unit,
24 Wilmington Oil Field, Los Angeles County -
25 L.B.W.O. 10,155. This item has been reproduced
26 separately on stencils because of the number of
copies required.)

1 MR. CRANSTON: We will return to Item Classification
2 3. Is Jay Shavelson still present?

3 MR. HORTIG: We are still in session.

4 MR. CRANSTON: Jay, I have an expediting question
5 to ask you. I have always wondered if we need to read the
6 details of the authorizations asked. I would like to ask if
7 we can just take up the matters under Classification 3

8 MR. SHAVELSON: My suggestion would be to go through
9 the ordinary procedure, since you are required to have a
10 public meeting.

11 MR. CRANSTON: Item Classification 3: Applicant
12 (a) I. Mills Beam -- five-year renewal of permit dated
13 1/22/58, issued by Department of Finance, to salvage aban-
14 doned cable from State-owned tide and submerged lands along
15 the California coast -- to minimize hazards to shipping and
16 facilitate harbor defense;

17 Item (b) State of California, Department of Fish
18 and Game -- 49-year life-of-structure permit, two acres of
19 sovereign lands of Eagle Lake, Lassen County, for boat-
20 launching ramp and appurtenant facilities;

21 Item (3) State of California, Division of Highways --
22 Right-of-way easement, tide and submerged lands of Sacramento
23 River, Shasta County, for bridge for State Highway Route II
24 Sha 20 C;

25 Item (4) United States of America, Department of
26 Defense -- Easement, 0.24 acre sovereign lands at City of

1 Coronado, San Diego County, for four fenced airplane approach
2 lights for Runway 29 at Naval Air Station, North Island.

3 GOV. ANDERSON: I'll move.

4 MR. CHAMPION: Second.

5 MR. CRANSTON: Approval is moved, seconded, and
6 adopted unanimously.

7 Classification 4 -- Applicant (a) American Tele-
8 phone and Telegraph Company -- 49-year easement, 0.457 acre
9 school lands, San Bernardino County, for underground coaxial
10 cable; total rental \$150.

11 MR. HORTIG: Mr. Chairman, for the information of
12 the Commission, where such cable installation would cross the
13 uplands and particularly across State lands as indicated
14 here for this easement, all facilities will be underground.

15 MR. CRANSTON: Item (b) Kenneth E. Edmiston and
16 Marjorie A. Edmiston -- Five-year grazing lease, 3840 acres
17 school lands San Bernardino County, annual rental \$38.40;

18 Item (c) E. I. Du Pont de Nemours and Company,
19 Inc. -- 15-year lease, 1.35 acres tide and submerged lands
20 of San Joaquin River near Antioch, for dock and dolphins for
21 barges for chemical plant, annual rental \$575.94;

22 Item (d) James A. Gallagher and Mary A. Gallagher --
23 10-year lease Lot 37 Fish Canyon Cabin Site, Los Angeles
24 County, annual rental \$65;

25 Item (e) Howard J. McQuigg and Ruth McQuigg --
26 10-year lease, Lot 62 Fish Canyon Cabin Site, Los Angeles

1 County, annual rental \$65;

2 Item (f) Philip D. Tripp and Richard M. Russell --
3 10-year lease, Lot 46, Fish Canyon Cabin Site, Los Angeles
4 County, annual rental \$65;

5 Item (g) San Francisco Port Authority -- I under-
6 stand that is put over.

7 MR. HORTIG: It is the staff's request ...

8 GOV. ANDERSON: (g) is off calendar, then?

9 MR. HORTIG: Yes.

10 MR. CRANSTON: Item (h) California Minerals Corpora-
11 tion -- Assignment to Minerals Materials Company of a 50%
12 interest for initial period of ten years, and approval of
13 subleases from California Minerals Corporation and Mineral
14 Materials Company, joint venturers doing business under the
15 name of California Asbestos Company, to Atlas Corporation,
16 of Mineral Extraction Leases P.R.C. 1511.2, et cetera,
17 Fresno and San Benito counties;

18 Item (i) Continental Oil Company -- Assignment to
19 Douglas Oil Company of California of Oil and Gas Lease P.R.C.
20 1524.1, Huntington Beach Field, Orange County;

21 Item (j) T. Jack Foster ...

22 MR. HORTIG: This was the assignment acted on
23 earlier this morning, Mr. Chairman.

24 MR. CRANSTON: Item (k) Pacific Gas and Electric
25 Company -- Amendment of right-of-way easement P.R.C. 2942.1,
26 Sonoma County, to change the legal description, resulting

1 in an increase in acreage to 0.895 acre. Total rental to
2 be increased from \$1,856.61 to \$2,491.65.

3 Item (l) Northern California Plywood, Inc. --
4 Acceptance of quitclaim deed for Lease P.R.C. 1861.1, Klam-
5 ath River, Del Norte County -- logging operations completed.

6 Item (m) Karl Pierce, Feree Pierce, and Frank
7 Pierce -- Deferment of operating requirements, Mineral Ex-
8 traction Lease P.R.C. 2150.2, San Luis Obispo County, for
9 lease year ending April 13, 1963. Chrome market depressed;
10 grade of ore occurring within leased area cannot be mined
11 economically at present.

12 Item (n) San Diego Gas and Electric Company --
13 Deferment of operating requirements, Mineral Extraction
14 Lease P.R.C. 2094.1, San Diego County, for lease year ending
15 March 9, 1963. Dredging operations required in construction
16 of first and second units of South Bay Generating Station
17 are completed; no further dredging contemplated at present.

18 GOV. ANDERSON: Frank, would you just briefly
19 explain that item (h) -- the assignment to Minerals Materials
20 Company?

21 MR. HORTIG: Well, there is an existing lease for
22 extraction of various minerals at the junction of San Benito
23 and Fresno counties at the mountain top, on which a portion
24 of interest is being acquired from the present lessee.

25 GOV. ANDERSON: It is a half interest and no
26 compensation at all?

1 MR. HORTIG: No, sir.

2 MR. CRANSTON: Motion is in order for approval of
3 those items pending before us.

4 MR. CHAMPION: Move approval.

5 GOV. ANDERSON: Second.

6 MR. CRANSTON: Approval is moved, seconded, made
7 unanimately.

8 Item 5 -- Authorization to exchange with the United
9 States eighty acres of State school lands in Shasta National
10 Forest for 54.10 acres Federal lands in Trinity County, the
11 State and Federal lands being of approximately equal value --
12 pursuant to application of Kelso V. B. Young.

13 MR. CHAMPION: Move approval.

14 GOV. ANDERSON: Second.

15 MR. CRANSTON: Approval moved, seconded, made
16 unanimately.

17 We have acted on Item 6.

18 Item 7 -- Authorization for Executive Officer to
19 execute Stipulation in Pacific Gas and Electric Company v.
20 County of San Mateo, et al., San Mateo County Superior Court
21 Number 80503, extending interim occupancy of certain State
22 lands by Pacific Gas and Electric Company to December 31,
23 1964 -- pending consummation of an exchange transaction with
24 Leslie Salt Company.

25 MR. CHAMPION: Move approval.

26 MR. CRANSTON: Approval is moved

1 GOV. ANDERSON: Second.

2 MR. CRANSTON: .. seconded, made unanimously.

3 Item 8 -- Authorization for Executive Officer to
4 execute Compensatory Gas Royalty Agreement with Patrick A.
5 Doheny for State's interest in bed of Sacramento River,
6 Sycamore Area, Colusa and Sutter counties.

7 MR. CHAMPION: Move approval.

8 GOV. ANDERSON: Second.

9 MR. CRANSTON: Approval is moved, seconded, made
10 unanimously.

11 Item 9 -- Authorization for issuance to high bidder,
12 Union Oil Company of California, of proposed Oil and Gas
13 Lease, tide and submerged lands, Santa Barbara County,
14 Parcel 11. The staff has recommended approval of this.

15 MR. CHAMPION: What is involved in that?

16 MR. CRANSTON: The high bid?

17 MR. HORTIG: \$267,000 high cash bonus offer.

18 GOV. ANDERSON: I'll move it.

19 MR. CHAMPION: Second it.

20 MR. CRANSTON: Approved moved, seconded, made
21 unanimously.

22 Item 10 -- Authorization for Executive Officer to
23 offer Proposed Oil and Gas Lease, Santa Barbara County --
24 Parcel 13.

25 MR. CHAMPION: Move it.

26 GOV. ANDERSON: Second.

1 MR. CRANSTON: Approval is moved, seconded, made
2 unanimously.

3 Item 11 -- Confirmation of transactions consum-
4 mated by the Executive Officer pursuant to authority con-
5 firmed by the Commission at its meeting on October 5, 1959.

6 MR. CHAMPION: Move confirmation.

7 GOV. ANDERSON: Second.

8 MR. CRANSTON: Moved, seconded, and made unani-
9 mously.

10 Item 12 -- Confirmation of schedule of meetings of
11 the State Lands Commission for 1963 calendar year, as indi-
12 cated on pages 34 and 35. We have already had that before
13 us but never adopted it.

14 MR. HORTIG: This is the schedule which was sent
15 to you gentlemen in January.

16 MR. CHAMPION: Move approval.

17 GOV. ANDERSON: Second.

18 MR. CRANSTON: Approval moved, seconded and made
19 unanimously.

20 Item 13 -- Informative only, no Commission action
21 required -- Report on status of major litigation. Frank,
22 do you have anything?

23 MR. HORTIG: Not specifically -- the routine ex-
24 tensions of existing permits and other authorizations --
25 Are we on litigation?

26 MR. CRANSTON: Status of major litigation.

1 MR. HORTIG: No, no new litigation has been added
2 since the last time we reported to the Commission.

3 MR. CRANSTON: On the next meeting, let's take one
4 moment to discuss what we went through here today. What is
5 your feeling? Should we schedule a substantial amount of
6 time a month hence?

7 MR. CHAMPION: I'd like to ask Mr. Desmond a
8 question in terms of the discussion on time we had here today.
9 You indicated in your testimony a question of urgency on time
10 because you want to go to work on the other existing con-
11 tracts?

12 MR. DESMOND: That's right.

13 MR. CHAMPION: Now, what is the schedule which you
14 consider you have to meet in order to meet that problem?

15 MR. DESMOND: We have not discussed this at all
16 with Mr. Hortig or his office, but that will expire and it
17 isn't the first day of March -- I believe it's March the
18 25th of next year the present L.B.O.D. contract runs out.
19 We feel that -- dating back, again, to the time needed for
20 preparing this -- let's say ninety days from that going back
21 wards would take us to the latter part of November, which
22 I would think would allow no time - - I would say it would
23 have to go out to bid probably in the month of October.

24 GOV. ANDERSON: Is this going to take a great
25 amount of time, inasmuch as it is reviewing and continuing
26 with what you already have?

1 MR. DESMOND: Well, we don't know. We feel that
2 the present contract, which is on a gross basis, should be
3 changed. I mean, a different method -- the net profit basis --
4 should be the basis of proceeding, I believe. I think this
5 is Mr. Hortig's view. I know he has expressed pleasure and
6 appreciation that the contract here under consideration is
7 on that basis. So I would say there would be a considerable
8 period of time required.

9 GOV. ANDERSON: Well, the time for staff work on
10 your part, I heard there would be a lot of staff work on
11 your part to review this and reprepare this.

12 MR. DESMOND: I think so.

13 MR. CHAMPION: Frank, let me ask it another way.
14 Starting from this end, how long do you think it would take
15 for you to review the various questions that were raised in
16 the hearing today and present your comments, and I presume
17 Long Beach will also want to review and present comments;
18 how long would it take you to do that?

19 MR. HORTIG: From the policy standpoint I could
20 give you an estimate. There are a great number of questions
21 which are either inherently or explicitly legal questions
22 and I just have a feeling it is going to take longer to get
23 a resolution of those than the operating and policy questions;
24 so if I might pass the question to Jay - -

25 MR. SHAVELSON: That's a difficult question.
26 Mr. Clark raised some interesting questions rather rapidly

1 and I'd like to sit down and assimilate them before I
2 answer that question.

3 GOV. ANDERSON: Two months?

4 MR. SHAVELSON: Oh, yes.

5 MR. CHAMPION: Is there a chance that at the next
6 meeting, as Alan suggested, we might be able to hear the
7 comments on this and have a further discussion at the next
8 meeting, or is that too soon?

9 MR. DESMOND: We were hoping you would say a
10 special meeting in about two weeks' time; if the work can-
11 not be accomplished then, depend upon the next one.

12 MR. CHAMPION: I think you will agree that some
13 rather complex questions were raised.

14 MR. DESMOND: Yes.

15 MR. SHAVELSON: We have some internal problems
16 and that is this -- that the Long Beach boundary litigation
17 is set for pretrial in July and it so happens that I have
18 done all of the work on the Long Beach Unit and I have also
19 done all the work on the Long Beach boundary; and if I
20 have under four to six weeks on this, it is going to create...

21 MR. CRANSTON: I think you are going to have more
22 than four to six weeks.

23 MR. SHAVELSON: I believe so, or else have to
24 shift it over to Howard Golden -- which means that he is
25 going to have to familiarize himself -- which again means
26 it would take more time than ordinarily. So until we

1 straighten this internal problem out

2 MR. CRANSTON: I think we should schedule a full
3 day for the next regular meeting. This would give us time
4 for the staff to work on it.

5 MR. CHAMPION: I think we ought to ask the
6 Attorney General to reinforce the troops on this matter.

7 MR. SHAVELSON: It is not a question of the number
8 of people. It is a question of getting familiarity with
9 the problem. The amount of work that went into our opinion,
10 I think, was four or five months almost.

11 MR. CHAMPION: Well, in view of the importance of
12 this to Long Beach and of the importance of it to the State
13 in terms of revenue -- I think if the statement was made
14 that we are in dire straits, it would be a little exag-
15 gerated; but we really ought to get more people familiar
16 with it.

17 MR. DESMOND: May I make this comment? If it
18 becomes the decision of the Commission that any substantial
19 changes be made, it really means a change also in the Unit
20 Agreement, Unit Operating Agreement, and I think that would
21 mean really starting over. We could not start over at this
22 time. Unless this is out in substantially the same form
23 within, I would say, a period of not more than six weeks'
24 time, then I think we should devote our attention entirely
25 to the other matter; and at some later time take this up.

26 MR. CHAMPION: Are you speaking only to the Unit

1 Agreement, or are you speaking to the Field Contractor's
2 Agreement?

3 MR. DESMOND: I am speaking to the Field Contrac-
4 tor's contract. If the type of contract is changed, the
5 Field Contractor's contract, that would mean the entire pack-
6 age has to be redone -- and this is something we have actu-
7 ally devoted, I would say, almost a full year to.

8 MR. CHAMPION: The Unit Operating contract did not
9 come under great question here.

10 MR. DESMOND: Not a great deal, a few questions.
11 One is tied to the other. If we start over, we start over
12 the whole thing and we are not going to be able to do that.

13 GOV. ANDERSON: You mean if we attempted to, in a
14 sense, break up this feeling towards monopoly and may be used
15 that one suggestion of interests and still have the one oper-
16 ating unit, that this would mean starting all over again?

17 MR. DESMOND: I think it would.

18 GOV. ANDERSON: Why? And I was going to ask you
19 earlier -- why didn't you get agreements in writing on the
20 Unit Agreement before actually the contract itself?

21 MR. DESMOND: No reason not to. Mr. Shavelson, of
22 course, commented there that we have all these letters --
23 as soon as it is approved, they are ready to sign.

24 GOV. ANDERSON: Why don't you get them signed up
25 before?

26 MR. DESMOND: I made that suggestion. If the

1 Commission makes the condition that to let this contract
2 out to bid that first there must be whatever assurances
3 needed, that's fine. There is no other reason. I think
4 you have heard these people. Now, several of the companies
5 have advised that they are ready to sign and will do so upon
6 approval of this agreement.

7 Now, if the agreements are not approved, why, of
8 course, there is no point in proceeding. They have said as
9 soon as they are approved, they will sign -- not as soon as
10 the bid opens or the contract is open.

11 MR. CHAMPION: The question that was raised: Do
12 you go through the procedure until you have got these com-
13 mitments? And I think this is a fair question. In other
14 words, is there any reason why they should not be asked to
15 do this right now?

16 MR. DESMOND: We could do that.

17 MR. CHAMPION: Why don't we do it?

18 MR. DESMOND: All right.

19 MR. CRANSTON: I'd like to allocate two days next
20 time. The next meeting is Thursday, March 28th. Why don't
21 we schedule Wednesday, the 27th, and Thursday, the 28th?
22 That would give time for a full exploration at that time
23 and we could see where we are.

24 GOV. ANDERSON: I would much rather see it go
25 Friday and Saturday. Two days out of Legislature are murder.

26 (off-the-record discussion)

1 MR. CRANSTON: We should schedule the day and
2 reserve the evening of the 28th and we will announce it
3 may go into the evening.

4 MR. HORTIG: Mr. Chairman, there is a supplemental
5 calendar item attached to your calendars and this requires
6 action. It is pages 39 and 40 and it relates to legisla-
7 tion which has been introduced and can affect the legisla-
8 tive cognizance or operations of the Commission. It is
9 recommended that the Commission authorize the Executive
10 Officer to discuss the foregoing listed measures with the
11 authors thereof, and to attend the respective legislative
12 committee hearings for the purpose of presentation of re-
13 ports of facts and existing Commission administrative
14 procedure and regulations relative thereto.

15 MR. CHAMPION: You would be derelict in your
16 duty if you didn't.

17 MR. HORTIG: If I didn't have such instructions
18 I couldn't.

19
20 MEETING ADJOURNED 5:27 P.M.

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CERTIFICATE OF REPORTER

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I, LOUISE H. LILLICO, hearing reporter for the Office of Administrative Procedure, hereby certify that the foregoing twenty-one pages, and pages 1 through 144 of the Long Beach Wilmington Oil Field item reproduced on stencils by me, contain a full, true and correct transcript of the shorthand notes taken by me in the meeting of the STATE LANDS COMMISSION at Sacramento, California, on February 28, 1963.

Dated: Los Angeles, March 12, 1963.

Louise H. Lillico

STATE

LANDS COMMISSION

FEBRUARY 28, 1963

1 STATE LANDS COMMISSION

S.L.C.
FILE COPY

2 SACRAMENTO, CALIFORNIA

3 February 28, 1963

4
5 CALENDAR ITEM 28

6 UNIT AGREEMENT, UNIT OPERATING AGREEMENT, EXHIBITS, AND FIELD
7 CONTRACTOR AGREEMENT, LONG BEACH UNIT, WILMINGTON OIL FIELD:

8 MR. CRANSTON: We will now proceed with the matter
9 of the Long Beach Wilmington Oil Field, having disposed of
10 matters involving people present here on the agenda.

11 I'd like first to welcome members of the Special
12 Senate Committee who are going to sit with us and keep track
13 of this particularly vital matter: Senator O'Sullivan, Chair-
14 man of that Special Committee; Senator McCarthy, Senator Murdy,
15 Senator Teale, Senator Arnold.

16 Frank, would you get word to Senator Kennick that we
17 are about to take up this matter? I believe he would wish to
18 be with us when we get to it. I believe he is on the Assembly
19 floor.

20 Just to sort of set the framework for what we are
21 going to be doing, I have a brief statement to read. Before
22 the Lands Commission today for consideration are proposed
23 agreements submitted by the City of Long Beach, setting forth
24 terms for the development of the Long Beach Unit of the Wilming-
25 ton Oil Field.

26 Revenues to the State of California from this devel-
27 opment should run into hundreds of millions of dollars during
28 the next thirty-five years. We hope that substantial revenue
29 will be forthcoming soon enough to contribute significantly
30 toward the relief of our present fiscal situation. Every dol-
31 lar taken from the tidelands means that one dollar less must

1 come from the pockets of our taxpayers.

2 Petroleum engineers believe this field may prove to
3 be the second richest in this country. Estimates of its recov-
4 erable oil range up to 1.5 billion barrels.

5 The purpose of this hearing primarily is to permit
6 the City of Long Beach and other interested parties to express
7 their views on these agreements. The Lands Commission will
8 not reach a decision on this matter today. However, we will
9 not procrastinate in our deliberations.

10 The Long Beach Unit (sometimes referred to as the
11 East Wilmington Field) covers some 6,700 acres and includes
12 4,500 acres of tide and submerged lands held in trust by the
13 City of Long Beach.

14 The Lands Commission will authorize no development
15 inconsistent with the preservation of the natural beauty and
16 recreational utility of the coastline.

17 In summary, it is the hope of the Lands Commission,
18 with the help of those present today, to bring about the
19 development of this oil field in keeping with the best inter-
20 ests of all the people of California.

21 I think first in order would be a statement by
22 Frank Hortig of the issue before us. We will then proceed
23 to hear from Long Beach, and then from those who would in any
24 way wish to testify or add to the information. I would like
25 the Senators or Assemblymen here to interpose their questions
26 along the way, whenever they wish to do so.

27 Do you wish to proceed, Frank?

28 MR. HORTIG: Yes, Mr. Chairman. Summarizing from
29 the calendar item, a copy of which is before all members of
30 the Commission, the industry representatives, and the City,
31 the City of Long Beach has submitted for approval by the State

1 Lands Commission, in accordance with applicable provisions of
2 law, copies of a Unit Agreement, Unit Operating Agreement,
3 Exhibits to the Unit Agreement and Unit Operating Agreement,
4 and a Field Contractor Agreement, providing for the unitization
5 of all oil, gas, and other hydrocarbons to be produced from a
6 proposed Long Beach Unit.

7 The proposed Long Beach Unit is outlined on the air
8 photo on the far wall from you gentlemen and includes both the
9 upland area within the heavy white line to the north, which is
10 to the upper part of the map, extending to the westerly bound-
11 ary, which is the jagged north-south line to the left of the
12 flood control channel and which you gentlemen see terminating
13 in a curved pier section and extending easterly to the second
14 diagonal line, trending approximately northeast-southwest; and
15 if I may step to the map, I will outline this area again, as I
16 have just attempted to describe it in words.

17 The westerly limit of the area proposed ultimately
18 for inclusion in the Long Beach Unit would be the line I am
19 tracing at the moment. Approximately the northerly limit
20 would be the heavy white line, which I am also following, ex-
21 tending along the shore to the easterly limits of the ultimate
22 unit development, southwesterly along the common boundary be-
23 tween the Cities of Long Beach and Seal Beach, and returning
24 across the tide and submerged lands to join again the westerly
25 limit.

26 Under discussion for development in the contracts
27 which are before the State Lands Commission for consideration
28 for approval are only two sets of parcels, being this area --
29 which 's granted tide and submerged lands which have been
30 granted by the Legislature to the City of Long Beach in trust
31 heretofore -- and the area of uplands held in private ownership

1 and under lease to various oil companies and to various other
2 oil operators.

3 The area between the two lines I have just traced,
4 and hope that all the Committee can see it, at the easterly end
5 of this map is the Alamitos State Beach Park parcel, of which
6 the oil and gas are under the exclusive jurisdiction of the
7 State Lands Commission; and the manner of development and the
8 manner of commitment of that portion of the total area is not
9 under consideration yet. This will be a matter for considera-
10 tion of the State Lands Commission in the future.

11 The contracts which are under consideration by the
12 Commission relate at this time, or would relate at this time,
13 only to the granted tide and submerged lands and privately
14 owned uplands within the geographic boundaries of the Long
15 Beach unit. This is also shown, and possibly a little more
16 clearly for you gentlemen, in the map which is an exhibit
17 in the copy of the Unit Agreement you have before you.

18 SENATOR TEALE: Mr. Hortig, the unit to the west
19 there -- that is presently in production?

20 MR. HORTIG: Senator Teale, the area to the west is
21 presently being operated under two sets of contracts, also is-
22 sued by the City of Long Beach and prior the time of the State
23 of California having become associated in a supervisory capaci-
24 ty by reason of Chapter 29 of the Statutes of 1956. Immedi-
25 ately to the west of the westerly boundary of the proposed unit,
26 and over to the curved pier section previously referred to, is
27 the area which is under development and production by Richfield
28 Oil Corporation; and the remainder of the area, along the Har-
29 bor frontage and extending out into the water, is the area that
30 is under development by an organization known as the Long Beach
31 Oil Development Company.

1 MR. CRANSTON: Senator Kennick, how about coming up
2 here with the other Committee members? And welcome to our
3 hearing.

4 ASSEMBLYMAN KENNICK: Thank you, Mr. Chairman.

5 MR. CRANSTON: Frank, do you want to proceed?

6 MR. HORTIG: Again in summary, prior to February 27,
7 1962, the offshore area just described for potential unit devel-
8 opment, on which application has been received, was located with-
9 in an area in which oil and gas drilling were prohibited by City
10 ordinance.

11 On February 27, 1962, the Long Beach electorate ap-
12 proved an oil development ordinance for establishment and desig-
13 nation of a portion of the offshore area, being that area just
14 described, as permitted drillsite areas, and specifically author-
15 izing the development of such area from only four offshore
16 islands as permitted drillsites, to be placed in the general
17 area and to be located depending upon, particularly, the engi-
18 neering and geologic determinations that would be made of explora-
19 tion information, after exploration information would permit such
20 operations.

21 The ordinance provided that in the development, the
22 onshore and offshore areas are within geographic boundaries of
23 a subsidence area which has been established by the Oil and Gas
24 Supervisor; that repressuring operations can be expected to pre-
25 vent and arrest subsidence and increase the amount of oil recov-
26 erable, and protect oil and gas waste in a unit under cooperative
27 development of underlying pools.

28 Pursuant to the ordinance, any drilling operations must
29 be conducted in a manner consistent with conservation practices,
30 with exploitation operations to be conducted in a systematic plan
31 of development, in an economic manner consistent with the best

1 oil field practice prevailing in the adjoining Wilmington Oil
2 Field.

3 As a result of this proposal to the State Lands Commis-
4 sion staff, and predicated on a Long Beach Harbor Department
5 recommendation that consideration be given to employing for de-
6 velopment of the new unit area the same practices and methods
7 and techniques as had been utilized heretofore by the Harbor
8 Department -- specifically in connection with those same opera-
9 tions, Senator Teale, as are being conducted by Richfield Oil and
10 Long Beach Oil Development Company -- the Commission staff ex-
11 pressed the need for preparation of an engineering and economic
12 study of the previously existing operations, to prove their
13 feasibility from an engineering and economic standpoint.

14 Such report was submitted by the City, and the staff
15 also prepared a separate report, generally in concurrence as to
16 findings -- particularly, that economic analysis of past perform-
17 ance under actual waterflood operations indicates that this has
18 been an extremely effective method of increasing oil recovery,
19 and that the oil revenue from the developed portion of the Long
20 Beach tidelands will be considerably greater than it would have
21 been if the waterflood program had not been undertaken. However,
22 it must be noted that for application to the Long Beach Unit,
23 the waterflood program conducted in the developed and partially
24 depleted field will require modification because of reservoir
25 characteristics which not only may but will certainly vary from
26 those in the developed field which are expected, and some have
27 already been found within the geographic boundary of the unit
28 area.

29 The purpose of the agreement, if achieved by the City,
30 is to accomplish the following: (1) To promote the conservation
31 of oil and gas in the unitized formations and to secure other

1 benefits obtainable through the development and operation of the
2 unitized formations as a unit under the terms, conditions, and
3 limitations therein set forth; (2) To initiate and conduct re-
4 pressuring operations in accordance with the provisions of the
5 City ordinance and the Public Resources Code; and (3) to increase
6 the maximum economic quantity of oil and gas ultimately recover-
7 able from the unitized formations through repressuring operations.

8 Now, the surface area overlying the anticipated produc-
9 tion zones within the entire unit area is approximately 6,700
10 acres, of which 4,500 acres lie within Tract 1. That Tract 1 is
11 the tract of granted tide and submerged lands only. The total
12 recoverable oil reserve.....

13 SENATOR DOLWIG: What do you mean by "only the tideland
14 area"?

15 MR. HORTIG: Tract 1.

16 SENATOR DOLWIG: Tract 1?

17 MR. HORTIG: Yes.

18 SENATOR DOLWIG: Is that tract the upland area?

19 MR. HORTIG: The upland area is identified as Tracts
20 3 through 91, and the Alamitos State Beach Park is Tract 2. The
21 area in green, Senator, which is the granted tide and submerged
22 lands, is Tract 1; the passionate purple is Tract 2; and the yel-
23 low area is the upland private ownership; and this is a reproduc-
24 tion of the map which is in the document you have before you.

25 SENATOR DOLWIG: The proposed Unit Agreement covers
26 all these tracts?

27 MR. HORTIG: All but Tract 2. The proposed Unit Agree-
28 ment relates only at the present time to development of Tract 1
29 and those tracts, 3 through 91, in the upland. The unit did not
30 include Tract 2, the Alamitos State Beach Park parcel, in which
31 the oil and gas are under the jurisdiction of the State Lands

1 Commission. The manner of development of the State Beach Park
2 parcel is a matter of determination in the future.

3 SENATOR DOLWIG: In other words, development of that
4 is in the future?

5 MR. HORTIG: Yes.

6 SENATOR TEALE: To the east of Tract 2 on that map,
7 the heavy white line that goes out, what is that tract? Is that
8 under development or what is it known as?

9 MR. HORTIG: That area, Senator Teale, is a State lease,
10 P.R.C. 186, held at the present time jointly by Humble Oil and
11 Refining Company and Texaco Inc. This is a lease awarded by the
12 State Lands Commission under competitive public bidding, approxi-
13 mately in 1945. It is under development; it is under operation --
14 there are upwards of sixty producing wells on that lease.

15 SENATOR TEALE: Does that overlie a portion this?

16 MR. HORTIG: The heavy white line is a representation
17 by the City of Long Beach as the possible estimated productive
18 limits. This is not an interpretation by the State Lands Commis-
19 sion or State Lands Division staff.

20 SENATOR O'SULLIVAN: Mr. Hortig, what are returns
21 annually from the Humble and Texaco lease?

22 MR. HORTIG: I am sorry, Senator - - It is a variable
23 royalty rate, inasmuch as when the lease was awarded the bid
24 factor was the royalty schedule to be applied to the individual
25 production rate of each independent well, and it has ranged per
26 well between the ranges of approximately sixteen per cent to
27 something in excess of forty per cent royalty, Senator. We can,
28 of course, and will, prepare for you.....

29 SENATOR O'SULLIVAN: How much money did we get out of
30 it last year?

31 MR. HORTIG: Offhand, again, this being one of seventy-

1 odd leases which we have under operation, I would hesitate to
2 answer; but we will prepare a tabulation of the specific area.

3 SENATOR O'SULLIVAN: Over the period of the lease since
4 1945 -- the history of that?

5 MR. CRANSTON: Complete history.

6 SENATOR DOLWIG: Could we have enough copies to give
7 to the members of the Senate Committee here?

8 MR. HORTIG: Of this same report?

9 SENATOR DOLWIG: Yes.

10 MR. HORTIG: Yes, sir.

11 MR. CRANSTON: Frank, do you want to proceed?

12 MR. HORTIG: Under the Unit Operating Agreement the
13 City is designated as Unit Operator in view of the fact that the
14 City is the holder in trust of the majority of the area which
15 would be developed, as grantee of the tide and submerged lands.
16 The Unit Operator shall have, subject to the terms, provisions
17 and limitations expressed in the Unit Agreement and in the Unit
18 Operating Agreement, the exclusive right to develop and operate
19 any committed parcels -- in the first instance only Tracts 1 and
20 3 through 91, as previously explained.

21 The Unit Agreement will become effective as of 7:00
22 o'clock a.m. following the first day of the calendar month which
23 commences after all the following events have occurred: - -
24 which requires the commitment of Tract 1 as a committed parcel,
25 and that parcels which constitute sixty per cent of the surface
26 area of the Town Lot area have become committed parcels. There
27 are letters of intent and agreement already for far in excess of
28 sixty per cent of the Town Lot area to be committed; so that for
29 all practical intents and purposes, steps 1 and 2 already exist.

30 This would be followed by the City executing the Unit
31 Agreement and Unit Operating Agreement as Unit Operator; and

1 would require the City, as the Unit Operator and as to Tract 1,
2 to have entered into a contract with a Field Contractor for the
3 development and operation of the tract.

4 Finally, there would be the requirement, which is statu-
5 tory, that the Unit Agreement be approved by the State Oil and
6 Gas Supervisor, pursuant to the applicable provisions of the Pub-
7 lic Resources Code.

8 Unless the Unit Agreement becomes effective on or be-
9 fore January 1, 1964, or such later date as may be stipulated in
10 writing by the City and the participants of the Town Lot area,
11 but prior to January 1, 1965, the entire agreement would be of no
12 force and effect.

13 The principal matter, then, and the one of direct im-
14 port and of primary consideration by the Commission here today,
15 is as to the nature of the proposed Field Contractor Agreement,
16 which the City proposes to award after approval by the Lands Com-
17 mission to the highest bidder, pursuant to competitive public
18 bidding; and the mechanisms as provided in the Field Contractor
19 Agreement are detailed starting on Agenda Page 6, providing for
20 payment by the Field Contractor to the City at a rate at the op-
21 tion of the City of an amount that would be prepayment for three
22 years of an aggregate amount of fifty-one million dollars.

23 Of this fifty-one million dollars, fifty per cent would
24 go to the State of California -- at the present time to the Water
25 Fund, pursuant to the provisions of Chapter 29 of Statutes of
26 1956. It is anticipated in the contract that approximately at
27 the end of the three-year period, by which time aggregate pre-
28 payments of fifty-one million dollars have been made, net profits
29 from the operation, by reason of actually having developed oil
30 wells within the geographic limits of Tract 1 from four offshore
31 islands only, will exceed a million-dollar-a-month payment, which

1 the operator has been making up to that time as part of the
2 fifty-one million dollar aggregate; and thereafter, when such net
3 profits do exceed such payment, then the City's option to receive
4 the aforesaid monthly payments will cease and all subsequent pay-
5 ments will remain on the basis of the bid percentage of net prof-
6 its accruing under the agreement -- in other words, in accordance
7 with the bid percentage of the net profit that was offered by
8 the Field Contractor to whom the City awarded the contract pursu-
9 ant to competitive public bidding.

10 The Field Contractor Agreement also provides for the
11 City Manager to exercise close supervision over the Field Contrac-
12 tor's operations, including the power to control all unit opera-
13 tions and to compel the Field Contractor to perform in accordance
14 with the City Manager's determinations and approvals.

15 MR. CRANSTON: Frank, we might clarify -- we don't
16 there -- before we proceed. You referred to the fifty-fifty
17 division with Long Beach under present law of the advance payments
18 and all future royalties. I think it should be clearly under-
19 stood that that division, which has been subject to discussion
20 recently, is in no way embodied in this contract and has nothing
21 to do with the adoption of this contract. We can adopt this con-
22 tract quite apart from the fact that there is presently a fifty-
23 fifty division, or quite apart from the fact that there may be a
24 revision of that.

25 MR. HORTIG: This is correct, Mr. Chairman, because
26 under Chapter 29 of the Statutes of 1956, adopted by the Legisla-
27 ture in settlement of the Mallon case -- which I am sure Senator
28 O'Sullivan and the other attorney members will recall -- the
29 provisions are that the City remit to the State fifty per cent
30 of the value of the oil and one hundred per cent of the value of
31 the gas derived from any operations on granted tide and submerged

1 lands under any contract. Inasmuch as this has been applicable
2 to pre-existing contracts, the L.B.O.D. and Richfield contract,
3 this would equally be applicable to any contract now approved by
4 the City. The difference is that this is the first time since
5 Chapter 29/56 that the City has proposed to enter into a new con-
6 tract; and by the terms of the 1956 statute, the City may modify
7 or enter into a new contract only with the advance approval of
8 the State Lands Commission.

9 MR. CRANSTON: The point I want to make crystal-clear
10 is that at this time we can consider this proposed contract and
11 act on it whenever we wish to do so, wholly apart from what may
12 be done in the future on the fifty-fifty division.

13 MR. HORTIG: That is correct. The provisions of Chap-
14 ter 29 are wholly independent of any decision made now by the
15 State Lands Commission.

16 MR. SHAVELSON: In this connection, I might point out
17 that Section 11.5.2 of the Unit Agreement provides that the State
18 will receive that share of the production from Tract 1 to which
19 it is entitled under Chapter 29 judgment as may now or hereafter
20 be provided by law.

21 MR. CRANSTON: Thank you very much.

22 (Assemblymen Whetmore, Ashcraft and Deukmejian
23 introduced)

24 MR. CRANSTON: Frank, would you clarify one other point
25 if you can do it in a nutshell -- the difference between this con-
26 tract with the Long Beach City area and the normal procedures
27 which are purely under State jurisdiction, where we go to the
28 bonus payment in contrast to the net profit situation here. I
29 think that is important -- what we do in this situation and in
30 other situations.

31 MR. HORTIG: Under existing State law, as detailed
in Division 6 of the Public Resources Code, the State Lands

1 Commission may offer for lease tide and submerged lands and other
2 lands under the jurisdiction of the Commission pursuant to com-
3 petitive public bidding; but, limiting the offering to what is
4 considered oil and gas leases -- that is, authorizing the success-
5 ful lessee to remove the oil and gas at his cost and to compen-
6 sate to the State for such removal -- the manner of compensation
7 that can be offered can be elected in one of two directions at
8 the option of the Commission: Either, on specification by the
9 Commission, the bidders may offer to pay a cash payment or cash
10 bonus in consideration for award of the lease and commit them-
11 selves to pay royalty on any production actually achieved, in
12 accordance with the specifications in the lease; or the Commission
13 can elect the alternative of awarding the lease to any bidder who
14 offers to pay the highest percentage of royalty on the production
15 which might be achieved, without requiring any cash bonus payment.

16 SENATOR DOLWIG: Mr. Chairman, I think it would be help-
17 ful if Mr. Hortig would compare this proposed agreement with the
18 agreements you have at the present time, and point out how it
19 differs from existing agreements. I think it would be more
20 understandable.

21 MR. HORTIG: If I may, in response to Senator Dolwig,
22 go to the existent form of agreement as utilized by the City of
23 Long Beach and other areas under development and then compare
24 the new agreement as to its modifications, in that form it is
25 quite covered, Senator. In the case of the granted tidelands of
26 the City of Long Beach, where the City of Long Beach is the
27 operator for the State and the State is beneficiary in the pro-
28 ceeds of that operation only by reason of Chapter 29 of the Stat-
29 utes of 1956 that a portion of the revenues be paid to the State,
30 but that the City is the operator of these lands -- early in the
31 development program and before the first lease was issued, and,

1 indeed, leases were under consideration for offer in Long Beach
2 in the same general manner which is still used by the Lands Com-
3 mission, under Stat. law as I have just outlined a serious legal
4 question was raised in that in an oil and gas lease title to oil
5 and gas is conveyed to the lessee. The granting statutes for
6 the grant of the tide and submerged lands to the City of Long
7 Beach by the State of California prohibit the transfer or convey-
8 ance or alienation of any title by the City of Long Beach to
9 these lands and, therefore, the question was raised whether pos-
10 sibly issuance of an oil and gas lease might be such a degree of
11 conveyance of title as to invalidate the original tideland grant,
12 resulting in the entire granted area reverting to the State of
13 California.

14 So the City of Long Beach determined that the only
15 certain method, in their opinion, for securing development of
16 the area was not to issue an oil and gas lease but, rather, to
17 enter into the oil business -- to have the oil and gas developed
18 for the account of the City of Long Beach by what is effectively
19 a service contractor. This is used in the colloquial sense. I
20 hope the attorney members of the Legislative committees will for-
21 give the lack of precision, but I am simply trying to state these
22 things in their comparative perspective.

23 The Long Beach Oil Development

24 SEN. O'SULLIVAN: Do I understand this correctly? Title
25 to the oil and gas passes to the lessee, is that correct?

26 MR. HORTIG: That is correct.

27 SEN. O'SULLIVAN: At that point, would it become taxable
28 under the local county tax?

29 MR. HORTIG: Yes, and he pays the county mining tax
30 and he pays the tax on the leasehold, as well as all his capital
31 equipment.

1 SEN.O'SULLIVAN: Under this plan adopted by Long Beach
2 and the plan contained in the unit program and the other document,
3 the title to the oil does not pass to the original lessee?

4 MR. HORTIG: That is correct.

5 SEN.O'SULLIVAN: There is no tax revenue under the
6 property tax of the local district?

7 MR. HORTIG: Only to the degree that the ultimate
8 Field Operator-Contractor has capital equipment, which is taxable.

9 SEN.O'SULLIVAN: His equipment, but not the oil or gas
10 is taxable?

11 MR. HORTIG: That is correct. Having developed this
12 procedure for service contractors, both the parcels previously
13 identified as the Long Beach Oil Development operation and the
14 Richfield Oil Corporation operation to the west of the area under
15 consideration here today are being operated under such service
16 contracts for the City of Long Beach by L.B.O.D. and Richfield,
17 respectively, with the compensation to the service contractor
18 being a percentage of the gross cost of the operation.

19 SENATOR TEALE: Will you repeat that?

20 MR. HORTIG: The existent operations for development of
21 tidelands which are in existence in Long Beach today are being
22 conducted by an organization known as the Long Beach Oil Develop-
23 ment and by Richfield Oil Corporation; are being conducted under
24 service contracts which those organizations have with the City
25 of Long Beach to conduct the oil operation, the compensation to
26 the contractor from the City being a percentage of the gross
27 cost of the operation.

28 The bid of L.B.O.D. in round numbers originally was
29 that they would perform the service for a fourteen per cent pay-
30 ment of the gross cost of the operation and the contract was
31 awarded on that basis. The bid of the Richfield Oil Corporation

1 offered to do it for four point five, approximately five per cent,
2 of the total cost of the operation and for this the contractor
5 renders the service to the City of providing all the technical
4 personnel, the supervision, the processing, and handling of the
5 crude oil production and the provision of a market for the sale
6 of that crude oil; but the title to the oil has remained with the
7 City up to the time it is sold on account of the City by the
8 service contractor to whoever is the purchaser of the crude oil.

9 Now, the modification, primary modification, proposed
10 in connection with the application for approval for the east
11 Long Beach unit is that in the field service contractor agreement
12 which would be put out to competitive public bidding, in a simi-
13 lar manner to that which was utilized for these prior service
14 contracts, the biddable element would be the offering of the
15 highest percentage of the net profit -- not related to the gross
16 cost of the operation, but as to the highest percentage of net
17 profits offered by the operating contractor to be paid to the
18 City of Long Beach as a result of having been awarded the con-
19 tract to develop the oil and gas within this Tract 1 area.

20 The first subdivision of this modification is that,
21 also, under the L.B.O.D. and Richfield Oil contracts, the capital
22 equipment -- the pipe, the pumping units, and so forth -- have
23 been purchased by the City and financed by the City; whereas,
24 under the current proposal, all capital costs for the entire
25 operation would be borne by the Field Operating Contractor.

26 SENATOR TEALE: In other words, a percentage of the
27 net profits...

28 SENATOR DOLWIG: What do you mean by "net profits"?

29 MR. HORTIG: This would be the biddable element. In
30 other words, the field service contractor who would be awarded
31 the bid under the proposal under consideration here would propose

1 to conduct the operation and pay the City the highest percentage
2 of the net profit.

3 SENATOR DOLWIG: Who determines the net profit?

4 MR. HORTIG: The manner of determination of the net
5 profit is spelled out in the Unit Agreement, as to what costs
6 are chargeable to the operation, and the costs are subtracted
7 from the oil produced -- the differential would be the net
8 profit; and of that net profit, the highest percentage offered
9 to be paid to the City would be the determinant in awarding the
10 contract.

11 SENATOR DOLWIG: Has the State entered into any con-
12 tract on any State-owned tidelands of a similar nature?

13 MR. HORTIG: Remotely similar, sir, in that we have an
14 oil and gas contract with Standard Oil of California for a por-
15 tion of the bed of the Sacramento River which flows through the
16 Rio Vista gas field, on which the State is being compensated at
17 the rate of approximately fifty-one per cent of the net profits.

18 ASSEMBLYMAN WHETMORE: Does this substitute the net
19 profit concept for the cost-plus concept?

20 MR. HORTIG: That is correct.

21 MR. CHAMPION: As I understand it, Mr. Hortig, we
22 could not, on a straight State lease, follow this procedure under
23 present State law.

24 MR. HORTIG: Under present State law, no.

25 SENATOR DOLWIG: Would you give me the answer to Mr.
26 Champion's question?

27 MR. CRANSTON: He said under present State law we
28 could not on State-owned tidelands operate under this kind of
29 procedure.

30 MR. CHAMPION: Only with Long Beach can we go into
31 this type of operation. The State could not enter them because

1 of our law on leasing.

2 SENATOR O'SULLIVAN: Does the State have any studies
3 showing the size of this field, the possible production, and
4 its present values?

5 MR. HORTIG: Only in general terms, Senator O'Sullivan,
6 for the reason that the area under discussion has yet to have
7 its first producing well drilled into it; and, secondly, the
8 only data that are available are a real scattering of core holes
9 which have been drilled from mobile marine equipment over the
10 area, which give a series of possible indications but nothing
11 to a degree of precision.

12 All estimates that have been published are necessarily
13 predicated on the assumptions, by and large, of these core holes,
14 the results of which have been made public, indicating that there
15 is a high potentiality for oil and gas accumulations to exist
16 over the majority of the area; the fact that the Wilmington Oil
17 Field, which is the largest oil field in California, adjoins and
18 lies immediately to the west; and the fact that the State has a
19 producing oil and gas lease with over sixty producing wells imme-
20 diately to the east -- giving an approximate basis for estimating
21 that if the averages from east to west should hold and consider-
22 ing the areal extent of the possible productive limits, up to
23 one and one-half billion barrels of oil could be producible under
24 repressuring methods of operation and using the technologies
25 which are, in fact, used in the oil fields today.

26 SENATOR O'SULLIVAN: Based on that, what would that
27 amount to?

28 MR. HORTIG: On top of the ground, and assuming for
29 ease of average three dollars per barrel -- three billion dol-
30 lars. This, of course, does not provide for the tremendous cost
31 of developing and producing this oil from under the harbor area

1 or the area adjoining the harbor -- the underwater area offshore
2 from Long Beach. Actual net return estimates have been made
3 ranging from a possibility of, again, a gross ultimate return
4 for the life of the field of a billion dollars to again a billion
5 and a half dollars net -- which, under the present distribution
6 formula under Chapter 29, would net to the State of California a
7 half billion dollars, as well as to the City of Long Beach; on
8 the higher estimate, seven hundred fifty million dollars each.

9 SENATOR O'SULLIVAN: Do those estimates include the
10 entire area lying within the heavy line?

11 MR. HORTIG: No, sir; they do not. These include only
12 that area down to the Alamitos State Beach Park parcel on the
13 east, as described.

14 MR. CHAMPION: To or through?

15 MR. HORTIG: To Tract 2, exclusive of Tract 2; and on
16 Tract 2, when developed and whatever it's potentiality is, the
17 benefits will accrue one hundred per cent to the State of Cali-
18 fornia, because this is not an area that is in the status of
19 granted tide and submerged lands as far as oil and gas is
20 concerned.

21 SENATOR O'SULLIVAN: In regard to the Alamitos parcel,
22 what is the value of that?

23 MR. HORTIG: We have no current estimate, Senator, that
24 I think we can quote because this is an area to be considered
25 for development either in conjunction with or separately from the
26 contracts under consideration here today, in the future; but
27 there definitely will be values and they will accumulate one
28 hundred per cent to the State.

29 SENATOR O'SULLIVAN: You would assume, though, that
30 that section there would approximately be per unit worth as much
31 as the one you previously referred to?

1 MR. HORTIG: It could well be.

2 SENATOR O'SULLIVAN: Or at least as much as the Humble-
3 Texaco deal?

4 MR. HORTIG: Well, Senator, together with everything
5 else being unique in California, particularly so is our geology,
6 and particularly in southern California and the area towards the
7 west, has at least seven separate fault blocks -- which, from
8 the standpoint of the engineer, are seven different worlds; so
9 the decision of what is actually going to happen as to unit
10 faults would be hazardous to make at the present time, before we
11 have further core hole and other data.

12 MR. CHAMPION: There are no core holes in the Alamitos
13 area?

14 MR. HORTIG: There are no core holes that have been
15 drilled in the State Beach parcel.

16 SENATOR O'SULLIVAN: Why haven't we drilled that --
17 core-tested it?

18 MR. HORTIG: Because of the nominal practice of the
19 State, dictated by the State law, that exploration results of
20 State-owned parcels may not be made public and, indeed, it would
21 be a misdemeanor for the State Lands Commission to do so pursuant
22 to the Public Resources Code. This section of the law does not
23 apply to Long Beach exploration -- to core holes on their granted
24 tide and submerged lands.

25 SENATOR O'SULLIVAN: The statute goes to making the
26 news public?

27 MR. HORTIG: The statute goes to withholding the news.

28 SENATOR O'SULLIVAN: The information has been gathered?

29 MR. HORTIG: No, sir; it has not -- because there has
30 been no exploration on the Alamitos State Beach Park parcel be-
31 cause title to the oil and gas was in litigation with the City of

1 Long Beach and this litigation was only resolved early last year;
2 and, as a matter of fact, almost concurrently with the develop-
3 ment or the modification of the anti-drilling ordinance by the
4 City of Long Beach; and all staff efforts have had to be devoted
5 to bring this proposal of the City of Long Beach to a point
6 where it could be presented to the Lands Commission.

7 SENATOR O'SULLIVAN: I don't mean to convey any
8 criticism by my questions.

9 MR. HORTIG: I appreciate that, Senator. I am just
10 trying to answer the questions as they occur.

11 MR. CHAMPION: In pursuit of the Senator's point, I
12 realize there can be no validity to this figure you have been
13 using in your calculations; but assuming there is the same kind
14 of potential in the Park area as the other, what order of magni-
15 tude are we talking about in terms of money?

16 MR. HORTIG: Well, actually, there are estimates of
17 so-called initial equity allocations as to what oil and gas
18 values may be contributed by the various parcels, which at the
19 present time range for guesstimating at eighty-five per cent of
20 the grand total would be contributed by Tract 1; five to seven
21 per cent by Tract 2; and the remainder of the one hundred per
22 cent by the upland areas. It is not only a surface area problem;
23 it is a matter of possible productive limits and complication of
24 productive capacity by these numerous faults which we do know
25 exist and, as I said, make every fault block to some extent
26 practically a different world so far as probabilities are
27 concerned.

28 SENATOR DOLWIG: Mr. Hortig has just given us the
29 estimated production on Tract 1. Mr. Chairman, do you have an
30 opinion from the Attorney General that this contract is legal?

31 MR. CRANSTON: The representative of the Attorney

1 General is here and can speak to that point.

2 MR. HORTIG: If I may point out, on page 7 of the
3 agenda item, Senator Dolwig

4 SENATOR DOLWIG: I have read that and would like it
5 clarified.

6 MR. HORTIG: Having paraphrased the Attorney General,
7 I pass it back to the Attorney General.

8 MR. SHAVELSON: Yes, Senator; without, of course,
9 expressing any opinion as to its efficacy or desirability, we
10 have determined that it is the type of contract that the Commis-
11 sion may approve if it determines it is to the best interests of
12 the State.

13 SENATOR DOLWIG: Mr. Hortig, you have given us the
14 estimated production of Tract 1, haven't you?

15 MR. HORTIG: Well, both on Tracts 1 and Tracts 3
16 through 91.

17 SENATOR DOLWIG: Eighty-five per cent for Tract 1....

18 MR. HORTIG: Eighty-five per cent of a billion and a
19 half barrels.

20 SENATOR DOLWIG: What are the limits of Tract Number 1?

21 MR. HORTIG: As shaded in green in the map to my right,
22 in Exhibit B to your right. This is described by metes and
23 bounds in the proposed Unit Agreement.

24 SENATOR DOLWIG: Has the metes and bounds description
25 been approved by the Lands Commission in Tract 1?

26 MR. HORTIG: This is one of the items under considera-
27 tion in connection with the approval by the State Lands Commis-
28 sion, and today is the first time that this matter is being pre-
29 sented to the State Lands Commission, so the State Lands Commis-
30 sion has not yet approved it. Additionally, of course, there is
31 the question

1 SENATOR DOLWIG: Pardon me, don't go off on that. Has
2 there been a metes and bound description of Tract 1?

3 MR. HORTIG: There is a proposed metes and bounds
4 description for the purposes of this agreement, but not to be
5 binding as or indicating that the location of the ordinary high
6 water mark is the shoreward boundary of the granted tide and
7 submerged lands.

8 SENATOR DOLWIG: Well, Mr. Chairman, is there a metes
9 and bounds description of Tract Number 1?

10 MR. HORTIG: Yes.

11 SENATOR DOLWIG: And has the staff done it or has Long
12 Beach done it?

13 MR. HORTIG: The City of Long Beach has developed it
14 and presented it for consideration of approval for the purposes
15 of this agreement only, in that it is provided also in the agree-
16 ment that if, in the future as a result of adjudication -- and,
17 as you are aware, Senator, there is litigation between the State
18 of California and the City of Long Beach as to the location of
19 the ordinary high water mark, as to the shoreward delimiting line
20 of the granted tide and submerged lands, but in the segment west
21 of the area under discussion here -- as and when the courts decide
22 and establish the criteria and determine where this dividing line
23 is located legally, if in the application of this criteria the
24 boundary line (the dividing line) would be found to be at a
25 location different than agreed to for purposes of this agreement,
26 there will thereupon be an adjustment of the description of
27 Tract 1 and a re-allocation of the equities and any other alloca-
28 tions that have been made on Tract 1 -- whether the line moves
29 shoreward or seaward.

30 SENATOR DOLWIG: Mr. Chairman, may I ask the Attorney
31 General what the status of that litigation is?