

1 "powerful role in your state, far above the interest of  
2 the State, the City of Long Beach and the taxpaying pub-  
lic. It is a sad situation.

3 It may be wise to re-evaluate the real merits of  
4 the Field Contractors Agreement and rightfully permit  
the City of Long Beach to manage its own destiny.

5 Respectfully,

JADE OIL & GAS CO.

6 /s/ Johnny Mitchell, President"

7 \*\*\*\*\*

8 MR. HORTIG: Since the completion in April of the  
9 staff hearings which had been directed by the Commission to  
10 be held, to assure full review of the Long Beach contracts --  
11 the staff hearing transcripts, the preceding Commission hear-  
12 ing transcripts, and all supplemental written information  
13 received have been under staff analysis for the development  
14 of recommendations to the Commission as to proposed contract  
15 format and content to be considered for approval. Compati-  
16 bility with a Senate Special Research Committee report by  
17 May 15th has been considered an essential factor in this  
18 analysis.

19 A copy of the report, or a report by counsel to the  
20 Special Research Subcommittee, was received last night by the  
21 Members and the Executive Officer of the State Lands Commis-  
22 sion, with an announcement that the Special Research Committee  
23 has scheduled a hearing on June 3rd to receive comments on  
24 the report from the City of Long Beach and the Commission.

25 Therefore, it is recommended that the Executive  
26 Officer be authorized to participate in the scheduled hearing

1 on behalf of the Commission.

2           Parenthetically, as a result of a first-time read-  
3 ing of the report last night, I can report to the Commission  
4 that there are no elements in the report relating to operat-  
5 ing, technical and administrative features that have not here-  
6 tofore been included in the staff analyses being prepared for  
7 the State Lands Commission.

8           The principal area of newness, for lack of a better  
9 word, is a preponderance of different interpretations as to  
10 the legal effect of some of the existing contracts, as inter-  
11 preted by the special counsel and as heretofore interpreted  
12 by the City of Long Beach and the Office of the Attorney  
13 General. Therefore, I would expect that this area will be  
14 the principal area on which report will be made to the Senate  
15 Committee on June 3rd -- as to these disparities in interpre-  
16 tation of specific legal contractual effects.

17           MR. CRANSTON: I don't believe any formal action is  
18 required, authorizing you to appear. Of course, it would be  
19 appropriate.

20           MR. CHAMPION: Counsel for the Commission will also  
21 appear -- Mr. Shavelson?

22           MR. HORTIG: That's correct.

23           MR. SHAVELSON: Yes, sir.

24           MR. CRANSTON: Is there anything else to report as  
25 far as the staff is concerned?

26           MR. HORTIG: With respect to the Long Beach Unit at

1 this time, no sir -- except in response to further questions.

2 MR. CHAMPION: I have one further question. I don't  
3 know whether the matter is elsewhere on the agenda, but there  
4 has been considerable discussion of the use of tidelands funds  
5 in connection with the guarantee for this fair proposal in  
6 Long Beach, and I'd like a report on the status of that --  
7 whether it is before us; whether it is being brought to us.

8 MR. HORTIG: Well, the report had been intended for  
9 another position on the agenda but is appropriate at this time  
10 as long as it is made clear that this report does not relate,  
11 per se, to the problems inherent in the consideration of the  
12 Wilmington Unit nor the Special Senate Research Committee  
13 study on that Unit.

14 The City of Long Beach electorate will consider on  
15 June 4th a Proposition "A" which will authorize, primarily,  
16 the future impounding of not to exceed sixty million dollars  
17 of tideland oil funds -- of the City's share of tideland oil  
18 funds -- to serve as collateral for underwriting revenue bonds  
19 proposed to be issued to finance the proposed World's Fair  
20 program to be held in Long Beach in 1967-1968.

21 There is nothing specifically before the Lands Com-  
22 mission with respect to this item. The matter came to the  
23 attention of the State Lands Division by reason of an invita-  
24 tion to the Director of Finance to participate in an explora-  
25 tion conference and progress report for the benefit of the  
26 Citizens' Advisory Committee with respect to the World's Fair

1 in Long Beach; and the literature and discussion with respect  
2 to this Proposition "A" indicate that it is the intent and  
3 desire and hope of the City to be able to utilize tidelands  
4 funds for this purpose in the manner outlined, subject to the  
5 approval of the State Lands Commission -- and, indeed, the  
6 literature with respect to the provisions of Proposition "A"  
7 all indicate that this will be subject to Lands Commission  
8 approval as and when an application is made to the Lands  
9 Commission to utilize these funds. No such application has  
10 been made to the Lands Commission yet and, as a matter of  
11 fact, Proposition "A" as such was never discussed with the  
12 State Lands Division, being a matter at this point possibly  
13 of purely local concern; but in view of future inevitable  
14 involvement in the results of Proposition "A" by the Lands  
15 Commission, it was felt desirable to report the status of  
16 this matter to the Commission this morning in order to deter-  
17 mine what action should be taken, if any, beyond filing in  
18 the Commission's records the memorandum report which you have  
19 before you this morning with respect to Proposition "A" as it  
20 has been prepared for State Lands Division by the Office of  
21 the Attorney General.

22 MR. CHAMPION: May I ask Mr. Shavelson: Is there  
23 any request to you to determine whether this comes within the  
24 scope of the grant, or any other inquiry from the City of  
25 Long Beach?

26 MR. SHAVELSON: No, Mr. Champion; to my knowledge

1 nothing whatsoever has been presented to our Office. Is  
2 that correct?

3 MR. DESMOND: It has not.

4 MR. CHAMPION: The City's position with respect to  
5 this is that this is an internal decision as to whether they  
6 want to make this application? As to whether they want to  
7 make it before it has been approved?

8 MR. DESMOND: That's correct.

9 GOV. ANDERSON: They would have to come to us; after  
10 they have approved it, then it will come to us at that time.

11 MR. CHAMPION: That's the record I want to make  
12 clear -- that this has been, so far, a matter in the City....

13 MR. DESMOND: If the voters a week from Tuesday  
14 say so, this matter will be up for approval.

15 GOV. ANDERSON: If they say "yes," and it will come  
16 before the Commission and we are informed that we cannot  
17 legally or otherwise approve it, how would the Fair go?

18 MR. DESMOND: Of course, if the Commission says  
19 they are not in a position to approve it, well, the Fair will  
20 be held anyway. This is a method of underwriting which will  
21 obtain for the City an extra ten or fifteen million dollars  
22 worth of buildings -- permanent structures which will be built  
23 for the Fair, but which will be a legacy to the City.

24 MR. CHAMPION: When, in order to have this secured  
25 when must this security be approved in order for you to pro-  
26 ceed with your financing plan for the Fair?

1 MR. DESMOND: Of course, the financing is entirely  
2 by a nonprofit corporation. The City is not directly con-  
3 nected with the Fair as such, although the Fair does have a  
4 lease which will become effective upon the completion of  
5 Pier J. Pier J was to be built regardless -- in fact, it has  
6 been under planning for the last ten to twelve years' time  
7 and because it was under construction, why, it came to the  
8 attention of the World's Fair group and they applied and  
9 were issued a lease on that.

10 Now, as far as the financing arrangements themselves,  
11 I would say some time in the latter part of this year; assum-  
12 ing that the voters approve, then I would say some time the  
13 latter part of this year there probably will be an application  
14 before the Commission.

15 MR. CRANSTON: Are there any questions or comments  
16 from anyone present in regard to the East Wilmington Long  
17 Beach Oil Field. (No response) I thought it might be helpful  
18 if we could seek just to outline what would probably be the  
19 timetable. Nobody can state for certain what it will be;  
20 but the fact that, as Frank Hortig said, nothing brand new has  
21 come up from the counsel's report to the Senate Committee,  
22 would lead to the conclusion that no extraordinary new amount  
23 of time would be required. We cannot tell what the Senators  
24 themselves may come up with at the meeting of June 3rd, but  
25 we will find out at that time.

26 Meanwhile, I think the Lands Commission, through

1 its processes and the hearings of the full Commission and  
2 meetings of the City and of industry have gone over every  
3 part of the contract and collected a large number of thoughts  
4 both pro and con, on various portions of the original con-  
5 tract as presented to us. I hope that at the meeting in  
6 June of the State Lands Commission, after all of these pro-  
7 cesses have been gone through, we can come to grips with the  
8 fundamental issues before us insofar as possible revisions  
9 of the contract are concerned and make the decisions at that  
10 time as far as the State Lands Commission is concerned.

11 I think that we can anticipate that there will be  
12 some changes in principle insofar as the contracts are con-  
13 cerned and that after the Lands Commission makes those deci-  
14 sions as best they can there will have to be some drafting  
15 done before there can be final definitive action on the final  
16 form of the contract.

17 I think it is conceivable that action could be  
18 taken at the July meeting, but not too likely; but I would  
19 hope we could finally act on the contract in July and then  
20 put the contract up for bid. Those are the thoughts of  
21 some people on the timetable. I hope and believe they will  
22 not be upset.

23 MR. HORTIG: Mr. Chairman, I think to completely  
24 clarify the record it might be well to report that in connec-  
25 tion with the classification of the report to the special sub-  
26 committee by special counsel, this report has been considered

1 by the Senate Committee not to be their report, but has been  
2 received without endorsement; and, indeed, the review of this  
3 report on June 3rd will then in turn serve as a base for a  
4 determination by the committee as to the type of committee  
5 report which it will issue in the future; and thereafter, in-  
6 asmuch as that time is uncertain except under the designation  
7 of Senate Resolution Number 100 that that report be submitted  
8 this session of the Legislature, there is another element of  
9 uncertainty in the timing as to the final Senate Committee  
10 report -- and as the staff said previously, and they reported  
11 previously, it has been considered that it is essential that  
12 there be compatibility between the staff analysis and the  
13 recommendations of the Senate report.

14 MR. CHAMPION: We can still anticipate the final  
15 Senate Committee report at this session of the Legislature?

16 MR. HORTIG: Right.

17 MR. CHAMPION: So that would come before the  
18 June 27th meeting.

19 MR. HORTIG: Right. How much analysis that report  
20 will require as against the time it is received is the  
21 imponderable.

22 MR. CHAMPION: We now have all the information  
23 that will be before the Senate Committee except the views  
24 raised in the report?

25 MR. HORTIG: That is correct.

26 MR. CHAMPION: We can get from the staff and Mr.

1 Shavelson what is raised in that report, but otherwise the  
2 Senate has nothing that has not been presented to us?

3 MR. HORTIG: Not to my knowledge.

4 MR. CRANSTON: If there is nothing more on this  
5 matter, we will revert to the general order of business,  
6 which is Item 3 -- Permits, easements, and rights-of-way to  
7 be granted to public and other agencies at no fee, pursuant  
8 to statute.

9 Applicant (a) Lucerne Recreation and Park District --  
10 Life-of-structure permit for breakwater and boat-launching  
11 ramp, 3.04 acres submerged lands of Clear Lake, Lake County;

12 (b) The Pacific Telephone and Telegraph Company --  
13 Approval of location of submarine telephone and telegraph  
14 cable with necessary appurtenances, 100-foot-wide by 5200-  
15 foot-long strip of ungranted tide and submerged lands of  
16 Arcata Bay, Humboldt County;

17 Item (c) County of Riverside -- Amendment of legal  
18 description of life-of-structure permit P.R.C. 2799.9, sub-  
19 merged lands of the Colorado River, Riverside County, to  
20 increase area by additional 1,218 acres, for operation of a  
21 small-boat marina;

22 Item (d) State of California, Department of Fish  
23 and Game -- Lett permit for construction of four underwater  
24 quarry-rock reefs for fish propagation, 14.69 acres submerged  
25 land of San Pedro Channel off the coast of Orange County.

26 MR. HORTIG: Mr. Chairman, Item (e) should properly

1 be considered under Classification 4; it should not have been  
2 included under Classification 3.

3 MR. CRANSTON: Item (f) U. S. Army, Corps of Engi-  
4 neers -- Right-of-entry permit for period until June 1, 1964  
5 for construction of groin and placement of 86,000 yards of  
6 artificial fill on seven acres tide and submerged lands in  
7 Gulf of Santa Catalina waterward of Doheny Beach State Park,  
8 Orange County (to replenish presently eroded beach and to  
9 attempt to control erosion).

10 Motion is in order.

11 GOV. ANDERSON: I move it.

12 MR. CHAMPION: Second it. The understanding is  
13 that (e) is removed from this?

14 MR. CRANSTON: Yes. Approval is moved, seconded,  
15 made unanimously.

16 Item Classification 4 -- We will start with that  
17 item (e): State of California, Division of Highways --  
18 Right-of-way easement, 3.33 acres school lands, Imperial  
19 County, for construction and protection of State Highway  
20 Route 146.

21 Then, item (a) Holiday Harbor Co. -- three-year  
22 lease 0.415 acre submerged lands of Napa River, Napa County,  
23 for small-boat facility, annual rental \$150;

24 Item (b) R. W. Kelsey -- five-year grazing lease  
25 3,520 acres school lands Inyo County, annual rental \$70.40;

26 Item (c) Donald D. Updegraff -- 15-year lease,

1 0.275 acre tide and submerged lands of Sacramento River at  
2 Clarksburg, Yolo County, for a marine service station facility,  
3 annual rental \$150;

4 Item (d) Crescent City Harbor District -- Approval  
5 of sublease to Charles W. Howe of portion of Lease P.R.C.  
6 502.1, Crescent City Bay, Del Norte County, for operation of  
7 marine supply business, restaurant, and allied facilities;

8 Item (e) (second item (e)) Lindsey H. Spight, dba  
9 Diablo Communications Center -- Approval of sublease to  
10 Metromedia, Inc. of portion of Lease P.R.C. 2364.2, State  
11 school lands Contra Costa County, to be used for a mobile  
12 repeater, transmitter and receiver;

13 Item (f) A. Bruce Kutcher -- Assignment from James  
14 A. Gallagher and Mary A. Gallagher of Lease P.R.C. 2987.2,  
15 Lot 37 Fish Canyon Cabin Sites, Los Angeles County, in trust  
16 for Troop 121 of the Boy Scouts of America;

17 Item (g) Voca Crete Mining and Engineering Corpora-  
18 tion, et al. -- Assignment from Estate of Robert Livingstone  
19 of undivided one-half interest in Mineral Lease P.R.C. 392.2,  
20 San Bernardino County, and consent to subleasing agreement by  
21 co-tenants;

22 Item (h) Humble Oil and Refining Company -- Defer-  
23 ment of drilling requirements, Oil and Gas Lease P.R.C. 186.1,  
24 Belmont Offshore Field, Orange County, through December 31,  
25 1963, to permit further geologic and seismic data studies for  
26 determining feasibility of drilling additional wells;

1 Item (i) Richfield Oil Corporation -- Deferral of  
2 drilling requirements, Oil and Gas Leases P.R.C. 308.1 and  
3 P.R.C. 309.1, Coal Oil Point Santa Barbara County, through  
4 December 31, 1963, to afford opportunity to review proposed  
5 unit agreement;

6 Item (j) Shell Oil Company -- Four 49-year flow-line  
7 easements for ocean-floor oil-well completions, tide and sub-  
8 merged lands of Santa Barbara Channel, to onshore points near  
9 Arroyo Hondo Creek, Santa Barbara County: (1) 11,368 acres,  
10 annual rental \$322.93; (2) 8,880 acres, annual rental \$252.25,  
11 (3) 6,602 acres, annual rental \$187.54; (4) 7,195 acres,  
12 annual rental \$204.39.

13 GOV. ANDERSON: May I ask a question? Does that  
14 easement go along the shore line?

15 MR. HORTIG: This actually takes the production from  
16 the well to the first onshore location.

17 GOV. ANDERSON: Would this include the well location  
18 and the line?

19 MR. HORTIG: No sir, because the well location and  
20 a part of these lines is also on a lease issued in this case  
21 to Shell Oil Company. These easements are for those portions  
22 of the line getting to shore where tide and submerged lands  
23 are traversed which are not part of the oil and gas lease;  
24 so for this otherwise unleased area, these easements are  
25 simply pipeline easements over tide and submerged lands of  
26 the State.

1 GOV. ANDERSON: In other words, these are lands  
2 which are not presently leased.

3 MR. HORTIG: Or leased to other parties.

4 GOV. ANDERSON: And here we are just giving them the  
5 right to go over the top of the ground.

6 MR. HORTIG: That is correct, as shown on the pipe-  
7 line map following page 16.

8 MR. CRANSTON: Item (k) R. W. Cypher -- One-year  
9 extension through June 8, 1964 of Prospecting Permits P.R.C.  
10 2705.1, P.R.C. 2706.1, P.R.C. 2707.1, and P.R.C. 2708.1,  
11 Imperial County, for geothermal steam and all minerals other  
12 than oil and gas and water, to further evaluate the area  
13 potential and to complete requisite engineering and design  
14 studies.

15 A motion is in order.

16 MR. HORTIG: Mr. Chairman, with respect to item (k),  
17 a correction is in order as to the description -- the legal  
18 description contained on page 20. The typewriter stuttered  
19 and for the record the description should read, in the first  
20 paragraph:

21 "Prospecting permits P.R.C. 2705.1, P.R.C. 2706.1,  
22 P.R.C. 2707.1, and P.R.C. 2708.1, covering approxi-  
23 mately 535 acres of State land lying in the south  
24 half of Section 23, the northwest quarter and a  
portion of the northeast quarter of Section 26,  
Township 11 South, Range 13 East, S.B.B. & M.,  
Imperial County, were issued \*\*\*\*\*" et cetera

25 MR. CRANSTON: As amended, a motion is in order.

26 MR. HORTIG: Also, Mr. Chairman, we have had a

1 request from a Mr. R. G. Smith, President of the Natomas Com-  
2 pany, to present a statement to the Commission with respect to  
3 the proposal contained in Item (k).

4 MR. CRANSTON: Is there somebody here wishing to  
5 testify?

6 MR. SMITH: My name is R. G. Smith. I am President  
7 of the Natomas Company, a California corporation. I am speak-  
8 ing in behalf of a subsidiary of the Natomas Company, Western  
9 Geothermal Corporation, and we request your respectful con-  
10 sideration of a deferment of this extension for at least ten  
11 days for the reason that Natomas -- Western Geothermal, rather,  
12 just learned of this request for an extension last night.

13 We are actively engaged in exploration within two  
14 miles of this area in Imperial County. Western Geothermal has  
15 put down a test well and tested it out, and we believe that  
16 the potential of the area will give us the right, or give us  
17 the motive, to extend our exploration in the area, in which  
18 we hold quite a large area.

19 For this purpose, we would -- during the interval,  
20 if you would grant this deferment, Western Geothermal Corpora-  
21 tion would like to make an application for a permit in this  
22 particular area.

23 MR. HORTIG: Mr. Chairman, for the record, the sub-  
24 ject permits on which a one-year extension is requested, which  
25 is provided for in the Public Resources Code, are held by the  
26 applicant. Similar development work to that which has been

1 outlined by Mr. Smith has been performed in connection with  
2 other lands held by the same group that hold the subject  
3 prospecting permits, the permits having been issued by the  
4 State Lands Commission pursuant to law -- which provides for  
5 a two-year prospecting permit upon payment of the proper fees,  
6 which means these permits were issued two years ago. The  
7 consideration before the Commission is whether, in the judg-  
8 ment of the Commission, sufficient development work has been  
9 done; and if, in the opinion of the staff, applicant has met  
10 the requirements to justify extension, the Lands Commission  
11 may extend such permit. This is the basis for the recommenda-  
12 tion of the staff.

13 This is also part of other holdings by the same  
14 group under prospecting permits issued by the State Lands Com-  
15 mission pursuant to law, which other permits having been  
16 issued earlier were the subject of extension applications  
17 earlier -- all of which have been granted.

18 Therefore, there does not appear to be any equitable  
19 basis for staff recommendation for denial of the one-year ex-  
20 tension with respect to these subject permits, and the permits  
21 would otherwise expire before the next meeting of the Lands  
22 Commission if this extension is not granted.

23 MR. CHAMPION: May I ask a question? When we grant  
24 the two-year permit, what is the nature -- You say we may, on  
25 sufficient evidence of development, if there is sufficient  
26 evidence of development we then have the right to extend these?

1 MR. HORTIG: That is right, but it is not mandatory.

2 MR. CHAMPION: It is not mandatory and there is no  
3 commitment on the part of the Lands Commission that they  
4 should do it?

5 MR. HORTIG: That is right.

6 MR. CHAMPION: What are the circumstances where we  
7 have rival interests? On what grounds do we judge these?  
8 Say we were to feel that both parties had equal standing in  
9 this case. I think it would be our prerogative to regard them  
10 as in equal standing. What is the procedure then?

11 MR. HORTIG: The procedure would be, number one, to  
12 consider the State's applicant who had paid for the prospect-  
13 ing permits which contained in their conditions, pursuant to  
14 law, the right to a preferential mineral lease if commercially  
15 valuable deposits of mineral are discovered and developed  
16 within the area of the permit. Therefore, there are more  
17 equitable rights attendant to the existing State permittee  
18 than there are to any subsequent applicant who comes in at a  
19 later date. In other words, these areas, during the time of  
20 their prospecting permit, are not subject to being awarded  
21 pursuant to competitive public bidding, but to being awarded  
22 to the first applicant.

23 MR. CHAMPION: But do I understand this gentleman  
24 to say they are not asking for prospecting permits -- they  
25 would like to proceed with development of the section? Or  
26 would you be asking for a prospecting permit?

1 MR. SMITH: Let me say, first, it would be explora-  
2 tory. Whether you call it prospecting or development, it is  
3 exploratory. In fact, the work we have done down there in  
4 putting down one well is exploratory and it is only part of  
5 the exploratory work that would be done.

6 MR. CHAMPION: What would you be asking us for?  
7 Would you be asking for a prospecting permit or for something  
8 else?

9 MR. SMITH: I believe, as I understand it, we would  
10 be asking for a prospecting permit, an exploratory permit.  
11 As I understand the member of the staff - - I hadn't been  
12 informed as to whether the applicant had performed his duties  
13 or not. It was probably our idea that they had not within  
14 the two years, and if so it was reasonable they could be  
15 denied. Then Western Geothermal would want to make an appli-  
16 cation. If they have fulfilled their requirement, Western  
17 Geothermal would not make an application.

18 MR. HORTIG: There would be no staff recommendation  
19 but for the fact it is felt that the applicant is entitled to  
20 the extension by the Commission because of the fulfillment of  
21 the exploration requirements. As a matter of fact, for com-  
22 parative statistics, to Mr. Smith's one exploration well  
23 which has been drilled by Western Geothermal, the group hold-  
24 ing the State prospecting permits have drilled, and have pro-  
25 ducible, two steam wells on their land.

26 MR. SIEROTY: May I ask Mr. Hortig: Is there a

1 requirement that valuable minerals be found?

2 MR. HORTIG: Yes.

3 MR. SIEROTY: Have they complied with that?

4 MR. HORTIG: No. The necessity for finding valuable  
5 minerals relates to whether a preferential mineral lease will  
6 be issued as a result of the prospecting permits. If, in  
7 the next year, this can be developed and established in the  
8 prospecting permit areas, including those under extensions  
9 here recommended, then the permittees would be entitled to a  
10 preferential mineral lease under royalty provisions which are  
11 already spelled out in the permit, which would be in the  
12 preferential lease when issued. The fact that this has not  
13 been accomplished to the point where an application can now  
14 be considered by the State Lands Commission has led to this  
15 request for a one-year extension, hoping to perfect that  
16 right during that time -- which one-year extension by the  
17 Commission is authorized in the statute.

18 MR. CHAMPION: Under those circumstances, I would  
19 move approval of the recommendation of the staff on all items.

20 MR. CRANSTON: Motion is made \*\*\*\*

21 GOV. ANDERSON: Second.

22 MR. CRANSTON: ... and seconded on all items in  
23 Classification 4, including item (e) carried over from 3.  
24 Is there any further discussion? (No response) If not, the  
25 approval is made unanimously.

26 Item 5 -- Selection and sale of vacant Federal

1 lands: Applicant (a) Lincoln Clark -- Appraised value  
2 \$10,256.35, bid the same. That's the only item.

3 GOV. ANDERSON: Move it.

4 MR. CHAMPION: Second.

5 MR. CRANSTON: Moved, seconded, made unanimously.

6 Item Classification 6 -- Selection on behalf of the  
7 State of 39.73 acres Federal land, San Bernardino County;  
8 authorization to cancel application of Jean Lyons Flynn and  
9 to refund deposits less expenses incurred to date of cancel-  
10 lation. Motion is in order.

11 MR. CHAMPION: Move approval.

12 MR. CRANSTON: Approval is moved \*\*\*

13 GOV. ANDERSON: I'll second it.

14 MR. CRANSTON: \*\*\* seconded, approved unanimously.

15 Item 7 -- Approval and adoption of combined bid-  
16 lease form for submerged land leases in San Francisco Bay  
17 and similar areas for minerals other than oil and gas.  
18 Frank, any comments on that?

19 MR. HORTIG: Yes, Mr. Chairman. In view of ques-  
20 tions which have been raised by public agencies in the San  
21 Francisco Bay area as to the lease format devised by the  
22 Lands Commission for issuing leases pursuant to competitive  
23 public bidding, particularly questions raised by the San  
24 Francisco Port Authority, City of Richmond, and the City of  
25 Berkeley, extensive conferences were held to develop a format  
26 which would satisfy all the requirements of all agencies --

1 particularly in connection with the Port Authority, where  
2 joint approval is necessary, where they could approve any pro-  
3 posed lease as a matter of form on a standard form satisfactory  
4 to all agencies.

5 The draft which is before you is such a form which  
6 is satisfactory to all agencies and would be proposed to be  
7 used in the San Francisco Bay area in connection with issu-  
8 ance of any future leases issued pursuant to competitive  
9 public bidding. It has been approved by the Office of the  
10 Attorney General as to form and, indeed, would be the subject  
11 of a lease offer which is the next item -- for another sand  
12 and gravel lease in Contra Costa County.

13 GOV. ANDERSON: Is there any substantive change in  
14 the form?

15 MR. HORTIG: No, sir. It is a matter of procedure  
16 and format, so that it is standardized, so the other agencies  
17 know what is in it, rather than a unilateral representation  
18 by the State Lands Commission.

19 MR. CRANSTON: Motion is in order.

20 GOV. ANDERSON: Moved.

21 MR. CHAMPION: Second.

22 MR. CRANSTON: Moved, seconded, approved unanimously.

23 Item 8 -- Authorization for Executive Officer to offer for  
24 lease, for extraction of sand at minimum royalty of eight  
25 cents per cubic yard, 370 acres submerged land Contra Costa  
26 County, pursuant to application of United Sand and Gravel  
Company.

1 MR. HORTIG: And this is the item, Mr. Chairman, on  
2 which I just reported, to which the proposed combined bid-lease  
3 form just approved by the Commission would be first applied.

4 MR. CRANSTON: Motion is in order.

5 MR. CHAMPION: Move approval.

6 GOV. ANDERSON: Second.

7 MR. CRANSTON: Approval is moved, seconded, made  
8 unanimously. Item 9 -- Authorization for Executive Officer to  
9 approve and have recorded Sheet 1 of 1 of map entitled "Map of  
10 the Grant to the City of Pittsburg," dated May 1963. Motion  
11 is in order.

12 MR. CHAMPION: Move approval.

13 GOV. ANDERSON: Second.

14 MR. CRANSTON: Moved, seconded, made unanimously.  
15 Item 10 -- Termination of Right-of-Way Easement P.R.C. 2868.1,  
16 submerged lands of Old River, San Joaquin and Contra Costa  
17 counties; approval of refund to Pacific Gas and Electric Com-  
18 pany of prepaid rental in the sum of \$463,98; and authoriza-  
19 tion for presenting claim to Board of Control.

20 GOV. ANDERSON: What is the story on this?

21 MR. HORTIG: As detailed on page 32, Governor  
22 Anderson, the easement was to have been used for a pole-line  
23 crossing to Bra's Island. However, the Board of Trustees of  
24 Reclamation District 802 was awarded a judgment against the  
25 owner of Bra's Island, whom the Pacific Gas and Electric Company  
26 had proposed to serve. The P. G. and E. is now prohibited from

1 using the rights granted by the State because they have no  
2 dry land on the other side of the river. So it is proposed  
3 that the easement be cancelled; and inasmuch as the rental  
4 was prepaid, it seems equitable that this be refunded.

5 GOV. ANDERSON: Move approval.

6 MR. CHAMPION: Second.

7 MR. CRANSTON: Moved, seconded, approved unanimously.

8 Item 11 -- Authorization for Executive Officer to execute an  
9 interagency agreement with the Colorado River Boundary Commis-  
10 sion for engineering, administrative and other services for  
11 the 1962-63 fiscal year, at a cost not to exceed \$11,000.

12 MR. HORTIG: These matters are brought to the Com-  
13 mission's attention this late in the fiscal year because at  
14 this time, then, there is always a reasonably accurate esti-  
15 mate of what the costs of the services which have been rendered  
16 by the Lands Commission to the Colorado River Boundary Commis-  
17 sion will accumulate to for the fiscal year. The counterpart  
18 of this contract will be executed on behalf of the Colorado  
19 River Boundary Commission and is subject to approval by the  
20 Director of Finance and in the appropriate interagency billing  
21 process.

22 GOV. ANDERSON: I'll move it.

23 MR. CHAMPION: I'll abstain as a matter of custom,  
24 since it calls for my further approval.

25 MR. CRANSTON: I'll second the motion and, without  
26 objection, so ordered. Voted for by the Lieutenant Governor  
and myself.

1           Item 12 -- Authorization for Executive Officer to  
2 execute compromise price agreement with Signal Oil and Gas Co.,  
3 et al, Oil and Gas Easement 392.1, Huntington Beach, Orange  
4 County; and determination that for purposes of calculating  
5 State royalties, the reasonable price of the production at the  
6 well during the period September 1, 1958 to October 31, 1959,  
7 inclusive, was the price posted in the Huntington Beach Field  
8 for oil of like gravity by the Standard Oil Company of  
9 California.

10           MR. CHAMPION: I'd like a little more explanation.

11           MR. HORTIG: I will introduce the problem and then  
12 Mr. Shavelson, who prepared the form of compromise and agree-  
13 ment relative thereto, can give the Commission further details.

14           The books of record, the amount for oil royalties  
15 due the State from various lessees at Huntington Beach, sud-  
16 denly found themselves faced with the dilemma that, whereas  
17 most of the leases at Huntington Beach -- and these are of  
18 long standing -- required payment of royalties calculated on  
19 the reasonable market price of oil at the well, which price  
20 shall not be less than the highest price at which a major oil  
21 company buying oil of like gravity and quality in substantial  
22 quantity at the Huntington Beach Field is offering, this re-  
23 sulted in a difference in computations because an operator  
24 was offering a higher price than Standard Oil Company of  
25 California for a brief period of time. The question became  
26 whether or not this operator was a substantial purchaser in

1 accordance with the definition of "substantial quantities"  
2 and it turned out during the time the agreement was in effect  
3 the purchaser purchased only 1.32 per cent of the total pro-  
4 duction; but, nevertheless, in the opinion of the Office of  
5 the Attorney General, this is still substantial under the  
6 contract terms and, therefore, royalty should be paid on this  
7 higher price.

8 Further review and analysis has resulted in a basis  
9 for a compromise agreement, establishing what the price should  
10 be in connection with the actual majority purchaser of the  
11 crude oil and the highest price offered by the highest major-  
12 ity purchaser of the crude oil; and for the details and the  
13 equity of this proposed compromise, I would like to have  
14 Deputy Attorney General Shavelson give the basis.

15 MR. CHAMPION: Before he does, however, what kind  
16 of money is involved in this?

17 MR. HORTIG: Total of \$42,387 is the present amount  
18 indicated as due on the books, due to the State Lands Commis-  
19 sion, of which on the basis of the compromise we would still  
20 receive \$25,123 of the amount above mentioned.

21 MR. CHAMPION: \$42,000 is the difference involved;  
22 the compromise would bring it to \$25,000?

23 MR. HORTIG: \$25,123 -- because of different pro-  
24 visions with respect to pricing in different leases issued  
25 at different periods of time by your predecessors in the  
26 Lands Commission.

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MR. SHAVELSON: We are talking, in other words, about \$17,000. Our original opinion dealt solely with one question and that was whether the amount of oil purchased by the Union Oil Company, which had posted a slightly higher price than Standard -- which was purchasing virtually all of the oil that was purchased in the Huntington Beach Field -- whether that 1.32 per cent could be considered a substantial quantity. At that time we advised the State Lands Commission that the criterion for determining a substantial quantity was not necessarily a relative amount, but could be considered an absolute amount. In other words, was the amount purchased by this company sufficiently large that it would be subject to the same pricing considerations as a much larger quantity? Since 1.32 per cent of the total production in a large field like the Huntington Beach Field we still felt was a substantial quantity of oil, we did advise the Commission that it could consider that the determinative price for purposes of determining the royalties under the leases in this particular easement.

There was another issue involved in any controversy here which we were not called upon to discuss and which we did not discuss at that time, and that is whether a posting is also an offer. I don't want to go into the details unless the Commission would like me to, but a posting is not in a legal sense an offer. It is more or less a statement as to what the company will pay under its existing contract. It is

1 not an offer to take additional oil at that price.

2 In other words, there are two difficult legal issues.

3 MR. CHAMPION: It isn't an obligation. In other  
4 words, the posting is not an obligation?

5 MR. SHAVELSON: That is right, not with persons with  
6 whom they don't have contracts at that time. It is not an  
7 offer that, in a legal sense, can be accepted. So there were  
8 two very difficult legal problems. Litigation would be  
9 costly, involving many defendants; and, as Mr. Hortig pointed  
10 out, under the one easement which had the largest single  
11 amount of \$17,000, the language was to the effect that the  
12 price upon which royalty was to be computed "shall not be  
13 greater than" the highest price posted. Under those circum-  
14 stances, we have advised the Commission that it could exercise  
15 its discretion and find that the fair market value for the  
16 purpose of that one easement might be the Standard Oil price  
17 at which the great majority of oil was purchased, and not the  
18 price paid for this very small quantity.

19 On those two bases we have recommended a settlement  
20 under which we would collect \$25,000 and that would be in pay-  
21 ment of all amounts due under all of the easements -- all the  
22 leases and the easements -- and the Commission would find  
23 that the fair market value for the purpose of this one ease-  
24 ment was the Standard Oil Price. This will be subject to  
25 approval by the Governor under the provisions of the Public  
26 Resources Code, after the State Lands Commission approves it,  
if it does.

1 MR. CHAMPION: This does not in any way jeopardize  
2 in the future our interpretation?

3 MR. SHAVELSON: Not at all. It does not bind us.  
4 It is expressly limited to this particular period.

5 GOV. ANDERSON: How long does the lease run?

6 MR. HORTIG: As long as oil and gas are produced  
7 in commercial quantities, and this could be hopefully another  
8 forty years.

9 MR. CHAMPION: I'll move it.

10 GOV. ANDERSON: Is there a potential suit on this  
11 if we do not approve this?

12 MR. SHAVELSON: Yes. We would be compelled to  
13 bring suit against all the companies who have not paid us  
14 and I think it comes to about seven or eight companies; and  
15 it would be very difficult litigation on both sides, and  
16 expensive. I think the costs would be comparable to any  
17 further amount that we might hope to collect, plus the uncer-  
18 tainties involved in the collection. We think the settlement  
19 is very good, both from the standpoint of the State and the  
20 other parties involved.

21 GOV. ANDERSON: If there are seven or eight com-  
22 panies involved, the total of all of them will not amount to  
23 more than \$17,000?

24 MR. HORTIG: Twenty-five thousand.

25 GOV. ANDERSON: That is what the settlement is for?

26 MR. SHAVELSON: Yes. In other words, if we brought

1 litigation, the most we could hope for is recovery of \$17,000  
2 over and above the \$25,000 we are getting under this settlement.

3 GOV. ANDERSON: From all of these companies?

4 MR. SHAVELSON: Yes.

5 MR. SIEROTY: Is it their contention that 1.32 is  
6 not a substantial quantity?

7 MR. SHAVELSON: That is their contention.

8 MR. SIERCTY: How many barrels would that be?

9 MR. SHAVELSON: During one month I think it came to  
10 twenty thousand barrels.

11 MR. SIEROTY: 1.32 was twenty thousand?

12 MR. SHAVELSON: That's right.

13 MR. SIEROTY: Is there still a problem at this  
14 time? I'd like to know if there is now a small buyer in terms  
15 of percentage who gives us a difference between the other  
16 prices in the area.

17 MR. SHAVELSON: Mr. Hortig, will you answer this?

18 MR. HORTIG: No. This was for a period of time  
19 when this posting was made. Now, the smaller buyer is post-  
20 ing a substantially smaller price. This relates to a particu-  
21 lar period only, during which time this posting was in.

22 I don't presume to add to the legal discussion here,  
23 but I think a very essential point is the fact that the people  
24 who posted are on record as having said that they had not  
25 posted in the sense that they thought was intended by our own  
26 contracts.