1 MR. SHAVELSON: In other words, they did not say it
2 was a contract offer.
3 MR. HORTIG: Therefore, on that basis it would be an
4 extremely difficult collection to make, which would be an im-
5 portant part of that which would come up in any litigation.
6 MR. CHAMPION: I'll move approval. Is there any
7 advantage, as a result of the Lands Commission having this
8 come up, of establishing a policy for this purpose?
9 MR. SHAVELSON: If I may answer that, we have dis-
10 cussed that with the secretary of the Signal Oil and Gas Com-
11 pany and I think we were both hopeful that we could work some-
12 thing out. We felt that this should be gotten out of the way
13 first and then we should try to come along with an amendment
14 on all of the leases in the Huntington Beach area, at least,
15 and come up with some more satisfactory provision. I think it
16 was one of the earliest leases....
17 MR. HORTIG: The language was generated in 1938.
18 MR. SHAVELSON: ... so we hadn't the experience at
19 that time. I think it can be improved.
20 MR. HORTIG: I think that is an important point. I
21 think the subsequent leases and those currently issued by the
22 State Lands Commission do not have this pitfall.
23 GOV. ANDERSON: Do they have this in there?
24 MR. HORTIG: No, sir -- not to get in this same
25 condition.
26 MR. SIEROTY. There is a proposal or suggestion that

1 we use the highest posted price on the Long Beach contract we
2 are now using.
3 MR. HORTIG: This would be directly comparable with
4 the provisions in current State Lands Commission provisions.
5 MR. SIEROTY: Well, isn't this what we are talking
6 about here?
7 MR. HORTIG: Yes, except with relation to this word
8 "substantial."
9 MR. SIEROTY: Well, the highest price.
10 MR. HORTIG: Highest posted price in applicability
11 to the majority of purchases, to get away from "substantial."
12 It would be our staff recommendation to relate to the highest
13 price offered for the majority purchases. This has not yet
14 been before the Commission, except in terms of discussion
15 with the staff.
16 MR. SHAVELSON: In the Long Beach Unit and the Field
17 Contractor Agreement, the term "substantial quantities" is
18 specifically defined; three thousand barrels per day in the
19 Long Beach Field Contractor Agreement is my recollection,
20 seven thousand in the Long Beach Unit Agreement.
21 GOV. ANDERSON: What percentages are those?
22 MR. HORTIG: Probably on the order of three per cent.
23 GOV. ANDERSON: Actually, we are talking about the
24 difference between 1.3 and 3 per cent, as to whether one is
25 substantial or the other. Aren't we begging a point, if three
26 per cent is substantial and 1.3 isn't? What is the difference?

MR. SHAVELSON: In our opinion, the question is not necessarily one of relative amounts, but rather absolute amounts. The Wilmington Field produces much more oil than the Huntington Beach Field; 1.32 of the Huntington Beach Field production is considerably less than what 1.32 of the Wilmington production would be; and, furthermore, in our .....

GOV. ANDERSON: I don't follow that.

MR. SHAVELSON: In other words, since the production in the Wilmington Oil Field is much greater than that in the Huntington Beach Field, then the absolute quantity represented by one per cent of the Wilmington Field would be much greater than the absolute quantity represented by one percent of the Huntington Beach Field.

MR. SIEROTY: Except you mentioned, it has been stated, that we are talking in terms of twenty thousand barrels a day.

MR. SHAVELSON: No, no -- for a whole month.

MR. SIEROTY: Twenty thousand barrels a month still sounds like a sizable quantity, which is one point. The second question I'd like to raise: You are using as a standard the majority buyer, the price paid by the majority buyer in the field.

MR. HORTIG: The highest price ....

MR. SIEROTY: What do you mean by "majority buyer"?

MR. HORTIG: Well, the purchase of the majority oil, rather than relating it to the price being offered by a minority

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1 buyer and whether that minority buyer is substantial; in other
2 words, the highest price paid for more than fifty per cent of
3 the oil.
4 MR. SIEROTY: How many purchasers would there be
5 within that majority?
6 MR. HORTIG: Well, this varies; some fields have as
7 few as one operator posting; some fields have actually no
8 operators posting, in which event the price is determined by
9 the Commission in relation to what is being offered by majority
10 buyers in adjoining fields processing the same quality of oil;
11 and there are some fields where there as much as seven opera-
12 tors posting.
13 MR. SIEROTY: Isn't there a danger if your majority
14 is one buyer? If one buyer buys fifty per cent of the oil in
15 the field, isn't there danger?
16 MR. CHAMPION: We are getting away from the problem
17 because essentially we are talking about an existing contract,
18 which is quite different from the Long Beach proposal we are
19 going to make. We are talking about the conditions in the
20 Long Beach contract and we propose they will be different than
21 this. We are trying to deal here with wording we would not
22 approve in an existing lease. So the two things don't go
23 together.
24 MR. HORTIG: We are taking care of a situation which
25 existed, but which no longer exists actually, simply to dispose
26 of this past problem. It could recur, but .....

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1 MR. CHAMPION: We are setting no precedent here
2 for anything else we may do.
3 MR. SIEROTY: Let me relate this question to this
4 particular situation. You have mentioned Standard Oil's price
5 as a gauge. Now, does Standard Oil buy fifty per cent or more
6 of the production in this field?
7 MR. HORTIG: Yes, higher than that.
8 MR. SHAVELSON: It is about ninety-nine per cent or
9 ninety-eight per cent of the production. This is my recollec-
10 tion. In other words, some companies take their own produc-
11 tion and about seventy-five per cent of the total production
12 of the field is my recollection. So it is the overwhelming
13 quantity involved.
14 I might say that for the greater portion of this
15 amount that's due we are applying the price posted by the
16 small company; and as I pointed out before, even if in any
17 litigation we got over the hurdle of substantial quantity, we
18 have this other issue, which is equally difficult, and I think
19 taking both together a compromise settlement like this is best
20 for the State and does not establish a precedent. As Mr.
21 Champion pointed out, in a transaction like the Long Beach
22 Unit, we specifically define substantial quantities; but in
23 these, it is not defined at all so we would be left to the
24 vicissitudes of legal opinion.
25 GOV. ANDERSON: It may not set a legal precedent,
26 but doesn't it set a policy they can hang their hat on?

MR. SHAVELSON: I don't think so, Governor, because as far as the greater quantity is concerned we have applied the higher price posted by the Union Oil Company. In other words, taking the fraction, it would be 25/42 of the amount we are applying the Union Oil price to and only as to the remainder, 17/42, we are applying the Standard price. So I don't think we have committed ourselves at all to saying that the Standard price would determine it.

GOV. ANDERSON: I don't like it.

MR. CHAMPION: I have already moved.

GOV. ANDERSON: I don't want to second it.

MR. CRANSTON: I'll second the motion. You wish to vote against it?

GOV. ANDERSON: I won't make a fuss about it.

MR. CRANSTON: If there is no further discussion, two positive votes, one negative vote.

Next item -- Informative status report on legislation.

MR. HORTIG: Mr. Chairman, I should like to direct the attention of the Commission particularly to page 44 of the supplemental calendar item, and particularly with reference, first, to both Senate Bills 139 and Senate Bill 142 that are reported thereon. These are part of a series of nine bills for clarification of existing statutes, which were authorized by the Lands Commission to be introduced at this session for legislative consideration.

With respect to only Senate Bills 139 and 142 we

have received questions and requests from other public agencies for proposed amendments to these bills. In view of the fact that, in the first instance, 139 proposed to eliminate statutes which we have been informed are obsolete, it appeared that it would only add to the confusion to propose an amendment to what we considered obsolete legislation. Incidentally, that objection was raised by the Port Authority of the City of Oakland.

As to Senate Bill 142, the San Francisco Port Authority, in connection with our general discussions with them, proposed an amendment and would object to Senate Bill 142 only if they were exempted from the application of the act -- again complicating it.

In view of the fact that both of these were proposed to clarify, I believe we are in a better position to just let the statutes sit as they are, rather than amend them at this time; and, therefore, recommend that the Commission approve that we do not proceed with the processing of Senate Bills 139 and 142 and the staff will continue the discussions with the agencies who raised questions to see if a clarified form cannot be developed for introduction without objection at the next session of the Legislature.

MR. CHAMPION: I move authorization of the staff to proceed on that basis.

GOV. ANDERSON: Second.

MR. CRANSTON: Moved, seconded, made unanimously.

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MR. CHAMPION: May I ask the status of S.B. 298? As I understand the new report which the Special Senate Research Subcommittee obtained yesterday, it indicated approval of S.B. 298 - Rees.

MR. HORTIG: Actually of the intent, in terms of suggesting the possible desirability of having the State's lands committed to a unit before the entire operation is offered for the very first bid; so in principle this supports the intent of S.B. 298.

MR. CHAMPION: Would you take what the report said or the reaction to it as making it possible to proceed with the enactment of S.B. 298?

MR. HORTIG: It would be helpful to it and this, I must assume, is one of the considerations which went into the fact that yesterday S.B. 298 was deferred from committee consideration until next Wednesday.

MR. CHAMPION: But it is set for next Wednesday.

MR. HORTIG: All of the other bills remaining on the list authorized by the State Lands Commission are in various stages of committee approval and none of the other bills have drawn a single objection from any agency or private party.

MR. CRANSTON: How about A.C.R. 64 -- Speaker Unruh's study?

MR. HORTIG: It has been amended to broader scope and it is still under study as it was amended.

MR. CRANSTON: Does that have to be amended before

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it goes to the Senate?

MR. HORTIG: It has not to my recollection been through any Senate committee.

MR. CHAMPION: I'd like to raise a question in connection with this general subject. We have the memorandum report that we asked the staff for on the bills affecting tidelands, turning them over to local jurisdictions, and it is very clear that there are so many different proposals with conflicting policies there seems to me, at least, to be a need for a general policy on the terms that the Lands Commission would recommend these, accept these, and pass these on an individual basis -- with increasing interest in taking over the revenues in some cases.

In some cases it is just a grant; in some cases they want to take certain of the revenues. I'd like to propose that the Commission direct its staff during this time to work on a study -- there is no such proposal before the Legislature but I would hope there would be one -- that there be an interim study on turning over tidelands to local jurisdictions; and that the staff work on the Lands Commission's position to present to such an interim study. Whether this can be done in this session - - It is pretty clear many of these are going to bog down in the rest of the session and such a study would give us a chance to study these carefully.

Looking over the list, I was surprised to see the policies listed under some of those proposed grants.

GOV. ANDERSON: Are they being handled altogether by the same committee?

MR. CHAMPION: Unfortunately not; they are all over the landscape.

MR. HORTIG: Generally this is true. Generally, they go to the Senate G.E., but in the Assembly they are apt to pop up anywhere.

MR. CHAMPION: I don't think this can be established at this time; but those that are deferred, we ought to get to work on a policy.

GOV. ANDERSON: How many are we talking about?

MR. HORTIG: I think fifteen.

GOV. ANDERSON: Fifteen different communities with different proposals?

MR. HORTIG: Some of them are rather far-reaching -- as, for example, all the tide and submerged lands including all the State Lands Commission existing leases in an entire county, a county with an extensive waterfront.

MR. CHAMPION: Then we have this other proposal that they take over one per cent of all revenues from tidelands and use them for really not a very fixed purpose -- a kind of open purpose; So, in effect, it is an open appropriation to be used almost at the discretion of the community -- even though this is being handled through the State, which is bad budgeting so far as I am concerned.

MR. SIEROTY: Mr. Chairman doesn't this also affect

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the Beaches and Parks program throughout the State? Would we want to include them on the study?

MR. CRANSTON: That gets to allocation by the State itself of the revenue, which is certainly a legal question.

MR. HORTIG: Additionally, as to the availability of the lands for recreational use under the jurisdiction of the State Division of Beaches and Parks as against local authority after a grant.

MR. CRANSTON: Do you want to concur that there be a general study -- staff study of a Commission policy? I think that can be our decision without a formal motion.

Do we have a supplemental item?

MR. HORTIG: Yes, a supplemental item on page 55 of your agenda, gentlemen; and, as pointed out, the United States had -- in an area which was currently under lease or had been under lease from the State, with the lease expiring June 30, 1962 -- an area which had been designated as a camp, which has been upgraded to a fort, a permanent facility.

The Army Engineers, as real estate agent for the Army, would desire to obtain fee title to the said lands in the area through the negotiation of an exchange through the Department of Interior, Bureau of Land Management. This, as the Commission is aware, is a time-consuming process and in the interim an offer has been made for the payment for the fiscal year of a rental of $21,120 -- which is based upon actual appraised value, as against the prior rental which had

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been determined in 1951 under then existing appraised values and rental schedules of the Commission at only thirteen hundred dollars.

Additionally, we have underway a re-appraisal because of the rapid appreciation of values in the area, which would be applicable to future lease rentals during the period of time these exchange negotiations are being consummated; and it is the opinion of the staff that the offer of $21,120 for the lease rental for the year should be accepted, because it appears fair and equitable, and next year we will be back to the Commission with discussion for rental rates to be applicable during that year and ensuing years until such time as the negotiation for exchange of lands could be consummated.

GOV. ANDERSON: How long would this take? Wouldn't it be to our advantage to make this transfer?

MR. HORTIG: This transfer isn't under our control as far as time is concerned, Governor. It depends upon the Bureau of Land Management of the Department of Interior and how fast the U. S. Army Engineers can convince the Bureau. The normal exchange transaction or lieu selection transaction on whatever application before the Commission now takes an average of thirty days of processing in State Lands Division and State Lands Commission -- possibly not in excess of forty-five days before it is in Washington, D.C.; and it is then processed in Washington in an average now of five to six years.

GOV. ANDERSON: I am in favor of it.

MR. CHAMPION: Second.

MR. CRANSTON: Approval moved, seconded, made unanimously.

GOV. ANDERSON: I'd like to see us do it as fast as we could, so that we get something in exchange that is worth while.

MR. CRANSTON: I believe we are ready for the final item, which is 14 -- Reconfirmation of date, time and place of the next Commission meeting -- Thursday, June 27, 1958 at 10:00 a.m. in Los Angeles. There being no further business we now stand adjourned.

ADJOURNED 11:25 a.m.

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REPORTER's CERTIFICATE

I, LOUISE H. LILLICO, hereby certify that the foregoing fifty-nine pages contain a full, true and correct transcript of the shorthand notes taken by me in the meeting of the STATE LANDS COMMISSION held at Sacramento, California on May 23, 1963.

Dated: Los Angeles, California, May 31, 1963.

Louise H. Lillico