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1 LOS ANGELES, CALIFORNIA, WEDNESDAY, NOVEMBER 6, 1963, 10:00 A.M.

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3 CHAIRMAN CHAMPION: The meeting will please come to
4 order.

5 First order of business is Minutes of the last
6 meeting. What is the pleasure of the Committee?

7 MR. CRANSTON: Move for approval.

8 GOVERNOR ANDERSON: Second.

9 THE CHAIRMAN: Minutes to stand approved.

10 Item 3, permits, easements, and rights-of-way to
11 be granted to public and other agencies at no fee, pursuant
12 to statute. Consideration is the public benefit.

13 (a) Delta Telephone and Telegraph Company -
14 Easement, 0.13 acre tide and submerged lands of Sacramento
15 River, Sacramento County for construction and maintenance of
16 submerged telephone cable.

17 (b) Parker Valley Telephone Company - Easement,
18 10 feet wide and 510 feet long, across Colorado River, San
19 Bernardino County for overhead telephone cable.

20 GOVERNOR ANDERSON: Are these public agencies?

21 MR. HORTIG: No, sir. They are telephone corporations.

22 GOVERNOR ANDERSON: Both of them? Is it our policy
23 to grant them easements like that at no cost?

24 MR. HORTIG: It is not policy, Governor. It is
25 prescribed by the statutes in the Public Utilities Code
26 that telephone and telegraph companies are entitled on

1 application to receive easements.

2 GOVERNOR ANDERSON: Do they determine the size of this?

3 MR. HORTIG: No, sir. The staff of the State Lands
4 Division does, holding these to a minimum for practical
5 operation for the purpose for which the lands are sought.

6 THE CHAIRMAN: Do we have any authority to determine
7 conditions, such as whether it should be overhead or under-
8 ground, or --

9 MR. HORTIG: Generally no. This is determined by one
10 of the two concepts. In some areas where planning
11 commissions and zoning are applicable, this is determined by
12 local authority, and in the case of these two applications
13 and the location across desert areas immediately adjoining
14 the Colorado River, there has been no question of application.

15 THE CHAIRMAN: I didn't mean to raise the question. I
16 was curious about that.

17 MR. HORTIG: Additionally, the other one that determines
18 overhead crossing on navigable waters it determines, the U.S.
19 Army Corps of Engineers, that this is sufficient navigation
20 clearance, which has been determined in both of these
21 instances by the Corps of Engineers.

22 THE CHAIRMAN: I was just raising an academic question.
23 If we wish to say for other reasons that bother this case --
24 and I don't know of any reason to do so -- that we wanted
25 a cable underground, could we insist on a cable underground?
26 Otherwise it doesn't seem to me that there is any reason for

1 us to pass on these. It is just a formality required by the
2 Code.

3 MR. HORTIG: It is authorized by the Code, but it is
4 desirable that they be passed on for a record of occupancy,
5 as to a record of occupancy of State Lands.

6 THE CHAIRMAN: (c) Parker Valley Telephone Company -
7 Easement, 10 feet wide and 655 feet long, across Colorado
8 River, Riverside County for overhead telephone cable.

9 (d) United States Army, Corps of Engineers -
10 Permit to dredge approximately three million cubic feet of
11 beach-fill material from Anaheim Bay, Orange County, from
12 November 1, 1963, to July 31, 1964 beach erosion control
13 project.

14 (e) United States of America - Life-of-structure
15 permit for deposition of three million cubic yards of beach
16 fill material on 280 acres tide and submerged lands at
17 Surfside and Sunset Beach, Orange County for protection of
18 Orange County shoreline from Anaheim Bay to Newport Beach.

19 GOVERNOR ANDERSON: I so move.

20 MR. CRANSTON: Second.

21 THE CHAIRMAN: Stand approved.

22 Item 4, permits, easements, leases, and rights-of-
23 way issued pursuant to statutes and established rental
24 policies of the Commission.

25 (a) Arizona Public Service Company - 49-year
26 easement, 0.33 acre submerged lands of Colorado River, San

1 Bernardino County for construction and maintenance of over-
2 head wire crossing. Total rental, \$306.25.

3 (b) R. H. Emmerson & Son - Acceptance of quitclaim
4 deed covering parcel of tide and submerged lands of Mad
5 River Slough, Humboldt County, under expired Lease P.R.C.
6 1970.1.

7 (c) John A. Fitzgerald - 1-year renewal of Lease
8 P.R.C. 595.1, 0.378 acre tide and submerged lands of
9 Middle River, San Joaquin County used as a fishing resort.
10 Annual rental, \$150.00.

11 (d) Howard Hunt and Adam Natalie, partners -
12 2-year prospecting permit, 94.127 acres vacant school lands,
13 San Bernardino County, for all minerals other than oil and
14 gas, at standard royalty rates.

15 (e) William I. Moore - 5-year grazing lease,
16 13,830.66 acres school lands, San Bernardino County. Annual
17 rental, \$207.46.

18 (f) Pacific Gas and Electric Company - 49-year
19 easement, 0.25 acre tide and submerged lands of Burns Cut-off,
20 San Joaquin County for construction and maintenance of
21 overhead wire. Total rental, \$1,150.03.

22 (g) Occidental Petroleum Corporation - 15-year
23 subsurface easement, 36 acres tide and submerged lands of
24 New York Slough, Contra Costa County to drill for gas under
25 Browns Island by directional drilling. Annual rental,
26 \$476.64.

1 (h) Phillips Petroleum Company - 49-year easement,
 2 7.774 acres tide and submerged lands of Santa Barbara
 3 Channel, Santa Barbara County for submarine flow lines
 4 from Well No. 4, State Oil & Gas Lease P.R.C. 2933.1.
 5 Annual rental, \$220.84.

6 (i) Phillips Petroleum Company - 49-year easement,
 7 5.636 acres tide and submerged lands of Santa Barbara
 8 Channel, Santa Barbara County for submarine flow lines from
 9 Well No. 5, State Oil & Gas Lease P.R.C. 2933.1. Annual
 10 rental, \$160.10.

11 (j) Phillips Petroleum Company - Deferment of
 12 drilling requirements under Oil & Gas Lease P.R.C. 2207.1,
 13 Santa Barbara County, through June 21, 1964 to allow time
 14 for studies to determine whether further drilling is
 15 justified.

16 (k) San Clemente Sportfishing, Inc. - 5-year
 17 minor-structure permit, 8 acres submerged land in Gulf of
 18 Santa Catalina, near San Clemente Municipal Pier, Orange
 19 County for mooring buoys for commercial sport fishing and
 20 charter boats. Annual rental, \$240. To replace permit that
 21 expired March 4, 1962.

22 (l) Shell Oil Company - Geophysical exploration
 23 permit for period October 24, 1963, through April 23, 1964 --

24 MR. HORTIG: Mr. Chairman?

25 THE CHAIRMAN: Yes.

26 MR. HORTIG: May I interrupt? The application for

1 geophysical exploration permit is requested to be deferred
 2 for consideration at this meeting, for the reason that
 3 legal questions had been raised as to the applicability
 4 of existing geophysical exploration permits heretofore
 5 issued by the State Lands Commission. Under those
 6 circumstances the staff feels that the Lands Commission
 7 should not consider issuance of additional permits in the
 8 same form as --

9 THE CHAIRMAN: Have the applicants agreed to defer this
 10 to another meeting?

11 MR. HORTIG: No, sir.

12 THE CHAIRMAN: Why don't we hold this and take it up
 13 after we go through the rest of these items then, give the
 14 applicants a chance to say. For the moment let's not
 15 consider that then under Item 4. We will take it up again
 16 after we have discussed the other items.

17 Charles Vogel - Assignment from Nancy H. Helmers
 18 of Lease P.R.C. 682.1, covering Ark Site No. 11, Corte
 19 Madera Creek, Marin County.

20 (n) Signal Oil and Gas Company - Execution and
 21 issuance by Executive Officer of an "Amendment and
 22 Modification of Exchange Oil & Gas Lease 392.1 P.R.C.
 23 Secondary Recovery" providing for establishment of royalty
 24 rate for "secondary oil" resulting from water-flood operation,
 25 as authorized by Sections 6830.1, 6830.2, and 6830.3 of the
 26 Public Resources Code added by Chapter 979/61.

1 GOVERNOR ANDERSON: Could you develop this last one a
2 little bit? Is this the first time we have established
3 policy on this type of thing?

4 MR. HORTIG: This is correct, sir. This is pursuant
5 to the first application under statutes of 1961, which for
6 the first time authorized the operation under the State Oil
7 & Gas Leases in the form here proposed.

8 If I may give to the Commissioners charts which
9 may be helpful, a very brief summary under existing State
10 Oil & Gas Leases, all of which have now been issued,
11 pursuant to competitive public bidding, and all of which
12 require a sliding royalty scale determined by the rate of
13 production from a lease. In other words, there is a
14 minimum royalty specified. In the subject lease under
15 consideration the statutory minimum was 12-1/2 per cent,
16 and this is specified in the contract, and a sliding scale
17 on above 12-1/2 per cent whenever the production exceeded
18 something on the order of 80 barrels per day per well
19 average. No ceiling specified, but the practical effect of
20 the sliding royalty scale in this particular lease is such
21 that in all probability no wells would ever be developed
22 that would produce a calculated sliding royalty scale in
23 excess of 50 per cent. At the time this lease was issued
24 in 1938 there had been no active development of any so-called
25 secondary recovery or water flooding projects. The basic
26 theory is simply that after a field has reached a particular

1 time in its life it can be determined to probably be
2 economical to inject salt water or other solutions under
3 pressure into the formation where the oil remains, and
4 wash out or sweep out oil which might otherwise remain
5 underground and not be pumped up by the normal or primary
6 oil recovery processes. This feature of artificial
7 stimulation or augmentation of production is the feature
8 that is classified as secondary recovery, or secondary
9 production. Inasmuch as such a secondary recovery operation,
10 which in this instance will be conducted at the sole cost
11 of the lessee, inasmuch as this is an oil and gas lease
12 where all operating costs are borne completely by the
13 lessee, the secondary recovery operation will be the cost
14 to the lessee and will also, when it is put into effect,
15 result in a stimulation of the production rates from the
16 wells that are in existence under this lease. This
17 artificially stimulated rate of production under the
18 existing lease terms and conditions would have to be used to
19 calculate the royalty rate. In other words, under -- prior
20 to 1961 an operation of this type would have had to be
21 undertaken by a lessee under conditions where he not only
22 invested the money to secure the stimulation of production
23 and to produce additional oil which would not ordinarily be
24 produced, both for the benefit of the lessee and the State.
25 But because of having undertaken the operation and increased
26 the production rate, he would also have to pay a higher

1 calculated penalty oil rate, the double burden, economic
2 burden, of a higher oil royalty rate, and the capital costs
3 in operating costs of a secondary oil operation don't
4 ordinarily result in a condition where such an operation
5 can be undertaken.

6 In 1961 the legislature modified the Public
7 Resources Code to provide that, with the approval of the
8 Lands Commission, modification agreements can be entered
9 into with respect to any existing State Oil & Gas Lease,
10 whereunder the lessee will pay the calculated royalty rate
11 that would have been applicable had the lease produced under
12 primarily oil recovery procedures, and pay a royalty on the
13 additional secondary oil recovery, the stimulated augmented
14 production, at a rate not less than the minimum royalty
15 rate specified in the lease.

16 As I stated previously, the minimum royalty rate
17 in this subject lease is 12-1/2 per cent. Under the
18 proposal and the modification agreement that is before you
19 and as shown on the first chart in the folder I just handed
20 to you, it would be proposed that the balance of the
21 primary oil, which is shaded in yellow on the upper chart,
22 which would under normal lease operations be produced at
23 royalty rates ranging from approximately 15 per cent, if
24 this operation is undertaken starting in January, 1964,
25 down to 12-1/2 per cent minimum, with a weighted average
26 royalty rate applicable during that period of 13.19 per cent.

1 The proposal of the lessee, and this has been reviewed as
2 to the economics, the technical feasibility, by the staff
3 of the State Lands Commission, and as to legality of the
4 proposed amendment agreement by the Office of the Attorney
5 General, the proposal would be to produce that same
6 unrecovered primary oil, shaded in yellow in the upper
7 diagram and also in the lower diagram, in a shorter period
8 of time at the same weighted average oil royalty rate, and
9 ranging again between approximately 15 per cent down to
10 12-1/2 per cent, and thereafter pay the average weighted
11 royalty rate that would have been applicable to the primary
12 oil for the remaining oil which will be truly secondary
13 recovery oil, which has been recovered simply because of the
14 injection of salt water.

15 Under the proposed operation by our lessee, it is
16 proposed that this weighted average royalty rate, and this
17 weighted average royalty rate is offered by our lessee as
18 being an equitable oil royalty rate, on oil that the State
19 would otherwise not have any interest in because it would
20 not be produced but for the secondary operation, and proposed
21 to pay the same weighted average oil royalty rate as they
22 will pay on the remaining primary oil. Inasmuch as this
23 13.19 per cent is in excess of the minimum required by the
24 statute, which is the 12-1/2 per cent, the proposed
25 amendment and authorization for this operation is recommended.

26 GOVERNOR ANDERSON: Why do you say they would not produce

1 that? Wouldn't they have ordinarily waited until the
2 field depleted itself, and then used the secondary recovery
3 procedure to get that additional oil out at that time
4 without having to pay a higher rate?

5 MR. HORTIG: Not ordinarily, Governor, because actually
6 the farther down toward the economic limit in a field on
7 primary recovery, the less efficient secondary recovery
8 becomes, and therefore, having waited until the point you
9 suggested, at which time the average oil royalty rate would
10 have been a minimum on primary oil on 12-1/2 per cent, it is
11 estimated that waiting and initiating secondary recovery
12 at that time would result in less future barrels recovered,
13 although admittedly at a lower oil royalty rate, and the
14 interest, of course, of lessees and the State is to achieve
15 the maximum barrels recovered, and the --

16 GOVERNOR ANDERSON: Well, then --

17 MR. HORTIG: The additional barrels which will be
18 recovered by starting the project at this time is of
19 economic advantage to the lessee to the point where the
20 lessee is willing to pay it, the higher average royalty
21 rate for those barrels, rather than wait to the point of
22 having reached the minimum royalty rate which would be
23 applicable to a lesser number of barrels in the future.

24 GOVERNOR ANDERSON: What has been the practice then up
25 to the present time? Have they just not utilized secondary
26 recovery in many cases and just let it -- under the new law,

1 the point, what it has been in the past?

2 MR. HORTIG: There have been no secondary recovery
3 operations on any oil and gas lease.

4 GOVERNOR ANDERSON: They have just abandoned the field,
5 is that it?

6 MR. HORTIG: No. We have had no abandonments of field,
7 except one instance, a field which was started to be developed
8 actually in 1896 and went off production in about 1940, but
9 on the newer leases and including this, as a pioneering lease
10 under the State Lands Act, indeed this was the first lease
11 issued under the State Lands Act by the State of California
12 in 1938, this being the first lease, and it has not been
13 abandoned and is still on production. It is also proposed
14 that this be the first lease where secondary recovery will
15 be applied. This was not economically feasible until the
16 statutes were amended in 1961.

17 GOVERNOR ANDERSON: I am not clear. Do you mean there
18 haven't been abandoned wells because they ran down on their
19 production and just dropped them at the time; recovery might
20 have stepped in at that time and taken over?

21 MR. HORTIG: They have not been abandoned leases that
22 were issued by the State Lands Commission under the State
23 Lands Act.

24 GOVERNOR ANDERSON: How about in private operation where
25 they have not been by the State?

26 MR. HORTIG: In private operation there have been some

1 secondary operations of various types, primarily experimental,
2 not a major field that is under secondary recovery, full
3 secondary operation, I believe in California to date,
4 although there is more experimental work.

5 GOVERNOR ANDERSON: What do they do when they are
6 dealing with the State? Do they develop their secondary
7 recovery at the same time like you are suggesting here?

8 MR. HORTIG: Yes, sir. Well, we now have facing the
9 Commission a total range of both, primarily privately owned
10 fields, fields owned in fee by private sources that have
11 been abandoned where no secondary recovery operations were
12 ever tried. We are in that stage in development of oil
13 fields in California, where various experimental types of
14 secondary recovery operations are in effect and being tried
15 in various again privately owned fields. We have the
16 application for secondary recovery for the first State
17 tideland lease before you today, and in connection with the
18 proposed East Long Beach unit development, the City of Long
19 Beach proposes a method of operation there where in effect
20 secondary recovery would start on the day that primary
21 recovery starts.

22 GOVERNOR ANDERSON: Subsidence is involved in that,
23 but you are setting a policy here that could deal all over
24 the State, where subsidence wouldn't, wouldn't necessarily
25 be a question.

26 MR. HORTIG: This is correct. And subsidence is not

1 necessarily involved in the Long Beach situation, but the
2 argument is presented and can't be gainsaid, that if it
3 should be involved, then if pressure maintenance is the
4 method of forestalling it, then it will be forestalled by
5 starting the pressure maintenance or secondary recovery at
6 the late that the primary recovery starts.

7 THE CHAIRMAN: No, it is my understanding that it was
8 the development of this situation which led to the new
9 statute, to the new authorization.

10 MR. HORTIG: The development of which situation,
11 Mr. Chairman?

12 THE CHAIRMAN: Well, the fact that we were entering
13 this period.

14 MR. HORTIG: That is correct.

15 GOVERNOR ANDERSON: Which period is that?

16 THE CHAIRMAN: This period in which we would begin to
17 have application of secondary recovery -- that they were
18 not proceeding with this in the absence of legislation --
19 made it possible, or economically feasible.

20 Is there any further question, comment on these
21 items?

22 MR. CRANSTON: I move approval with the exception of
23 the item numbers withdrawn.

24 THE CHAIRMAN: With the exception then of Item -- I
25 think it was (1) under 4, Mr. Cranston moves approval.

26 GOVERNOR ANDERSON: I will second it, but I would like

1 the staff to get me a little more information on how this
2 is going to work, in both private and public development.
3 We are setting a policy here that can be pretty far-reaching,
4 I think.

5 MR. HORTIG: I think the crux of the matter, Governor,
6 is that if you all refer to that first graph sheet there,
7 the oil that is shaded in green is oil that would never be
8 produced under this lease but for approval of the project
9 by the State Lands Commission in the form in which it is
10 before you, that oil would irrevocably remain underground
11 and would never come out.

12 GOVERNOR ANDERSON: Well then, you are assuming then
13 that these newly experimental secondary recoveries of
14 previously abandoned wells are not going to bring anything
15 out of there, or bring out as much as you would --

16 MR. HORTIG: I don't believe I stated that the new
17 applications of secondary --

18 GOVERNOR ANDERSON: You mentioned that there was
19 experimental secondary recovery now being started by private
20 concerns in --

21 MR. HORTIG: That is correct.

22 GOVERNOR ANDERSON: -- in previously abandoned wells.

23 MR. HORTIG: I am afraid to telescope things, I tried
24 to state that we had fields which had been abandoned on
25 which no secondary recovery attempts had ever been made.
26 There have been some fields that are approximately in the

1 same age relationship, same age relation to their total
2 production as this State tidelands lease is, where private
3 interests are trying various types of secondary recovery
4 operations, including the salt water flooding type of
5 operation which is here proposed. And then finally we have
6 under consideration what may be an ultimate of secondary
7 recovery, but operation data alone will tell whether it is
8 economically desirable to, in effect, start secondary
9 recovery concurrently with primary recovery, even in areas
10 where there may be no threat of subsidence.

11 GOVERNOR ANDERSON: Well, these present private attempts
12 then, I think in the second group we are talking about, to
13 work in the fields that have been abandoned or that have
14 been depleted, you are assuming then they are not going to
15 be successful, or they could do the same thing in here and
16 get the amount that you expect to get out of successful
17 secondary recovery here.

18 MR. HORTIG: Well, the group where operations are being
19 conducted experimentally and hopefully economically
20 successfully are in fields where it is expected about the
21 same type of results will be obtained as they are expected
22 to be obtained under this particular State lease. These
23 are not --

24 GOVERNOR ANDERSON: So we would get this if you didn't
25 adopt this policy, and they start a secondary recovery at
26 that time?

1 MR. HORTIG: No, but if you don't adopt this policy,
2 Governor, pursuant to the law there will be no secondary
3 operations ever attempted, because the lessee cannot without
4 this amendment economically justify a secondary recovery
5 operation. They can't afford both the capital cost and the
6 penalty royalty rate which would be assessable due to their
7 own efforts, if their lease is not amended in accordance
8 with the statutory authorization.

9 GOVERNOR ANDERSON: We are not talking about the same
10 thing.

11 MR. SIEROTY: Mr. Chairman, may I ask a couple of
12 questions?

13 THE CHAIRMAN: Yes indeed.

14 MR. SIEROTY: Try to clarify something. I understand
15 that - is this correct, Mr. Hortig, that that statute under
16 which this modification is proposed, this 1961 statute
17 refers only to situations where secondary recovery is
18 proposed by the lessee?

19 MR. HORTIG: That is correct.

20 MR. SIEROTY: In other words, there is no modification
21 proposed until the lessee wants to engage in secondary
22 recovery?

23 MR. HORTIG: That is correct.

24 MR. SIEROTY: Now what we do is to take the average
25 royalty that would be received, as the lessee, had the
26 lessee not engaged in secondary recovery, is that correct,

1 and take that, that royalty rate and we apply that to both,
2 in this modification proposed, to both the recovery under
3 primary and secondary recovery?

4 MR. HORTIG: Actually we collect for the primary oil
5 the same royalty rates that would have been collected had
6 secondary recovery not been employed, and then take the
7 average of that and apply it to any secondary recovery oil,
8 which by definition is oil that would not have been
9 recovered at all but for the initiation of the secondary
10 recovery project, at the cost of the lessee, and thereby
11 receive --

12 THE CHAIRMAN: I think Mr. Hortig is just agreeing with
13 you. I don't think there is any difference.

14 MR. SIEROTY: Right, I think that's correct.

15 Now the problem comes as a result of this water
16 flooding, the primary recovery is condensed into a shorter
17 period of time, and the rate of recovery is, rate of
18 production is higher, so that a higher royalty rate would
19 have applied ordinarily under the existing lease?

20 MR. HORTIG: Right.

21 MR. SIEROTY: But this modification allows for that
22 recovery to come quicker than ordinarily would be done if
23 there were no secondary recovery, and the same royalty, the
24 same total royalties would be received by the State for
25 the primary recovery as if it went over a period of many,
26 many years.

1 MR. HORTIG: This is correct. And in addition thereto,
2 royalty on secondary oil which would not ever be recovered
3 but for the initiation of the additional operations at the
4 cost of the lessee, cost to the lessee.

5 THE CHAIRMAN: Are there any further questions on this
6 item? Mr. Cranston has moved, and Governor Anderson has
7 seconded approval of all the items under 4 with the
8 exception of (1); they will stand approved unanimously.

9 Now let's turn again to the item which I did not
10 finish reading. We will put it before the Commission in
11 order to take up the discussion. Shell Oil Company -
12 Geophysical exploration permit for period October 24, 1963,
13 through April 23, 1964, on tide and submerged lands of
14 Sacramento River and Suisun Bay including Grizzly and
15 Honker Bays, Montezuma Slough, Middle Slough, New York
16 Slough, and other adjacent bays, sloughs, and rivers, in
17 the counties of Napa, Contra Costa, Sacramento, San Joaquin,
18 and Solano.

19 Now, as I understand it, Mr. Hortig has recommended
20 on behalf of the staff that we defer this for a later
21 meeting subject to -- because we have had, we are now having
22 problems on what legal obligations there are on the company,
23 and there are other permits of this kind, and until that
24 dispute is settled you don't wish to take this one up; is
25 that the staff position?

26 MR. HORTIG: That is the staff position, Mr. Chairman.

1 THE CHAIRMAN: Is there a representative of Shell Oil
2 who would like to speak on this, for this question?

3 MR. KARSHNER: Yes, sir. Mr. Chairman, Commissioners,
4 my name is R. F. Karshner, representing Shell Oil Company
5 in this matter. I'd like to point out that our refusal
6 order, if you recall, was not based on a matter of being
7 noncooperative, but to avail ourselves of an opportunity to
8 present to you for consideration a modification which we
9 think would be acceptable to you and certainly to us. On
10 September 20th --

11 THE CHAIRMAN: Has this been discussed with staff, or
12 is this a new proposal at this time?

13 MR. KARSHNER: Well, it was briefly discussed, discussed
14 with Mr. Hortig.

15 THE CHAIRMAN: I see. Excuse me.

16 MR. KARSHNER: Certainly. We made an application on
17 September 20th for this permit. The request for permit
18 was reviewed by the staff and presented on the items of
19 the calendar as Item number 11 in your full situation, with
20 a recommendation for approval.

21 Subsequent to that we obtained a Fish and Game
22 permit. There were no objections raised by any county
23 agency regarding this permit, and we were advised yesterday
24 that due to a problem arising on a permit which we now have
25 in existence for geophysical work in the coastal area from
26 Point Conception north to the California-Oregon border, that

1 this permit would have to contain the same provision. We
2 would like to offer to you the --

3 THE CHAIRMAN: Same provision as what, as the one in
4 dispute?

5 MR. KARSHNER: As the one in dispute. We are setting
6 up to proceed with our operations, and we would like to
7 consider a modification of the provision in question, which
8 would conform with the statute Section 6826 of the Public
9 Resources Code, and which we believe would satisfy you and
10 certainly be acceptable to us, and with your permission
11 I'd like to show you what that is, if I might.

12 THE CHAIRMAN: Fine. Would you also provide staff with
13 a copy of it. Is there only one copy?

14 MR. KARSHNER: Well, I had three, but I have to give
15 one to the staff, and here's one for the chairman. Frank,
16 this is the permit that is in question. We have here a
17 geophysical exploration permit for California, from
18 Point Conception to the California-Oregon border. In this
19 permit under section twelve is a provision that calls for
20 the provision to the State Lands Commission staff certain
21 information when they call for it, predicated -- with the
22 sole purpose of its determination of whether the area or
23 any portion thereof embraced within the permit lie within
24 the known geological structure of producing oil and gas
25 field. This is the provision, and this is the permit, sir,
26 that is in question at the moment. We would like to have you

1 issue us a permit on the application before you, eliminating
2 the controversial language so that we can proceed with our
3 work, and this would qualify under the statute of the
4 Public Resources.

5 THE CHAIRMAN: In other words, you are asking us to
6 change our policy with respect to acquiring this geological
7 information?

8 MR. KARSHNER: Well, in a sense this is true. The whole
9 question at the moment is whether the bottom portion of this
10 provision is a -- what we again said ourselves, and the
11 State Lands Commission --

12 THE CHAIRMAN: I don't think the elimination of the
13 requirement really settles the discussion.

14 MR. KARSHNER: Well, it does not eliminate it, sir.
15 It allows the issuance of the permit. This is not a
16 condition which is really to our benefit and not yours.

17 MR. STEROTY: We can't hear very well.

18 MR. KARSHNER: I'm sorry.

19 THE CHAIRMAN: Mr. Hortig?

20 MR. HORTIG: Mr. Chairman, I believe I can summarize,
21 and Mr. Karshner --

22 THE CHAIRMAN: Well, let's let the Shell representative.

23 MR. KARSHNER: Well, we feel that you may consider
24 this whereby we can eliminate the controversial part in the
25 permit to be used, and we can go forward with the work. We
26 do not feel that this would be detrimental to the State of