

1 Approximately twenty-three hundred people are using these
2 waters. There is a terrific health hazard, a terrific fire
3 hazard. The only way in which the County would be in a posi-
4 tion to control this at this point would be to clear these
5 people out and, of course, we don't want to do that.

6 On February 4th and continuing through the week of
7 February 4th, we are meeting with prospective bidders on this
8 acreage. We are virtually in the position of having to have
9 this matter settled prior to that time. This was the assump-
10 tion the County was operating under, based on the Commission's
11 order at its meeting of November 6th. We are in a very dif-
12 ficult position.

13 MR. CHAMPION: Mr. Goldin, does this in any way
14 alter your view on this?

15 MR. GOLDIN: No, sir -- for the reason, in turning
16 to the pages of the calendar, it is quite evident that virtu-
17 ally every item has at the bottom a proposed resolution and
18 recommendation; and I believe that it would be reasonable for
19 Mr. Sargent to have inferred that he was not running a risk
20 that the Commission would take action on the merits of the
21 application -- that the worst he would suffer would be an
22 adverse progress report.

23 MR. GRANSTON: Mr. Chairman, I would like to say,
24 first, I expressed no viewpoint inside this body or outside
25 this body up to this time, because I was deeply concerned
26 with Mr. Sargent's own interest in the time he has been

1 involved here. In exploring this, I have become convinced
2 there is an overriding interest in the other direction on
3 behalf of many, many people who will have the use of this
4 area if the County's request is granted. So I am now strongly
5 in favor of doing this, but in terms that do give Mr. Sargent
6 maximum protection possible. Certainly we don't want to act
7 in any way that would further snarl matters.

8 I would like to suggest that, since all the members
9 of the Commission will be in Sacramento next week, we could
10 have a meeting briefly. I am sure the three members could do
11 that briefly next week, because we will all be in Sacramento
12 when the Legislature meets.

13 MR. CHAMPION: That would be agreeable to me.
14 Would that be all right for you?

15 MR. CRANSTON: The only question would be the legal
16 problem of how we set that up Monday, Tuesday or Wednesday
17 in Sacramento.

18 MR. HORTIG: Mr. Chairman, may I suggest if there
19 is contemplation of such a meeting that we anticipate it
20 not be set any earlier than the latter part of next week,
21 because Mr. Sargent cannot be contacted by telephone; he
22 can only be contacted by registered mail, which he drives
23 into

24 MR. CRANSTON: Frank, I suggest we cut through
25 matters of that kind. I suggest we send somebody down to
26 give him notice that we will have a meeting Monday, Tuesday

1 or Wednesday. I can only appear early in the week.

2 MR. CHAMPION: I am sure the members of Imperial
3 County will give him such notice.

4 MR. FOOTE: We will be happy to do that.

5 MR. CRANSTON: I would suggest we meet Wednesday
6 morning at any convenient time. (Some discussion between
7 members). Nine o'clock Wednesday morning, February 5th,
8 in Sacramento.

9 MR. CHAMPION: Unless there is objection, that
10 will be the order then. This matter will be put over until
11 nine o'clock Wednesday, February 5th, in Sacramento.

12 MR. FOOTE: Mr. Chairman, may I make one

13 MR. CRANSTON: Let's be clear that the staff and
14 the County are instructed to see to it that physical delivery
15 is made of due and proper notice of this meeting at once.

16 MR. FOOTE: May I inquire what the action of the
17 Commission will be in the event Mr. Sargent still maintains
18 his unavailability at that time?

19 MR. CHAMPION: We can't forecast that. Mr. Cranston
20 has made a complete statement of his position, and I have
21 made one of my position. I think we would be ready to act at
22 that time, but Mr. Sargent should be contacted and every
23 effort should be made to work out an agreement with him to
24 the extent that it can be done; but under notice that we will
25 act at that time.

26 MR. FOOTE: Thank you.

1 MR. CHAMPION: Authorization for Executive Office
2 to initiate procedures for consideration of amendment of
3 Section 2100 (f) (5), California Administrative Code, Title
4 Division 3, Rules and Regulations of the State Lands Commis-
5 sion, as proposed in Exhibit A. Mr. Hortig?

6 MR. HORTIG: Mr. Chairman, the rules and regula-
7 tions relating to geological exploration permits have the
8 same language as a basis of possible ambiguity of interpreta-
9 tion that the former geophysical exploration permit previous-
10 had in it, which surplus language was removed from the form
11 of geophysical exploration permit at the last meeting of the
12 Commission. Therefore, to clarify both types of permits
13 uniformly, it is recommended that the staff be authorized to
14 initiate the procedures required under the California Admini-
15 strative Code to adopt rules and regulations, to strike this
16 same surplus language from the geological exploration permit
17 that was heretofore removed from the geophysical permit, in
18 order that both types of permits conform with the statutory
19 language on these permits.

20 MR. CRANSTON: So move.

21 GOV. ANDERSON: Second.

22 MR. CHAMPION: Stands approved. I would like to
23 take one item out of order. It is an added item on the
24 agenda, which I want to present.

25 GOV. ANDERSON: And the next one, because I would
26 like to ask a few questions in front of you.

1 MR. CHAMPION: This is Supplemental Calendar Item
 2 23 -- Salary of Executive Officer - Personnel. At its meet-
 3 ing of December 20, 1963, the Commission took the following
 4 action: "The salary for the position of Executive Officer,
 5 State Lands Commission, is declared 'open for adjustment'
 6 as of January 1, 1964."

7 Exempt Pay Memorandum No. 9-14 was issued by the
 8 Department of Finance in January 1964. This memorandum re-
 9 vised the salary range for the position Executive Officer
 10 from \$1,225 to \$1,490, to \$1,351 to \$1,642, effective
 11 January 1, 1964. Item No. 35, Chapter 8, 1963, First Extra-
 12 ordinary Session, provided for salary increases for many com-
 13 parable classes in State civil service effective January 1,
 14 1964.

15 In view of the foregoing, I would recommend that we
 16 consider adjustment of the salary of the Executive Officer.
 17 The salary is presently set at the maximum of the former
 18 range, \$1,490. In order for the new range maximum, \$1,642,
 19 to be effective, action by the Commission is required; and I
 20 would recommend we make this change.

21 GOV. ANDERSON: Then where do we start in this
 22 salary?

23 MR. CHAMPION: He is at the maximum of the present
 24 schedule and would go to the maximum of the new schedule.

25 GOV. ANDERSON: In other words, he would go from
 26 \$1,490 to \$1,642?

1 MR. CHAMPION: Yes. This is being done throughout
2 the State.

3 MR. CRANSTON: I second the motion.

4 GOV. ANDERSON: Do you approve this?

5 MR. HORTIG: Yes, sir.

6 MR. CHAMPION: There being no objection, it will
7 stand approved.

8 We will turn to Item 8 -- Authorization for Execu-
9 tive Officer to approve a natural gasoline sales agreement
10 between Humble Oil & Refining Company, as seller, and Stand-
11 ard Oil Company of California, Western Operations, Inc., as
12 buyer, effective for a period of one year after November 1,
13 1963, and thereafter until terminated by either party on six
14 months' written notice to the other, for the sale of natural
15 gasoline extracted from wet gas produced under State Oil and
16 Gas Leases in the Huntington Beach Field.

17 "Do you want to hear from Mr. Hortig on this?"

18 GOV. ANDERSON: I want to ask some questions, be-
19 cause I am not quite clear on this. First, is it good to
20 have a contract or agreement that doesn't really terminate?
21 In other words, this is renewed yearly but it is really re-
22 newed without looking at it, and if you wish to terminate you
23 have to give six months' notice...

24 MR. HORTIG: After one year.

25 GOV. ANDERSON: In this kind of thing, doesn't it
26 tend to just get in the files and go on and on? Isn't it

1 better to have a definite date for the termination of an
2 agreement, so you take a look at it?

3 MR. HORTIG: The problem here, Governor, is we are
4 dealing with the natural gas and natural gas products as
5 developed from a State oil and gas lease, and the lease pro-
6 vides in turn that the lessee shall not dispose of the
7 products except pursuant to a sales contract or other form of
8 notification previously approved by the State Lands Commission.
9 We are dealing here with a product which in itself is not part
10 of the competitive public bidding, and the bidding elements
11 relate primarily to the oil royalty and the amount of royalty
12 that is going to be paid on the oil.

13 The royalty to be paid on gas and gasoline is fixed
14 by statute and, therefore, these contracts, such as are under
15 consideration here, are arms length negotiations by the lessee
16 to sell that product at the maximum price he can get by an
17 arms length negotiation -- negotiation in which the State is
18 not a party and, therefore, not being a party as such, it
19 is not in a position to suggest different forms of contract
20 for the disposal of the product.

21 GOV. ANDERSON: You wouldn't feel it would then be
22 wise on this kind of agreement to look at it, say, every five
23 years and let both sides know it is going to end at that
24 time? You think it would be just rewriting the same agreement?

25 MR. HORTIG: Essentially that; and, in addition,
26 there possibly would be a depressing factor in the original

1 negotiations for a full-term contract, where the contracting
2 parties do not know they are going to have the contract for
3 the full length of the contract, but only five years.

4 GOV. ANDERSON: This arms-length contract you
5 speak of, is this the only type of contract we do this on?

6 MR. HORTIG: For the sale of the gas and the gaso-
7 line, where the royalty rate is specified by statute only.

8 GOV. ANDERSON: That is the only kind? Everything
9 else does have a terminating date?

10 MR. HORTIG: For every contract where we lease or
11 otherwise convey.

12 GOV. ANDERSON: If you had the same attitude
13 there, this would be true too?

14 MR. HORTIG: In the other contracts the State is a
15 party.

16 GOV. ANDERSON: Then the depressing part would not
17 have anything to do with it?

18 MR. HORTIG: No.

19 GOV. ANDERSON: I notice a couple things - - I
20 notice in paragraph three, where the agreement is the highest
21 quoted price for the natural gasoline. Isn't this what we
22 were asking for in the Long Beach situation?

23 MR. HORTIG: With respect to oil, Governor, this is
24 a different situation again. This was selected as a yardstick
25 by the negotiators for this gasoline.

26 GOV. ANDERSON: If we can use the highest quoted

1 price for natural gasoline in this area, why couldn't you use
2 the same kind of formula for oil? In other words, why do
3 they agree to it, and why is it so difficult to do in other
4 circumstances?

5 MR. HORTIG: Because this is a contract between two
6 companies, who again feel that they are looking at only their
7 own intercorporate relationships. A possible change in price
8 by someone else outside of this contract would not affect and
9 would neither increase or decrease the cost of the product,
10 as would be the case...

11 GOV. ANDERSON: It says also, "Gross market value is
12 the reasonable market value as fixed by the State."

13 MR. HORTIG: Unless the products are disposed of
14 pursuant to sales contract.

15 GOV. ANDERSON: Approved by the State.

16 MR. HORTIG: Approved by the State; this is correct.

17 GOV. ANDERSON: Isn't this in a sense what we were
18 talking about in the Long Beach situation?

19 MR. HORTIG: In terms of arriving at a yardstick for
20 measuring the value of the product, it is correct; but the
21 same factors that would cause a possible depressing element in
22 bidding for the oil, as a result of highly variable highest
23 posted prices which are not truly reflective of the reasonable
24 market value, would influence the oil more than any problem
25 with respect to this gasoline -- which, in the first instance,
26 carries a much lower royalty rate, certainly has a much lower

1 unit value, and in this instance the yardstick is only as
2 applied between two corporations.

3 GOV. ANDERSON: It seems to me, in my not knowing
4 too much of this language and the technicalities of this, the
5 very thing we were talking about -- I see written in here;
6 and apparently they have no objection that the market value
7 is the reasonable market value as fixed by the State or a
8 contract approved by the State, which again puts us in the
9 picture; and secondly, they agree to the highest posted price.
10 It seemed to me if it can be done in one case, it shouldn't
11 be too difficult to do it in another.

12 MR. HORTIG: The agreement to use the highest price
13 as a yardstick in this instance, as I said, only affects the
14 seller and buyer corporations in this instance. This is an
15 entirely different operation than an agreement to utilize a
16 highly fluctuating and variable price that could be adjusted
17 by competition to the disadvantage of the parties to the con-
18 tract. In this instance, no one else can come along and post
19 a higher price and affect this particular sales agreement.

20 MR. CHAMPION: I think what Governor Anderson is
21 saying -- we do have a continuing interest in trying to find
22 an administratively workable method of using the highest
23 posted price if we can do it, and I think all the members of
24 the Commission have expressed themselves on one occasion or
25 another -- the difficulty being we have never found an admini-
26 strative device; and if this offers a possibility, we ought

1 to look into it. I have had other staff members of the
2 Department of Finance trying to find a way to do this; they
3 are working on it now. I think before we act, when and if we
4 arrive at a new contract proposal with Long Beach, we ought
5 to go over this subject very carefully again.

6 MR. HORTIG: I would like to report to the Commis-
7 sion that definitely from the staff standpoint we have not
8 stopped working on that, particularly in the pricing area,
9 with the Long Beach development specifically in mind.

10 I should like to also point out that there is no
11 statutory requirement for highest posted price. The statutory
12 requirement is that the Commission shall specify some method
13 of pricing which will assure that the State receives returns
14 based on reasonable market value of the product.

15 GOV. ANDERSON: I have no objection to this item.
16 As a matter of fact, I used this item to express my favor of
17 some of these things. I'll move the item.

18 MR. CRANSTON: Second.

19 MR. CHAMPION: Stands approved.

20 Authorization for Executive Officer to issue a
21 mineral extraction lease for a term of five years to Stanley
22 E. Ryerson and Frederick E. Pinner, the highest qualified
23 bidders, for 80 acres of State school lands that were sold
24 with mineral reservation to the State, near the City of
25 Brawley, Imperial County, for the extraction of sand and
26 gravel, at minimum royalty of ten cents per cubic yard.