

STATE OF CALIFORNIA

MINUTES OF MEETING OF THE
STATE LANDS COMMISSION
Sacramento, California

April 14, 1958

A meeting of the State Lands Commission was held in Room 5100 State Capitol, Sacramento 14, California, at 10:10 a.m. on Monday, April 14, 1958.

Present: John M. Peirce, Chairman
Harold J. Powers, Member
Robert C. Kirkwood, Member

Staff Members in Attendance:

F. J. Hortig, Executive Officer
Kenneth C. Smith, Supervising Land Title Examiner
Julia T. Stahl, Secretary

Others in Attendance:

Representing the California State Legislature

Richard Richards, State Senator
Members of the Assembly Judiciary Subcommittee on Tidelands:
Bruce F. Allen, Chairman
Richard T. Hanna
Francis C. Lindsay
Jesse M. Unruh

Representing the Office of the Attorney General

Jay L. Shavelson, Deputy Attorney General

Oil and Gas Consultants of the State Lands Commission

Dr. Herman H. Kaveler
C. M. Wanenmacher, of Keplinger and Wanenmacher

Representing the City of Long Beach

John C. Spence, Jr., City Attorney's Office
L. A. Wheeler, III, Long Beach Harbor Department

Representing Oil and Gas Interests

Edwin W. Pauley and Associates
J. Barton Hutchins

Edwin W. Pauley and Phillips Petroleum Company
Glenn R. Watson, Attorney

General Petroleum Corporation
Geo. H. Ketchum

Hancock Oil Company
Ralph Cormany

Humble Oil & Refining Company
William R. Gardner
Nibert J. Johnson

Monterey Oil Company
Martin N. Erck
Neal D. Williams

Ohic Oil Company (The)
Morris L. Lowman

Phillips Petroleum Company
Mark R. Corcoran
D. C. Hemsell
Wm. E. Kennett

Richfield Oil Corporation
K. M. Cook

Signal Oil and Gas Company
Paul Ottoson
Emmett E. Wolter

Standard Oil Company of California
Western Operations, Inc.
Paul K. Home
J. D. Littlejohn
L. E. Scott
James L. Wanvig (of Pillsbury, Madison & Sutro)

Superior Oil Company (The)
Paul A. Lower
G. Y. Wheatley

Texas Company (The)
J. F. Gale
F. G. Shafer (Texaco)

Tidewater Oil Company
A. S. Holston
T. L. Roberts

Union Oil Company of California
Doyle T. Graves

Western Gulf Oil Company
James G. Leovy
Emmons Sebenius

Western Oil and Gas Association
Henry W. Wright

In Pro Per
Curtis H. Johnson, Geophysical Consultant

The Chairman announced that the Commission's consultants on oil and gas lease problems, Dr. Herman H. Kaveler, and Mr. J. M. Wanenmacher, were again present, following which he recognized the presence of the State legislators in attendance and welcomed their participation.

PROPOSED OIL AND GAS LEASES - W. O. 2653

The attached calendar items, No. 1 (covering a proposed form of oil and gas lease), and No. 2 (covering staff recommendations on offers for oil and gas leases), were presented by the Executive Officer.

State Senator Richard Richards brought to the attention of the Commission that the Legislature was in session, and that some of the actions which it was contemplating might affect leasing policies of the Commission, particularly Assembly Bill 5, which had already passed both houses. This bill would affect subsidence problems where subsidence was determined to be caused by oil production, such determination to be made by the State Oil and Gas Supervisor. It was Senator Richard's thought that the Commission's lease form should not be approved until such time as all concerned could determine that any conflicts in responsibility had been vitiated.

The Executive Officer reported that the particular problem referred to by Senator Richards had been considered by the staff, by members of the oil industry who worked with the staff, and by the office of the Attorney General. He explained the criteria which led to the recommendations being presented to the Commission for adoption of a lease form, based on the following facts: (1) Assembly Bill 5 had not yet been signed by the Governor, and therefore the Commission did not have before it a statute that with certainty could be considered as applying to its operations; (2) Assembly Bill 5 was presented to the Legislature on the basis that it was necessary to aid the City of Long Beach in solving an actual existing subsidence problem. Currently there are no other areas along the coast of California to which the bill would apply, and therefore it would not apply to any new lease being considered currently, nor could it have any current effect on any leases already issued by the State. For these reasons the staff did not feel that A.B. 5, and how it might eventually be applicable, could properly be considered in connection with the current proposed lease offers.

Deputy Attorney General Jay L. Shavelson reported that the office of the Attorney General knew of the status of A.B. 5 when it worked on the lease form, and that it was his personal feeling that it would be proper for the State Lands Commission to reserve some degree of control, specifically in Section 10 of the proposed form which gives the Commission power, upon proper notice, to stop production immediately in those situations where there is liable to be danger to leased or adjacent lands and where there is a possible question of pecuniary liability on the part of the State. It was felt that generally the State Division of Oil and Gas would have the responsibility of protecting the public against subsidence, whereas the State Lands Commission would be responsible only for protection against any pecuniary liability that might result from any lease of tide and submerged lands.

The Executive Officer explained that in the course of considering the appropriate language for Section 10 of Exhibit "A" of the lease form, consideration was given to A.B. 5, and to specification of the factors which are particularly the responsibility of the State Lands Commission, and in such form as not to conflict with future applications of A.B. 5 if the bill becomes law.

Senator Richards stated substantial agreement with all of the comments of the Executive Officer and of Mr. Shavelson, but thought that the potential conflict in interests which he had raised should have been presented to the Commission. The Chairman thanked Senator Richards for his presentation, and said that consideration would be given to his comments.

Assemblyman Richard T. Hanna asked if there would be dual jurisdiction insofar as subsidence was concerned, and the Executive Officer replied that the possibility of conflict had been considered and that Section 10 of Exhibit "A" was drafted with the hope of obviating such conflict. He then pointed out that considerable time would have to elapse before there could be any application of A.B. 5 to the lease offers currently being considered, and that before serious problems developed the State could take action to suspend operations until such time as the problems that arose were worked out.

Mr. Wanenmacher, when asked for his comments, stated that the consultants were very much pleased that their recommendations had been followed so fully, and apologized for not foreseeing the legal problems involved, explaining that in all other states all wells which are completed in more than one zone are considered as more than one well; that is, if a well is completed in two zones, it is considered as two wells.

Commissioner Kirkwood asked the consultants to explain how Section 18 of the lease (re confidential information) would fit into the State's future program, and whether they were satisfied with this provision. Dr. Kaveler responded that the consultants were satisfied with the provision because it conforms with other statutory requirements of the State of California.

Assemblyman Bruce Allen stated that, in his opinion, the sliding scale royalty that was being established was entirely too low, and he urged the Commission to proceed with caution in adopting this scale. He also urged the Commission to give some consideration to the alternative of royalty bidding, as opposed to cash-bonus bidding, stating that this was the only way the Commission could find out what the public would be willing to pay.

The Executive Officer, in response to Assemblyman Allen's presentation, reported that the staff had given consideration to the use of royalty bidding instead of cash-bonus bidding, and that the conclusion had been reached that it would not be satisfactory when offering "wildcat" lands and that in general it should be advantageous to apply royalty bidding to known or proven lands.

Dr. Kaveler commented that the consultants shared Mr. Allen's views substantially, on the basis that the State should obtain the highest possible bonus, whether it was dollars directly, or dollars indirectly from a higher

royalty. However, permits have been required for core drilling exploration work on State tide and submerged lands only since 1957, and until the State can build up a background of data on those lands, no definite decision should be made as to the best leasing procedure. Therefore, it is recommended that leases first be offered on a cash-bonus basis, retaining some of the lands for possible later offer on a royalty basis.

Assemblyman Allen stated that he was not proposing that the State Lands Commission delay action any longer, but urged the Commission to proceed with caution on bonus bidding.

Mr. Paul Home, Chairman of the special subcommittee of the Western Oil and Gas Association, expressed the sincere appreciation of the members of the subcommittee and of the Association for the cooperation given by the staff and by the consultants in trying to arrive at a satisfactory lease form.

Commissioner Kirkwood suggested that the language used in Paragraph (1) of Section 10 of Exhibit "A", relating to "shoreline recreation or residential areas" be broadened to cover all property.

Commissioner Kirkwood also questioned the limitations in Section 18 of the lease form with respect to confidential information, stating that, as written, an apparent advantage is given to the operator who receives the first lease in a particular area. Mr. Home explained that this was an "ancient and honorable practice" in the oil business, and pointed out that Section 6826 of the Public Resources Code has indicated a legislative intent on this matter in providing that the Commission shall require, as a condition for the issuance of any exploration permit, that the permittee make available for the confidential use of the Commission records of exploration work. The Executive Officer reported that future potential bidders would, under the lease form as proposed, have the right to obtain exploration data on leased lands at their own expense.

The Executive Officer reported further that despite possible advantages of a program for releasing lease information, there could be extreme administrative difficulties in such program inasmuch as currently the identical data are required by statute to be filed as confidential information with the State Division of Oil and Gas.

Mr. Glenn R. Watson, appearing as attorney for Edwin W. Pauley and Associates and for the Phillips Petroleum Company, protested the size of the parcels, claiming that it would be in the best interests of the State to have each parcel contain 5,760 acres. Mr. Watson also objected to the royalty formula set up in the proposed lease, and submitted a formula calling for a maximum royalty of 25%.

The Chairman commented that although the matter had been studied for many months, perhaps it was too much to expect that everyone should be entirely satisfied with the bases on which all of the problems were being resolved, but pointed out that an endeavor had been made to interpret the law in a manner that would give inducement to industry to explore for oil in the tide and submerged lands of the State.

Mr. Shavelson suggested adding the following language to the end of Section 10 of Exhibit "A" to eliminate any possibilities of conflict of jurisdiction as had been reported by Senator Richards: "The rights reserved and retained by the State Lands Commission under this Section 10 shall be exercisable to the extent and only to the extent that such exercise is permitted by law at the time of such exercise."

Dr. Kaveler and Mr. Wanenmacher both recommended adoption of the lease form as modified.

UPON MOTION MADE BY MR. KIRKWOOD, SECONDED BY MR. POWERS, AND UNANIMOUSLY CARRIED, THE FOLLOWING RESOLUTION WAS ADOPTED:

THE COMMISSION APPROVES AND ADOPTS THE FORM OF OIL AND GAS LEASE WHICH WAS ATTACHED TO THE CALENDAR AS EXHIBIT "B", AS THE BASIC BID-LEASE FORM FOR THE ISSUANCE OF OIL AND GAS LEASES ON TIDE AND SUBMERGED LANDS PURSUANT TO DIVISION 6, PUBLIC RESOURCES CODE, SUBJECT TO INCLUSION OF THE FOLLOWING MODIFICATIONS:

ON PAGE 21, LINE 24, AFTER THE WORD "LANDS", AND ON PAGE 22, AFTER THE WORDS "RESIDENTIAL AREAS", ADD "OR/OTHER SHORELINE PROPERTIES".
/DAMAGE TO.

ON PAGE 22, AT THE END OF LINE 33, ADD "THE RIGHTS RESERVED AND RETAINED BY THE STATE LANDS COMMISSION UNDER THIS SECTION 10 SHALL BE EXERCISABLE TO THE EXTENT AND ONLY TO THE EXTENT THAT SUCH EXERCISE IS PERMITTED BY LAW AT THE TIME OF SUCH EXERCISE".

SAID MODIFIED LEASE FORM IS TO BE MADE PART OF THESE MINUTES BY REFERENCE TO THE FILES OF THE COMMISSION.

UPON MOTION MADE BY MR. KIRKWOOD, SECONDED BY MR. POWERS, AND UNANIMOUSLY CARRIED, THE FOLLOWING RESOLUTION WAS ADOPTED:

THE COMMISSION AUTHORIZES THE EXECUTIVE OFFICER TO OFFER PARCELS OF TIDE AND SUBMERGED LAND IN SANTA BARBARA COUNTY FOR OIL AND GAS LEASE PURSUANT TO DIVISION 6 OF THE PUBLIC RESOURCES CODE. THE LEASE AWARD IS TO BE MADE TO THE QUALIFIED BIDDER OFFERING THE HIGHEST CASH BONUS PAYMENT IN CONSIDERATION OF THE ISSUANCE OF AN OIL AND GAS LEASE.

THE BID-LEASE FORM TO BE OFFERED FOR THE FOLLOWING DESCRIBED PARCELS SHALL BE THE FORM AUTHORIZED PURSUANT TO CALENDAR ITEM 1 OF THIS MEETING. THE AREAS INCLUDED ARE NOT WITHIN THE KNOWN GEOLOGIC STRUCTURE OF ANY PRODUCING OIL OR GAS FIELD (I.E., "WILDCAT AND EXPLORATORY"):

<u>PARCEL</u>	<u>EAST BOUNDARY</u>	<u>WEST BOUNDARY</u>	<u>AREA (ACRES)</u>
W.O. 2718(A)	X = 1,403,000	X = 1,392,440	3,840
W.O. 2718(B)	X = 1,372,140	X = 1,361,580	3,840
W.O. 2718(C)	X = 1,341,280	X = 1,330,720	3,840

ALL COORDINATES GIVEN ARE CALIFORNIA COORDINATE SYSTEM ZONE 5.

THE LANDWARD (NORTHERLY) BOUNDARY OF EACH PARCEL IS THE ORDINARY HIGH WATER MARK OF THE PACIFIC OCEAN.

THE SEAWARD (SOUTHERLY) BOUNDARY OF EACH PARCEL IS A LINE PARALLEL TO THE ORDINARY HIGH WATER MARK AND SEAWARD THEREFROM THREE STATUTE MILES.

THE LEASE RENTAL IS TO BE \$1.00 PER ACRE PER YEAR.

NO PERMANENT FILLED LANDS, PLATFORMS, OR OTHER FIXED OR FLOATING STRUCTURES FOR WELL SITES OR OTHER OPERATIONS FOR OIL AND GAS DEVELOPMENT FROM THE AREA LEASED SHALL BE CONSTRUCTED, USED, MAINTAINED OR OPERATED AT ANY LOCATION LESS THAN ONE STATUTE MILE SEAWARD OF THE ORDINARY HIGH WATER MARK OF THE PACIFIC OCEAN.

THE BID-LEASE FORM TO BE OFFERED FOR THE FOLLOWING DESCRIBED PARCELS SHALL BE THE FORM AUTHORIZED PURSUANT TO CALENDAR ITEM 1 OF THIS MEETING, OMITTING, HOWEVER, ANY LIMITATIONS AS TO LOCATION, PLACEMENT OR UTILIZATION OF PIERS, STRUCTURES OR FILLED LANDS BY DELETING SECTION 7, LINE 30, PAGE 20, THROUGH LINE 5, PAGE 21, AND SECTION 8, LINE 6, THROUGH LINE 14, PAGE 21, OF THE SUBJECT LEASE FORM. THE AREAS INCLUDED ARE NOT WITHIN THE KNOWN GEOLOGIC STRUCTURE OF ANY PRODUCING OIL OR GAS FIELD (I.E., "WILDCAT AND EXPLORATORY"):

<u>PARCEL</u>	<u>EAST BOUNDARY</u>	<u>WEST BOUNDARY</u>	<u>AREA (ACRES)</u>
W.O. 2718(D)	X = 1,310,420	X = 1,299,860	3,840
W.O. 2718(E)	X = 1,279,560	X = 1,269,000	3,840

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THE LEASE RENTAL IS TO BE \$1.00 PER ACRE PER YEAR.

The meeting was recessed at 12:30 p.m. to reconvene at 2:30 p.m.

Attachments

- Calendar Item 1 (1 page. Exhibits made part of minutes by reference only.)
- Calendar Item 2 (2 pages)

CALENDAR ITEM

OIL & GAS

1.

(PROPOSED OIL AND GAS LEASES - W. O. 2653.)

On February 11, 1958 (Minute Item 4, pages 3786-3803), the Commission directed that the staff review the bases for issuance of oil and gas leases with members of the Assembly Judiciary Subcommittee on Tidelands and with representatives of industry, and present final analyses as to recommended oil and gas leasing procedure to the Commission.

A complete review of proposed oil and gas lease terms and conditions was held February 26 and 27, 1958, attended by four members of the Assembly Judiciary Subcommittee on Tidelands, thirty-six industry representatives, and State Controller Kirkwood. A copy of the transcript of this review was transmitted to the Commissioners. The transcript was also submitted to the office of the Attorney General, together with a proposed form of oil and gas lease, as the basis for a request of approval of the lease as to form and requisite compliance with the provisions of Division 6 of the Public Resources Code. Additionally, an informal opinion was requested on four legal questions on proposed lease terms developed during the review of February 26 and 27, 1958 (copy of opinion attached as Exhibit "A").

A proposed form of oil and gas lease which has been approved by the office of the Attorney General as to form and compliance with Division 6 of the Public Resources Code is attached as Exhibit "B". Substantive differences with the recommendations of February 3, 1958, by the Commission's special board of consultants are outlined in Exhibit "C" attached. Similarly, the principal substantive differences with industry recommendations are listed in Exhibit "D" attached.

IT IS RECOMMENDED THAT THE COMMISSION APPROVE AND ADOPT THE FORM OF OIL AND GAS LEASE ATTACHED HERETO AS EXHIBIT "B" AS THE BASIC BID-LEASE FORM FOR THE ISSUANCE OF OIL AND GAS LEASES ON TIDE AND SUBMERGED LANDS PURSUANT TO DIVISION 6, PUBLIC RESOURCES CODE.

Attachments

- Exhibit "A"
- Exhibit "B"
- Exhibit "C"
- Exhibit "D"

*see
Bid (Proposed)
Folder (W04718D)
PDR 2-20-58*

(parcels of them etc)

CALENDAR ITEM

OIL & GAS

2.

(PROPOSED OIL AND GAS LEASES - W. O. 2718.)

On September 13, 1957 (Minute Item 3, pages 3435-3436), the Commission initiated consideration of offering oil and gas leases pursuant to Division 6, Public Resources Code, in an area of approximately 54,000 acres of tide and submerged lands extending from westerly of the Elwood Oil Field to Point Conception, Santa Barbara County.

The County of Santa Barbara was notified, pursuant to Section 6873.2 P.R.C., of the pending consideration of lease offers. The County did not request a public hearing. The time for filing such request expired on November 15, 1957.

Recommendations as to royalty rates, lease sizes, and lease locations were presented to the Commission by a special board of consultants in a request of February 3, 1958. The following staff recommendations on lease offers are within the scope of the consultants' recommendations.

IT IS RECOMMENDED THAT THE COMMISSION AUTHORIZE THE EXECUTIVE OFFICER TO OFFER PARCELS OF TIDE AND SUBMERGED LAND IN SANTA BARBARA COUNTY FOR OIL AND GAS LEASE PURSUANT TO DIVISION 6 OF THE PUBLIC RESOURCES CODE. THE LEASE AWARD IS TO BE MADE TO THE QUALIFIED BIDDER OFFERING THE HIGHEST CASH BONUS PAYMENT IN CONSIDERATION OF THE ISSUANCE OF AN OIL AND GAS LEASE.

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 2205.1
 70
 1/2 mile

OIL & GAS 2. (CONTD.)

STRUCTURES OR FILLED LANDS BY DELETING SECTION 7, LINE 30, PAGE 20, THROUGH LINE 5, PAGE 21, AND SECTION 8, LINE 6, THROUGH LINE 14, PAGE 21, OF THE SUBJECT LEASE FORM. THE AREAS INCLUDED ARE NOT WITHIN THE KNOWN GEOLOGIC STRUCTURE OF ANY PRODUCING OIL OR GAS FIELD (I.E., "WILDCAT AND EXPLORATORY"):

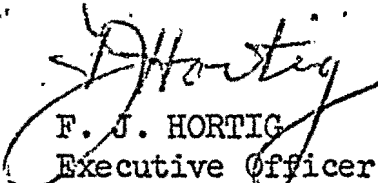
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F. J. HORTIG
Executive Officer